RACQ

ANNUAL REPORT

2020-21


RACQ
CAPRICORN
HELICOPTER
RESCUE
RACQ
CAPRICORN
HELICOPTER
RESCUE
RACQ
CAPRICORN
HELICOPTER
RESCUE

Community

$10.3m
RACQ Foundation funding delivered to community groups since 2011

78
Community groups impacted by COVID-19 that received RACQ Foundation grants

68,238
School students visited by RACQ's Education team

494
RACQ LifeFlight Air Rescue Ambulance Jet missions

50
New RACQ LifeFlight doctors' medical and in-flight training supported by RACQ

Members

90%
member satisfaction

92%
member trust

72
Net Promoter Score

1.769m
RACQ members

58
Members assisted during family emergencies with Aussie Assist

$2bn
Member deposits increased $93m to $2 billion

Operations

$1.8bn
Total revenue

$5.9bn
Total assets

$1.5bn
Net assets

$56.5m
Net surplus

776,000
Roadside Assistance jobs

1.34m
Roadside policies

92%
RACQ go rate

How we've helped

$994.3m
Total insurance claims paid

$1.5m
Funds raised for Mater Foundation from the 2021 RACQ International Women's Day Fun Run

$19,000
Funds raised for RACQ Foundation from MotorFest 2021

1265
Personal Loans funded by RACQ Bank

$448m
Total Home Loans funded by RACQ Bank

Digital evolution

41%
Increase in members using digital channels to communicate with RACQ

12m
Visits to RACQ.com

20%
Increase in use of RACQ apps

1236%
Increase in monthly page views for new digital Road Ahead

Recognition

6
2021 Mozo People's Choice Awards for RACQ Home Insurance

5
2021 Mozo People's Choice Awards for RACQ Motor Insurance

5
Stars awarded by Canstar to RACQ Bank for Investment Home Lender and Investment Fixed Home Lender

2021
Canstar Most Satisfied Customers – Roadside Assistance Award

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 President's Report

THE MIND OF A BUSINESS, THE HEART OF A CLUB.

These words have been our mantra at the RACQ board table over the past decade or more.

The mind of a business demands disciplined effort and is measured by results. The heart of a club demands a single-minded focus on the reason for our existence as a Club over the past 116 years: our members.

During this year, in which I have been honoured to become RACQ President, I have spent much time reflecting on that motto and what it means in times of a global pandemic.

Getting the balance right, keeping our community at the forefront of every decision by continuing to value the wellbeing of our members over profit, and choosing to freeze or discount costs to them wherever possible to alleviate household pressure, has been our delicate but worthy task in this time of global uncertainty.

The pandemic, like most great crises, has brought out the very best and, sadly, sometimes the very worst in our community. I have been endlessly proud to see how positively our 1.8 million members, and the thousands of RACQ staff who serve them, have risen to the challenges.

Performance

Our solid preparation and economic planning over many years meant your Club was able to withstand a tough commercial environment to achieve a surplus of $56.5 million, a sound accomplishment in the circumstances.

Our Insurance pillar has continued to perform solidly with $994.3 million in total gross insurance claims paid. The financial performance of RACQ Bank improved considerably in FY21, contributing positively to the Group's result, with total capital and liquidity holdings remaining strong.

In FY21, RACQ Group returned to members savings of $7.8 million in roadside assistance loyalty discounts and $9.3 million in Puma fuel discounts.

Members first

The RACQ board is committed to finding new and better ways to make every member feel heard and appreciated. With this in mind the board held its first annual regional trip this year, kicking off in Townsville.

In addition, the board hosted a series of regional forums to speak with members about activities in their area. In lieu of being able to travel due to COVID-19 restrictions, we moved these forums online.

With 600,000 of our 1.8 million members living outside of the south-east corner, it was wonderful to connect in this way and to answer their questions directly.

One topic discussed at the forums was the proposed constitutional changes which will be submitted to the Annual General Meeting this year. These are designed to modernise the way the board members are elected and appointed, whilst ensuring we can continue to secure a skills-based board with good geographic spread across Queensland and a deep understanding of the issues affecting our members.

Strong foundation

All of our Club's activities are aimed at giving our members peace of mind in moments of need.

There is no greater example than RACQ Foundation. In the 10 years since its inception, with the support of our members, RACQ Foundation has helped Queensland community groups impacted by natural disasters get back on their feet.

Fittingly, RACQ Foundation's 10th anniversary was marked by its 10th Community Assistance Program trip to Tara and Miles.

In June I was honoured to be part of a volunteer trip to Winton, where alongside 50 RACQ employees, trades and retirees I had the privilege of seeing firsthand the work we do to help our neighbours in the bush.

It was wonderful to give some of our hardest-working Queenslanders some much needed time out, with our staff volunteering at the Winton Outdoor Film Festival, taking tickets, ushering patrons and manning the candy bar.

With RACQ's support, the Foundation has distributed more than $10.3 million over the past decade to community groups and clubs across Queensland, recently including many struggling from the ramifications of COVID-19 restrictions.

RACQ Foundation is something of which all RACQ members can be proud. I acknowledge the unflagging work of the Chair of the Foundation, Fay Barker, who retired from the role this year and thank incoming Chair Bronwyn Morris, for agreeing to step into Fay's very large shoes.

Giving back to the community

RACQ provides more than $5 million annually to the RACQ Air Rescue Network to support its invaluable work in keeping Queenslanders safe. That support extends to the medical and in-flight training of LifeFlight doctors which, in a vast state like Queensland, often means the difference between life and death.

One of our most solemn services, Aussie Assist, became more important this year as drive tourism boomed and many of our members and their families embarked on road trips.

Through Aussie Assist 58 members and their families were provided with travel and transportation assistance for a medical emergency and/or death of family members.

In the face of near record high road deaths in Queensland, we undertook a campaign to educate motorists on the importance of road safety, placing tailored billboard messages on main arterial roads.

This year we also invested in younger drivers by increasing the age limit for the Free2Go program by five years which means RACQ membership discounts, benefits and access to our Assistance services are now extended to 16 to 24 year olds.

> The RACQ board is committed to finding new and better ways to make every member feel heard and appreciated...

Sustainable future

We are continuing development of a climate strategy to boost the resilience of our organisation and help members and their communities respond to the impacts of climate change.

RACQ will be there to assist our members as they make sustainable choices for motor and home, such as transitioning to electric vehicles or other new technologies for their car or home.

The Club will take a leading role in public policy decisions about a more sustainable Queensland generally through such issues as home renewable energy, green finance, home climate protection and low-emission mobility solutions. At the same time, we are working on reducing our own carbon footprint as we set internal targets towards being a net-zero emissions organisation.

Thank you

None of this occurs without the hard work of RACQ's people. I want to acknowledge the leadership of RACQ Group CEO David Carter and the whole executive team, as well as the hard-working staff and contractor network who are there for our members in their moments of need, even in the face of continued community upheaval this year.

Finally, I would like personally to thank and acknowledge three board members who retire at this year's AGM after many years of dedicated service. Tony Gambling retires after 16 years; Vyn Tozer, has served on the board of our insurance company for 12 years; and a very special mention for Bronwyn Morris, immediate RACQ past President and Board member of 13 years, who will continue as Chair of RACQ Foundation. ■

Elizabeth Jameson
RACQ PRESIDENT

RACQ Group CEO's Report

THERE FOR MEMBERS, WHATEVER LIFE THROWS THEIR WAY.

2021 continued to be a challenging year. As the ongoing public health risk and economic uncertainty continued, our purpose to make a positive difference in our members' lives remained steadfast, guiding our priorities every day.

I am proud to lead your Club and want to thank our people for their dedication, tenacity and genuine commitment to be there for our members. Especially our frontline staff, who never missed a beat during the hardships and distancing requirements of COVID-19.

Members matter

Alongside our 1.8 million members, RACQ has pivoted to a new normal and a way of life that embraces innovation, technology and flexible working to ensure we remain relevant and valuable to our members and our people.

For more than 116 years, your Club has been proudly serving its community and today we reach more than 70 percent of Queensland households.

Our values of generosity of spirit, being of service, inspiring trust and dedication to excellence have never been more important. They remain central to our culture and underpin our passion and dedication to always put members' needs first.

As a mutual company, this remains our guiding principle as we carefully balance financial sustainability and supporting members with affordable and valuable products and services.

Our performance

As the President outlined in her report, RACQ delivered on its commitment to help members despite COVID-19 impacts.

RACQ's net surplus was $56.5 million which represents a solid performance from our core business lines of Assistance, Insurance and Bank considering the ongoing economic and social uncertainty.

RACQ grew this year and our outlook is strong as we continue to focus on the fundamentals of our group purpose.

Our Insurance business continued to grow, achieving $1.09 billion in gross written premiums. This measured against $994.3 million in total gross insurance claims paid. When combined with freezing car insurance premiums for members through the initial stages of COVID-19, the insurance profit was quite subdued this year.

RACQ Bank's financial performance improved considerably in FY21, contributing positively to the Group's result, and the Bank's total capital and liquidity holdings remained strong. This was underpinned by higher net interest income, lower operating expenses and lower impairment expense. Member deposits increased by $93 million to $2 billion and loans and advances increased by $61 million to $2 billion during FY21. RACQ Bank funded 1776 or $448 million in home loans, and 1,265 or $32 million in personal loans.

As drive tourism exploded when Queensland's major lockdown ended, our Roadside Assistance policies hit 1.34 million, with premium roadside policies growing to 42.8 percent of total roadside coverage. Of more than 776,000 roadside jobs across our vast state, we were by your side in an hour or less, 92 percent of the time.

Our people

During FY21, I introduced a new streamlined operating model and made changes to our internal team structure to better align with our strategy and set up our team of more than 2300 employees for success. The restructure created a new Member & Community division, bringing together our member service, advocacy, public policy and community engagement teams to ensure we continue to keep our members at the forefront of everything we are doing.

> "I am proud to lead your Club and want to thank our people for their dedication, tenacity and genuine commitment...

As part of these changes, I refreshed the leadership team, appointing four new group executives. Mary-Jane Bellotti was appointed as Group Executive Member and Community. Bernadette Stone joined RACQ as our Chief Technology Officer, completing the implementation of our new CRM system, one of the biggest technology projects for RACQ to date. Michelle Winzer was appointed Group Executive Banking, and her focus has been to grow our active member base while delivering market-leading customer service. I also appointed existing senior leader Ailsa Heise as Acting Chief Risk Officer, a vital role in the company, particularly at a time of implementation of widespread regulatory change.

RACQ is committed to having a diverse and inclusive workforce. Women make up more than 40 percent of senior leadership roles and most of our staff benefit from flexible work arrangements that balance RACQ's needs with their own.

This year we also welcomed our new RACQ President Elizabeth Jameson and I'd like to thank her for taking on the role with clarity and confidence, leading the RACQ board in its stewardship.

Operational improvements

During FY21, a La Nina weather pattern resulted in the largest weather claims year in RACQ's history, breaking the previous record set last year. Driven by hail, the net cost of these events was $135.6 million compared with $129 million in FY20, with the Halloween hail storm in Springfield resulting in more than 7500 claims with an estimated repair bill of $155 million.

While we strive to always deliver excellence, these events highlighted the impact of COVID-19 on supply chains and availability of tradespeople, as well as some deficiencies in our systems and processes which impacted the service levels you rightly deserve. We have made changes to address these, added to our panel of builders, and increased the number of people in our claims team to put us in a much stronger position to provide the service you have come to expect.

We have also made significant investment in our systems, processes and training. These changes meet members' expectations now and into the future while also meeting regulatory and compliance obligations.

Your Club made the decision this year to sell the Financial Planning arm of RACQ Bank to focus on what we believe is a better alignment to our operations, helping our members build strong foundations through core banking services.

Member value initiatives

As members began to feel the effects of lockdown, we hit pause on comprehensive motor vehicle premium increases and offered almost $5 million in motor vehicle insurance discounts, giving most members an average saving of $30 per policy.

This, along with the rising cost of cars, their parts and repairs, coupled with increased crash rates, has led to a reduction in the insurance result during the year. However, we held the position to help our members through the pandemic uncertainties.

RACQ now saves its bank members $1 million each year after we permanently removed most everyday transaction fees on deposit products and focused on streamlining processes to reduce the time taken to make lending decisions.

Digital evolution

The most multi-faceted digital technology upgrade in our history was completed this year and as with many complex and large-scale IT projects, the transition was rocky at times.

While frustrating, the team worked diligently to iron out bugs and provide a robust platform that will enable our people to provide a better and faster service for years to come.

Digital initiatives were implemented, making it easier for our members to engage with us, and we experienced a 41 percent increase in interactions on these channels compared with the previous financial year.

A more interactive and user-friendly digital version of *The Road Ahead* was launched in April and member views on this platform increased by more than 1200 percent in the space of one month.

Future mobility

RACQ's Mobility Centre at Mount Cotton has helped inform and enable our members to make secure, affordable and efficient transport choices. The Mobility Centre allows us to be at the forefront in safety, testing and certifying future technology.

We're exploring ways for our members to use the facility and connect with one another, provide world-class education and research, and deliver on-road programs to facilitate safe driving.

After it was cancelled due to COVID-19 last year, RACQ MotorFest 2021 was truly back bigger and better with almost 10,000 people through the gates and $19,000 raised for RACQ Foundation. Your Club's largest annual owned-and-run event marked the first in a five-year strategy of its transformation into a celebration of innovative and sustainable transport.

RACQ also extended its trial of an autonomous shuttle bus, this year at Raby Bay, to test driverless technology safely in a live-traffic environment and also helped provide test drives and mapping for the Ipswich Connected Vehicle Pilot program.

We proudly launched our sponsorship of the Queensland Electric Vehicle Superhighway, one of the longest electric vehicle (EV) superhighways in a single state in the world. Fast chargers close to major Queensland highways help motorists with EVs and hybrids easily explore our state.

Advocacy

RACQ seized a significant legislative victory for our roadside staff and members in May. Our push to have drivers "move over or slow down" when faced with a roadside incident gained public commitment from the State Government.

This year we also secured the permanent introduction of mandatory price reporting by fuel companies which has been invaluable for members, giving them access to real time data through apps such as RACQ's Fair Fuel Finder. This initiative drives vital competition and gives Queensland drivers the power to make affordable choices.

Connecting with communities

RACQ's Education team taught more than 68,000 students valuable road safety skills this year, including a five-day tour of remote and Indigenous communities in far north Queensland. We were able to immediately impact the lives of 38 students at The Cape York Aboriginal Australian Academy who regularly rode to school with no helmets by donating one for each child.

RACQ also continued to work with the ARTIE (Achieving Results Through Indigenous Education) Academy, donating four cars to help young drivers reach their 100 hours of driving required for a licence.

This year, RACQ formally set out its commitments to reconciliation in its first Reconciliation Action Plan. Acknowledgement of Country plaques were installed in stores across the state, recognising the Traditional Owners of the lands where our businesses operate.

While COVID interrupted the rollout slightly, I was extremely proud to stand with our President in north Queensland in May, alongside a local Indigenous Elder, to officially unveil the Townsville plaque.

The 2021 RACQ International Women's Day Fun Run hit record numbers for participation when we expanded the event to regional Queensland with a "virtual" fun run and store activations. The COVID-safe change saw $1.5 million raised for the Mater Foundation – the highest fundraising total in the event's 30-year history.

Despite the pandemic, RACQ adapted and even improved upon the community activities it is involved in, including the wonderful work of RACQ Foundation in assisting community groups impacted by natural disaster.

Looking ahead

Sustainability will be key for our members in every facet of their lives in the decades to come.

Connected and electric vehicles will form a big part of this, and we will continue to assist our members in this transition, as the need for assistance in this area grows exponentially.

We recognise that our members will continue to seek our help to manage the costs of new fuel sources, hence our vision for the future will also help members increase their home sustainability and liveability, assisting them in managing renewable energies in their homes and beyond.

RACQ is in a unique position to harness the collective power of our 1.8 million members to build a more liveable Queensland and to take active steps alongside them towards net zero.

As so many of our members continue to feel the impact of COVID-19, including those whose businesses are dependent on tourists, I am hopeful our great state will soon reopen to the rest of the country and the world.

We are standing with our community by strongly urging all who are able to, to get their vaccine as soon as possible so we can return safely to many of our pre-COVID-19 ways of life.

I am honoured to lead RACQ into the year ahead and while the challenges of the pandemic are far from over we will continue to be there for our 1.8 million members whatever life throws their way. ■

> “RACQ is in a unique position to harness the collective power of our 1.8 million members to build a more liveable Queensland...

David Carter

David Carter
Group Chief Executive Officer

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 2021 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)

Duncan V Brain
(appointed 26 July 2021)

Annabel L Dolphin

Anthony M Gambling

John F Minz

Andrew G Moore

Bronwyn K Morris AM

Further information on the current directors is contained in the RACQ Directors section on pages 16 to 18. This section also includes their qualifications, experience and particular responsibilities.

DIRECTORS' 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 Remuneration and Nomination Committee		Risk and Compliance Committee	
	A	H	A	H	A	H	A	H	A	H
Elizabeth Jameson	12	12	2	2	-	-	2	2	6	7
Leona Murphy	12	12	-	-	3	4	5	5	7	7
Annabel Dolphin	12	12	-	-	-	-	5	5	7	7
Anthony Gambling	12	12	5	5	4	4	-	-	-	-
John Minz	12	12	5	5	-	-	-	-	7	7
Andrew Moore	11	12	5	5	4	4	-	-	-	-
Bronwyn Morris	12	12	3	3	-	-	5	5	-	-

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 Capital and Investment Committee was re-purposed as the Group Strategic Capital Committee with effect from 30 March 2021

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.

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. It is underpinned by its vision, that by 2030, RACQ be valued for enabling RACQ members and their communities to achieve resilience and mobility in life.

RACQ continued to execute the Group's longer-term strategy despite the ongoing disruptions of the COVID-19 pandemic on communities, the economy and business conditions. During the year, RACQ focused on:

- enhancing the value of being a member of RACQ and increasing the awareness of the benefits
- delivering on strategic projects to enhance the member value proposition and ensure the relevance and resilience of RACQ into the future
- positioning RACQ as an authority on the future of mobility and its participation in the future mobility economy
- enabling our people to grow professionally and deliver on the member value proposition, as well as building capability to support member value and market viability.

RACQ's strategy and objectives shaped the principal activities of RACQ throughout the year including the provision of motoring, insurance, assistance, banking, lifestyle 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 parameters including member engagement, retention and acquisition, product measures and growth, and key financial ratios were used to measure performance throughout the financial year.

IMPACT OF COVID-19 PANDEMIC

During the year, the Australian economy displayed resilience in the face of the ongoing COVID-19 pandemic. The combined actions of governments, regulators, central banks and businesses to manage the pandemic's impact helped contribute to a stronger economy than expected. Following Australia's first recession in almost 30 years in early 2020, economic growth and employment levels have recovered to pre-pandemic levels.

The effect of periodic virus outbreaks in parts of Australia and the associated lockdowns have created additional economic and social uncertainty, highlighting the challenges of the operating environment. RACQ has remained dedicated to supporting members and their communities through the challenging environment whilst focusing on long term sustainability of the Group. RACQ's detailed and flexible response ensured the business continued to operate, provided a safe environment for employees and members and continues to support members during the impacts arising from the pandemic.

As the pandemic has evolved, RACQ has adapted its operational response accordingly. RACQ continues to monitor its motoring, lending and insurance portfolios closely as the situation continues to evolve and is committed to the safety and wellbeing of members and its people.

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 2021, RACQ had 1,768,899 guaranteeing members resulting in a total contribution of $3,537,798 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 2021.

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 2021 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
16 September 2021

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

Director – Non-Zonal (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 RACQ Limited Risk and Compliance Committee, Insurance Risk and Compliance Committee, Bank Risk and Compliance Committee and the Group Remuneration and Nomination 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, director of Endeavour Foundation and director of John Villiers Trust.

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Leona C Murphy

BCom, GAICD

Director – South East zone (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, member of the Group Remuneration and Nomination Committee and member of the Group Strategic Capital Committee.

Ms Murphy is an experienced senior executive with 24 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 the chairman of Stone & Chalk, chair of the Royal Brisbane & Women's Hospital Foundation, and a director of Liberty Financial Limited. 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.

Duncan V Brain

BAppSc (Maths), MBA, MAICD

Director – Non-Zonal (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 RACQ Limited Risk and Compliance Commitee, Insurance Risk and Compliance Committee and Bank Risk and Compliance Committee and the Group Strategic Capital Commitee.

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.

Annabel L Dolphin

BBus (Mgmt), Dip NSL, GAICD, CAHRI

Director – Northern Zone (from January 2019)

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 Remuneration and Nomination Committee, member of the RACQ Limited Risk and Compliance Committee, Insurance Risk and Compliance Committee and Bank Risk and Compliance 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 and director of Dolphin Ventures Pty Ltd where she sits on several independent advisory boards within the mining, construction, manufacturing and professional services sector. In addition, she is also a director of the Mackay Hospital and Health Service and a director of Cooney Investments Pty Ltd t/a Helloworld Travel Mackay and Mt Pleasant. Ms Dolphin is also a former chair of TAFE QLD and former director for Ergon Energy Pty Ltd, North Queensland Bulk Ports, Mater Health Services North Queensland and Mackay Hospital Foundation.

Anthony (Tony) M Gambling

BBus, BEcon, MBA, FCPA, FIML, FAICD, FGIA, JP (Qual)

Director – Central Zone (from September 2005)

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 Strategic Capital Committee, Group Audit Committee and Bank Audit Committee.

Mr Gambling is a director of The John Villiers Trust and the Director of Regional Development for Regional Development Australia Central and Western Queensland, and past-vice president of Central Queensland Rugby Union. He is the former general manager of Mango 4 Office Technology and a former director of companies involved in the commercialisation of emerging technologies. He was a founding member of the Central Queensland Committee of the Australian Institute of Company Directors and the Queensland Small Medium Enterprise Committee of CPA Australia. He is also a facilitator of various Strategy and Risk programs for the Australian Institute of Company Directors.

John F Minz

BCom, Grad Dip Commercial Computing Sen. Fellow FINSIA, FAIM, FAICD

Director – South West Zone (from August 2016)

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
Director – Non-Zonal (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 of the Group Strategic Capital Committee, member of the Group Audit Committee and the Bank Audit 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.

Bronwyn K Morris AM

BCom, FCA, FAICD
Director – South East Zone (from June 2008)

Immediate past President and Chairman, 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 Remuneration and Nomination Committee, Group Audit Committee, and the Bank Audit Committee. Appointed Chair of RACQ Foundation Pty Ltd from 1 January 2021.

Ms Morris is a non-executive director with over 25 years' experience across a broad range of industries and entities including ASX-listed, private, government and not-for-profit. She currently serves as chair of Urban Utilities and is a director of Collins Food Limited, Dalrymple Bay Infrastructure Limited and the Menzies Health Institute Queensland. Ms Morris brings extensive business and financial expertise acquired from her governance roles and more than 20 years' experience as a chartered accountant within Australia and overseas. Ms Morris is a former Queensland Council president of the Australian Institute of Company Directors.

Group Chief Executive Officer

David A Carter

BCom, FCPA, F FIN, G.Dip Fin Planning, G.Dip Applied Finance and Investment, GAICD

Director of RACQ Foundation. Commenced as Group Chief Executive Officer of RACQ in March 2020. Mr Carter is also a director of Australian Automobile Association, Australian Motoring Services Pty Ltd and the Business Council of Co-operatives and Mutuals, in addition to several RACQ group wholly owned and related entities. He also serves as a director of the Queensland Ballet, Lifeflight Australia Ltd, and Netball Queensland.

Mr Carter joined RACQ from Suncorp where he was the CEO of Banking and Wealth. He has previously fulfilled the role of Managing Director and CEO of a prudentially regulated Life Insurance company in New Zealand and held the role of director of Australian Financial Services Licence (AFSL) entities in Australia. Additionally, Mr Carter has served as a member of, or Chair of, relevant industry, executive, and non-executive committees for nearly 20 years.

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.

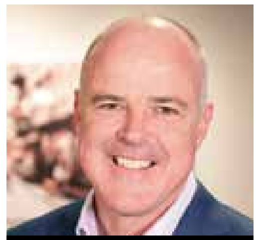
Group Company Secretary

Bradley D Bowes

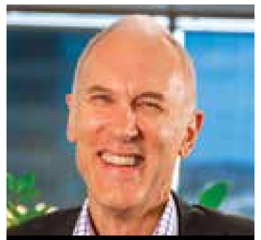
PhD, MBA, MCommLaw, BBus(Acctg), FGIA, FCG, MAICD

Mr Bowes is a member of the RACQ Group Executive team. 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 internal audit, many 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

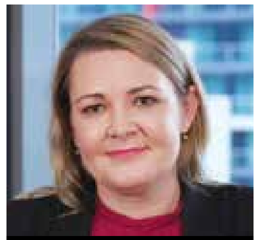


David Carter



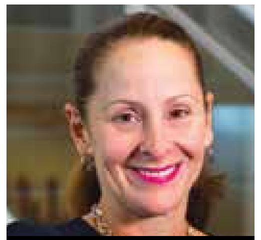
Bradley Bowes

Tracy Green



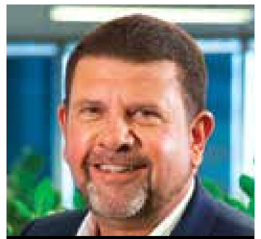
Ailsa Heise

Michael Lonergan



Bernadette Stone

Heidi Suominen



Glenn Toms

Michelle Winzer

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:

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

Group Executive Member and Community – Mary-Jane (MJ) Bellotti (commenced 6 September 2021)
MBA, GAICD

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

Group Executive Insurance – Tracy Green
BCom, ANZIIF (Fellow), CIP

Acting Group Chief Risk Officer – Ailsa Heise
BBus(Acct), FCPA, GAICD

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

Chief Technology Officer – Bernadette Stone
BSc(Hons) Physics

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

Group Executive Assistance – Glenn Toms
BBus, G.Dip 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.au/about/racq/group-executive-team**

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Building a better working world

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 2021, 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; and

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

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

Ernst & Young

Alison de Groot
Partner
16 September 2021

Consolidated Income Statement for the financial year ended 30 June 2021

	Note	2021 $'000	2020 *Restated $'000
Revenue			
Insurance premium revenue	2.1	1,047,470	968,692
Revenue from contracts with customers	6.1.1	256,789	243,948
Banking interest income	3.1	64,757	69,732
Reinsurance and other recoveries revenue	2.1	379,545	156,218
Investment income	4.1	70,816	38,784
Other income		4,209	301
Total revenue		**1,823,586**	**1,477,675**
Expenses			
Insurance claims expense	2.1	(1,097,502)	(863,589)
Employee benefits expense	5.3.1	(176,970)	(180,728)
Outwards reinsurance premium expense	2.1	(170,060)	(80,616)
Payments to contractors for assistance services		(83,192)	(77,514)
Banking interest expense	3.1	(16,401)	(29,229)
Communication and information technology expenses		(74,610)	(62,909)
Other underwriting and acquisition costs		(32,478)	(20,442)
Depreciation and amortisation expense		(39,747)	(47,567)
Property and related occupancy costs		(7,313)	(7,753)
Other expenses	6.2	(61,055)	(83,438)
Impairment loss on loans and advances	3.3	(18)	(1,912)
Total expenses		**(1,759,346)**	**(1,455,697)**
Share of profit of equity-accounted investments in associates and joint venture		2,658	285
Gain on disposal of business assets		9,840	775
Impairment of joint venture		-	(2,582)
Surplus before income tax		**76,738**	**20,456**
Income tax expense	5.5.1	(20,226)	(8,950)
Surplus for the year		**56,512**	**11,506**
Surplus attributable to:			
Non-controlling interest		(150)	(478)
Members		56,662	11,984
Surplus for the year		**56,512**	**11,506**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1 and the prior period restatements detailed in Note 1.*

The Consolidated Income Statement is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 27 to 85.

Consolidated Statement of Comprehensive Income for the financial year ended 30 June 2021

	Note	2021 $'000	2020 *Restated $'000
Surplus for the year		**56,512**	**11,506**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains (losses)		699	(293)
Net change in fair value on financial assets designated at FVOCI		17,010	(8,436)
Net realised gains on financial assets designated at FVOCI		3,908	1,328
Related income tax expense	5.5.1	(6,422)	2,220
Total other comprehensive income (loss) for the year, net of tax		**15,195**	**(5,181)**
Total comprehensive income for the year		**71,707**	**6,325**
Total comprehensive income (loss) attributable to:			
Non-controlling interest		(150)	(478)
Members		71,857	6,803
Total comprehensive income for the year		**71,707**	**6,325**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1.*

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 27 to 85.

Consolidated Balance Sheet as at 30 June 2021

	Note	2021 $'000	2020 *Restated $'000
Assets			
Cash and cash equivalents		73,580	128,897
Trade and other receivables	4.4.2	281,457	264,596
Current tax receivable		4,255	1,479
Deferred acquisition costs	2.5	35,079	39,284
Loans and advances	3.2	2,034,859	1,973,884
Financial assets	4.2	2,555,217	2,317,990
Reinsurance and other recoveries receivable	2.4	374,065	200,334
Deferred reinsurance assets		47,214	2,576
Other assets		33,204	32,488
Right of use assets	6.5	8,149	10,152
Property, plant and equipment	5.1	149,306	157,960
Deferred tax assets	5.5.3	44,258	54,647
Goodwill and other intangible assets	5.2	283,319	298,424
Total assets		5,923,962	5,482,711
Liabilities			
Trade and other payables		120,940	93,711
Provisions	6.3	2,162	5,644
Deposits	3.4	2,134,131	2,099,124
Unearned insurance premiums	2.7	540,351	500,212
Contract liabilities	6.1.2	83,833	85,779
Lease liabilities	6.5	8,143	10,259
Borrowings	3.5	216,791	150,166
Outstanding claims liabilities	2.3	1,256,043	1,045,209
Employee benefit liabilities	5.3.2	43,448	46,194
Total liabilities		**4,405,842**	**4,036,298**
Net assets		**1,518,120**	**1,446,413**
Accumulated funds			
Retained surplus		1,477,389	1,417,638
Reserves		41,452	29,346
Total accumulated funds attributable to members		**1,518,841**	**1,446,984**
Non-controlling interest		(721)	(571)
Total accumulated funds		**1,518,120**	**1,446,413**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1 and the prior period restatements detailed in Note 1.*

The Consolidated Balance Sheet is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 27 to 85.

Consolidated Statement of Changes in Accumulated Funds for the year ended 30 June 2021

2021	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 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**

2020	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 2019	**1,407,198**	**3,000**	**13,222**	**18,629**	**1,442,049**	**(93)**	**1,441,956**
Effect of adoption of AASB 16 *Leases*	(354)	-	-	-	(354)	-	(354)
Effect of change in significant accounting policy*	(1,514)	-	-	-	(1,514)	-	(1,514)
Balance at beginning of year restated	**1,405,330**	**3,000**	**13,222**	**18,629**	**1,440,181**	**(93)**	**1,440,088**
Surplus for the year*	11,984	-	-	-	11,984	(478)	11,506
Other comprehensive income (loss) for the year	724	-	(5,905)	-	(5,181)	-	(5,181)
Total comprehensive income (loss) for the year*	**12,708**	**-**	**(5,905)**	**-**	**6,803**	**(478)**	**6,325**
Transfers							
Transfers to general reserve for credit losses	(400)	400	-	-	-	-	-
Total transfers	**(400)**	**400**	**-**	**-**	**-**	**-**	**-**
As at 30 June 2020*	**1,417,638**	**3,400**	**7,317**	**18,629**	**1,446,984**	**(571)**	**1,446,413**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1.*

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 27 to 85.

	Note	2021 $'000	2020 *Restated $'000
Cash flows from operating activities			
Insurance premiums received		1,178,766	1,098,937
Revenue from contracts with customers		264,367	248,365
Interest received from loans and advances		64,645	67,821
Reinsurance and other recoveries received		224,524	168,301
Insurance claims paid		(983,293)	(867,359)
Outwards reinsurance premiums paid		(189,559)	(80,947)
Banking interest paid		(16,210)	(29,605)
Payments to suppliers and employees		(471,001)	(446,206)
Net movement in loans and advances		(60,975)	(226,933)
Net movement in deposits		34,997	307,745
Income taxes paid		(19,130)	(16,512)
Net cash provided by operating activities	6.4	**27,131**	**223,607**
Cash flows from investing activities			
Investment income received		66,155	57,875
Dividend income received		6,955	4,393
Rental income received		2,497	3,025
Proceeds from sale or maturity of financial assets		1,603,849	1,824,885
Payments for financial assets		(1,820,915)	(1,977,117)
Payments for intangible assets		(5,036)	(21,328)
Payments for property, plant and equipment		(12,346)	(17,719)
Proceeds from sale of business assets		14,675	1,250
Payments for investments in associates		(684)	-
Acquisition of assets through a business combination		-	(9,089)
Net cash flows from investing activities		**(144,850)**	**(133,825)**
Cash flows from financing activities			
Payments for redeemed preference shares		(17)	(11)
Repayments of principal for lease liabilities		(4,127)	(4,689)
Proceeds from borrowings	3.5	96,546	90,000
Repayments of borrowings	3.5	(30,000)	(95,939)
Net cash flows from financing activities		**62,402**	**(10,639)**
Net (decrease) increase in cash and cash equivalents		(55,317)	79,143
Cash and cash equivalents at the beginning of the year		128,897	49,754
Cash and cash equivalents at the end of the year		**73,580**	**128,897**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1.*

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 27 to 85.

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 16 September 2021.

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.

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. Changes to significant accounting policies are described in Note 6.9.

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)
- Expected credit loss (ECL) on loans and advances (Note 3.3)
- Fair value of financial instruments (Note 4.3)
- Impairment testing of goodwill and recognition and measurement of intangible assets (Note 5.2.1)
- Recognition of deferred tax assets (Note 5.5.3)

Impact of coronavirus (COVID-19)

The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020.

The outbreak and the varied response of the Governments in dealing with this pandemic, continues to impact general activity levels within the community, the economy and to an extent the operations of our business.

Key uncertainties at this time include the length of the pandemic, the potential for further waves of outbreaks, the related impacts on the broader economy and the effectiveness of government initiatives to mitigate these impacts.

The ongoing COVID-19 pandemic has impacted the uncertainty in management estimates used in the preparation of these financial statements. Given the unique nature of the COVID-19 environment, the usual approach of employing historical patterns to estimate future cashflows may not be appropriate. In cases where historical patterns are not considered to be applicable to project future cashflows, a higher degree of subjective judgement has been required to produce prospective estimates.

Future economic conditions may differ from that assumed within the actuarial estimates and may lead to actual financial outcomes being significantly different to that projected.

The key impacts on the financial statements are outlined below:

- *Outstanding Claims Liability (Note 2.3)*
  COVID-19 direct and indirect impacts have been experienced and are expected to continue to impact the reporting pattern of claims and inflationary pressures on claim settlement costs. For motor, these include additional costs arising from supply pressures on obtaining required parts, replacement vehicles and repairer capacity. These have led to longer repair times and increases in hire car costs. Increases in used car values have also impacted motor claim costs. The buoyant Queensland housing construction sector driven by increasing property market values is creating supply pressures on selected trades required for settling home insurance claims. This is most noticeable in areas impacted by major weather events, where demand is greatest.
- *Reinsurance and Other Recoveries Receivable (Note 2.4)*
  The impact of COVID-19 on the recoverability of receivables from reinsurance and non-reinsurance contracts have been considered. While the methodologies and assumptions applied in the base expected credit loss (ECL) calculations remained unchanged from those applied in the prior financial year, the Group has incorporated estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic. Whilst no material recoverability issues have been identified, there is a risk that the economic impacts of COVID-19 could be deeper or more prolonged than anticipated, which could result in higher credit losses than those modelled under the base case.
- *Unearned Insurance Premium (Note 2.7)*
  Prospective CTP and Motor claim frequencies are uncertain given the potential impact of any future COVID-19 lockdowns and their impact on traffic volumes. Motor and home settlement costs on future claims will be impacted by supply pressures and the success of mitigation measures to limit the impact of these pressures.
- *Impairment of Loans and Advances (Note 3.3)*
  The Group's AASB 9 impairment methodology remains unchanged from the impact of COVID-19 on RACQ Bank's loan portfolio. RACQ Bank has incorporated economic assumptions and management judgement specific to the impact of COVID-19 in the measurement of expected credit losses. Whilst no material credit issues have been identified, there is a risk that the economic impacts of COVID-19 could be deeper or more prolonged than anticipated, which could result in higher mortgage defaults than those modelled.
- *Fair Value of Financial Instruments (Note 4.3)*
  For the vast majority of financial assets measured at fair value, the instruments are traded in an active market and the fair value is determined based on observable market data. For unlisted 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. This measurement basis has not changed as a result of COVID-19.

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 have been rounded off to the nearest thousand dollars, unless otherwise stated.

Prior period restatements

In addition to the change in significant accounting policy as outlined in note 6.9.1, certain comparative amounts have been restated to conform to the current year's presentation, including reclassifications of:

- $301,084 from revenue from contracts with customers to other income;
- $2,576,103 from other assets to deferred reinsurance assets;
- $5,500,000 from financial planning remediation to other expenses;
- $5,000,000 from restructuring provision expense to other expenses;
- $696,393 from revenue from contracts with customers to other income in note 3.1; and
- $159,631,911 relating to intercompany balances being offset between current assets and current liabilities in note 6.8.1.

Basis of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2021. 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) Non-controlling interests

Non-controlling interests recognised as equity arises when the Group does not hold 100% of the shares in a subsidiary. Non-controlling interests in the results and equity of subsidiaries are shown separately in the Group's Consolidated Income Statement, Consolidated Statement of Comprehensive Income and Consolidated Balance Sheet, respectively.

(iii) Interests in equity-accounted investees

The Group's interest in equity-accounted investees comprise interest in associates and a joint venture. 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 the joint venture 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.

(iv) 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

Title	Nature of change to accounting policy	Impact to the Group	Application of the Standard	Application date for the Group
AASB 17 *Insurance Contracts*	AASB 17 was issued in July 2017. The standard replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. In June 2020, the IASB issued Amendments to IFRS 17 which deferred the effective date from 1 January 2021 to 1 January 2023. These amendments were adopted by the AASB in July 2020. AASB 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. 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.	The Group is preparing accounting papers for impacted areas that presents the course of implementation and adoption of this standard. The Group expects to apply the full retrospective approach under AASB 17 using reasonable and supportable information available without undue cost or effort. The requirements of AASB 17 are complex and the Group continues to analyse the impacts of the standard. The accounting guidance and application methodologies are being developed, and the Group is progressing with the design and implementation of required changes to financial reporting processes. Market developments also continue to be monitored in order to assess the impact of evolving interpretations and other changes. The Group does not intend to early adopt the standard.	1 January 2023	1 July 2023

2. Insurance Activities

2.1 INSURANCE RESULT

The following table presents the Group's Insurance result included in the Consolidated Income Statement.

	Note	2021 $'000	2020 $'000
Insurance premium revenue		1,047,470	968,692
Outwards reinsurance premium expense		(170,060)	(80,616)
Net premium revenue		**877,410**	**888,076**
Insurance claims expense	2.2	(1,097,502)	(863,589)
Reinsurance and other recoveries revenue	2.2	379,545	156,218
Net claims incurred	**2.2**	**(717,957)**	**(707,371)**
Acquisition costs		(84,187)	(73,087)
Other underwriting expenses		(51,275)	(42,362)
Underwriting expenses (1)		**(135,462)**	**(115,449)**
Underwriting result		**26,491**	**65,256**
Investment income on technical reserves		12,984	25,838
Investment expenses on technical reserves		(1,349)	(1,266)
Insurance result		**38,126**	**89,828**

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

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.

(v) 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.

2.2 NET CLAIMS INCURRED

The following table presents the net claims incurred which comprises claims expense and revenue from reinsurance and other recoveries:

	2021 Current year $'000	2021 Prior years $'000	2021 Total $'000	2020 Current year $'000	2020 Prior years $'000	2020 Total $'000
Gross claims expense						
Gross claims incurred – undiscounted	1,139,919	(39,969)	1,099,950	925,154	(71,177)	853,977
Discount movement	(3,527)	1,079	(2,448)	(2,463)	12,075	9,612
	1,136,392	**(38,890)**	**1,097,502**	**922,691**	**(59,102)**	**863,589**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	(323,657)	(56,218)	(379,875)	(155,507)	583	(154,924)
Discount movement	481	(151)	330	184	(1,478)	(1,294)
	(323,176)	**(56,369)**	**(379,545)**	**(155,323)**	**(895)**	**(156,218)**
Total net claims incurred	**813,216**	**(95,259)**	**717,957**	**767,368**	**(59,997)**	**707,371**

2.3 OUTSTANDING CLAIMS LIABILITY

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 breakdown of the total outstanding claims liability is as follows:

	2021 $'000	2020 $'000
Gross outstanding claims liability		
Gross central estimate - undiscounted	1,036,718	838,527
Claims handling expense	64,712	54,975
	1,101,430	893,502
Discount to present value	(8,437)	(5,903)
Risk margin	163,050	157,610
Gross outstanding claims liability	**1,256,043**	**1,045,209**
Current	622,363	466,055
Non-current	633,680	579,154
Gross outstanding claims liability	**1,256,043**	**1,045,209**
	%	%
Risk margin	**21.9**	**22.5**
Probability of sufficiency	**92.5**	**92.5**

Refer to Note 1 for the impact of COVID-19 on the outstanding claims liability.

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

	2021 $'000	2020 $'000
Net outstanding claims liability at the beginning of the year	844,875	769,149
Prior periods		
Claim payments	(239,292)	(226,449)
Discount unwind	2,116	5,647
Margin release on prior periods	(47,769)	(45,391)
Incurred claims due to changes in assumptions and experience	(48,706)	(52,369)
Current period		
Net central estimate for current period	320,374	319,081
Net change in reinsurance on paid claims	(11,537)	8,667
Risk margin on current period net outstanding claims	61,917	66,540
Net outstanding claims liability at the end of the year	**881,978**	**844,875**
Reinsurance and other recoveries receivable	374,065	200,334
Gross outstanding claims liability	**1,256,043**	**1,045,209**

The following table represents the Group's contractual maturities of the discounted outstanding claims liability:

	Carrying amount $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2021	1,256,043	622,363	553,588	80,092	**1,256,043**
2020	1,045,209	466,055	504,099	75,055	**1,045,209**

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	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
Estimate of net ultimate CTP claims cost:											
At end of accident year	151,096	155,581	169,902	155,377	171,782	181,531	187,866	198,207	206,147	152,439	152,439
One year later	126,160	139,449	147,050	146,065	160,153	171,963	167,516	173,960	186,161	-	186,161
Two years later	109,153	118,280	140,057	133,714	140,977	153,349	156,341	164,497	-	-	164,497
Three years later	102,062	98,069	124,223	116,999	125,045	152,349	165,441	-	-	-	165,441
Four years later	96,824	93,543	115,717	114,393	119,928	145,768	-	-	-	-	145,768
Five years later	93,601	92,855	107,743	115,634	116,239	-	-	-	-	-	116,239
Six years later	95,287	92,943	107,575	115,658	-	-	-	-	-	-	115,658
Seven years later	91,684	92,762	104,826	-	-	-	-	-	-	-	104,826
Eight years later	90,668	93,958	-	-	-	-	-	-	-	-	93,958
Nine years later	90,258	-	-	-	-	-	-	-	-	-	90,258
Current estimate of net ultimate claims cost	90,258	93,958	104,826	115,658	116,239	145,768	165,441	164,497	186,161	152,439	1,335,244
Cumulative payments	(88,318)	(88,796)	(100,113)	(104,328)	(105,173)	(104,525)	(105,499)	(77,051)	(38,922)	(2,601)	(815,325)
Net outstanding claims - undiscounted	**1,939**	**5,162**	**4,713**	**11,330**	**11,067**	**41,243**	**59,942**	**87,446**	**147,239**	**149,838**	**519,919**
Discount to present value											(5,105)
Claims handling expenses											49,206
2011 and prior											10,382
Outstanding claims - CTP											**574,402**
Outstanding claims - Personal Insurance											**144,526**
Risk margin											163,050
Total net outstanding claims											**881,978**

2.3.2 ACTUARIAL ASSUMPTIONS AND METHODS

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 actuarial assumptions used in determining the outstanding claims liability are:

	2021		2020	
	Personal Insurance	CTP Insurance	Personal Insurance	CTP Insurance
Discount rate	0.2%	0.5%	0.3%	0.4%
Economic inflation rate	-	2.0%	-	1.5%
Superimposed inflation rate	-	1.5%	-	2.0%
Claims handling expense ratio	4.4%	7.4%	4.5%	7.4%
Risk margin	11.0%-14.5%	24.3%	15.3%-16.3%	24.2%
Duration (years)	0.50	2.14	0.57	2.19

Discount rate

Discount rates are derived from market yields on Commonwealth Government securities at the reporting date. It should be noted at selected durations discount rates are negative at 30 June 2021.

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 2020 and led to an increased assumption being employed at 30 June 2021 of 2.0% (2020: 1.5%). 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 was reduced to 1.5% in 2021 (2020: 2.0%) 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% (2020: 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 analysis is conducted at an entity level and is summarised below as a sensitivity of the surplus/(loss) after tax. A change in each variable will have no impact on equity reserves.

Impact of changes in key variables	Movement in Variable		Financial Impact on Surplus/(Loss) after tax	
	2021	2020	2021 $'000	2020 $'000
Assumption				
Discount rate	+1%	+1%	10,843	11,216
	-1%	-1%	(11,365)	(11,779)
Inflation rate	+1%	+1%	(9,312)	(10,092)
	-1%	-1%	9,084	9,836
Claims handling expense rate	+1%	+1%	(7,448)	(6,362)
	-1%	-1%	7,448	6,362
Risk margin	+1%	+1%	(6,919)	(6,647)
	-1%	-1%	5,986	5,997

2.4 REINSURANCE AND OTHER RECOVERIES RECEIVABLE

A breakdown of reinsurance and other recoveries receivable is as follows:

	2021 $'000	2020 $'000
Reinsurance recoveries		
Expected undiscounted outstanding reinsurance recoveries		
On paid claims	25,005	13,467
On outstanding claims	212,132	80,813
	237,137	**94,280**
Discount to present value	(1,352)	(307)
	235,785	**93,973**
Other recoveries		
Expected undiscounted outstanding other recoveries		
On paid claims	66,662	67,879
On outstanding claims	72,350	39,022
	139,012	**106,901**
Discount to present value	(732)	(540)
	138,280	**106,361**
Total reinsurance and other recoveries receivable	**374,065**	**200,334**
Current	258,247	150,035
Non-current	115,818	50,299
Total reinsurance and other recoveries receivable	**374,065**	**200,334**

Refer to Note 1 for the impact of COVID-19 on the reinsurance and other recoveries receiveable.

Accounting policies

(i) **Reinsurance and other recoveries receivable**

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. 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.

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 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.

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.

An impairment review is performed as part of the liability adequacy test for each reporting period. Deferred acquisition costs are derecognised when the related contracts are either settled or disposed of. Further detail is included in Note 2.6 Liability Adequacy Test.

The Group reviews the rate used to defer costs relating to the acquisition of future revenue at least every 3 years, with the last review undertaken in 2019.

The following is a reconciliation of the deferred acquisition costs:

	2021 $'000	2020 $'000
Deferred acquisition costs		
Opening balance	39,284	31,974
Acquisition costs incurred in the period	80,126	82,244
Amortisation expense	(82,890)	(73,087)
Write down for premium deficiency (refer to Note 2.6)	(1,441)	(1,847)
Closing balance	**35,079**	**39,284**

2.6 LIABILITY ADEQUACY TEST

The 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.

	2021 $'000	2020 $'000
Central estimate present value of expected future cash flows arising from future claims	503,817	472,436
Central estimate present value of expected future cash inflows arising from reinsurance and other recoveries on future claims	(45,261)	(32,593)
Risk margin	10,740	9,320
Expected present value of future cash flows for future claims including risk margin	**469,296**	**449,163**

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. Applying this to the LAT results in a risk margin adopted in 2021 of 2.3% (2020: 2.1%), which is intended to achieve a 60% probability of sufficiency (2020: 60%). 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 2021 the LAT resulted in a deficiency of $4.5 million (2020: $2.4 million) which has subsequently been recognised in the Consolidated Income Statement in Other Underwriting and Acquisition costs $4.5 million (2020: $2.4 million). The LAT deficiency has been recognised in the Consolidated Balance Sheet by a write-down of Deferred Acquisition costs (net of prior year unwind of premium deficiency) of $1.4m (2020: $1.8 million) and the recognition of an Unexpired Risk Liability of $1.3 million (2020: $0.6 million).

2.7 UNEARNED INSURANCE PREMIUM

Unearned insurance premium at the end of the reporting period was as follows:

	2021 $'000	2020 $'000
Unearned insurance premium liabilities		
Opening balance	500,212	457,631
Insurance premiums written during the financial year	1,087,863	1,011,273
Insurance premiums earned during the financial year	(1,047,724)	(968,692)
Closing balance	**540,351**	**500,212**

Accounting policies

(i) **Unearned insurance premium liability**

Premium revenue received or receivable but not earned at the reporting date is recognised as unearned premium liability. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods.

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 2021 is 22.1% (2020: 16.7%) which equates to $52.1 million (2020: $15.7 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 the prescribed capital amount (PCA) in the period and has a trading minimum of 1.62 times the PCA, which is the capital injection trigger point, in accordance with its Internal Capital Adequacy Assessment Process (ICAAP). After each valuation period 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 Company. The reduction in the PCA multiple is a result of the increase in the insurance concentration risk charge following the increase in catastrophe reinsurance retention from 1 July 2021 and a lower capital base.

Level 2 Insurance Group	2021 $'000	2020 $'000
Common Equity Tier 1 capital		
Paid-up ordinary shares	470,890	470,890
Retained earnings brought forward	194,073	156,899
Current year earnings	10,627	46,573
Dividends declared or paid	(37,800)	(9,400)
Excess technical provisions (net of tax)	57,315	58,712
	695,105	**723,674**
Less: Deductions		
Goodwill and other intangible assets	239,095	239,597
Deferred tax asset	18,199	9,138
Common Equity Tier 1 capital	**437,811**	**474,939**
Tier 2 capital		
Subordinated debt	60,000	60,000
Total Tier 2 capital	**60,000**	**60,000**
APRA capital base	**497,811**	**534,939**
Prescribed capital amount (PCA)		
Insurance risk charge	181,196	178,271
Insurance concentration risk charge	50,000	35,000
Asset risk charge	88,039	76,403
Asset concentration risk charge	-	-
Operational risk charge	38,054	36,335
Aggregation benefit	(55,902)	(49,175)
Prescribed capital amount (PCA)	**301,387**	**276,834**
PCA multiple	**1.65**	**1.93**

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

The following table presents the Group's Banking result included in the Consolidated Income Statement.

	2021 $'000	2020 *Restated $'000
Interest income	64,757	69,732
Interest expense	(16,401)	(29,229)
Net interest income	**48,356**	**40,503**
Revenue from contracts with customers	5,679	7,200
Other income	6,287	696
Employee benefits expense	(26,912)	(27,500)
Communication and information technology expenses	(8,827)	(9,092)
Property and related costs	(1,012)	(2,380)
Depreciation and amortisation expense	(684)	(672)
Financial planning remediation write-back (expense)	309	(5,500)
Other expenses	(12,400)	(15,318)
Banking result	**10,784**	**(12,062)**

** Comparative information has been restated as outlined in Note 1.*

Accounting policies

(i) **Interest income and expense**

Interest income and expense on financial assets and liabilities is recognised as interest 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.

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.

(ii) **Revenue from contracts with customers**

Revenue from contracts with customers comprises:

- Fees and commission income 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.
- Financial planning fees consist of commissions and fee-for-service revenue and are earned for providing customers with financial advice and performing related advisory services. These performance obligations are satisfied over time and accordingly revenue is recognised over the length of the agreement with the member.

3.2 LOANS AND ADVANCES

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.

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).

	2021 $'000	2020 $'000
Housing loans	1,972,690	1,917,841
Revolving credit	7,632	7,645
Personal loans	52,145	45,993
Commercial loans	5,084	5,446
Gross loans and advances	**2,037,551**	**1,976,925**
Unamortised loan fees	590	456
Provision for impairment	(3,282)	(3,497)
Net loans and advances	**2,034,859**	**1,973,884**
Current	561,206	431,625
Non-current	1,473,653	1,542,259
Total	**2,034,859**	**1,973,884**

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 2021. Please refer to the *Overview of the ECL principles* section below for the definition of each stage.

Movement in expected credit loss (ECL)

	2021				
$'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 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**

$'000 – ECL	Stage 1 Collective Provision 12-month ECL	2020 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 2019	**943**	**367**	**-**	**355**	**1,665**
Transfer to/(from) Stage 1	126	(126)	-	-	-
Transfer to/(from) Stage 2	(8)	8	-	-	-
Transfer to/(from) Stage 3	(6)	(113)	73	46	-
New and increased provisions (net of releases)	1,733	6	78	176	1,993
Write-offs from specific provisions	-	-	-	(161)	(161)
ECL allowance as at 30 June 2020	**2,788**	**142**	**151**	**416**	**3,497**

Impairment loss on loans and advances

	2021 $'000	2020 $'000
Net collective provision - loans and advances	314	(1,817)
Net specific provision - loans and advances	(178)	(176)
Bad debts recovered - loans and advances	94	81
Impairment of other financial assets	(248)	-
Total impairment loss on loans and advances	**(18)**	**(1,912)**

Impact of COVID-19

The onset of the COVID-19 pandemic in the 2020 financial year directly impacted the ability for some of the Group's members to meet their contractual loan obligations in full. The Group established COVID-19 support packages that provided eligible members a temporary reduction or deferral of loan repayments. These support packages were provided to members who experienced a temporary reduction of income as a result of COVID-19 and who were otherwise up to date with their loan repayments at the onset of COVID-19.

As at 30 June 2020, the Group had 210 loans (balance of $52,860,052 or 2.6% of gross loans and advances) that were subject to ongoing COVID-19 related repayment deferrals.

COVID-19 loan repayment deferral concessions were removed from 31 March 2021, at which point, the Group had five loans still subject to COVID-19 hardship arrangements. As at 30 June 2021, three of these loans (balance of $524,444) are being managed through the Group's pre-existing hardship arrangement process.

The COVID-19 pandemic continues to impact the economy, albeit significantly reduced than in the June quarter of 2020. Government support, combined with strategies to manage and control COVID-19 outbreaks, and now the progressive rollout of vaccines has seen a return to positive economic growth and moderated unemployment, turning toward pre COVID-19 levels. This is despite areas of the country enduring additional lockdown phases.

Notwithstanding that a reasonable degree of overall domestic economic uncertainty remains, a review of the modelling overlays that account for forecasting risk has been performed over the period to 30 June 2021. As a result of this review the COVID-19 overlay has been reduced to nil at 30 June 2021 (2020: $250,000) and the economic overlay, held to account for the forecasting risk associated with the macro-economic scenarios used within the ECL model, has been increased to $421,000 (2020: $236,000).

Recognition and measurement

Overview of the ECL principles

On 1 July 2018, the Group adopted AASB 9 *Financial Instruments* (AASB 9) which introduced 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.

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	Explanation	Considerations at 30 June 2021
Baseline	57.5%	This scenario reflects the base case assumptions used in the Group's planning and forecasting	Reflects the expected outcomes given the current state of economic conditions and COVID-19 considerations at 30 June 2021. The scenario is based on the assumption that the domestic vaccine rollout accelerates in the second half of 2021, allowing the international border to be reopened gradually from early 2022. This scenario assumes that no further large outbreaks nor accompanying extended hard lockdowns occur within Australia, and that restrictions, when imposed, are brief. Key economic forecasts adopted have been calibrated during 2021 taking to account actual outcomes: • Unemployment rate is expected to continue to decline to 5% by the end of 2021 and 4.5% by the end of the 2022. • Annual GDP growth of 4.75% is forecast for 2021 and 3.5% for 2022. • A maintained uplift in Brisbane house prices, increasing between 9%-10% for calendar year 2021.
Upside and downside scenarios	20% each	These scenarios are constructed using a similar shape of the economic cycle to the baseline scenario, however, assume a certain level of improvement / deterioration	Downside – This scenario was derived from the Baseline, assuming the impending vaccine programme is delayed and subsequent extended re-locking down of parts of the economy. The outcome being a delay in the economic recovery and a deterioration in the economic variables. Reflected a recovery stalling until post December 2021, with unemployment rate being 2% unfavourable and annual GDP of 0% until December 2021, then sitting 1% unfavourable to baseline. Peak-to-trough decline of 6% in Brisbane house prices. Upside – This scenario was derived off the Baseline, assuming a faster recovery in GDP, and therefore lower unemployment and higher increases in the house price index (HPI). Unemployment rate and annual change in GDP being 0.5%-1% favourable compared to baseline. Brisbane house prices increasing 13% in CY21.
Severe downturn	2.5%	This scenario has been included to account for a potentially severe impact of less likely, extremely adverse economic conditions.	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. The bank has mirrored these conditions in its own severe downturn scenario.

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 2021 under scenarios where a 100% weighting is applied to that scenario, with all other modelling assumptions remaining constant.

2021	Total ECL under each scenario $'000	Impact compared to probability weighted ECL recognised at 30 June 2021 (pre-tax) $'000
Downturn scenario	2,843	1,517
Upturn scenario	1,194	(132)
Severe downturn scenario	16,984	15,658

3.4 DEPOSITS

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.

	2021 $'000	2020 $'000
Call deposits	1,260,694	962,582
Negotiable certificates of deposit	132,457	178,307
Term deposits	740,980	958,235
Total deposits	**2,134,131**	**2,099,124**
Current	2,114,647	2,054,358
Non-Current	19,484	44,766
Total deposits	**2,134,131**	**2,099,124**

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

3.5 BORROWINGS

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.

	2021 $'000	2020 $'000
Medium Term Notes		
Balance at beginning of financial year	150,166	155,542
Proceeds	-	90,000
Repayments	(30,000)	(95,000)
Net movement in interest accrued	(37)	(376)
Carrying amount at end of financial year	**120,129**	**150,166**
RBA Term Funding Facility		
Balance at beginning of financial year	-	-
Proceeds	96,546	-
Repayments	-	-
Net movement in interest accrued	116	-
Carrying amount at end of financial year	**96,662**	**-**
Total Borrowings	**216,791**	**150,166**
Current	60,245	30,166
Non-current	156,546	120,000
Total Borrowings	**216,791**	**150,166**

3.5.1 BORROWING FACILITIES

	Approved Facility $'000	Amount Drawn $'000	Amount Available $'000
2021			
Overdraft facility	10,000	-	10,000
Medium term notes	500,000	120,129	379,871
Reserve Bank of Australia (internal securitisation)	618,235	96,662	521,633
Of which: Term Funding Facility [(1)]	*97,093*	*96,662*	*431*
	1,128,325	**216,791**	**911,534**
2020			
Overdraft facility	10,000	-	10,000
Medium term notes	500,000	150,166	349,834
Reserve Bank of Australia (internal securitisation)	618,235	-	618,235
Of which: Term Funding Facility	*57,175*	-	*57,175*
	1,128,235	**150,166**	**978,069**

(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 Group did not issue any new MTNs.

Notes to the Financial Statements for the year ended 30 June 2021

Self-securitisation vehicle

The amount of liquidity available from the Group's self-securitisation vehicle at 30 June 2021 was $618,235,000 (2020: $618,235,000). 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 $57,153,541 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 $39,392,822 of available funding that could be drawn from 1 October 2020 through to 30 June 2021.

To access the TFF, the Group must pledge eligible collateral, which includes self-securitised residential mortgage-backed securities issued by the Arrow Funding Trust No. 1. At 30 June 2021, the Group has pledged $114,700,000 of self-securitised residential mortgage-backed securities as collateral.

As at 30 June 2021 the Group has fully drawn on the TFF Initial and Supplementary Allowance.

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 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.

During the year, the Banking Group took advantage of APRA's temporary capital concessions available for loans subject to COVID-19 related repayments deferrals. The Bank elected to treat the period of deferral as not a period of arrears, nor recognise these loans as restructured, for the purpose of calculating credit risk weighted assets.

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

Level 2 Banking Group	2021 $'000	2020 $'000
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	65,500	65,500
General reserves	-	-
Retained earnings	105,549	97,942
Other reserves	21,380	20,559
Common Equity Tier 1 Capital	**192,429**	**184,001**
Less: prescribed deductions	(19,645)	(21,665)
Net Common Equity Tier 1 Capital	**172,784**	**162,336**
Tier 2 Capital		
General reserve for credit losses	3,600	3,400
Less: prescribed deductions	-	-
Net Tier 2 Capital	**3,600**	**3,400**
APRA Capital base	**176,384**	**165,736**
Risk weighted assets	**1,115,582**	**1,048,116**
Tier 1 Capital Ratio	15.5%	15.5%
Tier 2 Capital Ratio	0.3%	0.3%
Total Capital Ratio	**15.8%**	**15.8%**

4. Financial Instruments

4.1 INVESTMENT INCOME

Investment income is comprised of interest income on funds invested, dividend income, realised gains/losses on the disposal of financial assets and changes in the fair value of financial assets held at fair value through profit or loss. Interest income on assets at amortised cost and FVOCI is recognised using the effective interest method. Dividends and distribution income are recognised when the right to receive income is established.

	2021 $'000	2020 $'000
Interest income		
Financial assets at amortised cost	612	1,486
Financial assets at fair value through profit or loss	41,446	42,017
Net gain on disposal of financial assets		
Financial assets at amortised cost	-	66
Financial assets mandatorily held at fair value through profit or loss	16,759	4,677
Net change in fair value of financial assets designated at fair value through profit and loss		
Unrealised losses	(20,090)	(2,072)
Realised losses	(2,056)	(4,501)
Net change in fair value of financial assets mandatorily at fair value through profit and loss		
Trust distribution income and net change in fair value of unit trusts	30,142	(7,282)
Dividend income	4,003	4,393
Total investment income	**70,816**	**38,784**

4.2 FINANCIAL ASSETS

Financial assets are classified as follows:

	2021 $'000	2020 $'000
Amortised cost		
Deposits and bills	99,922	62,118
Deposits with ADIs	445,948	344,355
Mandatorily held at fair value through profit or loss		
Unit trusts	294,161	238,396
Hybrid securities	35,383	23,818
Debt securities	352,247	360,893
Designated at fair value through profit or loss		
Debt securities	1,149,238	1,141,421
Deposits and bills	73,799	65,614
Designated at fair value through OCI		
Equity securities	91,333	68,466
Shares in unlisted equities	13,186	12,909
Total financial assets	2,555,217	2,317,990
Current	539,130	485,052
Non-current	2,016,087	1,832,938
Total financial assets	2,555,217	2,317,990

Accounting policies for financial assets are provided in note 4.6.

4.3 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 vast majority of the investments, the fair value is determined based on observable market data. This measurement basis has not changed as a result of COVID-19.

4.3.1 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
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	**1,795,397**	**13,186**	**2,009,347**
2020				
Financial assets at fair value through profit or loss				
Unit trusts	**-**	**238,396**	**-**	**238,396**
Hybrid securities	23,818	-	-	**23,818**
Debt securities	-	1,502,314	-	**1,502,314**
Deposits and bills	65,614	-	-	**65,614**
Financial assets designated at fair value through OCI				
Equity securities	68,466	-	-	**68,466**
Shares in unlisted entities	-	-	12,909	**12,909**
	157,898	**1,740,710**	**12,909**	**1,911,517**

There were no transfers between the levels of the fair value hierarchy during the year ended 30 June 2021 (2020: nil).

4.3.2 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 analyses them by the level in the fair value hierarchy as defined above into which each instrument is categorised.

	Fair value				
	Level 1	Level 2	Level 3	Total Fair value	Total carrying amount
	$'000	$'000	$'000	$'000	$'000
2021					
Financial Assets					
Financial assets at amortised cost	67,392	478,759	-	**549,671**	545,870
Loans and advances	-	-	2,054,855	**2,054,855**	2,034,859
	67,392	**478,759**	**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)**
2020					
Financial Assets					
Financial assets at amortised cost	52,714	360,172	-	**412,886**	406,473
Loans and advances	-	-	1,990,383	**1,990,383**	1,973,884
	52,714	**360,172**	**1,990,383**	**2,403,269**	**2,380,357**
Financial Liabilities					
Deposits	-	(2,116,396)	-	**(2,116,396)**	(2,099,124)
Borrowings	-	(152,605)	-	**(152,605)**	(150,166)
Redeemable preference shares[1]	-	-	(627)	**(627)**	(627)
	-	**(2,269,001)**	**(627)**	**(2,269,628)**	**(2,249,917)**

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

4.3.3 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.

4.4 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.

4.4.1 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, 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 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.

Response to COVID-19

The COVID-19 pandemic rapidly introduced or elevated a number of risks within the risk management framework. At the onset of the pandemic, the Group implemented its detailed and flexible Pandemic Response Plan, ensuring the business continued to operate, provide a safe environment for employees and members to interact and to support vulnerable members. A COVID-19 Crisis Management Team was established, comprising key members of the RACQ Group Executive to oversee the Group's response to the pandemic.

A number of actions were taken to respond to the pandemic, including:

- Measures to support and protect our employees, both in stores, on premises or working from home;
- Provision of support measures to members financially impacted by COVID-19, including reduced loan repayments and deferrals and waiving certain fees;
- Increased reporting, interaction and engagement with regulators, particularly around operational resilience, liquidity management, capital management and loan deferral arrangements;
- Maintaining sufficient liquidity well above operational limits, to mitigate against the ongoing financial market volatility; and
- Ongoing monitoring of RACQ Bank's lending policies, loan deferrals and loan portfolio performance.

The Boards and Management continue to actively monitor the ongoing impacts of the pandemic and adapt as required.

4.4.2 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
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
	498,879	**1,021,500**	**280,595**	**205,243**	**343,726**	**-**	**-**	**2,349,943**
2020								
Cash and cash equivalents	-	19,328*	-	-	5,486	-	-	24,814
Trade and other receivables								
Insurance premiums receivable	-	-	-	-	246,961	-	-	246,961
Other current trade and other receivables	-	-	-	-	10,254	-	-	10,254
Total current trade and other receivables	**-**	**-**	**-**	**-**	**257,215**	**-**	**-**	**257,215**
Non-current trade and other receivables	**-**	**-**	**-**	**-**	**7,381**	**-**	**-**	**7,381**
Total Trade and other receivables	**-**	**-**	**-**	**-**	**264,596**	**-**	**-**	**264,596**
Reinsurance recoveries receivable	-	30,729	63,244	-	-	-	-	93,973
Other recoveries receivable	63,247	-	-	-	43,114	-	-	106,361
Debt securities	579,809	566,835	177,855	177,815	-	-	-	1,502,314
Deposits and bills	1	100,145	17,217	10,369	-	-	-	127,732
	662,385	**697,709**	**258,316**	**188,184**	**313,196**	**-**	**-**	**2,119,790**

** Certain comparative amounts have been restated to conform to the current year's presentation.*

The carrying amount of the relevant asset classes in the Consolidated Balance Sheet represents the maximum amount of credit exposures as at reporting date.

(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.

(ii) 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 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 the 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. The 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.

The Bank's Credit Committee reviews and implements the CRMS in line with risk appetite limits, monitors the 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 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:

- Established a COVID-19 Hardship Sub-Committee to govern the increase in hardship applications during the onset of the COVID-19 pandemic and monitor the Bank's credit risk profile. The committee oversaw the COVID-19 relief package application and check-in process, monitored application volumes and trends, provided advice and guidance on the operation of the hardship process and governed the additional reporting and capital requirements of APRA; and
- Approved amendments to the Bank's credit policies required due to COVID-19 to ensure maintenance of credit quality during the pandemic.

When the number of members with approved outstanding COVID-19 relief packages diminished significantly, the COVID-19 Hardship Sub-Committee activities were absorbed back into the Bank Credit Committee.

Maximum Credit Risk Exposure

The 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 $2,096,118,000 (2020: $2,026,134,000). In adopting these values as the maximum exposures, this does not take into account 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 take into account the value of financial liabilities that carry a legally recognised right of set-off against certain financial assets.

Notes to the Financial Statements for the year ended 30 June 2021

Credit quality analysis

Loan-to-valuation ratios – Residential mortgage lending

Gross carrying amount	ECL Stage 1	ECL Stage 2	ECL Stage 3	Total
2021	**$'000**	**$'000**	**$'000**	**$'000**
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**
2020				
LVR 0% - 60%	613,948	1,311	297	615,556
LVR 60.01% - 80%	791,544	1,680	1,350	794,574
LVR 80.01% - 90%	266,994	1,171	1,094	269,259
LVR 90.01% - 100%	234,840	464	2,264	237,568
LVR > 100%	625	-	259	884
	1,907,951	**4,626**	**5,264**	**1,917,841**

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:

	2021 $'000	2020 $'000
Performing loans	2,022,993	1,941,715
Past due but not impaired	32,567	34,228
Collective provision for impairment	(2,767)	(3,081)
Net performing and past due loans not impaired	**2,032,793**	**1,972,862**
Gross impaired loans	1,991	982
Specific provision for impairment	(515)	(416)
Net impaired loans	**1,476**	**566**
Unamortised loan fees	590	456
Net loans and advances	**2,034,859**	**1,973,884**

The following table represents an ageing analysis wof 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
2021					
Past due but not impaired	25,755	3,417	2,685	710	**32,567**
2020					
Past due but not impaired	25,563	4,012	4,460	193	**34,228**

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 the Bank's credit policy.

96.8% (2020: 96.9%) 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 mortgages 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:

	2021 $'000	2020 $'000
Loans and advances with collateral	2,022,026	1,959,101
Loans and advances with no collateral	15,525	17,824
Total gross loans and advances	**2,037,551**	**1,976,925**

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.

As at 30 June 2021, the Bank had one loan (2020: nil) classified as mortgagee in possession with a balance of $279,661. The loan was secured by residential property with a fair value of $190,000 and was covered by LMI. A specific provision had also been raised for the loan.

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 the 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.

The Bank holds no significant concentrations of exposures to members.

The Bank has a concentration of loans to members employed in the education industry. This concentration has arisen as the Bank was originally formed to service these members. Loans and advances to members employed in the education industry amounted to $541,842,000 or 27% of gross loans and advances (2020: $577,672,000 or 29%).

All loan and advances are within Australia with the major exposure being to home loans in Queensland, reflecting 98.4% of total home loans (2020: 98.5%). 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 the Bank's Liquidity Management Strategy approved by the 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.

The 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.

The 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	2021 $'000	2020 $'000
ADIs – rated AA- and above	251,565	223,541
ADIs – rated A- and above, but below AA-	204,428	155,727
ADIs – rated BBB- and above, but below A-	42,727	68,336
Total	**498,720**	**447,604**

4.4.3 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.

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 the 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		Over 5 years	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Liabilities														
Deposits	2,134,131	2,099,124	2,142,797	2,113,130	1,397,590	1,174,297	290,599	350,709	433,730	539,488	20,878	48,636	-	-
Lease liabilities	8,143	10,259	8,792	11,069	66	36	744	638	2,389	2,709	4,978	6,640	-	237
Borrowings	216,791	150,166	218,770	153,285	127	134	185	195	60,925	31,184	157,533	121,772	-	-
Redeemable preference shares[1]	610	627	610	627	-	-	-	-	-	-	610	627	-	-
Total Financial Liabilities	**2,359,675**	**2,260,176**	**2,370,969**	**2,278,111**	**1,397,783**	**1,174,467**	**291,528**	**351,542**	**497,044**	**573,381**	**183,999**	**171,675**	**-**	**237**
Unrecognised Items														
Undrawn commitments	329,137	297,282	329,137	297,282	329,137	297,282	-	-	-	-	-	-	-	-

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

4.4.4 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.

If interest rates moved by +/- 1% (2020: +/- 1%) from the year end rates, with all other variables held constant, the surplus after tax for the year would have been $18,500,000 higher/lower (2020: $19,500,000 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 the 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 (2020: 20-day) holding period at 99% (2020: 99%) confidence level for a 1500-day (2020: 1500-day) observation period.

Notes to the Financial Statements for the year ended 30 June 2021

RACQ Bank	2021 $'000	2020 $'000
VaR Exposure at the end of the financial year	962	1,307
Average VaR exposure during the financial year	1,078	1,043

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 2021, RACQ Bank had a single interest rate swap agreement in place with a notional amount of $57,153,541 (2020: nil). 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.

At inception of the hedge relationship, RACQ Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

The table below outlines the key characteristics of the fair value hedge used by RACQ Bank.

Fair value hedge	Description
Objective	The primary objective is to reduce the variability in interest rate risk metrics (namely Earnings at Risk (EAR) and VAR arising from the fixed interest expense on the RBA Term Funding Facility Initial Allowance (TFF IA) balance, due to a movement in short-term interest rates over the life of the borrowing. RACQ Bank also seeks to manage the risk of changes in the fair value of the debt due to changes in short-term interest rates.
Hedged risk	Interest rate risk
Hedging instruments	Receive fixed / pay variable interest rate swap
Hedged item	Fixed interest financial liability (i.e., TFF IA balance)
Economic relationship test	Matched terms
Hedge effectiveness testing	Regression analysis and cumulative dollar offset Hedge ratio 1:1
Potential source of in effectiveness	Sources of ineffectiveness are expected to be minimal and mainly limited to mismatches in terms of the hedged item and the hedging instrument

Recognition and measurement

Interest rate swaps are measured at fair value on the date the contract is entered into and are subsequently measured at fair value. The fair value of interest rate swap contract is determined by reference to movements in one month Bank Bill Swap Rate (BBSW). Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Hedge accounting

RACQ Bank applies hedge accounting to offset the effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. RACQ Bank used a single interest rate swap to protect against such fluctuations. For the purpose of hedge accounting this derivative is classified as a fair value hedge.

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the Consolidated Income Statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised or, the hedge relationship is revoked, then hedge accounting is discontinued prospectively. The hedged item is accounted for under the effective interest method from that point and any accumulated adjustment to the carrying value of the hedged item from when it was effective is released to profit or loss over the period to when the hedged item will mature

(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% from the 30 June 2021 indexes, with all other variables held constant, would result in equity reserves increased/decreased by $2,306,807 (2020: $1,832,710) after tax.

4.5 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.

Entities within the group are subject to externally imposed capital requirements as set by APRA. Refer to note 2.9 for Insurance and note 3.6 for Banking capital management.

4.6 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. Refer to the accounting policies in note 6.1 for Revenue from contracts with customers.

In order 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 and bills)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses 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 OCI (equity instruments)

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 other comprehensive income and presented within equity in the investment revaluation reserve. Dividends are recognised as investment income in the Consolidated Income Statement 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 Consolidated Income Statement.

(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) Cash and cash equivalents

Cash and cash equivalents include restricted balances of $45,578,259 (2020: $73,635,718) 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.

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.

(vi) 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 customers.

(vii) 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

(i) 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.

4.7 ACCOUNTING POLICIES FOR RESERVES

(i) General reserve for credit losses

The Group is required by APRA to maintain a general reserve for credit losses (GRCL) in accordance with APRA Prudential Standard APS 220 *Credit Quality*. The GRCL safeguards against potential expected losses that may occur across the loan portfolios. Movements in the GRCL are recognised as an appropriation of retained earnings.

(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.

Notes to the Financial Statements for the year ended 30 June 2021

5. Other assets and liabilities

5.1 PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings and leasehold improvements	Plant and equipment	Capital works in progress	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
Balance at 1 July 2019	19,681	83,908	121,733	2,160	**227,482**
Additions	-	-	-	17,719	**17,719**
Disposals	-	(151)	(28,325)	-	**(28,476)**
Effect of adoption of AASB 16 *Leases*	-	-	(2,449)	-	**(2,449)**
Acquisition through a business combination	3,850	3,450	55	-	**7,355**
Transfer from capital works in progress	-	-	17,017	(17,017)	**-**
Balance at 30 June 2020	**23,531**	**87,207**	**108,031**	**2,862**	**221,631**
Additions	-	-	-	12,348	**12,348**
Disposals	(2,155)	(2,004)	(15,163)	-	**(19,322)**
Transfer from capital works in progress			12,649	(12,649)	**-**
Balance at 30 June 2021	**21,376**	**85,203**	**105,517**	**2,561**	**214,657**
Depreciation					
Balance at 1 July 2019	-	(14,325)	(60,648)	-	**(74,973)**
Depreciation	-	(2,191)	(13,022)	-	**(15,213)**
Disposals	-	11	25,385	-	**25,397**
Effect of adoption of AASB 16 *Leases*	-	-	1,119	-	**1,119**
Balance at 30 June 2020	**-**	**(16,505)**	**(47,166)**	**-**	**(63,671)**
Depreciation	-	(2,195)	(13,398)		**(15,593)**
Disposals	-	932	12,981	-	**13,913**
Balance at 30 June 2021	**-**	**(17,768)**	**(47,583)**	**-**	**(65,351)**
Net book value					
As at 30 June 2020	**23,531**	**70,702**	**60,865**	**2,862**	**157,960**
As at 30 June 2021	**21,376**	**67,435**	**57,934**	**2,561**	**149,306**

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. The depreciation rates used for each class of asset in the current and comparative periods are as follows:

Category	Useful life
Buildings and leasehold improvements	40 years or lease term, if shorter
Plant and equipment	2.5 - 25 years

(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 $'000	Customer relationships $'000	Core deposits $'000	Outstanding claims fair value adjustment $'000	Software $'000	Software Development costs $'000	Total $'000
Cost							
Balance at 1 July 2019*	248,460	38,660	4,800	48,962	240,158	19,454	**600,494**
Additions*	-	-	-	-	-	19,349	**19,349**
Acquisition through a business combination	1,733	-	-	-	-	-	**1,733**
Disposals	(643)	(77)	-	-	(4,947)	-	**(5,667)**
Transfer from capital works in progress*	-	-	-	-	21,766	(21,766)	-
Balance as at 30 June 2020*	**249,550**	**38,583**	**4,800**	**48,962**	**256,977**	**17,037**	**615,909**
Additions	-	-	-	-	-	5,037	**5,037**
Disposals	-	-	-	-	(129,059)	-	**(129,059)**
Transfer from capital works in progress	-	-	-	-	20,984	(20,984)	-
Balance at 30 June 2021	**249,550**	**38,583**	**4,800**	**48,962**	**148,902**	**1,090**	**491,887**
Amortisation and impairment loss							
Balance at 1 July 2019	(1,202)	(37,550)	(4,603)	(47,290)	(195,535)	-	**(286,180)**
Amortisation*	-	(681)	(68)	(447)	(26,748)	-	**(27,944)**
Disposals	-	78	-	-	3,153	-	**3,231**
Impairment loss	(6,592)	-	-	-	-	-	**(6,592)**
Balance at 30 June 2020	**(7,794)**	**(38,153)**	**(4,671)**	**(47,737)**	**(219,130)**	**-**	**(317,485)**
Amortisation	-	(288)	(51)	(335)	(19,468)	-	**(20,142)**
Disposals	-	-	-	-	129,059	-	**129,059**
Balance at 30 June 2021	**(7,794)**	**(38,441)**	**(4,722)**	**(48,072)**	**(109,539)**	**-**	**(208,568)**
Net book value							
As at 30 June 2020*	**241,756**	**430**	**129**	**1,225**	**37,847**	**17,037**	**298,424**
As at 30 June 2021	**241,756**	**142**	**78**	**890**	**39,363**	**1,090**	**283,319**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1.*

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:

	2021 $'000	2020 $'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 to sell and value in use. Value in use is 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 surplus. 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 2021, no impairment of goodwill has been recognised. In the prior financial period, the Group fully impaired the goodwill in the Banking CGU amounting to $6,592,000.

General insurance

The recoverable amount of the Insurance CGU has been determined on a value in use basis. The cash flow forecasts used in the value in use assessment were derived from financial forecasts for FY22-FY24 approved by the Board of Directors, and projected for FY25-FY26. The value in use 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		Budgeted EBITDA growth rate (average)	
	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %
General Insurance	8.75	9.25	2.5	2.5	28.0	38.3

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 17.6% at a market interest rate of 4.0%. 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 budgeted growth rates include key assumptions for changes in gross earned premium, net incurred claims and operating expenses and is based on past experience, with adjustments where future activities are expected to differ materially from past performance. The pre-tax equivalent discount rate is 12.23% (2020: 12.79%).

The estimated recoverable amount of the Insurance CGU exceeded its carrying amount by approximately $80.8 million. A reasonably possible change in the following two key assumptions could cause the carrying amount of the Insurance CGU to exceed its recoverable amount. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

Change required for carrying amount to equal recoverable amount	2021 %
Discount rate (post-tax)	+0.75
Budgeted EBITDA growth rate (average)	(2.5)

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. The amortisation basis used for each class of asset for the current and comparative periods are as follows:

Category	Basis	Useful life
Software and licensing costs	Straight line	3 - 10 years
Customer relationships	Discounted cash flow	4 - 10 years
Net fair value of claims reserve	Claims run-off	19 years
Core deposits	Discounted cash flow	9 years
Glass Assist brand name	Relief from Royalty method	15 years

Amortisation methods, useful lives and residual values are reassessed at each reporting date. In the current year, a review of software identified certain intangible assets that were likely to be replaced in the near future and a reduction in their useful life was processed accordingly. This resulted in accelerated amortisation expense of $3,671,001 (2020: $9,519,323).

5.3 EMPLOYEE BENEFITS

5.3.1 EMPLOYEE BENEFITS EXPENSE

	2021 $'000	2020 $'000
Wages and salaries	158,681	161,848
Defined contribution superannuation expenses	18,105	18,725
Expense related to defined benefits superannuation funds	184	155
	176,970	**180,728**

5.3.2 EMPLOYEE BENEFITS LIABILITIES

	2021 $'000	2020 $'000
Wages and salaries accrued	742	4,022
Incentive accrual	10,915	10,779
Liability for annual leave	15,049	13,533
Liability for long service leave	16,742	17,860
	43,448	**46,194**
Current	37,430	39,326
Non-current	6,018	6,868
Total	**43,448**	**46,194**

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:

	2021 $	2020 $
Short-term employee benefits	8,183,066	8,132,262
Post-employment benefits	373,290	392,388
Other long-term benefits	736,835	1,472,889
Termination benefits	375,662	929,866
	9,668,853	**10,927,405**

5.4.2 DIRECTOR COMPENSATION

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

A full review of director remuneration within the RACQ Group was undertaken during FY21, utilising an external consultant to assess the philosophy and structure of director fees of RACQ. Taking into consideration the complexity, risk and size of the Company and its subsidiary boards, a redistribution of director fees occurred with no overall net increase to the Company.

Following the review, non-executive directors of the Company received the following remuneration and benefits for their service as directors:

- As of 1 July 2020 to 31 December 2020:
  - directors received $130,073 per annum;
  - directors of the Company who were also directors of RACQ Insurance Limited (RACQ Insurance) received $33,764 per annum; and
  - directors of the Company who were also directors of Members Banking Group Limited (RACQ Bank) received $22,970 per annum.
- From 1 January 2021:
  - directors receive $90,000 per annum;
  - directors of the Company who are also directors of RACQ Insurance receive $66,000 per annum; and
  - directors of the Company who are also directors of RACQ Bank receive $31,000 per annum.

Additional fees are paid by the Company, RACQ Insurance and RACQ Bank for committee and Chairman responsibilities.

The Royal Automobile Club of Queensland Limited	2021 $	2020 $
Elizabeth Jameson (Appointed Chairman 17 November 2020)	198,517	136,357
Annabel Dolphin	141,811	146,657
Anthony Gambling	115,161	126,748
John Minz	124,246	97,366
Andrew Moore (Appointed 1 January 2020)	115,161	59,150
Bronwyn Morris (Ceased as Chairman 16 November 2020)	176,376	274,400
Karl Morris (Ceased 19 November 2019)	-	55,197
Leona Murphy	133,612	138,969
	1,004,884	**1,034,844**

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

The directors of RACQ Insurance are also directors of Club Insurance Holdings Pty Limited and the directors of RACQ Bank are also directors of Club Finance Holdings Limited. Directors are not separately remunerated for their services to these and other subsidiaries within the RACQ Group.

(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. 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 2021 was $471,916 (2020: $319,460).

Directors of RACQ Insurance who are not a director of the Company receive $112,545 per annum (2020: $112,545), with additional fees for committee responsibilities.

During the year, non-executive directors received the following fees for their service as directors of RACQ Insurance Limited.

RACQ Insurance Limited	2021 $	2020 $
Elizabeth Jameson (Appointed Chairman 17 November 2020)	90,144	46,068
Annabel Dolphin	55,007	36,458
Anthony Gambling	68,332	48,951
*Andrew Kearnan (Appointed 24 May 2021)	12,058	-
John Minz	64,092	40,892
Andrew Moore (Appointed 1 January 2020)	55,007	17,014
Bronwyn Morris (Ceased as Chairman 16 November 2020)	65,877	63,324
Karl Morris (Ceased 19 November 2019)	-	12,997
Leona Murphy	73,457	53,756
*Vyn Tozer	143,295	134,339
	627,269	**453,799**

** These directors are not members of the Company board.*

There were no other benefits received by directors during the year to June 2021 (2020: 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. 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 2021 was $296,382 (2020: $328,316).

Directors of RACQ Bank who are not a director of the Company receive $76,568 per annum (2020: $76,568), with additional fees for committee responsibilities.

During the year, non-executive directors received the following fees for their service as directors of RACQ Bank.

Members Banking Group Limited	2021 $	2020 $
Elizabeth Jameson (Appointed Chairman 17 November 2020)	49,761	35,949
Annabel Dolphin	32,110	26,339
Anthony Gambling	32,110	26,339
John Minz	41,195	80,555
Andrew Moore	58,760	74,617
Bronwyn Morris (Ceased as Chairman 16 November 2020)	45,211	34,273
Karl Morris (Ceased 19 November 2019)	-	19,100
Leona Murphy	37,235	31,144
	296,382	**328,316**

There were no other benefits received by directors during the year to June 2021 (2020: 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 2021:

	2021 $	2020 $
The aggregate gross carrying amount of loans	3,004,908	2,179,053
The aggregate amount of revolving and other credit facilities (including redraws) available	2,306,158	1,625,307
Provision for impairment	(2,972)	(883)
Interest earned on loans and revolving credit facilities during the year	30,656	77,521

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 2021:

	2021 $	2020 $
The aggregate carrying amount of deposits	941,447	856,132
Total interest paid on these deposits during the year	4,104	15,473

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)	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Provision of services				
Joint venture	(382)	(1,291)	69	24
Associates	(54)	(115)	-	-
Other related parties	-	-	6,808	7,381
Purchase of services				
Joint venture	137	561	-	-
Associates	247	218	-	-
Other related parties	5,112	4,848	-	(154)
Capital contribution to associates	-	-	(1,000)	-
Dividend income from associates	(2,955)	(555)	-	-
Interest income from other related parties	(144)	(230)	12	13

The Group holds a 33.3% interest in Australian Club Consortium Pty Ltd which wholly owns ACC CAD Pty Ltd. ACC CAD Pty Ltd has entered into several agreements with third party suppliers under which ACC CAD Pty Ltd 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 Pty Ltd and each participating automobile club, each participant is required to enter into a user agreement with ACC CAD Pty Ltd in respect of the use of CARS. Shareholder loan agreements are in place to provide funding to ACC CAD Pty Ltd. 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).

Up until 22 December 2020, the Group held a 30% interest in Madrah Pty Ltd (trading as Blackbooks) which is an automation consulting company that specialises in artificial intelligence and intelligent RPA. RACQ had entered into various commercial contracts for the provision of consulting services focusing on artificial intelligence support. These transactions were all carried out under normal commercial terms. The Group exited its equity investment by way of share buyback on 22 December 2020.

The Group entered into 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 and is in place for 5 years. The transactions are charged under normal commercial terms.

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

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 expense are:

	2021 $'000	2020 *Restated $'000
Recognised in surplus		
Current tax		
Current income tax	16,312	23,339
Adjustments in respect of current income tax of previous year	(53)	(642)
	16,259	**22,697**
Deferred tax		
Origination and reversal of temporary differences	3,967	(13,747)
Total income tax expense	**20,226**	**8,950**
Deferred tax recognised directly in equity		
Relating to re-measurement of defined benefit plan	210	(88)
Purchase of controlling interest in subsidiary	-	(13)
Relating to investment securities designated at FVOCI	6,212	(2,132)
Total income tax expense (benefit) recognised directly in accumulated funds	**6,422**	**(2,233)**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1.*

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:

	2021 $'000	2020 *Restated $'000
Prima facie tax expense calculated at 30% (2020: 30%) on operating surplus before tax	23,021	6,137
Adjust for tax effect of:		
- Non-deductible expenses	384	5,313
- Non-assessable income	(1)	(20)
- Tax offset for franked dividends	(1,039)	(1,369)
- Foreign income tax offsets	(363)	(5)
- Recognition of DTA not previously brought to account	(1,615)	-
- Prior year over provision	(161)	(1,106)
Income tax expense on operating surplus	**20,226**	**8,950**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1.*

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 if there is a legally enforceable right to offset.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2021 $'000	2020 *Restated $'000	2021 $'000	2020 *Restated $'000	2021 $'000	2020 *Restated $'000
Property, plant and equipment and Intangibles	11,985	10,047	(907)	(858)	11,078	9,189
Accruals	3,731	3,069	-	-	3,731	3,069
Acquisition adjustment	287	1,211	(313)	(507)	(26)	704
Financial assets	492	593	(24,581)	(16,385)	(24,089)	(15,792)
Right-of-use assets	-	-	(2,445)	(3,046)	(2,445)	(3,046)
Claims handling costs on outstanding claims	21,013	17,643	-	-	21,013	17,643
Employee benefits	9,537	9,678	-	-	9,537	9,678
Provisions	3,296	3,732	-	-	3,296	3,732
Lease liability	2,046	2,927	-	-	2,046	2,927
Other items	3,327	2,751	(133)	(192)	3,194	2,559
Tax offsets carried forward	5,037	8,650	-	-	5,037	8,650
Tax losses recognised	11,886	15,334	-	-	11,886	15,334
Tax assets / (liabilities)	**72,637**	**75,635**	**(28,379)**	**(20,988)**	**44,258**	**54,647**
Set off of tax	(17,629)	(15,335)	17,629	15,335	-	-
Net tax assets / (liabilities)	**55,008**	**60,300**	**(10,750)**	**(5,653)**	**44,258**	**54,647**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1.*

6. Other notes

6.1 REVENUE FROM CONTRACTS WITH CUSTOMERS

6.1.1 DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	2021 $'000	2020 $'000
Revenue from sale of goods	39,443	39,680
Revenue from assistance activities	180,645	177,698
Trade towing revenue	8,221	7,170
Rental revenue	3,837	4,077
Advertising revenue	1,398	2,723
Other fee and commission revenue	23,245	12,600
Total	**256,789**	**234,948**
Timing of revenue recognition		
At a point in time	60,333	64,687
Over time	196,456	179,261
Total	**256,789**	**234,948**

Revenues from external customers 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 CUSTOMERS

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

	2021 $'000	2020 $'000
Trade and other Receivables	9,344	7,946
Expected credit loss	(116)	(116)
Net trade and other receivables	**9,228**	**7,830**
Contract liabilities	(83,833)	(85,779)

Revenue from contracts with customers - 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.

	2021 $'000	2020 $'000
Revenue recognised in the current period that was included in the contract liability balance at the beginning of the period		
Assistance activities	85,779	83,653

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

	Note	2021 $'000	2020 *Restated $'000
Advertising and Sponsorship		1,921	2,157
Bank fees		3,986	5,120
Contractor and Consulting		17,706	12,410
Donations		8,009	7,548
Impairment of intangibles	5.2	-	6,592
Marketing, research and development		15,831	21,214
Motor vehicle expenses		3,137	2,975
Other fee and commission expense		5,623	5,876
Subscriptions and printing		2,814	2,553
Travel accommodation and entertainment		565	1,670
Remediation expense		1,074	5,500
Restructure expense (release)		(261)	5,000
Other expenses		650	4,823
Total other expenses		**61,055**	**83,438**

** Comparative information has been restated as outlined in Note 1.*

6.3 PROVISIONS AND CONTINGENT LIABILITIES

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.

The Group has recognised the following provisions:

	Restructure provision $'000	Financial planning remediation provision $'000	Other provisions $'000	Total $'000
Balance at the beginning of the financial year	**5,000**	**644**	**-**	**5,644**
Additions	838	-	1,324	2,162
Provisions used during the year	(4,739)	(335)	-	(5,074)
Release of provision	(261)	(309)	-	(570)
Balance at the end of the financial year	**838**	**-**	**1,324**	**2,162**
Current	838	-	1,324	2,162
Non-current	-	-	-	-

Restructure provision

The provision relates to minor departmental restructure activities that have been announced in June 2021. The provision will be fully utilised over the next financial year.

Financial Planning remediation provision

In December 2017, the Australian Government established a Royal Commission to review the Banking, Superannuation and Financial Services Industry (the Royal Commission). One issue that was highlighted during the Royal Commission was the charging of ongoing service fees by financial advice providers, in circumstances where the client did not receive all of the services that they paid for. Like others within the financial planning industry, this issue applies to the RACQ Group's subsidiary RACQ Financial Planning Pty Ltd (Financial Planning).

The Group established a member-focused remediation program to identify and compensate Financial Planning clients who were charged an ongoing service fee without the provision of all of the services they were entitled to receive or where RACQ was not able to demonstrate the provision of those services. This involved a review of fee arrangements primarily relating to the period when the Financial Planning business was part of Queensland Teachers Mutual Bank which merged with RACQ in 2016. The remediation program for Financial Planning is now complete.

6.4 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2021 $'000	2020 *Restated $'000
Surplus for the year	**56,512**	**11,506**
Add (less) items classified as investing activities		
(Gain) loss on disposal of business assets	(9,503)	3,647
Investment (income) losses	(28,758)	4,120
Investment interest income	(42,058)	(43,503)
Rental income	(2,497)	(3,025)
Add (less) non-cash items		
Impairment loss on intangibles	-	6,592
Impairment loss on loans and advances	18	1,912
Impairment loss on joint venture	-	2,582
Depreciation and amortisation expense	39,745	47,551
Share of profit of equity accounted for investments	(2,658)	-
Net defined benefit cost recognised in income statement	(25)	117
Net cash provided by operating activities before change in net assets and liabilities	**10,776**	**31,499**
Changes in operating assets and liabilities		
Trade and other receivables	(16,861)	(6,498)
Reinsurance and other recoveries receivable	(173,731)	(3,168)
Loans and advances	(60,975)	(226,933)
Deferred reinsurance assets	(44,637)	(2,566)
Other assets	2,712	(6,311)
Deferred acquisition costs	4,205	(7,310)
Contract liability	(1,946)	2,125
Unearned revenue	40,139	42,581
Trade and other payables	26,750	21,725
Deposits	34,998	307,745
Outstanding claims liability	210,834	78,894
Provision for employee benefits	(2,746)	130
Deferred tax balances	3,871	(16,443)
Income tax receivable	(2,776)	7,530
Provisions	(3,482)	607
Net cash provided by operating activities	**27,131**	**223,607**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1.*

Notes to the Financial Statements for the year ended 30 June 2021

6.5 LEASES

Accounting policies

Recognition and measurement

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease and when the underlying asset is available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

- Buildings 1 to 7 years
- Plant & Equipment 1 to 5 years

The right-of use assets are also subject to impairment.

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Right-of-use lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of plant and equipment where those leases have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue from contracts with customers in the surplus due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Application

The Group has lease contracts for various motor vehicles and other equipment used in its operations. Motor vehicles and other equipment generally have lease terms between 3 and 5 years.

The Group has entered into commercial leases on certain properties expiring at various times up to 10 years from reporting date. The leases have varying terms, options and rent renewals but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate (IBR) is used. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Set out below are the carrying amounts of the right-of-use assets recognised and the movements during the period:

	Buildings $'000	Plant and equipment $'000	Total $'000
As at 1 July 2019 (adoption of AASB 16 *Leases*)	9,335	831	10,166
Additions	3,840	333	4,173
Depreciation expense	(3,863)	(324)	(4,187)
As at 30 June 2020	9,312	840	10,152
Additions	2,062	-	2,062
Depreciation expense	(3,729)	(287)	(4,016)
Disposals	-	(49)	(49)
As at 30 June 2021	7,645	504	8,149

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	Buildings $'000	Plant and equipment $'000	Total $'000
As at 1 July 2019 (adoption of AASB 16 *Leases*)	9,984	741	10,725
Additions	3,687	333	4,020
Accretion of interest	331	24	355
Payments	(4,330)	(511)	(4,841)
As at 30 June 2020	9,672	587	10,259
Additions	769	-	769
Accretion of interest	258	18	276
Payments	(2,848)	(313)	(3,161)
As at 30 June 2021	7,851	292	8,143
2020			
Current	3,083	300	3,383
Non-current	6,589	287	6,876
Total lease liabilities	9,672	587	10,259
2021			
Current	2,904	262	3,166
Non-current	4,947	30	4,977
Total lease liabilities	7,851	292	8,143

The maturity analysis of lease liabilities is disclosed in Note 4.4.3.

The following are the amounts recognised in the Consolidated Income Statement:

	2021 $'000	2020 $'000
Depreciation expense of right-of-use assets	4,014	4,187
Interest expense on lease liabilities (included in other expenses)	276	355
Expense relating to short-term leases (included in other expenses)	140	443
Expense relating to leases of low-value assets (included in other expenses)	76	495
Total amount recognised in Consolidated Income Statement	**4,506**	**5,480**

Future minimum rentals receivable under non-cancellable operating leases not brought to account in the financial statements as at 30 June are as follows:

	<1 Year $'000	1-5 Years $'000	5+ Years $'000	Total $'000
2021				
Operating lease revenue as lessor	2,164	3,529	1,111	6,804
2020				
Operating lease revenue as lessor	2,010	2,946	1,486	6,442

During the year ended 30 June 2021 minimum operating lease receipts of $2,496,688 were recognised (2020: $3,025,184).

6.6 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
2021				
Capital commitments	1,140	-	-	1,140
2020				
Capital commitments	8,489	-	-	8,489

The above capital commitments only reflect the value of third-party contractual agreements in place as at 30 June 2021. 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 2021, the outstanding committed capital investment is $10.9m.

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:

	2021 $'000	2020 $'000
Loans approved but not funded	58,567	49,209
Undrawn overdraft and line of credit facilities	75,472	80,042
Amounts available for redraw	191,536	164,469
Guarantees	3,562	3,562
Total	**329,137**	**297,282**

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 (2020: $3.52 million) to the State of Queensland as support for capital improvements to be completed at the RACQ Mobility Centre of Excellence.

6.7 AUDITOR'S REMUNERATION

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

	2021 $	2020 $
Audit services:		
Audit of the financial report	636,776	745,692
Other regulatory audit services	215,651	251,166
Total audit services	**852,427**	**996,858**
Audit related services:		
Other assurance services	203,182	4,120
Total audit related services	**203,182**	**4,120**
Other services:		
Taxation compliance services	-	2,000
Other services	137,682	232,509
Total other services	**137,682**	**234,509**
Total auditor's remuneration	**1,193,291**	**1,235,487**

6.8 GROUP STRUCTURE

6.8.1 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 $3,537,798 (2020: $3,781,656).

The Royal Automobile Club of Queensland Limited	2021 $'000	2020 $'000
Surplus for the year	3,878	10,550
Other comprehensive income	-	-
Total comprehensive income/(loss) for the year	**3,878**	**10,550**

The Royal Automobile Club of Queensland Limited	2021 $'000	2020 *Restated $'000
Financial position of the Company:		
Current assets	682,260	677,906
Total assets	1,004,756	1,007,298
Current liabilities	306,424	312,844
Total liabilities	306,424	312,844
Total accumulated funds of the Company comprising of:		
Reserves	166,467	166,467
Retained surplus	531,865	527,987
Total accumulated funds	**698,332**	**694,454**

** Comparative information has been restated to conform to current year presentation as detailed in Note 1.*

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 6.8.2 and 6.8.3.

Notes to the Financial Statements for the year ended 30 June 2021

Parent entity commitments and contingent liabilities

The Royal Automobile Club of Queensland Limited	2021 $'000	2020 $'000
Operating lease commitments as lessor		
Within one year	3,676	4,583
Between one but not more than 5 years	9,812	13,892
More than 5 years	7,931	16,074
Total	**21,419**	**34,549**

There are no parent entity contingent liabilities (2020: none).

6.8.2 CONTROLLED ENTITIES

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

	Interest held 2021 %	Interest held 2020 %
RACQ Operations Pty Ltd[1]	100	100
The Road Ahead Publishing Co Pty Ltd [1,2]	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	75	75
Hug Insurance Pty Ltd	75	75
Basecamp Innovations Pty Ltd	75	75
RACQ Investments No.2 Pty Ltd[1]	100	100
Club Insurance Holdings Pty Ltd [3]	100	100
RACQ Insurance Limited	100	100
Club Finance Holdings Limited [4]	100	100
Members Banking Group Limited	100	100
RACQ Financial Planning Pty Ltd	100	100
Arrow Funding Trust	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 6.8.3.
2 Company was voluntarily deregistered on 4 August 2021.
3 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.
4 10% of the redeemable preference shares in Club Finance Holdings are held by 60,928 legacy shareholders in Members Banking Group Limited.

Sale of Financial Planning Business

On 6 May 2021, RACQ Bank announced it had entered into a Business Transfer Agreement with Bridges Financial Services Group to sell the financial planning business of its wholly owned subsidiary, RACQ Financial Planning Pty Ltd.

The agreement followed a strategic review of RACQ Bank's financial planning business and was consistent with RACQ Bank's intention to focus on its core banking operations for members. This is now a discontinued operation.

The agreement included transfer of the Funds Under Advice (FUA) business and related employees of the financial planning business. The sale transaction was completed on 18 June 2021.

Summary of proceeds and financial impact of transaction

The total pre-adjustment purchase price receivable from the sale was $2.7 million. This included the first payment of $1.9 million less the value of adjustable accrued employee entitlements for transferring employees to be received on completion date. The first payment received on 18 June 2021 was $1.83 million and was recognised as other income in the Consolidated Income Statement.

6.8.3 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 6.8.2 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 Income Statement for the year ended 30 June 2021

	Consolidated parties to the Deed	
	2021	2020 *Restated
	$'000	$'000
Revenue		
Revenue from contracts with customers	415,634	429,418
Investment income	91,816	11,649
Total Revenue	**507,450**	**441,067**
Expenses		
Employee benefits expense	(240,084)	(240,185)
Payments to contractors for assistance services	(72,770)	(68,067)
Communication and information technology expenses	(10,982)	(10,901)
Depreciation and amortisation expense	(37,884)	(44,970)
Property and related occupancy costs	(6,614)	(7,553)
Other expenses	(65,487)	(84,683)
Total expenses	**(433,821)**	**(456,359)**
Share of profit of equity-accounted investments in associates	2,658	285
Gain on sale of property, plant and equipment	8,005	-
Gain on acquisition of controlling interest	-	775
Impairment of joint venture	-	(2,581)
Surplus/(loss) before income tax	**84,292**	**(16,813)**
Income tax benefit/(expense)	(11,496)	5,453
Surplus/(Loss) for the year	**72,796**	**(11,360)**

Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ended 30 June 2021

Surplus for the year	**72,796**	**(11,360)**
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gains	699	(293)
Net change in fair value of financial assets designated at fair value through OCI	15,837	(8,403)
Net change in fair value of OCI financial assets sold	3,908	1,328
Income tax benefit/(expense)	(6,070)	2,210
Total items that will not be reclassified to profit or loss	**14,374**	**(5,158)**
Total other comprehensive income/(loss) for the year, net of income tax	**14,374**	**(5,158)**
Total comprehensive income/(loss) for the year	**87,170**	**(16,518)**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1.*

Consolidated Balance Sheet as at 30 June 2021

	Consolidated parties to the Deed	
	2021	2020 *Restated
	$'000	$'000
Assets		
Cash and cash equivalents	12,502	15,962
Trade and other receivables	99,028	127,803
Financial assets	1,352,164	863,647
Property, plant and equipment	138,306	148,386
Right of use assets	7,360	8,420
Deferred tax assets	18,138	33,510
Intangible assets	40,229	54,658
Other assets	32,052	31,205
Current tax receivable	1,797	-
Total assets	**1,701,576**	**1,283,591**
Liabilities		
Trade and other payables	56,799	261,677
Restructure provision	313	5,000
Contract liability	83,833	85,779
Current tax payable	-	2,357
Employee benefits	43,973	46,188
Lease liability	7,513	8,634
Total liabilities	**192,431**	**409,635**
Net assets	**1,509,145**	**873,956**
Accumulated funds		
Retained surplus	350,888	170,389
Reserves	1,158,256	703,567
Total accumulated funds	**1,509,144**	**873,956**

** Comparative information has been restated to reflect a change in a significant accounting policy as outlined in Note 6.9.1.*

6.9 CHANGES TO SIGNIFICANT ACCOUNTING POLICY

6.9.1 SOFTWARE-AS-A-SERVICE ARRANGEMENTS

The International Financial Reporting Standards Interpretations Committee (IFRIC) has issued two final agenda decisions which impact Software-as-a-Service (SaaS) arrangements:

- *Customer's right to receive access to the supplier's software hosted on the cloud* (March 2019) – this decision considers whether a customer receives a software asset at the contract commencement date or a service over the contract term.
- *Configuration or customisation costs in a cloud computing arrangement* (April 2021) – this decision discusses whether configuration or customisation expenditure relating to SaaS arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The Group's accounting policy has historically been to capitalise all eligible costs related to SaaS arrangements as intangible assets in the Balance Sheet. The adoption of the above agenda decisions has resulted in a reclassification of a portion of these intangible assets to either a prepaid asset in the Balance Sheet and/or recognition as an expense in the Consolidated Income Statement, impacting both the current and prior periods presented.

Impact of change in accounting policy

For the current year, $5.9 million (pre-tax) of costs that would previously have been capitalised (under the previous policy) were expensed. Cash outflows of $5.9 million were included in payments to suppliers and employees in the Statement of cash flows that previously would have been included as payments for intangible assets.

The change in policy has been retrospectively applied and comparative financial information has been restated, as follows:

	30 June 2020		
$'000	As previously reported	Adjustments	As restated
Consolidated Balance Sheet			
Assets			
Other assets	28,053	7,011	35,064
Deferred tax assets	53,384	1,263	54,647
Intangible assets	309,643	(11,219)	298,424
Total assets	**5,485,656**	**(2,945)**	**5,482,711**
Net assets	**1,449,358**	**(2,945)**	**1,446,413**
Retained surplus	1,420,583	(2,945)	1,417,638
Total accumulated funds	**1,449,358**	**(2,945)**	**1,446,413**

	30 June 2020		
	Retained Surplus - attributable to members		
$'000	As previously reported	Adjustments	As restated
Consolidated Statement of Changes in Accumulated Funds			
As at 30 June 2019	**1,406,844**	**(1,514)**	**1,405,330**
Surplus for the year	**13,415**	**(1,431)**	**11,984**
Total comprehensive income for the year	**14,139**	**(1,431)**	**12,708**
As at 30 June 2020	**1,420,583**	**(2,945)**	**1,417,638**

Notes to the Financial Statements for the year ended 30 June 2021

	30 June 2020		
$'000	As previously reported	Adjustments	As restated
Consolidated Income Statement			
Communication and information technology expenses	(60,866)	(2,043)	(62,909)
Total expenses	**(1,453,654)**	**(2,043)**	**(1,455,697)**
Surplus before income tax	**22,499**	**(2,043)**	**20,456**
Income tax expense	(9,562)	612	(8,950)
Surplus after tax	**12,937**	**(1,431)**	**11,506**
Surplus attributable to:			
Members	13,415	(1,431)	11,984
Consolidated Statement of Comprehensive Income			
Surplus for the year	**12,937**	**(1,431)**	**11,506**
Total comprehensive income for the year	**7,756**	**(1,431)**	**6,325**
Total comprehensive income attributable to:			
Members	8,234	(1,431)	6,803

	30 June 2020		
$'000	As previously reported	Adjustments	As restated
Consolidated Statement of Cash Flows			
Payments to suppliers and employees	**(438,905)**	**(7,301)**	**(446,206)**
Net cash provided by operating activities	**230,908**	**(7,301)**	**223,607**
Payments for intangible assets	**(28,629)**	**7,301**	**(21,328)**
Net cash flows from investing activities	**(141,126)**	**7,301**	**(133,825)**

6.10 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 85, 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 2021 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 6.8.2 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
Chair
16 September 2021

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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 2021, the consolidated income statement, 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 consolidated financial position of the Group as at 30 June 2021 and of its consolidated 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 Group 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 this 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.

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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.

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- 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

Ernst & Young

Alison de Groot
Partner
Brisbane
16 September 2021

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Corporate Directory

Club Patron
His Excellency Mr Paul de Jersey AC Governor of Queensland (until 1 Nov, 2021)

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

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