RACQ

ANNUAL REPORT

2021 2022

YOUR MEMBERSHIP MAKES ALL THE DIFFERENCE

OPERATIONS

$2.0b
Total revenue

$6.3b
Total assets

$1.27b
Net assets

182,078
Total insurance claims including
- Motor: 109,289
- Home: 39,688

782,458
Roadside Assistance jobs

20%
Increase in calls to RACQ Roadside Assistance from members during the floods

$2.2b
RACQ Bank member deposits

HOW WE'VE HELPED

902
Vulnerable members supported through RACQ initiatives

$39,900
Donated to charities through employee giving

$12,079
Raised by RACQ staff for the International Women's Day Fun Run in support of breast cancer

$50,000
RACQ Foundation pledge to Lifeline Queensland during the flood

124
New students supported by the RACQ ARTIE Academy Driver Licensing program

MEMBER

72
Net Promoter Score (Member Relationship)

$20.6m
Member savings through RACQ partner benefits platform

94%
Bank complaints resolved within 30 days

88%
Insurance complaints resolved within 30 days

96%
Assistance complaints resolved within 30 days

1.31m
Roadside Assistance policies

5,189
Webchat conversations with members each week

COMMUNITY

$10.5m
Total invested in Queensland communities

124
Community grant applications approved by RACQ Foundation

2,985
Rescue missions performed by RACQ's Air Rescue Network

52,258
Students participated in RACQ's Education programs

$85,000+
Donated to Australia Zoo Wildlife Hospital by RACQ members through Australia Zoo ticket sales

PEOPLE

2,500+
RACQ employees

68%
Employee engagement score

40%
Female RACQ board members

50%
Female Group Executives

10%
Employees accessed parental leave in FY22

$1.1m+
Invested in external training and development for employees

ENVIRONMENT

50%
Green power included in energy contract renewal for Edward St and Eight Mile Plains Offices

★★★★½
Energy rating – Edward Street

First Queensland bank to offer a full suite of green loans

Acquired GEM Energy and launched RACQ Solar

31
EV charging sites sponsored between Coolangatta and Port Douglas in partnership with Yurika

170,000
Car batteries recycled in partnership with Club Assist

Contents

	Key to abbreviations
Arrow	*Arrow securitisation trust*
CGU	*Cash generating unit*
the Deed	*Deed of cross guarantee*
EBIT	*Earnings before interest and taxes*
EBITDA	*Earnings before interest, tax, depreciation and amortisation*
IBNR	*Incurred but not reported*
IBNER	*Incurred but not enough reported*
ICAAP	*Internal capital adequacy assessment process*
KMP	*Key Management Personnel*
LAT	*Liability adequacy test*
LVR	*Loan to valuation ratio*
PCA	*Prescribed capital amount*
PML	*Probable maximum loss*
RMS	*Risk management strategy*
ReMS	*Reinsurance management strategy*
FVTPL	*Fair value through profit and loss*
FVOCI	*Fair value through other comprehensive income*
AC	*Amortised cost*
ECL	*Expected credit loss*
ALCO	*Asset and liability committee*
OCI	*Other comprehensive income*
CY	*Calendar year*

RACQ's Chair and President's Report

ELIZABETH JAMESON AM
CHAIR AND PRESIDENT

Brisbane floods 2022

Dear member,

There is no doubt that 2022 will go down as one of the most challenging in RACQ's 117-year history.

The outcomes of the pricing promises review, together with the devastating south east Queensland floods, disruption of global supply chains, and continued geopolitical instability including the war in Ukraine, have all coalesced to create an inflationary cycle that we have not seen in more than two decades. This is having significant impacts on the cost of living for many Australians, including our members, who are struggling with the price of essential services including fuel, electricity and increasing insurance premiums.

As we navigate this dynamic market, our purpose has never been as clear or important. First and foremost, RACQ exists **'to make a positive difference to the lives of our members now and into the future'.** And we will continue to keep this as our creed as we place a sharp focus on investing in our systems and processes while building our agility, resilience and expertise to tackle the challenges and opportunities that lie ahead.

The core of our vision is to help our members live and move safely, securely and sustainably while preserving Queensland's liveability. This year, despite the significant challenges to parts of our business, we made good progress in reshaping and aligning our operations behind three strategic focus areas: mobility, home, and member and community. Recognising the important role we play in Queensland, we will continue to provide trusted advice, and valuable products and services that give our members confidence to transition to a low-carbon future.

There is no doubt, the decade ahead will see an exponential acceleration of electric vehicles, and renewable energy and the intersect between the car and home provides RACQ with exciting opportunities. Already your Club has expanded its capabilities beyond roadside assistance, insurance and banking. The acquisition of GEM Energy, investment in Chargefox and launch of our green loans are the first key steps to enable us to participate in new and growing markets. As we position for the future, we will continue to strongly advocate for safer roads and greater disaster mitigation funding so that our communities are more resilient in the face of our changing climate.

Historic floods

There is no better example of the impact of climate change on our weather than one of the worst and costliest floods in Australia's history earlier in the year. The 'rain bomb' which dumped hundreds of millimetres of rainfall over a three-day period across the south east and northern New South Wales resulted in RACQ receiving more than 15,000 claims and tested the insurance industry's response. A strained supply chain, including a shortage of building materials and availability of trades, has exacerbated the repair process with simultaneous inflationary pressures. RACQ Insurance was not immune to these challenges.

Unprecedented community support

As part of the wider response, RACQ Roadside Assistance was, as always, called into action and the RACQ Foundation donated $2.1 million to assist 73 flood-affected community groups and sporting clubs recover from the disaster.

The spirit of your club shined bright when many of our people volunteered their time to provide on-the-ground support to the recovery effort.

The Foundation also proudly supported Lifeline Queensland with $50,000 to deliver vital psychological first aid to almost 400 people impacted by the flooding. Our long-term support of the State's air rescue network, including LifeFlight, also assisted with the life-saving rescues of dozens of people.

In June, as part of the now annual regional board visit, board members and executives visited the Wide Bay to gain a first-hand view of the severe impacts this year's flooding had on members.

Over two days we visited flood-affected insured members' homes, business partners, stores, local government stakeholders and hosted a member event in the LifeFlight hangar in Bundaberg. It also provided the opportunity to hand over, personally, much needed funds from the RACQ Foundation to the Maryborough West Football Club to rebuild its grounds and facilities after water inundated its fields and club house.

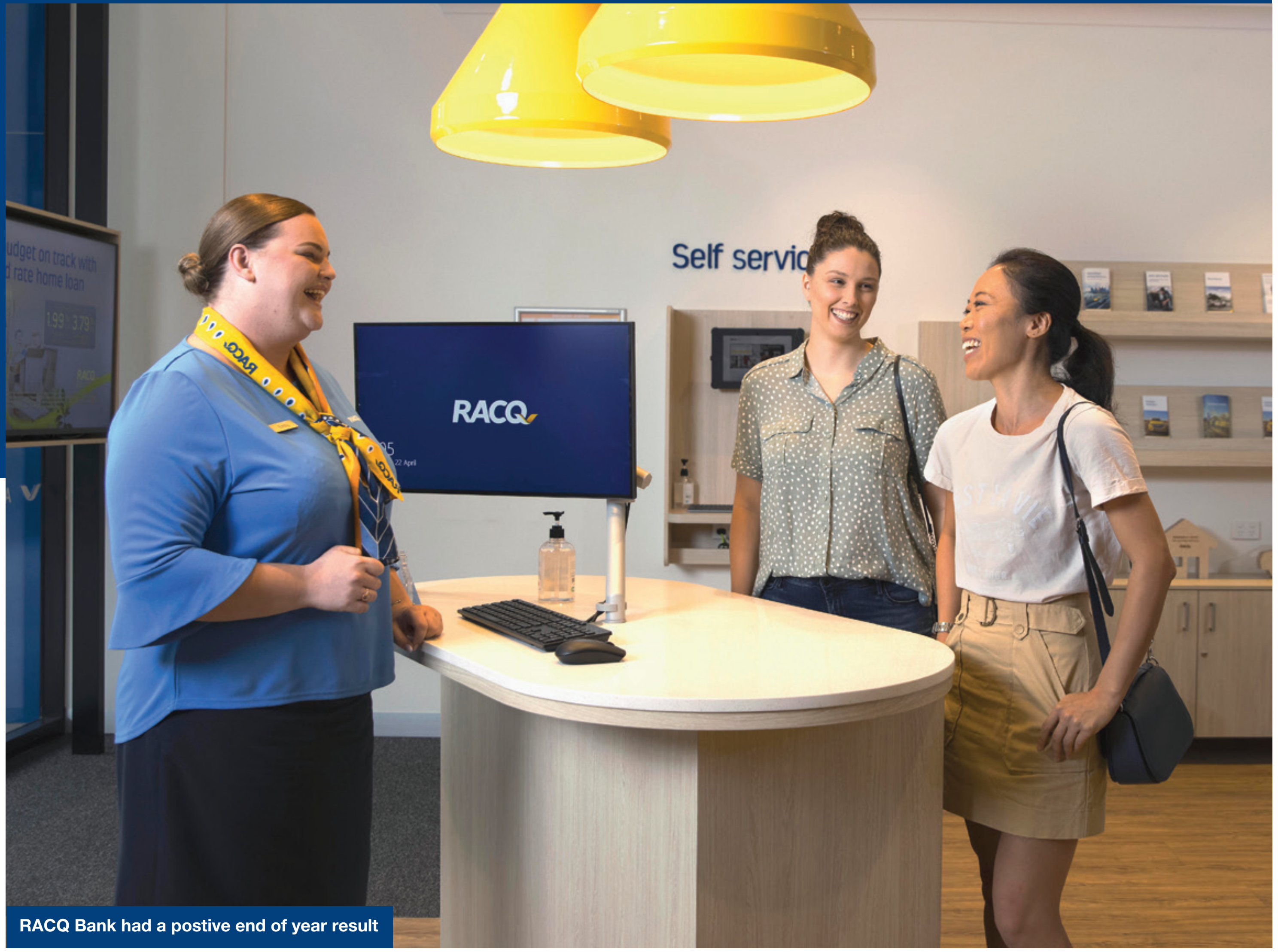
Regulatory environment

Unfortunately, and disappointingly, RACQ Insurance self-reported regulatory breaches to ASIC in relation to our pricing practices. As you would rightly expect, this occupied an incredibly large amount of the board and management's time.

Hence, we are now working to prioritise and resolve this through refunds to affected members, with assistance from external experts. To ensure this never happens again, a significant investment is underway in our systems and processes to deliver improved outcomes for our members, stronger risk management, simplified products and easier processes for our people.

Aside from the pricing promises review, RACQ also continued to work through the complexities of a large-scale regulatory agenda stemming from the Hayne Royal Commission into Financial Services.

This has had a profound impact on our workload but will result in a stronger, better and more efficient RACQ that is ready to face the future with confidence.



RACQ Bank had a postive end of year result

Morgan Kirkwood, Member Engagement Lead

As we continue to operate in an increasingly digital world, our focus on cyber security for our members, people and business remains front and centre. There has been a significant investment in data security and capabilities to reduce the risk of cyber-attacks and we have replaced a number of legacy applications and systems to ensure security capability has been maintained.

Our performance

The extraordinary events of the past year, described earlier in this report, have had a significant impact on RACQ's financial year performance with the Group recording a total deficit of $245 million after tax. This includes a material provision for refunds to members arising out of the pricing promises review as outlined above, as well as the impact in our insurance business of above normal natural hazard claims, high CTP and motor claims costs, and unfavourable investment markets.

Indeed, Insurance posted an after-tax loss of $236 million ($149 million provision and $87 million trading loss). Pleasingly, however, the performance of RACQ Bank has continued to improve and this year contributed a $2.3 million profit while Assistance recorded a sound $16 million profit.

While RACQ has faced an exceptionally tough year, I want to reassure members that we remain financially strong to deliver on our commitments and support ongoing operations well into the future.

Constitutional changes and board renewal

At last year's Annual General Meeting, constitutional changes to modernise the way board members were elected and appointed were passed with an almost 90% vote in support.

2022 will be the first year of director elections under the new process which, among other changes, allow all members to vote in the elections for two available director seats. The directors facing re-election are Annabel Dolphin from regional Queensland (Mackay) and Leona Murphy from south east Queensland (Sunshine Coast). Both are experienced RACQ committee chairs who bring important people and culture experience and critical risk and compliance skills to the organisation.
Five new directors were appointed to the Board over the past 12 months bringing increased objectivity and much-welcomed fresh perspectives.

I would like to thank my fellow Board members for their work and commitment over the past year. Their stewardship has been highly valued and their support unrelenting.

In closing

Finally, I would like to thank our people. Every day they show up and serve our members while continuing to face their own challenges in a Covid-disrupted environment.

While it has been a difficult year, 2022 has also reinforced RACQ's culture which is built on the incredible dedication and commitment of its people.

I would also like to thank our members for their ongoing loyalty and support. Your membership helps us keep the RACQ Air Rescue Network in flight, lobby for safer roads and infrastructure, support communities after disaster strikes and educate school children on the importance of road safety.

Setting aside the internal and external headwinds that have impacted RACQ, the organisation has made great strides in helping our almost 1.8 million members live more safe, affordable and sustainable lives. Every day we help Queenslanders navigate the fuel price cycle through the Fair Fuel Finder app and our members benefit from savings across a suite of products, services and experiences.

As we move into 2023, RACQ remains focused on ensuring we continue to be trusted partner for our members, providing solutions to live and move securely and sustainably.

Elizabeth Jameson AM
RACQ Chair and President

RACQ's Group CEO Report

DAVID CARTER
GROUP CEO

Dear member,

While 2022 will be remembered as one of the most difficult, it was also the year we began our transformation program that is critical to support and drive our 2030 strategy.

The year culminated in a perfect storm which significantly impacted the Club and our members across a range of factors. February's catastrophic flood event was the worst-ever in the Club's history. The volume of claims, together with ongoing supply chain challenges including shortages in trades, car parts and building materials is slowing our response and extending timeframes to close-out claims. High-cost escalation for motor and home repairs, as well as reinsurance, have also placed pressure on insurance premiums.

We understand the impact this is having on our members' household budgets, which is why we encourage any member experiencing financial hardship to contact us. Internally, Covid-19 continued to impact the wellbeing of our workforce and the outcome of the pricing promises review has resulted in a large-scale remediation program to members, as well as a risk transformation program across the business.

Despite these headwinds, I have been humbled by our members' support and understanding, and I take this opportunity to sincerely thank you as we work hard to continue to earn the trust you place in us. I can assure you the values of this Club, which have been built on more than 100 years of being there in the moments that matter, remain steadfast.

We also have significant opportunities, as global economies accelerate the shift to decarbonising transport and transitioning to clean energy sources. With a history of motoring, together with the purchase of GEM Energy and our joint investment (with other motoring clubs) in electric vehicle charging network, Chargefox, we are well placed to capitalise on these markets. With a strong balance sheet, we are positioning now for the future, knowing that as technology emerges, electric vehicles and home solar energy will intersect, allowing us to offer new valuable products and services to more Queenslanders.

Flood response

As already mentioned, the largest and costliest weather event and the outcomes of the pricing promises review have taken their toll on RACQ, our members and, subsequently, our year-end results.

Notwithstanding the current supply chain impacts and labour shortages, our initial response to this devastating event was a true reflection of our values. The Lodge on Behalf of (LOBO) members initiative was a great example of putting our members first.

At the height of the disaster, when more than half of the 15,000 flood-related claims were lodged, LOBO enabled up to 170 people from across the organisation to lean in and take calls, helping our members lodge their claims quickly. This allowed us to prioritise vulnerable customers, secure temporary accommodation and expedite total loss vehicle claims.

When it was safe, our insurance teams were on the ground in Gympie, Redcliffe and Goodna providing immediate support for our members. This was followed with five Member Community Forums, which again provided members with direct face-to-face access and support to discuss and progress their claim. We onboarded up to 150 extra staff to support our members and established a dedicated event management team to finalise claims. Of the claims received to date, we have finalised 94% of motor claims and 50% of home claims and have paid out more than $163 million in total including $125 million directly to members. While these large events can take up to 18 months to finalise all claims, I would like to recognise our people for their hard work and commitment and thank our members for their patience.

As the Australian Bureau of Meteorology upgraded its La Nina watch for 2022-23 to an alert increasing the probability of another wet year to 70%, we will continue to advocate for additional government funding to support initiatives such as the Resilient Homes Fund which is designed to help flood-impacted residents recover from the adversity of this latest disaster and emerge stronger and more resilient. We also welcomed the Federal Government's commitment to increase natural disaster mitigation funding each year and call on the Government to prioritise this work and get money out the door to shovel-ready projects.

From a product perspective, our members can be assured that those who have a home insurance policy with us are fully covered. We made a deliberate decision after the 2011 floods to put clarity and certainty in the minds of our members when mother nature strikes. There are no opt outs, no ability to take perils out of your policy and we make no apology for this. While others are content to sell partial coverage to their customers, RACQ will continue to provide products that comprehensively look after you against all natural disasters.

Pricing promises

In relation to the pricing promises matters, RACQ self-reported a significant matter to ASIC relating to some of the wording in our insurance Product Disclosure Statements (PDS) being inadequate to describe how premiums were calculated for optional covers. While we are confident that we charged members what we intended, the PDS represents the contract with our members and the errors have resulted in a regulatory breach.

With support from KPMG, a diligent review across all our pricing practices also found other instances where members did not receive the full benefit they were entitled to, and this also forms part of our remediation program. While the matters are complex and may take some time, our goal is to ensure any member affected is accurately refunded. The total refund to members, across all matters, is estimated to be in the range of $200-$220 million. This includes applicable duties, taxes and interest. The majority of refunds relate to the disclosure of optional covers in our insurance PDS and will date back to March 2015. Up to 500,000 members will receive refunds because our disclosures were incorrect. We will also issue refunds to those members who have not received the discounts they were entitled to, and those refunds may date back as far as 2013.

While the outcome of the pricing promises review was disappointing for management and the board, our remediation program which has APRA and ASIC oversight is well established.

Addressing our technology systems is critical to RACQ's future. To that end, we have committed to a multi-year program to embed an enterprise-led systems approach that supports efficient operations, greater capability for growth and an improved member and employee experience. We will also streamline some of our business activities via digitalisation of processes and member services.

Our FY22 performance

The year's challenges significantly impacted the FY22 results with the Group recording a total deficit of $245 million after tax. However, we remain well capitalised to deliver on our commitments and support ongoing operations to serve our members. The Group's capital position remains strong, and we continue to maintain an appropriate capital buffer in an increased risk environment. Our successfully placed FY23 reinsurance program also provides important protection of our balance sheet.

Insurance

Insurance posted an after-tax loss of $236 million ($149 million provision and $87 million trading loss) taking into account the pricing promises review, flooding disaster, unprecedented level of disruption from supply chain impacts that led to increased claims management costs, particularly in motor, and unfavourable investment markets.

Despite inflationary pressure on premiums, member acquisition and retention are holding with overall Personal Lines Insurance Portfolio policy growth of 1.0%. Retention rates on our RACQ home portfolio remained steady at 88.4%, while the retention rate on our RACQ motor portfolio reduced slightly on the previous year to 80.8%. We experienced overall policy growth in the RACQ home portfolio of 1.1%, while policies in the RACQ motor portfolio contracted by 0.2%.

Our CTP portfolio has continued to underperform due to the adverse risk mix which has not changed over many years. This is now a critical issue for RACQ given our increasing market share since 2017. In effect, RACQ members are subsidising the scheme, enhancing profits for other insurers. We are calling on the State Government to restore the balance and fairness of the CTP scheme for all participants.

RACQ's partnership with Honey Insurance goes from strength to strength. Our partnership allows us to explore new ways to increase our revenue resilience, strengthen our market position and add value for our members. More than 5,000 policies are in-force with a large contribution coming from the successful Bank of Queensland partnership, announced during the year.

Assistance

Reporting a $16 million profit, Assistance had a strong year in delivering a range of automotive services to our members, particularly in the second half, as the demand for roadside assistance increased to pre-pandemic levels, reflecting the increase in members using their cars for work and tourism. The strong operational performance was reflected in a record Net Promoter Score of 89.8 from members who utilised our roadside assistance services.

Earlier this year, we acquired just over 50% of GEM Energy and this partnership is an important first step in our renewable energy and sustainability strategies. It has since been rebranded RACQ Solar and will support our members as they transition their home energy. Now, under the 'Home and Energy' umbrella, this team is working to build out and execute RACQ's renewable energy strategy, while RACQ's roadside products and delivery networks are also changing to reflect the broader mobility needs of members.

In welcome news, after more than four years of RACQ campaigning for better protections for roadside workers, the State Government introduced a new road rule which requires motorists to move over or slow down at crashes and roadside incidents in Queensland. This will help give our teams, emergency services and other roadside responders a safe space to work, so they can continue to help people in their time of need.

Bank

RACQ Bank contributed positively to the Group's result recording its second consecutive profit and preserving strong capital levels and liquidity holdings. The $2.3 million profit was a result of continued balance sheet growth, stable net interest margin, and favourable impairment expense movements on a very high-quality loans and advances portfolio.

Loans and advances increased by $57.2 million to $2.09 billion during the year with the bank funding 2,011 or $472.3 million in mortgage loans and 1,251 or $30.7 million in personal loans. Members' deposits also continued to grow solidly, increasing by $60.4 million to $2.2 billion. The Bank was also proud to launch a range of green solutions during the year to strongly align with our strategy to help members fund their transition to electrification and make more sustainable choices at home, such as installing solar panels.

We have focused on making our lending processes less complicated and more efficient reducing our 'Time to Yes' for home lending from 25 days to seven days and personal loans from 13 days to four days. These improvements remove unnecessary or duplicated steps in our process so that we can deliver better outcomes for our members.

Advocacy

Every year, we proactively engage a diverse range of industry and government stakeholders and undertake research to better understand the changes needed to help our members live and move more safely, securely and sustainably while preserving Queensland's liveability.

In FY22, we continued to be a leading voice for fuel, providing daily information and advice to Queenslanders on fuel prices, market insights and price cycle, alongside recommendations on when to fill up their tanks.

We also worked closely with the Federal Government on its new Cyclone Reinsurance Pool and have been advocating for a well-designed pool that maximises benefits for our north Queensland members.

RACQ, through its membership of the AAA, has a Federal Government commitment to test and report the real-world emissions and fuel consumption of select new vehicles in Australia. Starting later this year, the Real-World Testing program will improve consumer information provided to Australian motorists, aimed at reducing vehicle running costs, improving air quality and decreasing CO_2 emissions.

Our people

RACQ's new leadership team is now in place after the appointment of two new group executives during the year: Mary-Jane Bellotti – Group Executive Member & Community and Ailsa Heise – Chief Risk Officer. General Manager of Claims, Trent Sayers, is acting in the Group Executive – Insurance role following the departure of Tracy Green.

RACQ is committed to having a diverse and inclusive workforce with women making up 50% of executive roles and more than 50% of all leaders in the organisation. At the board level, 40% are women, including the President and Chair, and the Vice President and Deputy Chair.

As part of our annual Your Voice Survey of employees, it was also pleasing to see the Group's engagement score increase 2% to 68%, in the face of an external trend of falling employee engagement levels.

The past few years have demonstrated our ability to respond quickly to embrace new ways of working while still meeting the needs of our members and business priorities. Under our WeFlex program, employees have an opportunity, where feasible, to adjust their working arrangements to best suit their personal needs.

In closing

Our priority is to finalise the refunds arising out of the pricing promises review for our members and I would like to thank and acknowledge the board's support in helping us to manage this challenge. We know that successfully transforming our systems and processes will allow us to accelerate opportunities to improve outcomes for our members and people and this will further underpin RACQ's success in the future.

I would further like to thank our people for their hard work and commitment to serving our members in what has been an exceptionally difficult year. Without your dedication, RACQ would not be the trusted organisation it is today.

And finally, I would like to thank our members for their continued confidence in our organisation. Without your support we could not help our communities or advocate on your behalf for a better Queensland.

In the year ahead, we will:

- Prioritise the refunds to members following the outcomes of the pricing promises review
- Continue to enhance our risk management framework
- Accelerate our product simplification work to make our products easier to understand for our members and reduce complexity for our people
- Continue to prioritise the development of affordable and accessible RACQ products and services that help our members transition their mobility and home energy needs, and solutions that increase our community's climate resilience
- Increase advocacy for government policies and initiatives that increase the disaster resilience of Queensland communities.

I look forward to making big strides as we drive towards our 2030 strategy.

David Carter

David Carter
Group Chief Executive Officer

RECONCILIATION IN ACTION

RACQ'S first Reconciliation Action Plan (RAP) commenced in May 2020 as part of the organisation's commitment to First Nations peoples. The Phase 1 'Reflect' RAP had 43 key actions focused on building cultural awareness, building relationships and assessing opportunities.

RACQ's Phase 2 'Innovate' RAP will continue our focus on developing and strengthening relationships, engaging employees and stakeholders in reconciliation, and developing strategies that aim to empower.

Unveiling an Acknowledgement of Country plaque

Affinity launch 2022

INCLUSIVITY IN ACTION

This year, RACQ was proud to launch our LGBTQIA+ employee and allies' network, Affinity. Inclusivity is at the forefront of everything we do, which is why we strongly support the LGBTQIA+ community and strive to raise awareness for the work still needed to combat discrimination.

Affinity aims to make RACQ a more inclusive place for LGBTQIA+ employees through inclusion activities, driving internal policy change and increasing awareness of issues affecting our LGBTQIA+ community.

RACQ Directors' Report

The directors present their report, together with the consolidated financial report of the Group comprising The Royal Automobile Club of Queensland Limited (RACQ) and its controlled entities, for the year ended 30 June 2022 and the auditor's report thereon.

Directors

The names of directors in office during the year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

- **Elizabeth M Jameson AM**
  (Chair and President)
- **Leona C Murphy**
  (Deputy Chair and Vice President)
- **Annabel L Dolphin**
- **John F Minz**
- **Andrew G Moore**
- **Duncan V Brain**
  (appointed 26 July 2021)
- **Andrew J Kearnan**
  (appointed 31 May 2022)
- **Prof. Sarah J P Pearson**
  (appointed 23 November 2021)
- **Robert Hubbard**
  (appointed 23 November 2021)
- **William J Fellowes**
  (appointed 23 November 2021)
- **Anthony M Gambling**
  (ceased appointment 23 November 2021)
- **Bronwyn K Morris AM**
  (ceased appointment 23 November 2021)

Further information on the current directors is contained in the RACQ Directors section on pages 16 to 19. This section also includes their qualifications, experience and particular responsibilities.

Director's meetings

The number of directors' meetings (including meetings of committees of directors), and each RACQ director's attendance at those meetings during the financial year, were:

	RACQ Board		Group Audit Committee		Group Strategic Capital Committee		Group People, Nominations and Remuneration Committee*		RACQ Limited Risk and Compliance Committee	
	A	H	A	H	A	H	A	H	A	H
Elizabeth Jameson AM	13	13	-	-	-	-	6	6	3	3
Leona Murphy	13	13	-	-	6	6	3	3	6	6
Annabel Dolphin	13	13	3	4	-	-	6	6	3	3
John Minz	13	13	6	7	-	-	-	-	6	6
Andrew Moore	13	13	3	3	6	6	-	-	3	3
Duncan Brain	13	13	3	3	4	4	-	-	3	3
Andrew Kearnan	3	3	7	7	2	3	-	-	-	-
Prof. Sarah Pearson	8	8	-	-	3	3	-	-	3	3
Robert Hubbard	7	8	4	4	-	-	3	3	-	-
William Fellowes	8	8	1	1	1	1	3	3	-	-
Anthony Gambling	4	5	2	3	2	3	-	-	-	-
Bronwyn Morris AM	5	5	3	3	-	-	3	3	-	-

A - meetings attended during the financial year.
H - meetings held during the financial year while the director held office for which the director was eligible to attend.

* The Group Remuneration and Nomination Committee was re-purposed as the Group People, Nominations and Remuneration Committee with effect from 29 March 2022.

Company secretary

Bradley D Bowes is the Company Secretary in office as at the end of the financial year. The qualifications and experience of the Company Secretary are set out on page 19.

Member remediation

Prior to ASIC announcing its insurance industry-wide pricing promises review, RACQ Insurance Limited (RACQ Insurance) had started an internal review which identified a Product Disclosure Statement matter with its insurance products requiring further investigation. An external expert was initially appointed to provide an independent assessment of RACQ Insurance's pricing mechanisms and the scope was subsequently expanded to include ASIC's review. These investigations discovered that some of the wording in the Product Disclosure Statements was inadequate in describing how several discounts were applied to premiums. As a result, RACQ Insurance self-reported a regulatory breach in our insurance business to the Australian Securities and Investment Commission (ASIC). The Product Disclosure Statements were corrected during FY22 to address the inconsistency.

The expert's review found instances whereby members may not have received the full premium discounts they were entitled to. RACQ is committed to comprehensively and efficiently addressing these remediation issues impacting members. Although, this will take some time, as the business works through the process and then ultimately contacting those members who have been impacted. The remediation program will be subject to review by ASIC and will be independently monitored by an external party to support an open and transparent approach to resolving the matters for our members.

As a result of the above, RACQ has recognised a provision of $237.6 million (2021: $nil) for member refunds, interest attributable to those refunds and the cost incurred in establishing and administering a remediation program. An associated estimated recovery of $24.8 million relating to GST and Insurance Duty has been recognised within 'Trade and other receivables' on the Balance Sheet, creating a net impact of $212.8 million.

The net amount of $212.8 million was recognised in the Consolidated Statement of Comprehensive Income as a 'Member remediation expense' of $193.2 million, a reduction in 'Insurance premium revenue' of $12 million and, on the Consolidated Balance Sheet, a reduction in 'Unearned premium liability' of $7.6 million.

Objectives, strategy and principal activities

RACQ is a public company limited by guarantee, incorporated and domiciled in Australia. RACQ's purpose is to make a positive difference to the lives of our members now and into the future. To deliver on our purpose, our vision is that by 2030, RACQ will be the trusted partner for our members providing solutions to live and move securely and sustainably.

In FY22, RACQ continued to progress the Group's longer-term strategy with a focus on helping our members navigate the transition to electrification of mobility and by using renewable energy sources.

RACQ's strategy and objectives shaped the principal activities of RACQ throughout the year including the provision of motoring, insurance, assistance, banking and advocacy services.

RACQ will continue to focus on delivering genuine benefits to members and their communities, through a compelling reason to be a member and a sense of belonging to the RACQ Club, and by informing and enabling members to make secure and sustainable transport choices and enhancing the security and sustainability of their homes. RACQ will take action to support the liveability of Queensland, including supporting member sustainability to climate impacts.

The 'RACQ Group Strategy and Plan' details the strategy, priorities, targets and activities undertaken to deliver on its strategic objectives. RACQ monitored its performance against its strategic plan and budget through detailed financial analysis including profit and loss, balance sheet, cash flows and capital expenditure reporting. Key performance measures include member engagement, retention and acquisition, product measures and growth, key financial ratios and people and culture metrics.

Operational outlook

The directors recognise the challenges caused by the impacts of natural hazard claim costs in recent years including FY22 on RACQ Insurance. This resulted in exploration of enhanced capital management with the insurance company expanding its use of reinsurance from 1 July 2022 through quota share reinsurance on its personal lines portfolio and with the Northern Australian Reinsurance pool implementation due no later than 31 December 2023. The Board continues to review RACQ Insurance, focused on exploration of optimal capital structures with the aim of improving the utilisation of members funds in delivering insurance products and services.

Members' guarantee

RACQ is a company limited by guarantee and has no share capital. In the event of winding up, all classes of members are liable to the amount of $2.00 per member. As at 30 June 2022, RACQ had 1,757,484 guaranteeing members resulting in a total contribution of $3,514,968 upon winding up.

Lead auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 20 and forms part of the Directors' Report for the year ended 30 June 2022.

Rounding off

RACQ is a company of a kind referred to in ASIC Corporations *(Rounding in Financial/Directors' Reports) Instrument 2016/191*, therefore, in accordance with that instrument, amounts in the Directors' Report and the consolidated Financial Report have been rounded off to the nearest one thousand dollars, unless otherwise indicated.

Corporate governance

RACQ's 2022 Corporate Governance Statement is available in the Corporate Governance section on RACQ's website (**racq.com/corporategovernance**).

Signed in accordance with a resolution of the RACQ Directors.

ELIZABETH JAMESON AM
Chair and President
15 September 2022

RACQ Directors

Information on the RACQ directors is set out below, including qualifications, experience and particular responsibilities as at the date of this report.

Elizabeth M Jameson AM (President and Chair)

LLB (Hons1), BA, FAICD, MQLS

Appointed Director – (from November 2018; South East Zone Director 2008-2018)

President and Chair of RACQ, chair of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Director of RACQ Operations Pty Ltd. Member of the Group People, Nominations and Remuneration Committee.

Ms Jameson is a professional non-executive director and founder of national governance consultancy Board Matters and associated firm Board Matters Legal. Previously a partner of a national law firm, Ms Jameson is a respected governance specialist, who is consulted at a national and international level. An experienced director, she has served over the past 25 years on the boards of more than 20 other organisations in the private, not-for-profit and public sectors. She is presently also chair of Queensland Theatre and director of Endeavour Foundation.

Leona C Murphy (Vice President and Deputy Chair)

BCom, GAICD

Elected Director – South East Queensland (from May 2021, Non-Zonal Director 2018-2021)

Vice President and Deputy Chair of RACQ, director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Chair of the RACQ Limited Risk and Compliance Committee, Insurance Risk and Compliance Committee and Bank Risk and Compliance Committee and member of the Group Strategic Capital Committee.

Ms Murphy is an experienced senior executive with 25 years' experience in insurance and financial services. She has had C-Suite roles in top 20 ASX listed insurance organisations for 10 years, most recently as chief strategy officer at IAG. She is chair of the Royal Brisbane & Women's Hospital Foundation and a director of Liberty Financial Limited. Leona is a Board Member and Ambassador for The Climate Ready Initiative, a social impact initiative, established by the Griffith Climate Action Beacon.

Ms Murphy has been co-chair of the United Nation Environment's Principles for Sustainable Insurance Initiative and was recognised as one of Australia's Top 100 Women of Influence in the 2015 Australian Financial Review and Westpac Awards for her work in Global Resilience.

Annabel L Dolphin

BBus (Mgmt), Dip NSL, GAICD, CAHRI

Elected Director – Regional Queensland (from November 2021, Northern Zone 2019-2021)

Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Chair of the Group People, Nominations and Remuneration Committee, member of the Group Audit Committee and Bank Audit Committee.

Ms Dolphin is an experienced non-executive director with over 20 years' specialising in strategic human resources, organisational design and culture change across a diverse range of sectors. She is currently President of the Saints Netball Club Mackay Inc, non-executive director for Tourism Australia and the Mackay Hospital and Health Service. She is also director of Dolphin Ventures Pty Ltd where she sits on several independent advisory boards and a director of Cooney Investments Pty Ltd t/a Helloworld Travel Mackay, Mt Pleasant and Townsville.

John F Minz

BCom, GDip Commercial Computing, Sen. Fellow FINSIA, FAIM, FAICD

Elected Director – Regional Queensland (from November 2021, South West Zone 2016-2021)

Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Chair of the Group Audit Committee and Bank Audit Committee, member of the RACQ Limited Risk and Compliance Committee, Insurance Risk and Compliance Committee and Bank Risk and Compliance Committee.

Mr Minz retired as the chief executive officer of Heritage Bank in November 2015, after 23 years with the bank. Mr Minz is president of Toowoomba Together Incorporated, a community charity created to help eliminate domestic and family violence. He is also a member of the Toowoomba Regional Committee of the Australian Institute of Company Directors and the Southern Queensland Police Community Board.

Andrew G Moore

BEcon, BSc, MBA (INSEAD), CA, F FIN, GAICD

Appointed Director (from January 2020)

Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Chair of Group Strategic Capital Committee and member of the RACQ Limited Risk and Compliance Committee, Insurance Risk and Compliance Committee and Bank Risk and Compliance Committee.

Mr Moore is an experienced senior executive with over 30 years extensive experience in the financial and professional services industries, both in Australia and Europe with previous executive roles including Managing Director of GE Capital Home Lending (Aust&NZ) and General Manager of St. George Retail Bank.

More recently, Mr Moore has directed his executive and non-executive efforts towards digital transformation and disruption in the financial services industry. He is CEO of Spaceship Financial Services, a business focused on delivering an innovative and engaging investment and superannuation experience to young Australians.

Duncan V Brain

BAppSc (Maths), MBA, MAICD

Appointed Director (from July 2021)

Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Member of the Group Audit Committee, Bank Audit Committee, RACQ Limited Risk and Compliance Committee, Insurance Risk and Compliance Committee and Bank Risk and Compliance Committee.

Mr Brain is an experienced CEO and Director having worked for more than 30 years in the insurance and financial services industry. In addition to his executive and board roles he has extensive Insurance Operations and M&A experience, having managed most operational functions, and led more than 70 M&A projects.

Mr Brain has worked for a number of ASX listed insurers including as Divisional CEO for IAG, Australasia's largest general insurance group. Internationally, Mr Brain has held CEO & Board positions across seven countries, working and partnering with market and global leading financial services groups.

Andrew J Kearnan

BSc (Hons), MBA, GAICD
Appointed Director (from May 2022)

Director of RACQ Insurance Limited and Club Insurance Holdings Pty Ltd (from May 2021) and a member of the Group Audit Committee and Group Strategic Capital Committee.

Mr Kearnan is a Director of the Teachers Mutual Bank Limited, Unimutual Limited, Nimble Money Limited and the Australian Shareholders' Association (the ASA). He is Chair of the Board for Unimutual Limited and Chair of the Audit Committees for each of the other entities. He runs an Advisory business, providing corporate finance, strategic and capital markets advice to businesses across the maturity spectrum.

Mr Kearnan has an Honours degree in Science (Biochemistry), an MBA and has held Executive and Board positions at leading financial service sector institutions including Bank of America Merrill Lynch, Commonwealth Bank of Australia, Hollard Insurance, Greenstone Financial Services and other similar entities. He is a past Member of the Australian Accounting Standards Board and was consistently rated as one of Australia's top equity market research analysts in the Australian and Asian financial services sector over multiple years.

Prof. Sarah J P Pearson

DPhil (Oxon), FTSE, GAICD
Elected Director – South East Queensland (from November 2021)

Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Member of the RACQ Limited Risk and Compliance Committee, Insurance Risk and Compliance Committee, Bank Risk and Compliance Committee and Group Strategic Capital Committee.

Professor Pearson is an experienced non-executive director, investor and advisor with extensive global executive leadership expertise spanning FTSE 100 multinationals, international C-suite roles in the public and private sector, well known brands such as Cadbury and McKinsey, Venture Capital and startups. As an expert in science, innovation and driving change she has represented Australia globally as Chief Scientist & Chief Innovation Officer at DFAT, helped the growth of new technology companies, and led the uptake of technology in the public and private sector. Professor Pearson's current roles focus on the application of emerging technologies for economic, social and environmental impact, through investment roles overseeing ~$1bn globally including Main Sequence Ventures, NED roles such as the Global Innovation Fund, ANU Council, and advisory roles such as Paul Ramsay Foundation Fellow.

Robert Hubbard

BA (Hons), Accy, FCA
Elected Director – South East Queensland (from November 2021)

Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Member of the Group People, Nominations and Remuneration Committee, Group Audit Committee and Bank Audit Committee.

Mr Hubbard has more than 20 years' experience in accounting, corporate finance, assurance and audit as a partner at PwC in Brisbane, retiring in 2013. Whilst at PwC Mr Hubbard was a director of MS Australia, Opera Queensland and a member of the Council of the University of the Sunshine Coast.

Since 2013, Mr Hubbard has been a non-executive director focussed in ASX listed companies. Mr Hubbard currently chairs healthcare company Healius Limited and is Deputy Chair of lithium producer Allkem Limited. Mr Hubbard has also served as a director of Bendigo and Adelaide Bank Limited from 2013 until November 2021, chairing the Bank's Audit Committee during that time, and Chair of Central Petroleum Limited.

William J Fellowes

BComm, GDipCA, GAICD
Elected Director – Regional Queensland (from November 2021)

Director of Members Banking Group Limited, Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Member of the Group People, Nominations and Remuneration Committee and the Group Strategic Capital Committee.

Mr Fellowes is an experienced non-executive Director with an advisory and assurance professional background at PwC. Throughout his career, Mr Fellowes has worked across external audit, internal audit and financial consulting across Australia, the US and Europe and more recently spent four years in various senior executive roles with a health technology company based in Sydney.

Mr Fellowes sits on several other Board's including Children's Health Queensland Hospital & Health Service, Northern Australia Primary Health Limited and Opera Queensland and also sits on a number of advisory committees as a financial specialist.

David Carter
Group Chief Executive Officer

BCom, FCPA, F FIN, GDip Fin Planning, GDip Applied Finance and Investment, GAICD

Director of RACQ Foundation

Joining in March 2020, Mr Carter leads the Club to deliver long-term, sustainable value to its members. With 30 years' experience helping guide financial services institutions, including Suncorp Group and ANZ Limited, to success, Mr Carter has a strong connection to his home state of Queensland. Mr Carter is a Certified Practicing Accountant and has a Bachelor of Commerce. Mr Carter is the RACQ representative director of the Australian Automobile Association (AAA), Australian Motoring Services (AMS), LifeFlight Australia Ltd, and Honey Insurance Pty Limited. He is also a director of Qld Ballet and Netball Qld. Mr Carter is supported by a Group Executive Team covering member and community, assistance, banking, finance, governance, insurance, risk, people, and technology, and he also has the Group Member Advocate reporting directly to him.

Bradley D Bowes
Group Company Secretary

PhD, MBA, MCommLaw, BBus(Accty), FGIA, FCG, MAICD

Mr Bowes is a member of the RACQ Group Executive. As Group Company Secretary, he also has particular responsibilities as company secretary for all the legal entities within the RACQ Group. He leads the Group Secretariat with responsibility for aspects of corporate governance, and for managing all matters associated with the efficient and effective operation of the various boards and committees and of each annual general meeting. Mr Bowes is a chartered company secretary and governance professional with significant experience in senior management and similar governance roles in both private enterprise and the public sector across a range of industries.

Group Executive team

The RACQ Group is organised along its main operating divisions, each of which is headed by a member of the Group Executive Team (GEX), who are direct reports to the Group CEO. As at the date of this report, the GEX comprise of the following:

Group Chief Executive Officer – David Carter
BCom, FCPA, F FIN, GDip Fin Planning, GDip Applied Finance and Investment, GAICD

Group Executive Member and Community – Mary-Jane (MJ) Bellotti
MBA, GAICD

Group Company Secretary – Bradley Bowes
PhD, MBA, MCommLaw, BBus(Accty), FGIA, FCG, MAICD

Group Executive Insurance (acting) – Trent Sayers
BComm, AICD

Group Chief Risk Officer – Ailsa Heise
BBus, FCPA, GAICD

Group Chief Financial Officer – Michael Lonergan
BBus, FCPA, GDip App Fin, GAICD

Chief Technology Officer – Bernadette Stone
BSC(Hons) Physics

Chief People Officer – Heidi Suominen
BBus (HR Mgt), GDip Training and Development, GAICD

Group Executive Assistance – Glenn Toms
BBus, GDip Fin & Inv, F Fin, FAIM, GAICD

Group Executive Banking – Michelle Winzer
MBA, F FIN, GAICD

Detailed profiles of each GEX member are available at **racq.com/about/racq/group-executive-team**

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Auditor's Independence Declaration to the Directors of The Royal Automobile Club of Queensland Limited

As lead auditor for the audit of The Royal Automobile Club of Queensland Limited for the financial year ended 30 June 2022, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

This declaration is in respect of The Royal Automobile Club of Queensland Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Alison de Groot
Partner
15 September 2022

Consolidated Statement of Comprehensive Income

For the financial year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Revenue			
Insurance premium revenue	2.1	1,128,783	1,047,470
Revenue from contracts with members	6.1	267,953	256,789
Banking interest income	3.1	60,033	64,757
Reinsurance and other recoveries revenue	2.1	547,063	379,545
Investment interest and dividend income	4.1	44,752	46,061
Net gains on financial assets at fair value through profit or loss	4.1	-	24,755
Other income		213	4,209
Total revenue		**2,048,797**	**1,823,586**
Expenses			
Insurance claims expense	2.1	(1,375,265)	(1,097,502)
Employee benefits expense	5.3.1	(185,919)	(176,970)
Outwards reinsurance premium expense	2.1	(238,571)	(170,060)
Payments to contractors for assistance services		(88,864)	(83,192)
Banking interest expense	3.1	(9,826)	(16,401)
Other underwriting and acquisition costs		(49,239)	(32,478)
Net losses on financial assets at fair value through profit or loss	4.1	(85,031)	-
Depreciation and amortisation expense		(36,691)	(39,747)
Member remediation expense	2.1	(193,180)	-
Communication and information technology expenses		(66,640)	(74,610)
Contractor and consulting expenses		(23,974)	(17,706)
Other expenses	6.2	(55,809)	(50,662)
Credit and other financial asset impairment reversal / (loss)	3.3	1,451	(18)
Total expenses		**(2,407,558)**	**(1,759,346)**
Share of profit in associates and joint ventures	6.8	366	2,658
Gain on disposal of business assets		5,977	9,840
(Deficit) / Surplus before income tax		**(352,418)**	**76,738**
Income tax benefit / (expense)	5.5	107,238	(20,226)
(Deficit) / Surplus for the year		**(245,180)**	**56,512**
(Deficit) / Surplus attributable to:			
Non-controlling interest		(1)	(150)
Members		(245,179)	56,662
(Deficit) / Surplus for the year		**(245,180)**	**56,512**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains		34	699
Net (losses) / gains on equity investments at fair value through other comprehensive income		(9,105)	20,918
Related income tax benefit / (expense)	5.5	2,721	(6,422)
Total other comprehensive (loss) / income for the year		**(6,350)**	**15,195**
Total comprehensive (loss) / income for the year		**(251,530)**	**71,707**
Total comprehensive (loss) / income attributable to:			
Non-controlling interest		**(1)**	(150)
Members		**(251,529)**	71,857

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 26 to 77.

Consolidated Balance Sheet

As at 30 June 2022

	Note	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents		299,257	73,580
Trade and other receivables	4.3.2	415,541	281,457
Current tax receivable		35,930	4,255
Deferred acquisition costs	2.5	17,080	35,079
Loans and advances	3.2	2,092,017	2,034,859
Financial assets	4.2	2,172,283	2,555,217
Reinsurance and other recoveries receivable	2.4	636,976	374,065
Deferred reinsurance assets		46,523	47,214
Other assets		32,353	30,790
Equity-accounted investments	6.8	24,904	10,563
Property, plant and equipment	5.1	139,052	149,306
Deferred tax assets	5.5.3	121,190	44,258
Goodwill and other intangible assets	5.2	270,641	283,319
Total assets		**6,303,747**	**5,923,962**
Liabilities			
Trade and other payables		122,529	129,083
Provisions	6.3	239,211	2,162
Deposits	3.4	2,194,528	2,134,131
Unearned premium liability	2.7	598,589	540,351
Contract liabilities	6.1.2	85,813	83,833
Borrowings	3.5	210,102	216,791
Outstanding claims liabilities	2.3	1,542,399	1,256,043
Employee benefit liabilities	5.3.2	43,986	43,448
Total liabilities		**5,037,157**	**4,405,842**
Net assets		**1,266,590**	**1,518,120**
Accumulated funds			
Retained surplus		1,245,845	1,477,389
Reserves		20,745	41,452
Total accumulated funds attributable to members		**1,266,590**	**1,518,841**
Non-controlling interest		-	(721)
Total accumulated funds		**1,266,590**	**1,518,120**

The Consolidated Balance Sheet is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 26 to 77.

Consolidated Statement of Changes in Accumulated Funds

For the financial year ended 30 June 2022

2022	Retained surplus $'000	Reserve for credit losses $'000	Investment revaluation reserve $'000	Merger reserve $'000	Accumulated funds attributable to members $'000	Non-controlling interest $'000	Total accumulated funds $'000
As at 30 June 2021	**1,477,389**	**3,600**	**19,223**	**18,629**	**1,518,841**	**(721)**	**1,518,120**
Deficit for the year	(245,179)	-	-	-	(245,179)	(1)	(245,180)
Other comprehensive income for the year	10,757	-	(17,107)	-	(6,350)	-	(6,350)
Total comprehensive loss for the year	**(234,422)**	**-**	**(17,107)**	**-**	**(251,529)**	**(1)**	**(251,530)**
Transfers							
Transfers from general reserve for credit losses*	3,600	(3,600)	-	-	-	-	-
Total transfers	**3,600**	**(3,600)**	**-**	**-**	**-**	**-**	**-**
Transactions with owners in their capacity as owners							
Purchase of minority interest	(722)	-	-	-	(722)	(722)	-
Total transactions with owners in their capacity as owners	(722)	-	-	-	(722)	722	-
As at 30 June 2022	**1,245,845**	**-**	**2,116**	**18,629**	**1,266,590**	**-**	**1,266,590**
2021							
As at 30 June 2020	**1,417,638**	**3,400**	**7,317**	**18,629**	**1,446,984**	**(571)**	**1,446,413**
Surplus for the year	56,662	-	-	-	56,662	(150)	56,512
Other comprehensive income for the year	3,289	-	11,906	-	15,195	-	15,195
Total comprehensive income (loss) for the year	**59,951**	**-**	**11,906**	**-**	**71,857**	**(150)**	**71,707**
Transfers							
Transfers to general reserve for credit losses	(200)	200	-	-	-	-	-
Total transfers	**(200)**	**200**	**-**	**-**	**-**	**-**	**-**
As at 30 June 2021	**1,477,389**	**3,600**	**19,223**	**18,629**	**1,518,841**	**(721)**	**1,518,120**

** refer to note 4.5*

The Consolidated Statement of Changes in Accumulated Funds is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 26 to 77.

Consolidated Statement of Cash Flows

For the financial year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Insurance premiums received		1,252,151	1,178,766
Revenue from contracts with members		291,221	264,367
Interest received from loans and advances		59,890	64,645
Reinsurance and other recoveries received		301,158	224,524
Insurance claims paid		(1,183,263)	(983,293)
Outwards reinsurance premiums paid		(246,275)	(189,559)
Banking interest paid		(9,351)	(16,210)
Payments to suppliers and employees		(486,997)	(471,001)
Net movement in loans and advances		(55,707)	(60,975)
Net movement in deposits		60,396	34,997
Income taxes paid		(1,368)	(19,130)
Net cash flows from operating activities	6.4	**(18,145)**	**27,131**
Cash flows from investing activities			
Proceeds from other investing activities		39,465	68,652
Dividend income received		7,090	6,955
Proceeds from sale or maturity of financial assets		1,061,021	1,603,849
Payments for financial assets		(842,539)	(1,820,915)
Payments for intangible assets		(5,494)	(5,036)
Payments for property, plant and equipment		(14,208)	(12,346)
Proceeds from sale of business assets		15,992	14,675
Payments for investments in joint ventures and associates		(8,168)	(684)
Net cash flows from investing activities		**253,159**	**(144,850)**
Cash flows from financing activities			
Payments for redeemed preference shares		(84)	(17)
Repayments of principal for lease liabilities		(4,253)	(4,127)
Proceeds from borrowings	3.5	55,000	96,546
Repayments of borrowings	3.5	(60,000)	(30,000)
Net cash flows from financing activities		**(9,337)**	**62,402**
Net increase / (decrease) in cash and cash equivalents		225,677	(55,317)
Cash and cash equivalents at the beginning of the year		73,580	128,897
Cash and cash equivalents at the end of the year		**299,257**	**73,580**

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 26 to 77.

Notes to the Consolidated Financial Statements

For the financial year ended 30 June 2022

1. BASIS OF PREPARATION

Reporting entity

The Royal Automobile Club of Queensland Limited ('RACQ' or the 'Company') is a company limited by guarantee domiciled and incorporated in Australia. The Company's registered office is 2649 Logan Road, Eight Mile Plains, Queensland, 4113.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as 'RACQ Group' or the 'Group') and were authorised for issue by the Board of Directors on 15 September 2022.

The Company is a for-profit entity for the purposes of preparing the financial statements. The Group's principal activities during the financial year were the provision of assistance, insurance and retail banking products and services to members.

Statement of compliance

The consolidated financial statements are general purpose financial statements that has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) and Interpretations issued by the International Accounting Standards Board (IASB).

Significant accounting policies have been included in the relevant note to which the policies relate. The accounting policies have been applied consistently to all periods presented in these consolidated financial statements. Certain comparative amounts have been restated to conform to the current year's presentation.

Significant estimates, judgements and assumptions

In preparing these consolidated financial statements, management has made certain judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is provided in the following notes:

- Outstanding claims liability (Note 2.3)
- Reinsurance and other recoveries receivable (Note 2.4)
- Liability adequacy test (Note 2.6)
- Impairment of loans and advances (Note 3.3)
- Fair value of financial instruments (Note 4.2)
- Impairment testing of cash-generating units containing goodwill (Note 5.2.1)
- Recognition of deferred tax assets (Note 5.5.3)
- Provisions and contingent liabilities (Note 6.3)

Basis of measurement

The consolidated financial statements are presented in Australian dollars and have been prepared on the historical cost basis, except for the following material items:

Items	Measurement basis
Financial assets mandatorily held at fair value through profit and loss (FVTPL)	Fair Value
Financial assets at fair value through other comprehensive income (FVOCI)	Fair Value
Financial assets designated at fair value through profit and loss (FVTPL)	Fair Value
Derivative financial instruments	Fair Value

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and all financial information presented has been rounded off to the nearest thousand dollars, unless otherwise stated.

The consolidated balance sheet is prepared in liquidity format. In the notes to the consolidated financial statements, amounts expected to be recovered or settled no more than 12 months after the reporting date are classified as 'current', otherwise they are classified as 'non-current'.

Basis of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2022. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Interests in equity-accounted investees

The Group's interest in equity-accounted investees comprise interest in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised profit or losses, are eliminated in preparing the consolidated financial statements.

Standards issued but not yet effective

As at the date of this financial report, there are several new or revised accounting standards published by the AASB that will be mandatory in future financial years. The new or revised accounting standards that are expected to have a material impact on the Group's financial statements are set out below.

AASB 17 Insurance Contracts

AASB 17 *Insurance Contracts* was issued in July 2017 and it will replace the existing accounting standards AASB 4 *Insurance Contracts*, AASB 1023 G*eneral Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. In June 2020, the IASB issued Amendments to IFRS 17 which deferred the effective date for annual reporting periods from 1 January 2021 to 1 January 2023. These amendments were adopted by the AASB in July 2020. The application date for the Group will be 1 July 2023 and the Group does not intend to early adopt the standard.

Measurement of insurance contracts

The standard introduces a new 'general model' for the recognition and measurement of insurance contracts but permits the use of a simplified approach (which is similar to the current basis on which general insurance is brought to account under AASB 1023) if the liability for remaining coverage under the simplified approach is not expected to materially differ from the general model or if the coverage of each contract in the group is one year or less. The Group intends to adopt the simplified approach to its current principal activities.

Onerous contracts

AASB 17 requires the identification of 'groups' of onerous contracts which are expected to be determined at a more granular level of aggregation than the level at which the liability adequacy test is performed under AASB 1023. Contracts that are measured using the simplified approach are assumed not to be onerous unless facts and circumstances indicate otherwise. Facts and circumstances that may be indicators of possible onerous contracts will be identified through the periodic management information. Where onerous contracts are identified, the losses are measured based on an estimation of fulfilment cash flows and are recognised in profit or loss. Onerous contract losses must be measured on a gross basis (excluding the effect of reinsurance), with the impact on profit or loss mitigated by the deduction of related income on reinsurance recoveries to the extent that the onerous contracts are covered by reinsurance.

Risk adjustment

The measurement of insurance contract liabilities will include a risk adjustment which replaces the risk margin under AASB 1023. The risk margin under AASB 1023 reflects the inherent uncertainty in the net discounted central estimate, whereas the risk adjustment is defined as the compensation required for bearing the uncertainty that arises from non-financial risk. Similar to the risk margin, the risk adjustment includes the benefit of diversification. AASB 17 requires the disclosure of the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities. The risk adjustment requires substantial judgement and the Group is currently defining the methodology, and in doing so, is giving consideration to evolving industry interpretation.

Discount rates

AASB 1023 requires the net central estimate of outstanding claims to be discounted using risk-free rates as described in note 2.3 to the financial statements. AASB 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows but does not prescribe a methodology for determining the discount rates used. The methodology for discount rates is currently being determined.

Transition

The Group expects to apply the full retrospective approach under AASB 17 using reasonable and supportable information available without undue cost or effort.

Implementation progress

The accounting guidance and application methodologies are being developed, and the Company is progressing with the technical interpretation, design and implementation of required changes to its financial reporting processes and new accounting policies.

Financial impact

The requirements of AASB 17 are complex and the Group continues to analyse the impacts of the standard. Market developments also continue to be monitored in order to assess the impact of evolving interpretations and other changes. The financial impact of adopting AASB 17 including consideration of the income tax implications of the standard is not reasonable to estimate at the date of this report. The Group intends to disclose the potential financial impact of adopting AASB 17 once it is practical to provide a reliable estimate.

2. INSURANCE ACTIVITIES

2.1. INSURANCE RESULT

	Note	2022 $'000	2021 $'000
Insurance premium revenue		1,128,783	1,047,470
Outwards reinsurance premium expense		(238,571)	(170,060)
Net premium revenue		**890,212**	**877,410**
Insurance claims expense	2.2	(1,375,265)	(1,097,502)
Reinsurance and other recoveries revenue	2.2	547,063	379,545
Net claims incurred	**2.2**	**(828,202)**	**(717,957)**
Acquisition costs		(90,134)	(84,187)
Other underwriting expenses		(55,769)	(51,275)
Member remediation expense		(193,180)	-
Total underwriting expenses (1)		**(339,083)**	**(135,462)**
Underwriting result		**(277,073)**	**23,991**
Investment (losses) / income on technical reserves		(36,399)	12,984
Investment expenses on technical reserves		(1,393)	(1,349)
Insurance result		**(314,865)**	**35,626**

(1)This represents underwriting expenses incurred in the Group's Insurance segment and includes intercompany charges which eliminate on consolidation

Investment losses on technical reserves during the year were predominantly due to valuation losses on financial assets held to back insurance liabilities, which are held in debt securities and whose valuations were impacted by increases in interest rates throughout the financial year.

Accounting policies

(i) Insurance premium revenue

Premium revenue includes amounts charged to policyholders, including applicable levies and charges such as fire service levies, but excludes stamp duty and GST collected on behalf of third parties. Premiums are recognised as revenue from the date of attachment of risk over the period of the insurance policy, which is usually one year.

(ii) Outwards reinsurance premium expense

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of gross written premium received. Reinsurance premiums are deferred and recognised as an asset where there are future economic benefits to be received from the reinsurance premiums.

(iii) Insurance claims expense

Gross claims expense represents claim payments adjusted for the movement in the outstanding claims liability. Claims expense is recognised as losses are incurred, which is the point in time when the event giving rise to the claim occurs.

(iv) Reinsurance and other recoveries revenue

Reinsurance and other recoveries revenue represent claim recovery receipts adjusted for the movement in the reinsurance and other recoveries receivable.

(iv) Underwriting expenses

Underwriting expenses for the purpose of this note includes an allocation of communication and information technology expenses, personnel expenses, amortisation of intangible assets and other expenses that are related to acquisition and underwriting activities.

(v) Member remediation expense

Member remediation expense reflects the expected costs that have been incurred associated with the Group's pricing promises remediation program. Refer to note 6.3.1 for further information on the Member remediation provision.

2.2. NET CLAIMS INCURRED

	2022			2021		
	Current year	Prior years	Total	Current year	Prior years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross claims expense						
Gross claims incurred / (released) – undiscounted	1,412,472	(39,638)	1,372,834	1,139,919	(39,969)	**1,099,950**
Discount movement	(1,598)	4,029	2,431	(3,527)	1,079	**(2,448)**
	1,410,874	**(35,609)**	**1,375,265**	**1,136,392**	**(38,890)**	**1,097,502**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	(540,052)	(9,269)	(549,321)	(323,657)	(56,218)	**(379,875)**
Discount movement	2,610	(352)	2,258	481	(151)	**330**
	(537,442)	**(9,621)**	**(547,063)**	**(323,176)**	**(56,369)**	**(379,545)**
Total net claims incurred	**873,432**	**(45,230)**	**828,202**	**813,216**	**(95,259)**	**717,957**

2.3. OUTSTANDING CLAIMS LIABILITY

	2022	2021
	$'000	$'000
Gross outstanding claims liability		
Gross central estimate - undiscounted	1,358,858	1,036,718
Claims handling expense	86,403	64,712
	1,445,261	**1,101,430**
Discount to present value	(62,984)	(8,437)
Risk margin	160,122	163,050
Gross outstanding claims liability – discounted	**1,542,399**	**1,256,043**
Current	854,155	622,363
Non-current	688,244	633,680
Gross outstanding claims liability	**1,542,399**	**1,256,043**
	%	%
Risk margin	**21.0**	21.9
Probability of sufficiency	**92.5**	92.5

Accounting policies

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date, with an additional risk margin to allow for the inherent uncertainty in the central estimate. Further information is provided in 2.3.2.

The expected future payments include those in relation to claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and the direct and indirect costs of settling those claims. The expected future payments are discounted to present value using a risk-free discount rate.

A reconciliation of the movement in the discounted net outstanding claims liability is as follows:

	2022	2021
	$'000	$'000
Net outstanding claims liability – opening balance	881,978	844,875
Prior periods		
Claim payments	(317,007)	(239,292)
Discount unwind	2,618	2,116
Margin release on prior periods	(61,000)	(47,769)
Incurred claims due to changes in assumptions and experience	4,417	(48,706)
Current period		
Net central estimate for current period	328,013	320,374
Net change in reinsurance on paid claims	8,624	(11,537)
Risk margin on current period net outstanding claims	57,780	61,917
Net outstanding claims liability – closing balance	**905,423**	**881,978**
Reinsurance and other recoveries receivable	636,976	374,065
Gross outstanding claims liability – closing balance	**1,542,399**	**1,256,043**

The following table represents the maturity profile of the gross outstanding claims liability, based on the estimated timing of discounted cash outflows:

	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000
2022	1,542,399	854,155	607,880	80,364	**1,542,399**
2021	1,256,043	622,363	553,588	80,092	**1,256,043**

2.3.1. CLAIMS DEVELOPMENT TABLE

The following table shows the development of the estimated undiscounted outstanding claims liabilities relative to the ultimate expected claims for the 10 most recent accident years. Amounts are net of reinsurance and other recoveries. Personal Insurance (Home, Motor, Pleasure craft and Pet and associated personal liability) claims are disclosed separately as there are no material claim developments that require disclosure as the majority of claims are settled within twelve months following the reported incident.

Accident year	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Estimate of net ultimate CTP claims cost:											
At end of accident year	155,581	169,902	155,377	171,782	181,531	187,866	198,207	206,147	152,439	127,037	
One year later	139,449	147,050	146,065	160,153	171,963	167,516	173,960	186,161	159,166		
Two years later	118,280	140,057	133,714	140,977	153,349	156,341	164,497	193,155			
Three years later	98,069	124,223	116,999	125,045	152,349	165,441	169,854				
Four years later	93,543	115,717	114,393	119,928	145,768	171,595					
Five years later	92,855	107,743	115,634	116,239	144,944						
Six years later	92,943	107,575	115,658	117,635							
Seven years later	92,762	104,826	116,201								
Eight years later	93,958	104,144									
Nine years later	93,627										
Current estimate of net ultimate claims cost	93,627	104,144	116,201	117,635	144,944	171,595	169,854	193,155	159,166	127,037	1,397,358
Cumulative payments	(88,851)	(101,062)	(107,147)	(108,381)	(114,951)	(127,032)	(111,712)	(90,764)	(35,592)	(1,925)	(887,417)
Net outstanding CTP claims - undiscounted	**4,776**	**3,082**	**9,054**	**9,254**	**29,993**	**44,563**	**58,142**	**102,391**	**123,574**	**125,112**	**509,941**
Discount to present value											(31,621)
Net claims handling expenses											54,641
2012 and prior											9,705
Outstanding claims - CTP											**542,666**
Outstanding claims - Personal Insurance											**202,635**
Risk margin											160,122
Total net outstanding claims											**905,423**

2.3.2. ACTUARIAL ASSUMPTIONS AND METHODS

Significant accounting judgements and estimates

The estimation of the outstanding claims liabilities is based on multiple actuarial models that analyse experience, trends and other factors utilising the Group's specific data, relevant industry data and general economic data. The selection of the appropriate model takes into account the claim type characteristics class of business and the extent of the development of each past accident period.

The models use statistical analyses of historical experience. Generally, it is assumed that the development pattern of current claims will be consistent with past experience. Where historical experience is not credible or appropriate, a combination of industry experience or model adjustments are utilised to estimate the ultimate claims cost.

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in estimating claims provisions, it is expected that the final outcome will be different from the original liability estimated. There is a significant degree of uncertainty in the estimation of claims IBNR and claims IBNER. Personal Insurance claims are generally reported within a short timeframe following the claim event and therefore claims cost estimates are more certain. CTP Insurance claims and Personal Insurance liability claims display increased complexity and longer settlement periods, therefore there is a greater degree of uncertainty regarding the ultimate cost of these claims.

Actuarial assumptions

The key actuarial assumptions used in determining the outstanding claims liability are:

	2022		2021	
	Personal Insurance	CTP Insurance	Personal Insurance	CTP Insurance
Discount rate	**2.32%**	**3.1%**	0.2%	0.5%
Economic inflation rate	**-**	**2.8%**	-	2.0%
Superimposed inflation rate	**-**	**1.5%**	-	1.5%
Claims handling expense ratio	**5.3%**	**7.4%**	4.4%	7.4%
Risk margin	**12.9%**	**24.3%**	11.0%-14.5%	24.3%
Duration (years)	**0.43**	**2.09**	0.50	2.14

Discount rate

Discount rates are derived from market yields on Commonwealth Government securities at the reporting date.

Economic inflation and superimposed inflation rate

Economic inflation for CTP claim settlement costs is based on economic indicators such as growth in average weekly earnings. External views on future wage inflation have increased from those used at 30 June 2021 and led to an increased assumption being employed at 30 June 2022 of 2.8% (2021: 2.0%). Superimposed inflation reflects the tendency of claims costs to increase above the rate of economic inflation due to economic, social and political forces. For CTP Insurance, superimposed inflation is unchanged at 1.5% in recognition of the relatively benign experience over the last 10 years.

No explicit allowance for economic or superimposed inflation has been made in the valuation of Personal Insurance claims. Allowances for future inflation are implicit within the actuarial models employed.

Claims handling expense ratio

The future claims handling expense ratio is estimated in periodic reviews of historic claim handling costs as a percentage of past claim payments.

Risk margin

The overall required level of sufficiency of outstanding claims reserves is set by the Board at the recommendation of the appointed actuary. Actuarial modelling is performed to determine appropriate risk margin reserves to achieve the required level of sufficiency. Uncertainties surrounding the outstanding claims liability estimation process include the robustness of the actuarial models, model parameters used, applicability of past claims experience, and the uncertainty of future market conditions when claims are settled. Risk margin for Personal Insurance represents the range for the dominant classes (Home and Motor).

Risk margin reserves are set to allow for diversification across products to arrive at an overall provision which is intended to have a probability of sufficiency of 92.5% (2021: 92.5%).

Duration

Duration reflects the weighted average term to claims settlement and is determined from the inflated and discounted expected future net cash flows by class of business. Historical finalisation patterns are used to determine the expected future payment patterns.

Sensitivity analysis – insurance contracts

The Group conducts sensitivity analyses to quantify the exposure to the risk of changes in the key actuarial assumptions while holding all other variables constant. This is summarised below as a sensitivity of the surplus/(loss) after tax to a 1% change in the key variable. A change in each variable will have no impact on equity reserves.

Impact of changes in key variables	Movement in Variable 2021 and 2022	2022 $'000	Surplus/(Loss) after tax 2021 $'000
Assumption			
Discount rate	+1%	10,059	10,843
	-1%	(10,532)	(11,365)
Inflation rate	+1%	(8,585)	(9,312)
	-1%	8,383	9,084
Claims handling expense rate	+1%	(9,366)	(7,448)
	-1%	9,366	7,448
Risk margin	+1%	(6,903)	(6,919)
	-1%	5,926	5,986

2.4. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2022 $'000	2021 $'000
Expected undiscounted outstanding reinsurance and other recoveries	660,463	376,149
Discount to present value	(23,487)	(2,084)
Total reinsurance and other recoveries receivable	**636,976**	**374,065**
Current	450,626	258,247
Non-current	186,350	115,818
Total reinsurance and other recoveries receivable	**636,976**	**374,065**

Accounting policies

This is an area of significant estimates, judgements and assumptions. Reinsurance and other recoveries receivable are measured as the present value of expected future receipts, calculated on the same basis as the provision for outstanding claims and in accordance with the underlying reinsurance contracts. These calculations are based on past recovery experience or relevant industry benchmarks and include adjustments to these assumptions where appropriate. The recoverability of these assets is assessed on a periodic basis, taking into consideration factors such as counterparty credit risk. Whilst no material recoverability issues have been identified, there is a risk that the longer term effects on economic factors such as inflation could be more prolonged than anticipated, which could result in higher credit losses than those modelled under the base case for non-reinsurance recoveries.

2.5. DEFERRED ACQUISITION COSTS

Acquisition costs incurred in obtaining and recording general insurance contracts are deferred and recognised as assets when they can be reliably measured and where it is probable that they will give rise to premium revenue in subsequent reporting periods. Deferred acquisition costs (DAC) are recognised as assets to the extent that the related unearned premiums exceed the sum of the deferred acquisition cost and the present value of expected future claims, including an appropriate risk margin. Where there is a shortfall, the DAC asset is written down and if insufficient, an unexpired risk liability is recognised.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue. Deferred acquisition costs are derecognised when the related contracts are either settled or disposed of.

	2022 $'000	2021 $'000
Opening balance	35,079	39,284
Acquisition costs incurred in the period	90,134	80,126
Amortisation expense	(78,288)	(82,890)
Write down for premium deficiency (refer to Note 2.6)	(29,845)	(1,441)
Closing balance	**17,080**	**35,079**

2.6. LIABILITY ADEQUACY TEST

The liability adequacy test (LAT) is completed at each reporting date and assesses the adequacy of the carrying amount of the net unearned premium liability to settle future claims. To determine if any deficiency exists, estimates of future claim costs (premium liabilities net of reinsurance) are compared to the unearned premium liability net of reinsurance and related DAC. If the future claim costs exceed the net premium liabilities, then a deficiency exists. Any deficiency is recognised immediately in profit or loss, with the corresponding impact on the balance sheet recognised first through the write-down of DAC for the relevant portfolio of contracts and then through the establishment of a provision (unexpired risk liability). The LAT is required to be conducted at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. The LAT is conducted using the central estimate of the premium liabilities, applying a methodology consistent for reporting to APRA, which requires an estimation of the present value of future net cash flows (relating to future claims arising from the rights and obligations under current general insurance contracts) and adjusted for an appropriate risk margin for uncertainty in the central estimate for each portfolio of contracts. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

	2022 $'000	2021 $'000
Central estimate present value of expected future cash flows arising from future claims	691,035	503,817
Central estimate present value of expected future cash inflows arising from reinsurance and other recoveries on future claims	(152,655)	(45,261)
Risk margin	7,885	10,740
Expected present value of future cash flows for future claims including risk margin	**546,265**	**469,296**
	%	**%**
Risk margin	**1.5**	2.3
Probability of sufficiency	**60**	60

The risk margin used in the LAT for individual portfolios is calculated by using a probability of sufficiency (POS) methodology including diversification benefit, which is consistent with that used for the determination of the risk margin for the outstanding claims liability, based on assessments of the levels of risk in each portfolio. The POS represented in the LAT differs from the 92.5% POS represented by the outstanding claims liability (see Note 2.3) as the former is in effect an impairment test used only to test the sufficiency of net unearned premium liabilities, whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability. Refer note 2.3.2. As at 30 June 2022, the LAT resulted in a deficiency of $31.0 million (2021: $4.5 million) which has subsequently been recognised in the Consolidated Statement of Comprehensive Income in Other underwriting and acquisition costs of $29.9 million (2021: $4.5 million) and in the Consolidated Balance Sheet by a write down of DAC of $29.9 million (2021: $1.4 million) and the recognition of an Unexpired risk liability of $1.1 million (2021: $1.3 million). The net deficiency calculation was as follows:

Deficient portfolio	2022 $'000	2021 $'000
Unearned premium liability	598,589	539,479
Deferred reinsurance expense	(36,381)	(36,952)
Deferred acquisition costs	(46,925)	(38,059)
	515,283	**464,468**
Central estimate present value of expected gross future cash flows arising from future claims	691,035	503,532
Central estimate present value of expected future cash inflows arising from reinsurance and other recoveries on future claims	(152,655)	(45,261)
Risk Margin	7,885	10,728
Premium liability provision	**546,265**	**468,999**
Net surplus / (deficiency)	**(30,982)**	**(4,531)**

2.7. UNEARNED PREMIUM LIABILITY

	2022 $'000	2021 $'000
Opening balance	540,351	500,212
Insurance premiums written during the financial year	1,187,446	1,087,863
Insurance premiums earned during the financial year	(1,129,208)	(1,047,724)
Closing balance	**598,589**	**540,351**

Accounting policies

Premium revenue includes amounts charged to policyholders, including applicable levies and charges such as fire service levies, but excludes stamp duty and GST collected on behalf of third parties. Premiums are recognised as revenue from the date of attachment of risk over the period of the insurance policy, which is usually one year. Premium revenue received or receivable but not earned at the reporting date is recognised as an unearned premium on the balance sheet. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods. The unearned premium liability was reduced by $7.6 million due to the Member remediation provision (note 6.3.1).

2.8. INSURANCE RISK MANAGEMENT

2.8.1. RISK MANAGEMENT OBJECTIVES AND POLICIES FOR MITIGATING INSURANCE RISK

In accordance with Prudential Standard CPS 220 Risk Management issued by the Australian Prudential Regulatory Authority (APRA), the Board of Directors of Club Insurance Holdings Pty Ltd and RACQ Insurance Limited, in conjunction with responsible management, have developed, implemented and maintained a Risk Management Strategy (RMS). The aim of the RMS is to ensure that the Group has in place prudent risk management systems to effectively identify, evaluate, mitigate and monitor all key risks that the Group faces through its insurance operations. The respective Boards of Directors are responsible for reviewing their RMS annually.

The key components of the RMSs that aim to mitigate insurance risk include:

- Underwriting operations are managed in accordance with underwriting rules and guidelines, with regular quality assessment and monitoring of operations. Each individual policyholder pays a premium that is based on their relative risk in comparison to other policyholders; and
- Claims operations are managed in accordance with claims handling rules and guidelines, with regular quality assessment and monitoring of operations. These include, among other factors, delegations of authority for acceptance and approval of claims, review processes for claim payments and processes for accurate initial and ongoing claims provisioning.

In addition to the RMS, the Group has developed, implemented and maintained a Reinsurance Management Strategy (ReMS) in accordance with GPS 230 Reinsurance Management issued by APRA. The Group has in place comprehensive reinsurance arrangements to increase the capacity to underwrite new insurance business and, at the same time, reduce the volatility of operating performance. The ReMS documents the reinsurance processes and arrangements that the Group has in place to provide the necessary security and liquidity to meet its obligations to policyholders and, hence, provide protection to the assets of the Group.

In respect of natural peril risk, an annual probabilistic modelling process is undertaken to guide the setting of the upper limit of the catastrophe reinsurance program. This modelling calculates a Probable Maximum Loss (PML) at various return periods. The Board of Directors of RACQ Insurance Limited considers the outputs of the modelling on an annual basis.

2.8.2. TERMS AND CONDITIONS OF INSURANCE CONTRACTS

The Group has developed and maintains standard insurance contracts for all insurance policies. The terms and conditions of these insurance contracts are based upon legislative requirements as stipulated within the Insurance Contracts Act 1984. The Group utilises these standard contracts for all insurance policies. No special terms are entered into with any policyholder that has a material impact upon the consolidated financial statements.

2.8.3. CONCENTRATION OF INSURANCE RISK

The Group aims to limit its exposure to concentration of insurance risk by maintaining a balanced diversified portfolio across both short tail (Personal Insurance) and long tail (Compulsory Third Party) classes of business, and by having a broad geographical spread within Queensland, with some exposure across other states. Concentration within the property classes is monitored to ensure peak levels of exposure to certain perils and/or geographical regions are within desired levels. Risks are modelled using their location with commercial catastrophe modelling tools to evaluate the single largest risk, or probable maximum loss.

The largest risks faced relates to both natural catastrophes in areas with large numbers of insured risks and unexpected CTP claims inflation impacting outstanding claims. The largest reinsurer concentration risk of reinsurance recoveries as at 30 June 2022 is 26.8% (2021: 22.1%) which equates to $125.0 million (2021: $52.1 million).

2.9. INSURANCE CAPITAL MANAGEMENT

All insurers that conduct general insurance business in Australia are regulated by APRA and are required to maintain internal capital targets. The Insurance Group, comprising Club Insurance Holdings Pty Ltd and RACQ Insurance Limited, has retained its capital target of 1.85 times and a target range of 1.62 – 1.99 times the prescribed capital amount (PCA) in the period, with 1.62 times being the capital injection trigger point, in accordance with its Internal Capital Adequacy Assessment Process (ICAAP). At 31 December and 30 June each year, management will assess its ability to pay a dividend ensuring that capital levels do not fall below 1.76 times the PCA (95% of the target) in the subsequent 12-month period. The Insurance Group uses the standardised framework for calculating the PCA in accordance with the relevant APRA prudential standards and has satisfied all externally imposed capital requirements that it was subject to during both the current and prior financial year. The following table represents the regulatory level 2 capital position of the Insurance Group. The increase in the PCA multiple is a result of the issuance of additional ordinary shares to its immediate parent entities within the RACQ Group, offset by the increase in the insurance concentration risk charge following the increase in catastrophe reinsurance retention from 1 July 2021, and the impact of the current year losses and member remediation provision (refer note 6.3).

Level 2 Insurance Group	2022 $'000	2021 $'000
Common Equity Tier 1 capital		
Paid-up ordinary shares	825,890	470,890
Retained earnings brought forward	166,900	194,073
Current year earnings	(235,876)	10,627
Dividends declared or paid	-	(37,800)
Excess technical provisions (net of tax)	59,119	57,315
	816,033	**695,105**
Less: Deductions		
Goodwill and other intangible assets	238,845	239,095
Deferred tax asset	82,222	18,199
Common Equity Tier 1 capital	**494,966**	**437,811**
Tier 2 capital		
Subordinated debt	60,000	60,000
Total Tier 2 capital	**60,000**	**60,000**
APRA capital base	**554,966**	**497,811**
Level 2 Insurance Group	**2022 $'000**	**2021 $'000**
Prescribed capital amount (PCA)		
Insurance risk charge	191,458	181,196
Insurance concentration risk charge	63,944	50,000
Asset risk charge	89,056	88,039
Asset concentration risk charge	-	-
Operational risk charge	41,194	38,054
Aggregation benefit	(57,649)	(55,902)
Prescribed capital amount (PCA)	**328,003**	**301,387**
PCA multiple	**1.69**	**1.65**

Application of the ICAAP ensures that all material risks to which the Insurance Group is exposed have been considered and ensures an appropriate level of capital is held against these risks which is consistent with the Board's risk appetite. The ICAAP also ensures that there is adequate review, monitoring and reporting of actual and forecast capital positions to the Board on a monthly basis. Key considerations of the Insurance Group's ICAAP are return on capital targets, current and forecast profitability as defined in the annual budget process, capital structure, dividend payments, investment strategy, product mix, reserving strength and reinsurance arrangements.

Incorporated within the ICAAP are regular reviews of the Insurance Group's capital needs and risk profile. In order to quantify the Insurance Group's risk profile, a dynamic financial analysis is undertaken at least every two years. This analysis incorporates a number of factors, such as current and future profitability, reinsurance arrangements, investment mix and the insurance liability profile. It also provides simulations of multiple scenarios to determine a range of impairment risk measures. The Boards of the Insurance Group consider the risk of impairment measures through the annual risk appetite setting process to set a target and trading range of capital to sustain the business in the event of numerous adverse impacts.

3. BANKING ACTIVITIES

3.1. BANKING RESULT

	2022 $'000	2021 $'000
Interest income	60,033	64,757
Interest expense	(9,826)	(16,401)
Net interest income	**50,207**	**48,356**
Revenue from contracts with members	1,962	5,679
Other income	2,624	6,275
Employee benefits expense	(27,055)	(26,912)
Communication and information technology expenses	(11,587)	(8,827)
Property and related costs	(611)	(1,012)
Depreciation and amortisation expense	(321)	(684)
Financial planning remediation provision write-back	-	309
Other expenses	(13,230)	(12,400)
Banking result	**1,989**	**10,784**

Accounting policies

Interest income and expense

Interest income and expense on financial assets and liabilities is recognised as interest and is accrued using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash flows over the expected life of the financial assets or liabilities to which they relate.

For loans classified as Stage 3 within the ECL assessment, interest revenue is recognised on gross carrying amounts net of impairment provisions.

Fee and commission income

Fees, transaction costs and issue costs directly attributable to the establishment or issue of financial assets and liabilities are capitalised and included in the interest recognised over the expected life of the instrument.

Other income includes investment income and a range of fees earned on the provision of banking services to members. Account servicing and facility fees are generally charged on a monthly or annual basis and are recognised as revenue over the service period. Transaction based fees are charged and recognised at the time of the transaction.

Revenue from contracts with members

Fees and commission income include a range of fees earned on the provision of banking services to members. Account servicing and facility fees are generally charged on a monthly or annual basis and are recognised as revenue over the service period. Transaction based fees are charged and recognised at the time of the transaction.

3.2. LOANS AND ADVANCES

	2022 $'000	2021 $'000
Housing loans	1,984,353	1,907,568
Personal loans	98,793	117,322
Revolving credit	6,873	7,632
Commercial loans	3,315	5,029
Gross loans and advances	**2,093,334**	**2,037,551**
Unamortised loan fees	409	590
Provision for impairment	(1,726)	(3,282)
Net loans and advances	**2,092,017**	**2,034,859**
Current	567,411	561,206
Non-current	1,524,606	1,473,653
Total	**2,092,017**	**2,034,859**

Accounting policies

Loans and advances are financial assets held within a business model whose objective is to collect contractual cash flows. The contractual cash flows for loans and advances are solely payments of principal and interest on the principal amount outstanding. These instruments are accordingly measured at amortised cost in accordance with AASB 9.

Loans and advances are recognised at settlement date when loan funding is provided to the borrower. They are initially recognised at their fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at their amortised cost using the effective interest rate method and presented net of provision for impairment. Refer to Note 3.3 for the accounting policy on the provision for impairment.

Historically the classification between personal and housing loans was made according to the underlying collateral. Management concluded that a classification based on the purpose of the loan is more meaningful for the reader of the financial statements. To ensure comparability, the comparative period has also been adjusted to reflect the new classification of loans.

3.3. IMPAIRMENT OF LOANS AND ADVANCES

The table below shows the reconciliation of ECL, comprising both the collective provision (CP) and specific provision (SP) for the financial year ended 30 June 2022.

Movement in expected credit loss (ECL)

$'000 – ECL	Stage 1 Collective Provision 12-month ECL	Stage 2 Collective Provision Lifetime ECL	Stage 3 Collective Provision Lifetime ECL	Stage 3 Specific Provision Lifetime ECL	Total
ECL allowance as at 1 July 2021	**2,509**	**112**	**146**	**515**	**3,282**
Transfer to/(from) Stage 1	172	(61)	(70)	(41)	-
Transfer to/(from) Stage 2	-	15	(1)	(14)	-
Transfer to/(from) Stage 3	(10)	(5)	10	5	-
New and increased provisions (net of releases)	(1,696)	29	85	179	(1,403)
Write-offs from specific provisions	-	-	-	(153)	(153)
ECL allowance as at 30 June 2022	**975**	**90**	**170**	**491**	**1,726**
ECL allowance as at 1 July 2020	**2,788**	**142**	**151**	**416**	**3,497**
Transfer to/(from) Stage 1	174	(97)	(29)	(48)	-
Transfer to/(from) Stage 2	(14)	21	(6)	(1)	-
Transfer to/(from) Stage 3	(18)	(8)	12	14	-
New and increased provisions (net of releases)	(421)	54	18	213	(136)
Write-offs from specific provisions	-	-	-	(79)	(79)
ECL allowance as at 30 June 2021	**2,509**	**112**	**146**	**515**	**3,282**

Credit and other financial asset impairment reversal / (loss)

	2022 $'000	2021 $'000
Net collective provision - loans and advances	1,531	314
Net specific provision - loans and advances	(129)	(178)
Bad debts recovered - loans and advances	27	94
Reversal / (Impairment) of other financial assets	22	(248)
Total credit and other financial asset reversal/ (impairment loss)	**1,451**	**(18)**

Recognition and measurement

Overview of the ECL principles

The Group adopts an expected credit loss (ECL) methodology for determining impairment provisions for all loans and advances and other debt financial assets not held at fair value in accordance with AASB 9 Financial Instruments. The ECL methodology is forward-looking and does not require evidence of an actual loss event for impairment provisions to be recognised.

The Group applies a three-stage approach to measuring ECLs.

Stage	Loan classification	Provision assessment	ECL measurement basis
Stage 1 – Performing	Performing loans	Collective	12 months ECL – on origination, financial assets recognise an ECL provision equivalent to credit losses expected to arise from defaults occurring over the next 12 months.
Stage 2 – SICR	Loans that have experienced a significant increase in credit risk (SICR)	Collective	Lifetime ECL – financial assets that have experienced a SICR recognise an ECL provision equivalent to credit losses expected to arise from defaults occurring over the remaining life of financial assets.
Stage 3 – Default	Non-performing loans (not credit impaired)	Collective	Lifetime ECL – financial assets that are in default recognise a lifetime ECL provision. Where the loan is not credit impaired, provision determined on a collective basis within the ECL model.
	Impaired loans	Specific	Lifetime ECL – loans that are in default and each loan's individual assessment for impairment results in shortfall, based on the estimated future cash flows of the exposure.

On origination, all exposures are performing loans and are allocated to Stage 1. At each reporting date, the Group assesses the credit risk of exposures in comparison to the risk at origination, to determine the applicable ECL stage for each exposure. If the credit risk of an exposure has increased significantly since origination, it will migrate to Stage 2. Should an exposure enter default, it will migrate to Stage 3. The definitions of SICR and default are outlined below.

Significant increase in credit risk

SICR is assessed by comparing the risk of default occurring over the expected life of a financial asset at reporting date to the corresponding risk of default at origination. In assessing SICR, the Group considers internally available information, external data and forecast information.

For loans and advances, the Group considers contractual payments that are 30 days past due, or an exposure being accepted for financial hardship relief as the primary indicators of SICR.

Default and write-offs

Default occurs when it is unlikely that a borrower will meet contractual credit obligations in full, or when the exposure enters 90 days past due. Exposures in default are classified as credit impaired when there is doubt as to whether the full amounts due, including interest and other payments, will be received in a timely manner.

Loans are written off when there is no reasonable expectation of recovery. Loans are written off against the related ECL provision on completion of the internal recovery action and when all reasonable expected recoveries have been collected. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Consolidated Income Statement. When a subsequent event results in the recovery of an impairment loss, this is recognised through the Consolidated Income Statement.

Measuring ECL – Collective provisions

The ECL is a probability-weighted expected credit loss estimated by evaluating a range of possible scenarios. Taking into consideration the time value of money, historical losses, current loan portfolio information and current and forecast economic conditions.

The Group uses a collective provision model to calculate ECLs for each significant portfolio: housing loans, personal loans (secured and unsecured), revolving credit and commercial loans. During the year, the ECL methodology and model was reviewed, updated and recalibrated, taking into consideration updated loan loss history, more granular individual loan characteristics and improving the application of forward-looking information.

The amount of ECL is the product of the following credit risk factors:

Probability of default (PD)	The likelihood that a borrower will default over a given period
Loss given default (LGD)	The amount that is not expected to be recovered following default
Exposure at default (EAD)	The expected balance sheet exposure in the event of default

Measuring ECL – Specific provisions

Secured exposures (residential mortgages and secured personal loans) that are in default and not well secured are subject to an individual provision assessment. Impairment provisions on these exposures are calculated as the difference between the carrying amount of the defaulted loan and the present value of future cash flows from realisation of security, after making an allowance for realisation costs (real estate and legal fees).

Forward-looking information

The credit risk factors of PD and LGD used in the ECL model are point-in-time estimates based on current conditions and adjusted to include the impact of unbiased, probability-weighted forecast economic scenarios. These economic scenarios were built using macro-economic factors most closely correlated with the Group's historical credit losses, namely the unemployment rate, annual change in gross domestic product (GDP) and the Brisbane house price index. The weights assigned to each scenario are based on management's best estimate of the proportion of potential future loss events that each scenario represents.

The Group uses the following four alternative forward-looking scenarios in estimating ECL:

Scenario	Weight	Considerations at 30 June 2022
Baseline	45% (2021: 57.5%)	Reflects the expected outcomes given the state of economic conditions and is largely aligned with the Reserve Bank of Australia's latest economic forecasts. Unemployment rate is expected to remain below 4% in 2022 and remain there for the future periods. Annual GDP growth of 3.7% is forecast for 2022 and 2.0% for 2023. House prices are forecast to move lower given the RBA is expected to further tighten monetary policy via interest rate increases. An uplift in Brisbane house prices of 6.1% is forecast for 2022, with a subsequent decline of 10% in 2023.
Upside and downside scenarios	45% (2021: 40%)	**Downside** – This scenario was derived from the Baseline, assuming renewed restrictions and/or precautionary behaviour would pose a downside risk to economic activity. The outcome being a stall in the economic recovery and a deterioration in the economic variables. Unemployment rate being 2% unfavourable and annual GDP sitting 1% unfavourable to baseline. **Upside** – This scenario was derived off the Baseline, assuming a faster recovery in GDP, and therefore lower unemployment. Unemployment rate and annual change in GDP being 0.5%-1% favourable compared to baseline.
Severe downturn	10% (2021: 2.5%)	This scenario was derived taking into consideration the results of APRA's stress testing of banks during COVID-19, released in December 2020. The economic conditions underlying the stress tests were based on very severe forward-looking economic assumptions, well beyond the current conditions under COVID-19. The scenario developed by APRA was composed of a very large fall in economic activity, with GDP falling by 15%, unemployment rising to over 13% and national house prices falling by over 30% over a 3-year period.

Lifetime of loans

Exposures allocated to Stage 2 and Stage 3 of the ECL are determined on a lifetime expected loss basis. The Group estimates the expected lives of financial instruments with reference to each loan portfolio's historical behavioural term and does not exceed the maximum contractual period.

ECL Sensitivity

The table below illustrates the impact on the Group's ECL provision at 30 June 2022 under scenarios where a 100% weighting is applied to that scenario, with all other modelling assumptions remaining constant.

	Total ECL under each scenario $'000	Impact compared to probability weighted ECL recognised at 30 June 2022 (pre-tax) $'000
Downside scenario	578	84
Upside scenario	445	(49)
Severe downturn scenario	2,089	1,595

3.4. DEPOSITS

	2022 $'000	2021 $'000
Call deposits	1,451,566	1,260,694
Negotiable certificates of deposit	111,812	132,457
Term deposits	631,150	740,980
Total deposits	**2,194,528**	**2,134,131**
Current	2,170,459	2,114,647
Non-Current	24,069	19,484
Total deposits	**2,194,528**	**2,134,131**

The deposit portfolio does not include any deposit which represents 10% or more of the total liabilities.

Accounting policies

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method. Interest expense on deposits is recognised on an accrual basis. Interest accrued at reporting date is shown as part of deposits.

3.5. BORROWINGS

	2022 $'000	2021 $'000
Medium Term Notes		
Balance at beginning of financial year	120,129	150,166
Proceeds	55,000	-
Repayments	(60,000)	(30,000)
Net movement in interest accrued	131	(37)
Carrying amount at end of financial year	**115,260**	**120,129**
RBA Term Funding Facility		
Balance at beginning of financial year	96,662	-
Proceeds	-	96,546
Repayments	-	-
Net movement in interest accrued	201	116
	96,863	96,662
Interest rate swap hedge	(2,021)	-
Carrying amount at end of financial year	**94,842**	**96,662**
Total Borrowings	**210,102**	**216,791**
Current	60,577	60,245
Non-current	149,525	156,546
Total Borrowings	**210,102**	**216,791**

Accounting policies

Borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method. Interest expense on borrowings is recognised on an accrual basis. Interest accrued at reporting date is shown as part of borrowings.

3.5.1. BORROWING FACILITIES

	Approved Facility $'000	Amount drawn $'000	Amount available $'000
2022			
Overdraft facility	10,000	-	10,000
Medium Term Notes	500,000	115,260	384,740
Reserve Bank of Australia (self-securitisation)	552,210	96,863	455,347
Of which: Term Funding Facility (1)	*97,093*	*96,863*	*230*
	1,062,210	**212,123**	**850,087**
2021			
Overdraft facility	10,000	-	10,000
Medium Term Notes	500,000	120,129	379,871
Reserve Bank of Australia (self-securitisation)	618,235	96,662	521,573
Of which: Term Funding Facility (1)	*97,093*	*96,662*	*431*
	1,128,235	**216,791**	**911,444**

(1) Approved facility and amount drawn represents the RBA repurchase price, being the initial and supplementary allowance plus interest accrued after drawdown.

Medium Term Notes

The Group has an established $500m Debt Issuance Programme (dated 2 May 2018) under which medium term notes (MTN) and other debt securities may, from time to time, be issued up to the programme limit. During the current financial year, the Bank executed one new MTN transaction - $55m 3-year floating-rate notes with a maturity date of 23 May 2025.

Self-securitisation vehicle

The amount of liquidity available from the Bank's self-securitisation vehicle at 30 June 2022 was $552.2 million (2021: $618.2 million). The Group did not access any of this contingent liquidity during the current or previous financial year.

Term Funding Facility

On 19 March 2020, the Reserve Bank of Australia (RBA) announced the introduction of the Term Funding Facility (TFF). The Group had an Initial Allowance of $57.2 million of available funding through the TFF, which would be provided at a fixed interest rate of 0.25 per cent for a term of three years. On 1 September 2020, the RBA announced an extension of the TFF providing the Group with a Supplementary Allowance of $39.4 million of available funding that could be drawn from 1 October 2020 through to 30 June 2021.

To access the TFF, the Group pledged $114.7 million of self-securitised residential mortgage-backed securities issued by the Arrow Funding Trust No. 1 as eligible collateral. As at 30 June 2022, the Group has fully drawn $96.5 million of total available TFF Initial and Supplementary Allowance (2021: fully drawn).

3.6. BANKING CAPITAL MANAGEMENT

The Banking Group (including RACQ Bank, RACQ Financial Planning Pty Ltd, The Arrow Funding Trust and Club Finance Holdings Limited) maintains sufficient capital resources to support business activities and operating requirements and to ensure continuous compliance with externally and internally imposed capital ratios.

The adequacy of the Banking Group's capital is managed in accordance with APRA prudential standards. To manage, monitor and report regulatory and economic capital, the Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement, which sets out the objectives, processes, responsibilities and reporting requirements for the ICAAP, and an ICAAP Annual Report, which sets out the results of the annual assessment process. The ICAAP is approved by the Board on an annual basis.

The Banking Group's capital position is monitored and reported monthly to the RACQ Bank Board. The capital ratios throughout the current and prior financial year complied with APRA minimum capital adequacy requirements and ICAAP minimums approved by the RACQ Bank Board.

The regulatory level 2 capital position of the Banking Group is as follows:

Level 2 Banking Group	2022 $'000	2021 $'000
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	65,500	65,500
Retained earnings	108,451	105,549
Other reserves	21,510	21,380
Common Equity Tier 1 Capital	**195,461**	**192,429**
Less: prescribed deductions	(18,809)	(19,645)
Net Common Equity Tier 1 Capital	**176,652**	**172,784**
Tier 2 Capital		
Provision for future credit losses	1,291	-
General reserve for credit losses	-	3,600
Less: prescribed deductions	-	-
Net Tier 2 Capital	**1,291**	**3,600**
APRA Capital base	**177,943**	**176,384**
Risk weighted assets	**1,120,135**	**1,115,582**
Tier 1 Capital Ratio	15.8%	15.5%
Tier 2 Capital Ratio	0.1%	0.3%
Total Capital Ratio	**15.9%**	**15.8%**

4. FINANCIAL INSTRUMENTS

4.1. NET INVESTMENT INCOME

	2022 $'000	2021 $'000
Interest income		
Financial assets at amortised cost	387	612
Financial assets at fair value through profit or loss	37,275	41,446
Dividend income		
Financial assets at fair value through other comprehensive income	7,090	4,003
Total investment interest and dividend income	**44,752**	**46,061**
Net (losses) / gains on:		
Disposal of financial assets at amortised cost	(336)	-
Financial assets mandatorily held at fair value through profit or loss	1,502	46,901
Financial assets designated at fair value through profit or loss	(86,197)	(22,146)
Net (losses) / gains on financial assets	**(85,031)**	**24,755**

Investment income is comprised of interest income on funds invested and dividend income. Interest income on assets at amortised cost is recognised using the effective interest method. Dividends and distribution income are recognised when the right to receive income is established.

Net gains/(losses) on financial assets are comprised of net gain/(losses) on the disposal of financial assets and changes in the fair value of financial assets held at fair value through profit or loss.

4.2. FINANCIAL ASSETS

	2022 $'000	2021 $'000
Amortised cost		
Deposits and bills	-	99,922
Deposits with ADIs	431,710	445,948
Mandatorily held at fair value through profit or loss		
Unit trusts	79,978	294,161
Hybrid securities	15,178	35,383
Debt securities	623,073	352,247
Designated at fair value through profit or loss		
Debt securities	1,006,275	1,149,238
Deposits and bills	-	73,799
Designated at fair value through OCI		
Shares in listed equities	106	91,333
Shares in unlisted equities	15,963	13,186
Total financial assets	**2,172,283**	**2,555,217**
Current	591,376	539,130
Non-current	1,580,907	2,016,087
Total financial assets	**2,172,283**	**2,555,217**

During the year ended 30 June 2022, the Group conducted an orderly realisation of a portion of its investments in unit trusts, hybrid securities and listed equities, the proceeds of which are largely sitting in liquid assets in readiness for the commencement of payments associated with the member remediation programme (refer note 6.3.1).

Accounting policies for financial assets are provided in note 4.6.

4.2.1. FAIR VALUE HIERARCHY

The Group measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1	Quoted closing prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For the majority of investments, the fair value is determined based on observable market data.

4.2.2. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following table presents the financial instruments that are measured at fair value categorised by fair value hierarchy:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2022				
Financial assets at fair value through profit or loss				
Unit trusts	-	79,978	-	79,978
Hybrid securities	15,178	-	-	15,178
Debt securities	412	1,628,936	-	1,629,348
Financial assets designated at fair value through OCI				
Equity securities	106	-	-	106
Shares in unlisted entities	-	-	15,963	15,963
	15,696	1,708,914	15,963	1,740,573
2021				
Financial assets at fair value through profit or loss				
Unit trusts	-	294,161	-	294,161
Hybrid securities	35,383	-	-	35,383
Debt securities	249	1,501,237	-	1,501,486
Deposits and bills	73,798	-	-	73,798
Financial assets designated at fair value through OCI				
Equity securities	91,333	-	-	91,333
Shares in unlisted entities	-	-	13,186	13,186
	200,763	**1,795,398**	**13,186**	**2,009,347**

There were no transfers between the levels of the fair value hierarchy during the year ended 30 June 2022 (2021: nil).

4.2.3. FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The table below sets out the fair value of financial instruments not measured at fair value after initial recognition or where their carrying value is not a reasonable approximation of fair value, and categorises them by the level in the fair value hierarchy as defined above.

	Fair Value				Carrying amount
	Level 1	Level 2	Level 3	Total	
	$'000	$'000	$'000	$'000	$'000
2022					
Financial Assets					
Financial assets at amortised cost	-	415,856	-	**415,856**	431,710
Loans and advances	-	-	2,078,588	**2,078,588**	2,092,017
		415,856	**2,078,588**	**2,494,444**	**2,523,727**
Financial Liabilities					
Deposits	-	(2,193,810)	-	**(2,193,810)**	(2,194,528)
Borrowings	-	(205,357)	-	**(205,357)**	(210,102)
Redeemable preference shares[1]	-	-	(525)	**(525)**	(525)
		(2,399,167)	**(525)**	**(2,399,692)**	**(2,405,155)**
2021					
Financial Assets					
Financial assets at amortised cost	67,392	482,279	-	549,671	545,870
Loans and advances	-	-	2,054,855	2,054,855	2,034,859
	67,392	**482,279**	**2,054,855**	**2,604,526**	**2,580,729**
Financial Liabilities					
Deposits	-	(2,140,281)	-	(2,140,281)	(2,134,131)
Borrowings	-	(217,429)	-	(217,429)	(216,791)
Redeemable preference shares[1]	**-**	**-**	**(610)**	**(610)**	**(610)**
	-	**(2,357,710)**	**(610)**	**(2,358,320)**	**(2,351,532)**

1 Redeemable preference shares have been included in Trade and other payables in the Consolidated Balance Sheet.

4.2.4. VALUATION APPROACH

The following methods and assumptions are used to determine the fair values of financial assets and financial liabilities:

FVOCI / FVTPL	For investments traded in an active market, fair value is determined by reference to quoted bid price or redemption price for similar instruments at the reporting date. For investments traded in a market that is not active, valuation techniques are used based on market observable inputs. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.
Assets measured at amortised cost	The fair value of these assets was determined using discounted cash flow models based on the maturity of the debt instruments. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining term of each instrument.
Loans and Advances	For variable rate loans, excluding impaired loans, the carrying value is a reasonable estimate of the fair value. The fair value for fixed rate loans was calculated by using discounted cash flow models based on the 30 June benchmark rates on offer for the remaining fixed term of each loan.
Deposits	The net fair value for term deposits was calculated by using discounted cash flow models based upon maturity of the deposits. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining term of each instrument. The fair value of non-interest bearing, at call and variable rate deposits approximates the carrying value as at 30 June.
Borrowings	Borrowings are comprised of an overdraft and medium-term notes. The carrying value of the overdraft approximates its fair value as it is short term in nature. The fair value for medium term notes were calculated by using discounted cash flow models based on the maturity of the notes. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining term of each instrument

4.3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk and market risk. Information about the Company's financial risks and the objectives, policies and processes for managing these risks are outlined below.

4.3.1. OVERVIEW

The Board of Directors, including the Board for each of the regulated entities, Club Insurance Holdings Pty Ltd, Club Finance Holdings Limited, RACQ Insurance Limited and Members Banking Group Limited (RACQ Bank), have overall responsibility for the establishment and oversight of the risk management framework. Each Board has established Risk and Compliance Committees which assist their respective Boards in overseeing the adequacy and effectiveness of risk management policies. These Committees report regularly to their Boards on these activities.

The Group adopts an enterprise risk management approach, which incorporates the concept of the 'three lines':

1st line	Management of risks in accordance with the risk management framework;
2nd line	Governance of risk management framework, including maintaining the regulatory compliance framework and non-executive challenge to risk management decisions; and
3rd line	Audit of risk management and framework governance, including non-executive challenge to risk management decisions.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

4.3.2. CREDIT RISK

Credit risk is the risk of financial loss to the Group if a member or counterparty to a financial instrument fails to meet its contractual obligations.

Insurance Operations

Credit risk arises principally from the Group's investment in interest-bearing securities, receivables under reinsurance contracts and other insurance-related recoveries from third parties and premium receivables. The Group mitigates credit risk by ensuring the Group invests in secure assets, contracts with financially sound reinsurers and monitors all funds owed on a timely basis. Exposure to credit risk is monitored on a regular basis.

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets as summarised in the tables below. The Company does not hold any significant collateral as security over its receivables and there are no significant concentrations of credit risk within the Company.

The following table provides information regarding the credit risk exposure of the Group's financial assets (excluding RACQ Bank) classified according to Standard & Poor's credit ratings.

	Neither past due nor impaired					Past due but not impaired	Impaired	Total
	AAA	AA+ to AA-	A+ to A-	Below A-	Not Rated			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2022								
Cash and cash equivalents	-	114,778	110,620	-	4,073	-	-	229,471
Trade and other receivables								
Insurance premiums receivable	-	-	-	-	314,982	-	-	314,982
Other current trade and other receivables	-	-	-	-	70,442	-	-	70,442
Indirect taxes receivable	24,044	-	-	-	-	-	-	24,044
Total current trade and other receivables	**24,044**	**-**	**-**	**-**	**385,424**	**-**	**-**	**409,468**
Non-current trade and other receivables	**-**	**-**	**-**	**-**	**6,073**	**-**	**-**	**6,073**
Total Trade and other receivables	**24,044**	**-**	**-**	**-**	**391,497**	**-**	**-**	**415,541**
Reinsurance recoveries receivable	-	314,698	147,161	872	435	-	-	463,166
Other recoveries receivable	80,657	-	-	-	93,153	-	-	173,810
Debt securities	591,902	706,767	150,625	180,054	-	-	-	1,629,348
Total	**696,603**	**1,136,243**	**408,406**	**180,926**	**489,158**	**-**	**-**	**2,911,336**
2021								
Cash and cash equivalents	-	16,436	-	-	4,259	-	-	20,695
Trade and other receivables								
Insurance premiums receivable	-	-	-	-	266,156	-	-	266,156
Other current trade and other receivables	-	-	-	-	9,228	-	-	9,228
Total current trade and other receivables	**-**	**-**	**-**	**-**	**275,384**	**-**	**-**	**275,384**
Non-current trade and other receivables	**-**	**-**	**-**	**-**	**6,073**	**-**	**-**	**6,073**
Total Trade and other receivables	**-**	**-**	**-**	**-**	**281,457**	**-**	**-**	**281,457**
Reinsurance recoveries receivable	-	116,006	118,129	1,650	-	-	-	235,785
Other recoveries receivable	80,270	-	-	-	58,010	-	-	138,280
Debt securities	418,608	736,762	147,531	198,584	-	-	-	1,501,485
Deposits and bills	1	152,296	14,935	5,009		-	-	172,241
Total	**498,879**	**1,021,500**	**280,595**	**205,243**	**343,726**	**-**	**-**	**2,349,943**

The carrying amount of the relevant asset classes in the Consolidated Balance Sheet represents the maximum amount of credit exposures as at reporting date. The indirect taxes receivable relates to the estimated amounts recoverable under the Member remediation programme (Refer note 6.3.1).

(i) Investment in interest-bearing securities

Interest-bearing securities are held in accordance with the investment guidelines approved by the Boards of Directors. The investment guidelines detail the investment strategies, asset selection, asset allocation, credit worthiness and maximum exposures to single counterparties. The Group limits its exposure to credit risk by only investing in interest-bearing securities that comply with Board-approved credit rating exposure limits that are reviewed on a regular basis. Given these exposure limits, management does not expect any counterparty to fail to meet its obligations.

(i) Reinsurance and other recoveries

Credit risk with respect to reinsurance programs is mitigated by the placement of cover with a number of reinsurers with high credit ratings. Reinsurance arrangements and recoveries are regularly monitored and managed by a senior Executive Committee of RACQ Insurance Limited and by specialised reinsurance brokers operating within the international reinsurance market. The credit risk to reinsurers is managed through the Group having a pre-determined policy on the appropriate credit rating a reinsurer must have to participate in the reinsurance program. Reinsurance is placed with companies with Standard and Poor's credit ratings of 'A minus' or better. Reinsurance contracts include a provision that protects the Group in the event of a downgrade below 'A minus' whereby that individual reinsurer can be replaced.

The credit risk from other insurance-related recoveries with third parties arises from the issuing of recovery action against individual counterparties. Following the identification of a recovery, the debt is monitored and pursued to ensure receipt or to assess recoverability where difficulties arise.

(iii) Premium receivables

The majority of premium receivables relate to insurance policies which are paid on a monthly instalment basis. The late payment of amounts due under such arrangements allows for the cancellation of the related insurance contract, eliminating the credit risk for the unpaid amounts.

Banking Operations

Due to the nature of RACQ Bank's business, credit risk exposure arising from RACQ Bank's financial assets is managed separately to other business areas of the Group. Credit risk is the risk that members, financial institutions and other counterparties will default and be unable to meet their contractual obligations as and when they fall due, which may result in financial losses. Credit risk arises principally from the loans and advances, other financial assets at amortised cost and cash at bank.

RACQ Bank has an established Credit Risk Management Framework, which incorporates the strategies, policies and operating standards that documents how RACQ Bank identifies, measures, monitors, mitigates and reports its credit risk. The framework consists of:

Board Risk Appetite Statement (RAS)	Provides a statement of the RACQ Bank Board's overall credit risk tolerance.
Credit Risk Management Strategy (CRMS)	Sets out the strategies, policies and processes for managing credit risk within the board's risk appetite for lending, including the key operating standards and responsibilities relating to the assessment, approval, management, reporting and monitoring of credit risk.
Liquidity Management Strategy	Sets out the strategies, policies and processes for managing RACQ Bank's exposure limits and risk concentration to investment counterparties, in accordance with the board's risk appetite and APRA prudential standards.

(i) Loans and Advances

Credit risk for loans and advances is managed by way of defined credit and responsible lending policies, strict adherence with those policies before loans are approved, proactive management of arrears or defaults in the repayment of loans thereafter and active monitoring of the quality of the loan portfolio on an ongoing basis. RACQ Bank has a dedicated Credit Policy and Review team, as part of the second line, reporting to the Head of Risk Bank who maintain the CRMS. The CRMS has been endorsed by the Board of Members Banking Group Limited to ensure that loans are only made to members that are assessed as credit-worthy (capable of meeting loan repayments) and that appropriate security is taken against loans made. Credit Delivery and Assessment is embedded within the first line.

RACQ Bank's Credit Committee reviews and implements the CRMS in line with risk appetite limits, monitors RACQ Bank's credit risk profile and provides recommendations of credit-related matters to the Bank Risk and Compliance Committee.

RACQ Bank has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure to individual borrowers, non-mortgage lending, investment, interest-only and high loan-to-value ratio lending and concentrations of loans in geographic areas considered a higher risk of default;
- Reassessment and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and advances;
- Hardship and debt recovery procedures; and
- Review of compliance with the above policies by the RACQ Bank compliance team.

A regular review of compliance is also conducted as part of the internal audit scope.

During the previous financial year, the Bank's Credit Committee implemented appropriate risk-based enhancements to the credit policy to maintain and manage the current risk environment, which also included the winding back of COVID-19 related measures that were introduced at the onset and throughout the pandemic.

Maximum Credit Risk Exposure

RACQ Bank's maximum exposures to credit risk at the end of the reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Balance Sheet, except loans and advances, where the maximum credit risk is $2,146.2 million (2021: $2,096.1 million). In adopting these values as the maximum exposures, this does not consider the value of any collateral or other security held in the event other parties fail to perform their obligations under the financial instruments in question.

Further, these values do not consider the value of financial liabilities that carry a legally recognised right of set-off against certain financial assets.

Credit quality analysis

Loan-to-valuation ratios – Residential mortgage lending

Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	Total
2022	$'000	$'000	$'000	$'000
LVR 0% - 60%	835,151	1,571	364	**837,086**
LVR 60.01% - 80%	759,397	2,258	2,774	**764,429**
LVR 80.01% - 90%	252,489	404	-	**252,893**
LVR 90.01% - 100%	127,331	519	278	**128,128**
LVR > 100%	1,667	-	150	**1,817**
	1,976,035	**4,752**	**3,566**	**1,984,353**
2021				
LVR 0% - 60%	653,942	1,933	422	656,297
LVR 60.01% - 80%	781,850	756	985	783,591
LVR 80.01% - 90%	311,515	1,246	1,842	314,603
LVR 90.01% - 100%	214,811	1,155	857	216,823
LVR > 100%	445	-	931	1,376
	1,962,563	**5,090**	**5,037**	**1,972,690**

Valuation amounts used in these calculations are based on the latest security values, which are obtained at the time the loans were originated or other times in accordance with credit policy.

Past due and impaired loans

A loan or overdraft is past due when the counterparty has failed to make a payment when contractually due. Past due does not mean that a counterparty will never pay but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Weekly reports monitor loan repayments to detect delays in repayments and recovery action is undertaken where appropriate.

Details on how impairment provisions are considered on loans that are past due or impaired are outlined in Note 3.3.

The following table shows the credit quality of loans and advances by impairment class:

	2022 $'000	2021 $'000
Performing loans	2,054,963	2,002,993
Past due but not impaired	37,605	32,567
Collective provision for impairment	(1,235)	(2,767)
Net performing and past due loans not impaired	**2,091,333**	**2,032,793**
Gross impaired loans	766	1,991
Specific provision for impairment	(491)	(515)
Net impaired loans	**275**	**1,476**
Unamortised loan fees	409	590
Net loans and advances	**2,092,017**	**2,034,859**

The following table represents an ageing analysis of loans past due but not impaired as at the end of the reporting period:

Gross carrying amount	1-29 days $'000	30-89 days $'000	90-179 days $'000	>=180 days $'000	Total $'000
2022					
Past due but not impaired	31,240	2,946	1,427	1,992	**37,605**
2021					
Past due but not impaired	25,755	3,417	2,685	710	**32,567**

Collateral management

Collateral is used to mitigate credit risk as the secondary source of repayment in case the borrower cannot meet their contractual repayment commitments. The amount of collateral obtained, if deemed necessary at origination of a loan, is based on RACQ Bank's credit policy.

94.8% (2021 (reclassified): 93.6%) of the Group's loans and advances are residential mortgage loans, secured by residential property in Australia. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security. Residential Lenders Mortgage Insurance (LMI) is obtained by RACQ Bank in order to cover any shortfall in the outstanding loan principal and accrued interest after selling the collateral post-default. In accordance with RACQ Bank's credit policy, LMI is generally required for new residential mortgage loan with an LVR in excess of 80%. The financial effect of these measures is that the residual credit risk on residential mortgage loans is significantly reduced.

The following table shows the collateral against gross loans and advances to members:

	2022 $'000	2021 $'000
Loans and advances with collateral	2,079,734	2,022,026
Loans and advances with no collateral	13,600	15,525
Total gross loans and advances	**2,093,334**	**2,037,551**

Where collateral is held, it is in the form of mortgage interests over property, other registered securities over assets, mortgage insurance and guarantees. The fair value of the collateral is measured at the time of providing the loan or advance. The fair value of the collateral is generally not updated except when a loan or advance enters default or when the member seeks a variation to the loan contract.

In the event of borrower default, the Group can take possession of security held as collateral against the outstanding principal and accrued interest. Any loan security for residential mortgages is held as mortgagee in possession while the Group seeks to realise its value through the sale of the property. Therefore, the Group does not hold any real estate acquired through the repossession of collateral.

(i) Concentration risk

Concentration risk is a measurement of the Group's exposure to an individual counterparty (or group of related counterparties). The Group minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of individual members.

Concentration risk is also managed in accordance with the Prudential Standards issued by APRA. An exposure to an individual counterparty (or group of related counterparties) is considered a large exposure when it exceeds 10% of RACQ Bank's regulatory capital. No additional capital is required to be held against these, but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark to be higher than acceptable.

RACQ Bank holds no significant concentrations of exposures to members.

RACQ Bank has a concentration of loans to members employed in the education industry. This concentration has arisen as RACQ Bank was originally formed to service these members. Loans and advances to members employed in the education industry amounted to $525.5 million or 25% of gross loans and advances (2021: $541.8 million or 27%). The concentration is considered acceptable on the basis that RACQ Bank was originally established to service the education industry, the industry is essential and stable, and the concentration is diversified amongst many employers, including government.

All loan and advances are within Australia with the major exposure being to home loans in Queensland, reflecting 97.5% (2021: 98.4%) of total home loans. These exposures are segmented according to major population centres and regions in Queensland.

(ii) Other financial assets at amortised cost

Concentrations of credit risk

Credit risk in relation to liquid investments is the risk that the investment counterparty will fail to discharge their contractual obligation resulting in the Group incurring a financial loss.

The Group has a low appetite for credit risk in the liquidity investment portfolio, which is held in high quality liquid assets in accordance with RACQ Bank's Liquidity Management Strategy approved by the RACQ Bank Board.

The risk of credit losses is reduced by the liquid nature and high quality of the investments in the portfolio and the use of independent credit ratings to inform decisions regarding limits to individual counterparties and maximum exposures to credit grade bands.

RACQ Bank's Asset and Liability Committee (ALCO) oversees the management of credit risk in the liquidity investment portfolio in accordance with the Liquidity Management Strategy.

RACQ Bank uses the credit ratings of reputable ratings agencies to assess the credit quality of all liquid investment exposures using the credit quality assessment scale in APRA Prudential Standard 112 Capital Adequacy: Standardised Approach to Credit Risk. All liquid investments are required to be with financial institutions with a minimum Standard & Poor's rating of BBB- long term and A-3 short term (or equivalent) or in securities eligible for repurchase by the Reserve Bank of Australia.

The carrying values (net of expected credit loss provision) of liquid investments associated with each credit quality category for RACQ Bank are listed below.

Standard & Poor's long-term rating or equivalent	2022 $'000	2021 $'000
ADIs – rated AA- and above	250,763	251,565
ADIs – rated A- and above, but below AA-	199,461	204,428
ADIs – rated BBB- and above, but below A-	51,150	42,727
Total	**501,374**	**498,720**

4.3.3. LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group maintains a prudent approach to managing liquidity risk by ensuring, as far as possible, that it will have sufficient liquid assets on a daily basis to meet its payment obligations when due, under both normal and stressed conditions, without incurring unacceptable losses.

To ensure the Group has sufficient funds to meet daily obligations, minimum levels of cash are held within the trading bank accounts. These accounts are reviewed daily, in conjunction with obligations to ensure sufficient funds are maintained.

As discussed further in Note 6.4, the Group has a greater level of cash as at 30 June 2022 compared to the prior comparative period in readiness for the commencement of payments associated with the member remediation program. The increase in cash was predominantly sourced from the orderly realisation of other financial assets consistent with the Group's management of liquidity.

Insurance Operations

The assets backing insurance liabilities consist of government securities and other quality securities which can be readily sold or exchanged for cash. These assets are managed so as to broadly match the maturity profile of the expected pattern of insurance claims payments. In the event of a major catastrophe, cash access may also be available under the terms of reinsurance arrangements.

Banking Operations

RACQ Bank manages liquidity risk by:

- Forecasting cash flows on a daily and monthly basis including examining the impacts of various scenarios;
- Continuously monitoring actual and daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Limit setting and management of funding diversity;
- Maintaining adequate liquidity reserves, liquidity support facilities, reserve borrowing facilities and a Reserve Bank of Australia (RBA) repurchase facility arrangement; and
- Monitoring the prudential liquidity ratio daily.

RACQ Bank's self-securitisation vehicle, the Arrow Funding Trust, has issued Residential Mortgage-Backed Securities (RMBS) to RACQ Bank which are eligible for repurchase by the RBA. This facility arrangement is for the purposes of contingent liquidity management and serves to strengthen RACQ Bank's liquidity risk management.

The following table represents the Group's contractual maturities of financial liabilities. Contractual cash flows are at undiscounted values (including future interest expected to be paid). Accordingly, these values may not agree to the carrying amount.

	Carrying Amount		Gross Nominal Outflows		Within 1 month		1-3 months		3-12 months		1-5 years	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Financial Liabilities												
Deposits	2,194,528	2,134,131	2,202,097	2,142,797	1,597,499	1,397,590	239,486	290,599	339,829	433,730	25,283	20,878
Borrowings	210,102	216,791	218,710	218,770	260	127	375	185	62,194	60,925	155,881	157,533
Redeemable preference shares[1]	525	610	525	610	-	-	-	-	-	-	525	610
Trade and other payables	122,005	127,622	122,005	127,622	105,870	119,511	1,147	744	1,702	2,389	13,286	4,978
Total Financial Liabilities	**2,527,160**	**2,479,154**	**2,543,337**	**2,489,799**	**1,703,629**	**1,517,228**	**241,008**	**291,528**	**403,725**	**497,044**	**194,975**	**183,999**
Off-balance sheet positions												
Undrawn commitments	344,039	329,137	344,039	329,137	344,039	329,137	-	-	-	-	-	-

[1]Redeemable preference shares have been included in Trade and other payables in the Consolidated Balance Sheet.

4.3.4. MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates, credit spreads, asset prices and equity prices, will affect the Group's income or the value of its holdings of financial instruments.

The Group, through the Group Strategic Capital Committee reviews and approves the Investment Management Strategies and Investment Mandates at least annually. The performance of all investment managers (both external and internal), including compliance with investment guidelines stipulated within the investment strategies and mandates, is reviewed on a regular basis by management, the Group Strategic Capital Committee and Boards of Directors. The ALCO of RACQ Bank is responsible for capital and balance sheet risk including treasury credit, liquidity and market risk.

(i) Interest rate risk

Insurance Operations

Interest rate risk is the risk that the Group is impacted by significant changes in interest rates and mainly arises from investments in interest-bearing securities and the valuation of insurance liabilities. Movements in investment income on assets backing insurance liabilities broadly offset the impact of movements in discount rates on the insurance liabilities.

Exposure to interest rate risk is managed by asset and liability matching, using measures such as duration and credit. To mitigate this risk, the investments in interest-bearing securities are held at an average duration that broadly matches the average duration of corresponding outstanding claims liabilities. The investment manager provides a comparison of assets and liabilities across an annual time series. This is monitored on a monthly basis to ensure that the risk is within the Group's risk appetite. Interest rate risk is also managed through the controlled use of interest rate derivative instruments, including interest rate swaps and futures. The external investment manager is required to regularly report on compliance with the use of derivatives in accordance with the relevant investment mandate

At 30 June 2022, if interest rates had changed by +/- 1% (2021: +/- 1%) from the year-end rates, with all other variables held constant, profit after tax and equity for the year would have been $19.2 million higher/lower (2021: $18.5 million higher/lower).

Banking Operations

Due to the nature of RACQ Bank's business, market risk for RACQ Bank is managed separately.

RACQ Bank uses the Value at Risk (VaR) methodology to estimate the level of interest rate risk within the portfolio. The Board has approved limits for the maximum tolerable exposure to market risk. There have been no significant changes to RACQ Bank's exposure to market risk in the reporting period.

VaR measures the theoretical loss in the economic value of the balance sheet based on historical movements in interest rates. The VaR Model uses a historical simulation approach with underlying assumptions of the model including a 20-day (2021: 20-day) holding period at a 99% (2021: 99%) confidence level for a 1500-day (2021: 1500-day) observation period.

RACQ Bank	2022 $'000	2021 $'000
VaR Exposure at the end of the financial year	1,408	962
Average VaR exposure during the financial year	1,138	1,078

RACQ Bank's VaR exposure increased during the year due to increased fixed rate home loan growth and heightened market interest rate volatility, particularly in the latter part of the year when the Reserve Bank of Australia commenced monetary policy tightening.

Derivative financial instruments and hedge accounting

As part of its financial risk management, RACQ Bank uses derivative financial instruments such as interest rate swaps to hedge its interest rate risks. At 30 June 2022, RACQ Bank had a single interest rate swap agreement in place with a notional amount of $57,153,541 (2021: $57,153,541). This swap is used to hedge RACQ Bank's exposure to changes in fair value of its fixed rate RBA Term Funding Facility Initial Allowance borrowings, caused by movements in interest rates.

(ii) Price risk

Price risk is the risk of loss in current and future earnings from adverse moves in asset prices or equity prices and arises from the RACQ Group's direct investment in Australian equity securities classified as FVOCI and FVTPL financial assets.

Equity risk is reduced by incorporating a diverse holding of liquid equities. Movements in global equity markets including unit trusts of +/- 1% (2021: +/- 1%) from the 30 June 2022 indexes, with all other variables held constant, would result in equity reserves increased/decreased by $667,091 (2021: $2,306,807) after tax.

4.3.5. GROUP CAPITAL MANAGEMENT

The Group's capital management objective is to maintain sufficient capital to protect the interests of all members and regulators while also efficiently deploying capital and managing risk. As a company limited by guarantee, The Royal Automobile Club of Queensland Limited has no shareholders or owners. All surpluses are therefore used to develop the Group's business for the benefit of the members.

The Board of Directors' policy is to hold the level of capital that is judged to be prudent and sustainable within the bounds of the Group's risk appetite, the restrictions imposed by the Group's legal structure and the fulfilment of the Group's purpose. On this basis, the RACQ Group aims to achieve a balance between:

- Maintaining sufficient capital to protect the Group from material and unexpected financial shocks;
- Ensuring that there is sufficient provisioning for future capital requirements; and
- Avoiding the holding of excess capital, which could otherwise be put to the benefit of members.

Capital consists of total accumulated funds as shown on the Consolidated Balance Sheet.

During the year, the Group deployed $355 million additional capital into the Level 2 Insurance Group to ensure its capital position remained above PCA trading minimums in accordance with its ICAAP. The capital contributions were necessary to accommodate for the member remediation provision recognised as at 30 June 2022 (refer Note 6.3), operational losses, and the resultant capital impacts of the FY23 reinsurance program.

Despite the net loss recognised in FY22, the Group remains well capitalised, with total accumulated funds as at 30 June 2022 of $1,266.6 million (2021: $1,518.8 million).

Entities within the Group are subject to externally imposed capital requirements as set by APRA. Further details on the regulated entities' approach to capital management are outlined in Note 2.9 for insurance operations and Note 3.6 for banking operations.

4.4. ACCOUNTING POLICIES FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Non-derivative financial assets

Initial recognition and measurement

Financial assets are classified as amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15 Revenue from Contracts with Customers. Refer to the accounting policies in note 6.1.

For a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. The assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, the Group has financial assets in the following four categories:

- Financial assets at amortised cost (deposits with ADIs)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses through profit or loss upon derecognition (equity instruments)
- Financial assets mandatorily held at fair value through profit or loss.
- Financial assets designated at fair value through profit or loss.

(i) Financial assets at amortised cost (deposits and bills)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables, selected notes and deposits with ADIs.

(ii) Financial assets at fair value through other comprehensive income (OCI)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under AASB 132 Financial instruments presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains or losses on these instruments are never recycled to profit or loss and are recognised directly in OCI and presented within equity in the investment revaluation reserve. Dividends are recognised as investment income in the Surplus/(Deficit) for the year when the right of payment has been established except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group has elected to classify irrevocably its listed and non-listed equity investments, except for assets backing insurance liabilities under this category.

(iii) Financial assets mandatorily at fair value through profit or loss

Financial assets mandatorily held at fair value through profit or loss include financial assets held for trading, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets mandatorily held at fair value through profit or loss are carried in the Consolidated Balance Sheet at fair value with net changes in fair value recognised in the Surplus/(Deficit) for the year.

(iv) Financial assets designated at fair value through profit or loss

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. The Group has elected to classify investment securities backing general insurance liabilities as financial assets designated at fair value through profit or loss.

(v) Trade and other receivables

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15. Refer to the accounting policies in note 6.1 for Revenue from contracts with members.

(vi) Impairment of financial assets at amortised cost (excluding loans and advances)

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-derivative financial liabilities

Trade and other payables

Trade and other payables are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. Trade and other payables are unsecured, non-interest bearing and are usually settled within 30 days.

4.5. ACCOUNTING POLICIES FOR RESERVES

(i) Reserve for credit losses

From 1 January 2022, the Group is longer no required by APRA to maintain a separate general reserve for credit losses (GRCL) and the balance in the GRCL has been transferred back to retained surplus.

(ii) Investment revaluation reserve

The investment revaluation reserve records changes in fair value of financial assets at fair value through other comprehensive income.

(iii) Merger reserve

The merger reserve was established when the Group acquired QT Mutual Bank Limited in financial year 2017 and records the excess of the fair value of assets acquired over the liabilities assumed at the time of the merger.

5. OTHER ASSETS AND LIABILITIES

5.1. PROPERTY, PLANT AND EQUIPMENT

	Freehold land $'000	Buildings and leasehold improvements $'000	Plant and equipment $'000	Capital works in progress $'000	Total $'000
At 30 June 2022					
Cost	13,128	88,015	109,280	3,432	**213,855**
Accumulated depreciation	-	(19,943)	(54,860)	-	**(74,803)**
Net book value at 30 June 2022	**13,128**	**68,072**	**54,420**	**3,432**	**139,052**
Year ended 30 June 2022					
Opening net book value	21,376	67,436	57,933	2,561	**149,306**
Additions	-	2,843	7,934	3,431	**14,208**
Disposals	(8,248)	-	(1,082)	-	**(9,330)**
Transfers	-	(32)	2,499	(2,560)	**(93)**
Depreciation	-	(2,175)	(12,864)	-	**(15,039)**
Net book value at 30 June 2022	**13,128**	**68,072**	**54,420**	**3,432**	**139,052**
At 30 June 2021					
Cost	21,376	85,204	105,515	2,561	**214,656**
Accumulated depreciation	-	(17,768)	(47,582)	-	**(65,350)**
Net book value at 30 June 2021	**21,376**	**67,436**	**57,933**	**2,561**	**149,306**
Year ended 30 June 2021					
Opening net book value	23,531	70,702	60,865	2,862	**157,960**
Additions	-	-	-	12,348	**12,348**
Disposals	(2,155)	(1,072)	(2,182)	-	**(5,409)**
Transfers	-	-	12,649	(12,649)	**-**
Depreciation	-	(2,195)	(13,398)	-	**(15,593)**
Net book value at 30 June 2021	**21,376**	**67,435**	**57,934**	**2,561**	**149,306**
Remaining useful life	Indefinite	40 years or lease term, if shorter	2.5 – 25 years	n/a	

Accounting policies

(i) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group, and its cost can be measured reliably. Repairs and maintenance costs are expensed as they are incurred.

(ii) Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful life of the property, plant and equipment. Land is not depreciated. Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(iii) Impairment

Property, plant and equipment that is subject to depreciation is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

5.2. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Customer relationships	Core deposits	Outstanding claims fair value adjustment	Software	Software in development	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 30 June 2022							
Cost	249,550	38,583	4,800	48,962	149,686	1,454	493,035
Accumulated amortisation and impairment	(7,794)	(38,541)	(4,800)	(48,322)	(122,937)	-	(222,394)
Net book value at 30 June 2022	**241,756**	**42**	**-**	**640**	**26,749**	**1,454**	**270,641**
Year ended 30 June 2022							
Opening net book value	241,756	142	78	890	39,363	1,090	283,319
Additions	-	-	-	-	-	5,494	5,494
Disposals	-	-	-	-	(270)	-	(270)
Transfers	-	-	-	-	5,130	(5,130)	-
Amortisation	-	(100)	(78)	(250)	(17,474)	-	(17,902)
Net book value at 30 June 2022	**241,756**	**42**	**-**	**640**	**26,749**	**1,454**	**270,641**
At 30 June 2021							
Cost	249,550	38,583	4,800	48,962	277,960	1,090	620,945
Accumulated amortisation and impairment	(7,794)	(38,441)	(4,722)	(48,072)	(238,597)	-	(337,626)
Net book value at 30 June 2021	**241,756**	**142**	**78**	**890**	**39,363**	**1,090**	**283,319**
Year ended 30 June 2021							
Opening net book value	241,756	430	129	1,225	37,847	17,037	298,424
Additions	-	-	-	-	-	5,037	5,037
Disposals	-	-	-	-	-	-	-
Transfers	-	-	-	-	20,984	(20,984)	-
Amortisation	-	(288)	(51)	(335)	(19,468)	-	(20,142)
Net book value at 30 June 2021	**241,756**	**142**	**78**	**890**	**39,363**	**1,090**	**283,319**
Maximum remaining useful life	Indefinite	12 years	-	7 years	10 years	n/a	

5.2.1. IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL

For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units (CGU) as follows:

	2022	2021
	$'000	$'000
General insurance	238,208	238,208
Other CGUs	3,548	3,548
Carrying amount of goodwill	**241,756**	**241,756**

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purposes of impairment testing, assets are grouped together at the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGU).

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal (FVLCD) and value in use (VIU). These calculations are based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of other comprehensive income. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

For the year ended 30 June 2022, no impairment of goodwill has been recognised (2021: $nil).

General insurance

For the current financial year, the recoverable amount of the Insurance CGU has been determined on a FVLCD basis (2021: VIU basis), calculated using a discounted cash flow model. The cash flow forecasts used in the fair value assessment were derived from financial forecasts for FY23-FY25 approved by the Board of Directors, projected for FY26-FY27 and adjusted where necessary to reflect a market participant's view. The fair value derived from the discounted cash flow was then compared to a range of market multiples relevant to the insurance industry to ensure consistency with comparable organisations. The fair value assessment requires the use of assumptions, which represent management's assessment of future trends in the industry and are based on both external and internal sources of data.

Key assumptions used in the calculation of the recoverable amount are as follows:

	Discount rate (post-tax)		Terminal value growth rate		PCA Target		Forecast combined ratio (average)	
	2022 FVLCD	2021 VIU	2022 FVLCD	2021 VIU	2022 FVLCD	2021 VIU	2022 FVLCD	2021 VIU
	%	%	%	%	Times	Times	%	%
General insurance	9.00	8.75	2.5	2.5	1.70	1.85	94.1%	92.4%

- The discount rate is a post-tax measure estimated based on the historical industry weighted average cost of capital, with a possible debt leveraging of 17.65% (2021: 17.6%) at a market interest rate of 5.55% (2021: 4.0%). The pre-tax equivalent discount rate is 12.03% (2021: 12.23%).
- Cash flow projections include specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate into perpetuity has been determined that does not exceed the long-term average growth rate for the industry.
- The PCA target reflects management's estimate of a market participant's view, with access to capital markets, and is based on the average capital targets from a range of comparable industry participants. In prior year, under the VIU approach, this reflected RACQ Insurance's PCA Target.
- The forecast combined ratio includes key assumptions for changes in gross earned premium, a market participant's view of reinsurance costs, net incurred claims and operating expenses and is based on past experience, with adjustments for external sources of information or where future activities are expected to differ materially from past performance.
- The costs of disposal are estimated at 3% of the equity value.

The fair value assessment of the Insurance CGU is classified as Level 3 under the AASB 13 *Fair Value Measurement* hierarchy as the main valuation inputs outlined above are unobservable.

As at 30 June 2022, the recoverable amount of the Insurance CGU exceeded its carrying amount using a FVLCD approach. Management performed additional sensitivity testing including changing key assumptions and running additional scenarios which supported that no impairment is required in the current financial year.

Other CGUs

The value of goodwill allocated to the CGUs for Automotive Assistance Services (AAS) and RACQ Mobility Centre of Excellence (MCE) is not significant in comparison to the Group's total carrying amount of goodwill. The recoverable amount for the AAS CGU is determined based on fair value less cost of disposal, using an income approach (discounted cash flows), supported by multiples applicable to that type of business. The recoverable amount for the MCE CGU is determined based on fair value less cost of disposal, supported by an external valuation.

Accounting policies

(i) Recognition and measurement

Goodwill	Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment.
Research and development	Expenditure on research activities is recognised in surplus as incurred. Development expenditure is capitalised only if: the expenditure can be measured reliably; the product or process is technically and commercially feasible; future economic benefits are probable; the amount is above the Group's internal capitalisation threshold; and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in surplus as incurred.
Software	*Software assets* Software assets include acquired or internally generated software. These assets have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment. *Software-as-a-Service (SaaS) arrangements* SaaS arrangements are arrangements in which the Group does not control the underlying software used in the arrangement. Where costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and where the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. The amortisation is reviewed at least at the end of each reporting period and any changes are treated as changes in accounting estimates. Where costs incurred to configure or customise do not result in the recognition of an intangible software asset, then those costs that provide the Group with a distinct service (in addition to the SaaS access) are recognised as expenses when the supplier provides the services. When such costs incurred do not provide a distinct service, the costs are recognised as expenses over the duration of the SaaS contract. Previously, some costs had been capitalised and amortised over its useful life.
Other intangible assets	Other intangible assets include those acquired in a business combination (customer relationships, core deposits and outstanding claims fair value adjustment) and are recognised at its fair value at acquisition date. These assets have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in surplus as incurred.

(ii) Amortisation

Except for goodwill, intangible assets are amortised over the estimated useful life of the intangible asset from the date the asset is available for use. Amortisation methods, useful lives and residual values are reassessed at each reporting date.

5.3. EMPLOYEE BENEFITS

5.3.1. EMPLOYEE BENEFITS EXPENSE

	2022 $'000	2021 $'000
Wages and salaries	165,879	158,681
Defined contribution superannuation expenses	20,176	18,105
(Benefit) / Expense related to defined benefits superannuation fund	(136)	184
Total employee benefits expense	**185,919**	**176,970**

5.3.2. EMPLOYEE BENEFITS LIABILITIES

	2022 $'000	2021 $'000
Other employee benefit liabilities	2,117	742
Incentive accrual	7,318	10,915
Liability for annual leave	17,057	15,049
Liability for long service leave	17,494	16,742
Total employee benefit liabilities	**43,986**	**43,448**
Current	37,328	37,430
Non-current	6,658	6,018
Total employee benefit liabilities	**43,986**	**43,448**

Accounting policies

(i) Short term employee benefits

Short term employee benefits represent the amount that the Group has a present obligation to pay resulting from employees' services provided up to the reporting date, which are expected to be wholly settled within twelve months of the reporting date. They are measured at undiscounted amounts based on wage and salary rates that the Group expects to pay when the liability is settled, including related on-costs, such as workers' compensation insurance and payroll tax.

(ii) Long term employee benefits

The Group's obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is calculated using expected future increases in wage and salary rates, including related on-costs and expected settlement dates, and is discounted using high quality corporate bond rates to determine its present value. Re-measurements are recognised in surplus in the period in which they arise.

(iii) Superannuation

Obligations for contributions to defined contribution superannuation funds are recognised as an expense as the related services are provided.

5.4. TRANSACTIONS WITH RELATED PARTIES

5.4.1. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation comprises:

	2022 $	2021 $
Short-term employee benefits	8,794,897	8,183,066
Post-employment benefits	424,173	373,290
Other long-term benefits	505,779	736,835
Termination benefits	-	375,662
	9,724,849	**9,668,853**

5.4.2. DIRECTOR COMPENSATION

(i) Director compensation for The Royal Automobile Club of Queensland Limited

During the year, as reflected in the table following, several changes to the membership of the board occurred. Two directors of the company retired during the year by effluxion of time and a total of five new directors joined the board.

The Royal Automobile Club of Queensland Limited	2022 $	2021 $
Directors who Served Full Year		
Elizabeth Jameson AM (Chair appointed 17 November 2020)	216,373	198,517
Annabel Dolphin	124,211	141,811
John Minz	107,483	124,246
Andrew Moore	97,028	115,161
Leona Murphy	115,848	133,612
Directors who Served Partial Year only		
Bronwyn Morris AM (Ceased 23 November 2021)	38,591	176,376
Anthony Gambling (Ceased 23 November 2021)	38,590	115,161
Duncan Brain (Appointed 26 July 2021)	90,918	-
Andrew Kearnan (Appointed 31 May 2022)	7,998	-
Robert Hubbard (Appointed 23 November 2021)	58,805	-
William Fellowes (Appointed 23 November 2021)	58,151	-
Prof. Sarah Pearson (Appointed 23 November 2021)	67,043	-
	1,021,039	**1,004,884**

A review of FY22 director remuneration occurred such that from 1 July 2021:

- directors receive $91,800 per annum (up from $90,000 per annum for the 6 months to 30 June 2021)
- Additional fees are paid by the Company, RACQ Insurance and RACQ Bank for committee and Chair responsibilities.

As set out in the notes (ii) and (iii) following, directors of the Company who are also directors of RACQ Insurance and RACQ Bank receive separate additional remuneration for those roles.

In relation to the prior year comparatives, as disclosed in the financial report for the prior year (for notes 5.4.2 i-iii):

- Elizabeth Jameson served as Chair for a partial year in 2021 (from 17 November 2020 to 30 June 2021) and received the chair's additional remuneration for only part of the 2021 year; and
- An external review of the remuneration of Group directors occurred during the prior year, resulting in a reduction to the fees for the directors who sit on the board of the Company and also on the boards of RACQ Insurance and RACQ Bank but an increase in their fees as directors of those entities, with no change to the total overall compensation they receive on account of their directorship of the three entities.

Director compensation is included in employee benefits (Note 5.3.1). Fees paid are inclusive of superannuation.

(ii) Director compensation for RACQ Insurance Limited

Directors of the Company who are also directors of RACQ Insurance are paid fees by RACQ Insurance for their services as a director of RACQ Insurance in 2022 of $67,320 per annum (up from $66,000 per annum for the 6 months to 30 June 2021). This remuneration is supplementary to the remuneration paid by the Company for their services as a director of the Company.

The total remuneration paid by RACQ Insurance to the directors of the Company, for their services as a director of RACQ Insurance during the year ended 30 June 2022 was $862,620 (2021: $471,916).

Directors of RACQ Insurance who are not a director of the Company receive $114,796 per annum (2021: $112,545), with additional fees for committee responsibilities.

During the year, as reflected in the table following, several changes to the membership of the board occurred. Three directors of RACQ Insurance retired during the year by effluxion of time and a total of four new directors joined the board. Non-executive directors received the following fees for their service as directors of RACQ Insurance Limited.

RACQ Insurance Limited	2022 $	2021 $
Directors who Served Full Year		
Elizabeth Jameson AM (Chair appointed 17 November 2020)	134,640	90,144
Annabel Dolphin	72,548	55,007
*Andrew Kearnan	134,755	12,058
John Minz	83,003	64,092
Andrew Moore	72,548	55,007
Leona Murphy	83,129	73,457
Directors who Served Partial Year only		
Bronwyn Morris AM (Ceased 23 November 2021)	28,854	65,877
Anthony Gambling (Ceased 23 November 2021)	34,261	68,332
**Vyn Tozer AM (Ceased 2 December 2021)	61,960	143,295
Duncan Brain (Appointed 26 July 2021)	77,694	-
William Fellowes (Appointed 23 November 2021)	53,252	-
Robert Hubbard (Appointed 23 November 2021)	43,968	-
Prof. Sarah Pearson (Appointed 23 November 2021)	43,968	-
	924,580	**627,269**

** Appointed to the Company board on 31 May 2022.*
*** Director was not a member of the Company board.*

In relation to the prior year comparatives, as disclosed in the financial report for the prior year:

- Elizabeth Jameson served as Chair only a partial year in 2021 (from 17 November 2020 to 30 June 2021) and received the chair's additional remuneration for only part of the 2021 year; and
- An external review of the remuneration of Group directors occurred during the prior year, resulting in a reduction to the fees for the directors who sit on the board of the Company and also on the boards of RACQ Insurance and RACQ Bank but an increase in their fees as directors of those entities, with no change to the total overall compensation they receive on account of their directorship of the three entities.

The directors of RACQ Insurance are also directors of Club Insurance Holdings Pty Limited but receive no additional remuneration in this capacity.

There were no other benefits received by directors during the year ended 30 June 2022 (2021: nil).

(iii) Director compensation for Members Banking Group Limited

Directors of the Company who are also directors of RACQ Bank are paid fees by RACQ Bank for their services as a director of RACQ Bank in 2022 of $31,620 per annum (up from $31,000 per annum for the 6 months to 30 June 2021). This remuneration is supplementary to the remuneration paid by the Company for their services as a director of the Company.

The total remuneration paid by RACQ Bank to the directors of the Company, for their services as a director of RACQ Bank during the year ended 30 June 2022 was $397,408 (2021: $296,382).

During the year, as reflected in the table following, several changes to the membership of the board occurred. Two directors of RACQ Bank retired during the year by effluxion of time and a total of four new directors joined the board. Non-executive directors received the following fees for their service as directors of RACQ Bank.

Members Banking Group Limited	2022 $	2021 $
Directors who Served Full Year		
Elizabeth Jameson AM (Chair appointed 17 November 2020)	63,240	49,761
Annabel Dolphin	36,848	32,110
John Minz	47,303	41,195
Andrew Moore	64,031	58,760
Leona Murphy	42,075	37,235
Directors who Served Partial Year only		
Bronwyn Morris AM (Ceased 23 November 2021)	20,061	45,211
Anthony Gambling (Ceased 23 November 2021)	14,655	32,110
Duncan Brain (Appointed 26 July 2021)	34,614	-
William Fellowes (Appointed 23 November 2021)	21,679	-
Robert Hubbard (Appointed 23 November 2021)	30,570	-
Prof. Sarah Pearson (Appointed 23 November 2021)	22,332	-
	397,408	**296,382**

In relation to the prior year comparatives, as disclosed in the financial report for the prior year:

- Elizabeth Jameson served as Chair only a partial year in 2021 (from 17 November 2020 to 30 June 2021) and received the chair's additional remuneration for only part of the 2021 year; and
- An external review of the remuneration of Group directors occurred during the prior year, resulting in a reduction to the fees for the directors who sit on the board of the Company and also on the boards of RACQ Insurance and RACQ Bank but an increase in their fees as directors of those entities, with no change to the total overall compensation they receive on account of their directorship of the three entities.

The directors of RACQ Bank are also directors of Club Finance Holdings Limited but receive no additional remuneration in this capacity. There were no other benefits received by directors during the year to June 2022 (2021: nil).

5.4.3. TRANSACTIONS WITH KMP AND THEIR CLOSE FAMILY MEMBERS

Key management personnel (KMP) of the Group may obtain assistance, insurance and banking products and other services and products from the Company and/or its controlled entities, RACQ Insurance and RACQ Bank, on the same terms and conditions as those obtained by Company employees and are trivial or domestic in nature.

The table below presents loans and overdrafts issued by RACQ Bank to KMP and their close family members as at 30 June 2022:

	2022 $	2021 $
The aggregate gross carrying amount of loans	4,905,592	3,004,908
The aggregate amount of revolving and other credit facilities (including redraws) available	1,911,616	2,306,158
Provision for impairment	(12,535)	(2,972)
Interest earned on loans and revolving credit facilities during the year	99,903	30,656

All loans and overdrafts to KMP and their close family members have been undertaken on normal terms and conditions in accordance with RACQ Bank's standard lending policies. There are no loans with KMP and their close family members that are greater than ninety days past due or impaired as at the end of the financial year. All loans are classified as Stage 1 within the ECL methodology. No loans have been written off during the financial year.

The table below presents deposits held in RACQ Bank by KMP and their close family members as at 30 June 2022:

	2022 $	2021 $
The aggregate carrying amount of deposits	1,124,605	941,447
Total interest paid on these deposits during the year	2,318	4,104

RACQ Bank's policy for receiving deposits from KMP and their close family members is that transactions are approved, deposits accepted and interest paid on terms and conditions that are no more favourable that those available to members of RACQ.

Other sales to and purchases from related parties including KMP are made on terms equivalent to those that prevail in arm's length transactions. Other outstanding balances at reporting date are unsecured and interest free and settlement occurs in cash.

5.4.4. TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

Various transactions occur between the Group and minority owned entities, details of which are as follows:

	(Revenue) / Expense		Receivable / (Payable)	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Provision of services				
Joint ventures	(587)	(382)	419	69
Associates	(166)	(54)		-
Other related parties		-	5,819	6,808
Purchase of services				
Joint ventures	18	137		-
Associates	132	247		-
Other related parties	4,340	5,112		-
Capital contribution to associates	-	-	-	(1,000)
Dividend income from associates	(1,400)	(2,955)	-	-
Interest income from other related parties	(145)	(144)	15	12

The Group holds a 33.3% interest in Australian Club Consortium Pty Ltd which wholly owns ACC CAD Pty Ltd (ACC CAD). ACC CAD has entered into several agreements with third party suppliers under which ACC CAD has procured software, products and services for an on behalf of the other participating automobile clubs to implement and support the Common Australian Roadside Solution (CARS). Under a Shareholders agreement between ACC CAD and each participating automobile club, each participant is required to enter into a user agreement with ACC CAD in respect of the use of CARS. Shareholder loan agreements are in place to provide funding to ACC CAD. The loan repayment term is 10 years with interest calculated monthly on the outstanding principal balance based on the Bank Bill Swap rate (BBSW) plus 2%. Interest is fixed between each repayment date (six monthly) and is reset at each repayment date (six monthly).

The Group has a contract for services agreement with Members Travel Group Pty Ltd in which RACQ provides corporate support to the joint venture. The corporate support covers IT services, marketing and digital support. The transactions are charged under normal commercial terms.

The Group has a distribution agreement with Honey Insurance Pty Ltd, which includes an obligation for RACQ to pay remuneration to Honey Insurance for insurance policies originated.

The Group has a contract for services agreement with GEM Energy Australia Pty Ltd in which RACQ provides corporate support to the joint venture. The corporate support covers administration, brand and marketing and IT support. The services are charged under commercial terms.

5.5. INCOME TAX

5.5.1. INCOME TAX EXPENSE

Income tax expense comprises current and deferred tax and is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The Company and its wholly owned Australian resident entities are not part of a tax-consolidated group. Consequently, each entity is separately assessed for tax.

The Royal Automobile Club of Queensland Limited is a company limited by guarantee and is unable under the Corporations Act 2001 to pay dividends and accordingly is unable to utilise or distribute the franking account credits.

The components of income tax (benefit) / expense are:

	2022 $'000	2021 $'000
Recognised in surplus		
Current tax		
Current income tax (benefit) / expense	(33,058)	16,312
Adjustments in respect of current income tax of previous year	33	(53)
	(33,025)	**16,259**
Deferred tax		
Origination and reversal of temporary differences	(74,213)	3,967
Total income tax (benefit) / expense	**(107,238)**	**20,226**
Deferred tax recognised directly in equity		
Relating to re-measurement of defined benefit plan	10	210
Relating to equity investments designated at FVOCI	(2,731)	6,212
Total income tax (benefit) / expense recognised directly in accumulated funds	**(2,721)**	**6,422**

5.5.2. RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE

A reconciliation between the tax expense and the operating surplus for the year before income tax is as follows:

	2022 $'000	2021 $'000
Prima facie tax (benefit) / expense calculated at 30% (2021: 30%) on operating (deficit) / surplus before tax	(105,725)	23,021
Adjust for tax effect of:		
- Non-deductible expenses	578	384
- Assessable income	177	-
- Non-assessable income	(3)	(1)
- Tax offset for franked dividends	(2,295)	(1,039)
- Foreign income tax offsets	(4)	(363)
- Derecognition/(Recognition) of DTA not previously brought to account	20	(1,615)
- Prior year under/(over) provision	14	(161)
Income tax (benefit) / expense on operating deficit / surplus	**(107,238)**	**20,226**

5.5.3. RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable surplus will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Property, plant and equipment and Intangibles	11,786	11,985	(1,740)	(907)	**10,046**	**11,078**
Accruals	2,882	3,731	-	-	**2,882**	**3,731**
Acquisition adjustment	69	287	(191)	(313)	**(122)**	**(26)**
Financial assets	13,034	492	(6,950)	(24,581)	**6,084**	**(24,089)**
Right-of-use assets		-	(2,220)	(2,445)	**(2,220)**	**(2,445)**
Claims handling costs on outstanding claims	27,232	21,013	-	-	**27,232**	**21,013**
Employee benefits	10,365	9,537	-	-	**10,365**	**9,537**
Provisions	35,231	3,296	-	-	**35,231**	**3,296**
Lease liability	2,279	2,046	-	-	**2,279**	**2,046**
Other items	11,339	3,327	(1,663)	(133)	**9,676**	**3,194**
Tax offsets carried forward	5,050	5,037	-	-	**5,050**	**5,037**
Tax losses recognised	14,687	11,886	-	-	**14,687**	**11,886**
Deferred tax assets / (liabilities)	**133,954**	**72,637**	**(12,764)**	**(28,379)**	**121,190**	**44,258**
Set off of tax	(12,475)	(17,629)	12,475	17,629	-	-
Net deferred tax assets / (liabilities)	**121,479**	**55,008**	**(289)**	**(10,750)**	**121,190**	**44,258**

6. OTHER NOTES

6.1. REVENUE FROM CONTRACTS WITH MEMBERS

6.1.1. DISAGGREGATION OF REVENUE FROM CONTRACTS WITH MEMBERS

The Group derives revenue from the transfer of goods and services over time and at a point in time from:

	2022 $'000	2021 $'000
Revenue from sale of goods	41,622	39,443
Revenue from assistance activities	182,779	180,645
Trade towing revenue	8,385	8,221
Rental revenue	3,692	3,837
Advertising revenue	1,126	1,398
Other fee and commission revenue	30,349	23,245
Total	**267,953**	**256,789**
Timing of revenue recognition		
At a point in time	83,811	60,333
Over time	184,142	196,456
Total	**267,953**	**256,789**

Revenues from external members come from assistance services and the sale of goods that are ancillary to assistance services.

6.1.2. ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH MEMBERS

The group has recognised the following assets and liabilities related to contracts with members:

	2022 $'000	2021 $'000
Trade and other Receivables	68,285	9,344
Expected credit loss	(116)	(116)
Net trade and other receivables	**68,169**	**9,228**
Contract liabilities	(85,813)	(83,833)

Revenue from contracts with members - assistance activities

The earned portion of roadside and home assistance subscriptions received is recognised as revenue evenly over the subscription period using the 365-day method (earned over one year). Revenue received applicable to the unexpired period of the subscription term is recognised as a contract liability.

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in the given year.

	2022 $'000	2021 $'000
Revenue recognised in the current period that was included in the contract liability balance at the beginning of the period		
Assistance activities	83,833	85,779

The majority of revenue from assistance activities is derived from the sale of roadside assistance policies. Member subscriptions for policies are fixed and received in advance giving rise to contract liabilities. The earned portion of subscriptions received is recognised as revenue evenly over the life of the underlying policy (usually one year) and deducted from contract liability balances.

Revenue from the sale of goods is derived from the sale of a wide range of products that complement assistance services. Revenue from the sale of these products is recognised at the point in time when control of the products has transferred to the customer, being the time when the products are delivered.

Fees and commissions are recognised on an accrual basis once a right to receive consideration has been attained or when service to the customer has been rendered.

The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense incremental costs to obtain the subscription because the amortisation period of the asset that the Group otherwise would have used is one year or less.

6.2. OTHER EXPENSES

	2022 $'000	2021 $'000
Property and related occupancy costs	7,159	7,313
Advertising and sponsorship	1,583	1,921
Bank fees	4,029	3,986
Donations	10,420	8,009
Marketing, research and development	16,869	15,831
Motor vehicle expenses	3,673	3,137
Other fee and commission expense	6,982	5,623
Subscriptions and printing	3,692	2,814
Travel accommodation and entertainment	721	565
Other expenses	681	1,463
Total other expenses	**55,809**	**50,662**

6.3. PROVISIONS AND CONTINGENT LIABILITIES

6.3.1. PROVISIONS

	Member remediation provision $'000	Other provisions $'000	Total $'000
Balance at the beginning of the financial year	-	2,162	2,162
Additions	237,589	-	**237,589**
Provisions used during the year	-	(540)	**(540)**
Release of provision	-	-	-
Balance at the end of the financial year	**237,589**	**1,622**	**239,211**
Current	237,589	1,622	**239,211**
Non-current	-	-	-
Balance at the end of the financial year	**237,589**	**1,622**	**239,211**

Accounting policy

RACQ Group recognises provisions when:

- There is a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the Group's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

A contingent liability is disclosed where a legal or constructive obligation is possible, but not probable, or where the obligation is probable, but the financial impact of the event is unable to be reliably measured.

Where it is determined that the disclosure of information in relation to a contingent liability can be expected to prejudice the position of the RACQ Group in a dispute, accounting standards allow the RACQ Group not to disclose such information.

From time to time the RACQ Group may be subject to various claims and litigation from third parties in the normal course of its business. The directors have given consideration to such matters which are or may be subject to claims or litigation at year end and are of the opinion that any such liabilities arising over and above what has already been provided for in the financial statements from such action is not considered material.

Member remediation provision

Prior to the Australian Securities and Investments Commission (ASIC) announcing its insurance industry-wide pricing promises review, RACQ Insurance appointed an external expert to provide an independent assessment of RACQ Insurance's pricing mechanisms and the scope was subsequently expanded to include ASIC's review. These initial investigations triggered the discovery that some of the wording in the Product Disclosure Statements was inadequate in describing how discounts were applied to premiums. As a result, RACQ Insurance self-reported a regulatory breach to the Australian Securities and Investment Commission (ASIC). The Product Disclosure Statements were corrected earlier this year to address the inadequacy.

In addition, the expert's review found instances whereby members may not have received the full premium discounts they were entitled to. RACQ is committed to comprehensively and efficiently addressing the remediation of these issues to impacted members. Although, this will take some time, as the business works through the process and contacts those members who have been impacted. The remediation program will be subject to review by ASIC and will be independently monitored by an external party to support an open and transparent approach to resolving the matters for our members.

As a result of the above, RACQ has recognised a provision of $237.6 million as at 30 June 2022 for member refunds, interest attributable to those refunds and the cost incurred in establishing and administering the remediation program. An associated estimated recovery of $24.8 million relating to GST and Insurance Duty has been recognised within 'Trade and other receivables' on the Balance Sheet, creating a net impact of $212.8 million.

The net amount of $212.8 million was recognised in the Consolidated Statement of Comprehensive Income as a Remediation Expense of $193.2 million (note 2.1), a reduction in Net Premium Revenue of $12 million and, in the Balance Sheet, a reduction in Unearned Premium Liability of $7.6 million.

Determining the amount of the provision, which represents management's best estimate of the costs of settling the identified matters, required the exercise of significant judgement. Management has formed a view on a number of significant assumptions, including the number of impacted policies and policyholders, the number of years impacted, interest attributable to the refunds and associated remediation costs. The appropriateness of the underlying assumptions will be reviewed on an ongoing basis as the remediation program progresses and adjustments will be made to the provision as appropriate.

6.3.2. CONTINGENT LIABILITY

As at 30 June 2022, RACQ had a contingent liability in respect of the matters outlined below:

- As outlined above, a proactive review of RACQ's pricing systems and processes is ongoing. The outcome of this review, and the quantum of any further potential costs over and above the member remediation provision recognised during the current financial year, are presently uncertain.

From time to time in the ordinary course of business, RACQ receives enquiries from various regulators and government bodies. RACQ cooperates fully with all enquiries and these enquiries do not require disclosure in their initial state, however, should RACQ become aware that an enquiry is developing further or if any regulatory or government action is taken against the Group, appropriate disclosure is made in accordance with the relevant accounting standards.

From time to time, RACQ is also subject to various claims and litigation from third parties during the ordinary course of its business. The directors of RACQ have given consideration to such matters which are or may be subject to claims or litigation at year end and, unless specific provisions have been made, are of the opinion that no material contingent liability for such claims of litigation exists.

6.4. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

6.4.1. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2022 $'000	2021 $'000
(Deficit)/Surplus for the year	**(245,180)**	**56,512**
Add (less) items classified as investing activities		
(Gain) loss on disposal of business assets	(6,180)	(9,503)
Investment (income) losses	77,941	(28,758)
Investment interest income	(37,662)	(42,058)
Rental income	(2,777)	(2,497)
Add (less) non-cash items		
Impairment loss on loans and advances	-	18
Impairment loss on associate	108	-
Depreciation and amortisation expense	36,988	39,745
Share of profit of equity accounted for investments	(366)	(2,658)
Net defined benefit cost recognised in income statement	-	(25)
Net cash (used in)/provided by operating activities before change in net assets and liabilities	**(177,128)**	**10,776**
Changes in operating assets and liabilities		
Trade and other receivables	(45,896)	(16,861)
Reinsurance and other recoveries receivable	(262,911)	(173,731)
Loans and advances	(57,158)	(60,975)
Deferred reinsurance assets	691	(44,637)
Other assets	20	2,712
Deferred acquisition costs	17,999	4,205
Contract liability	1,979	(1,946)
Unearned revenue	58,238	40,139
Trade and other payables	(30,044)	26,750
Deposits	60,728	34,998
Outstanding claims liability	286,356	210,834
Provision for employee benefits	104	(2,746)
Deferred tax balances	(76,931)	3,871
Income tax receivable	(31,675)	(2,776)
Provisions	237,483	(3,482)
Net cash (used in)/provided by operating activities	**(18,145)**	**27,131**

6.4.2. CASH AND CASH EQUIVALENTS

Cash includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid financial assets with original maturities of three months or less that are readily convertible to known amounts of cash. These are used by the Group in the management of its short-term commitments.

The Group has a greater level of cash as at 30 June 2022 compared to the prior comparative period in readiness for the commencement of payments associated with the member remediation programme as disclosed in Note 6.3. The managed increase in cash was predominantly sourced from the orderly realisation of other financial assets during the year consistent with the Group's management of liquidity.

Cash and cash equivalents include restricted balances of $40.6 million (2021: $45.6 million) relating to the activities of RACQ Bank's self-securitisation vehicle (Arrow Funding Trust No 1.) which operates as a contingent liquidity facility and are not available to the Group.

6.5. COMMITMENTS

Capital Commitments

Commitments not provided for in the financial statements and payable:	<1 Year $'000	1-5 Years $'000	5+ Years $'000	Total $'000
2022				
Capital commitments	560	-	-	560
2021				
Capital commitments	1,140	-	-	1,140

The above capital commitments only reflect the value of third-party contractual agreements in place as at 30 June 2022. As part of the purchase agreement of the identifiable assets of the Mt Cotton Driver Training Centre from the State of Queensland, the Group committed to spend $14.7 million of capital investment over five years. As at 30 June 2022, the outstanding committed capital investment is $6.8 million (2021: $10.9 million).

Credit commitments and Guarantees

Credit commitments and guarantees that have been approved but not funded or drawn at the end of the financial year were as follows:

	2022 $'000	2021 $'000
Loans approved but not funded	52,905	58,567
Undrawn overdraft and line of credit facilities	72,261	75,472
Amounts available for redraw	215,081	191,536
Guarantees	3,792	3,562
	344,039	**329,137**

These commitments and guarantees would be recognised as loans and advances on the occurrence of the contingent event. Undrawn overdrafts, line of credit facilities and amounts available for redraw are revocable at RACQ Bank's discretion.

The Group has provided a bank guarantee of $3.52 million (2021: $3.52 million) to the State of Queensland as support for capital improvements to be completed at the RACQ Mobility Centre of Excellence.

6.6. AUDITOR'S REMUNERATION

The following services were provided by the Group's auditor, EY:

	2022 $	2021 $
Audit services:		
Audit of the financial report	874,100	636,776
Other regulatory audit services	411,126	215,651
Total audit services	**1,285,226**	**852,427**
Audit related services:		
Other assurance services	72,875	203,182
Total audit related services	**72,875**	**203,182**
Other services:		
Taxation services	6,880	-
Other services	-	137,682
Total other services	**6,880**	**137,682**
Total auditor's remuneration	**1,364,981**	**1,193,291**

6.7. GROUP STRUCTURE

6.7.1. PARENT ENTITY DISCLOSURES

The parent entity, The Royal Automobile Club of Queensland Limited, is a company limited by guarantee and has no share capital. In the event of winding up, members are liable to the amount of $2.00 per member at a total contribution of $3,514,968 (2021: $3,537,798).

The Royal Automobile Club of Queensland Limited	2022 $'000	2021 $'000
(Deficit) / Surplus for the year	(7,727)	3,878
Other comprehensive income	-	-
Total comprehensive (loss) / income for the year	**(7,727)**	**3,878**

The Royal Automobile Club of Queensland Limited	2022 $'000	2021 $'000
Financial position of the Company:		
Current assets	351,012	682,260
Total assets	1,017,258	1,004,756
Current liabilities	326,653	306,424
Total liabilities	326,653	306,424
Total accumulated funds of the Company comprising of:		
Reserves	166,467	166,467
Retained surplus	524,138	531,865
Total accumulated funds	**690,605**	**698,332**

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered a Deed of Cross Guarantee (the Deed) with the effect that the Company guarantees debts in respect of its subsidiaries. Further details, including the subsidiaries subject to the Deed are disclosed in note 6.7.2 and 6.7.3.

Parent entity commitments and contingent liabilities

The Royal Automobile Club of Queensland Limited	2022 $'000	2021 $'000
Operating lease commitments as lessor		
Within one year	4,976	3,676
Between one but not more than 5 years	11,881	9,812
More than 5 years	6,038	7,931
Total	**22,895**	**21,419**

There are no parent entity contingent liabilities (2021: nil).

6.7.2. CONTROLLED ENTITIES

The Group structure and the interest held in each controlled entity is as follows:

	Interest held 2022 %	Interest held 2021 %
RACQ Operations Pty Ltd [1]	100	100
RACQ Investments Pty Ltd [1]	100	100
RACQ-Queensland Driving Excellence Centre Pty Ltd	100	100
Automotive Assistance Services Pty Ltd	100	100
Q Garage Pty Ltd	100	75
Basecamp No.2 Pty Ltd (formerly Hug Insurance Pty Ltd)	100	75
Basecamp Innovations Pty Ltd	100	75
RACQ Investments No.2 Pty Ltd [1]	100	100
Club Insurance Holdings Pty Ltd [2]	100	100
RACQ Insurance Limited	100	100
Club Finance Holdings Limited [3]	100	100
Members Banking Group Limited	100	100
RACQ Financial Planning Pty Ltd	100	100
Arrow Funding Trust No.1	100	100
RACQ Foundation Pty Ltd	100	100
RACQ Foundation Fund	100	100
RACQ Foundation Trust	100	100

1 Subsidiaries are parties to the Deed of Cross Guarantee, as provided in note 6.7.3.

2 50% of the shares in Club Insurance Holdings Pty Ltd are held by RACQ Investments Pty Ltd, and 50% of the shares in Club Insurance Holdings Pty Ltd are held by RACQ Investments No.2 Pty Ltd.

3 10% of the redeemable preference shares in Club Finance Holdings are held by 52,502 legacy shareholders in Members Banking Group Limited.

6.7.3. DEED OF CROSS GUARANTEE

Pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, RACQ Operations Pty Ltd is relieved from the *Corporations Act 2001* requirements for preparation, audit, and lodgment of a financial report, and a directors' report. A condition of the instrument is the Company and each of the subsidiaries noted in note 6.7.2 enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Corporations Act 2001, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

A Consolidated Income Statement, Consolidated Statement of Comprehensive Income and Consolidated Balance Sheet, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed, are as follows:

Consolidated Statement of Comprehensive Income for the year ended 30 June 2022

	Consolidated parties to the Deed	
	2022	2021
	$'000	$'000
Revenue		
Revenue from contracts with members	423,204	415,634
Investment income	10,228	91,816
Total Revenue	**433,432**	**507,450**
Expenses		
Employee benefits expense	(259,833)	(240,084)
Payments to contractors for assistance services	(76,940)	(72,770)
Communication and information technology expenses	43	(10,982)
Depreciation and amortisation expense	(35,416)	(37,884)
Property and related occupancy costs	(6,477)	(6,614)
Other expenses	(79,617)	(65,487)
Total expenses	**(458,240)**	**(433,821)**
Share of profit in associates and joint ventures	366	2,658
Gain on sale of property, plant and equipment	4,551	8,005
Gain on sale of investment property	1,396	-
(Deficit) / Surplus before income tax	**(18,495)**	**84,292**
Income tax benefit / (expense)	6,919	(11,496)
(Deficit) / Surplus for the year	**(11,576)**	**72,796**
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gains	34	699
Net (losses) / gains on equity investments at fair value through other comprehensive income	(9,090)	19,745
Income tax benefit / (expense)	2,717	(6,070)
Total other comprehensive (loss) / income for the year, net of income tax	**(6,339)**	**14,374**
Total comprehensive (loss) / income for the year	**(17,915)**	**87,170**

Consolidated Balance Sheet as at 30 June 2022

	Consolidated parties to the Deed	
	2022	2021
	$'000	$'000
Assets		
Cash and cash equivalents	23,628	12,502
Trade and other receivables	166,551	99,028
Financial assets	1,284,634	1,352,164
Property, plant and equipment	125,027	138,306
Right of use assets	9,910	7,360
Deferred tax assets	31,393	18,138
Intangible assets	28,064	40,229
Other assets	47,123	32,052
Current tax receivable	-	1,797
Total assets	**1,716,330**	**1,701,576**
Liabilities		
Trade and other payables	79,904	56,800
Restructure provision	413	313
Contract liability	85,813	83,833
Current tax payable	1,017	-
Employee benefits	44,077	43,973
Lease liability	10,016	7,513
Total liabilities	**221,240**	**192,432**
Net assets	**1,495,090**	**1,509,144**
Accumulated funds		
Retained surplus	325,259	350,888
Reserves	1,169,831	1,158,256
Total accumulated funds	**1,495,090**	**1,509,144**

6.8. EQUITY-ACCOUNTED INVESTMENTS

Four associates (2021: four) and two joint ventures (2021: one) were accounted for in the consolidated financial statements using the equity method.

	Joint Ventures		Associates		Total equity-accounted investments	
	2022	2021	2022	2021	2022	2021
	$'000	$'000	$'000	$'000	$'000	$'000
Individually immaterial interests in joint ventures and associates						
Aggregate carrying amount	12,412	-	12,492	10,563	24,904	10,563
Aggregate amount of the Group's share of:						
(Deficit) / Surplus from continuing operations	(279)	-	645	2,658	366	2,658
Other comprehensive income	-	-	-	-	-	-
Total comprehensive (loss) / income	(279)	-	645	2,658	366	2,658

On 1 March 2022, the Group acquired a 50.1% interest GEM Energy Australia Pty Ltd (GEM Energy). GEM Energy is a national provider of solar energy and battery solutions. It is a strategic acquisition for the Group, which will support our members in their transition to cleaner and cheaper energy through home solar and battery systems. Notwithstanding the Group holds the majority voting rights in GEM Energy, the investment has been accounted for as an interest in a joint venture as the underlying Shareholders Deed requires the joint approval of both RACQ and the other shareholder to ultimately direct the relevant activities of GEM Energy.

6.9. EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

Directors' Declaration

In the opinion of the directors of The Royal Automobile Club of Queensland Limited (the Company):

a) The consolidated financial statements and notes, set out on pages 22 to 77, are in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of RACQ Group's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and

ii. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

c) There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 6.7.2 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785.*

The directors draw attention to Note 1 to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Signed in accordance with a resolution of the Directors:

Elizabeth Jameson AM
RACQ Chair and President
15 September 2022

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Independent auditor's report to the members of The Royal Automobile Club of Queensland Limited

Opinion

We have audited the financial report of The Royal Automobile Club of Queensland Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 30 June 2022, the consolidated statement of comprehensive income, consolidated statement of changes in accumulated funds and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information obtained at the date of the auditor's report is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Alison de Groot	Rebecca Burrows
Partner	Partner
Brisbane	Brisbane
15 September 2022	15 September 2022

Corporate Directory

Club Patron
Her Excellency the Honourable Dr Jeannette Young AC PSM, Governor of Queensland

President and Chair – Elizabeth M Jameson AM
LLB (Hons1), BA, FAICD, MQLS

AUDITORS
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