2022–2023
Annual Report

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*

OPERATIONS

$2.4b
Total revenue

$6.8b
Total assets

$1.3b
Net assets

171,234
Total insurance claims

755,086
Roadside Assistance jobs

$478.4m
in RACQ Bank loans funded

HELPING MEMBERS

1.7m+
RACQ members

1,465
vulnerable members supported through RACQ measures

$22m
member savings through RACQ Member Benefits

69.1
Net Promoter Score (member sentiment)

66,481
webchat, phone calls and store visits each week

10,000
attended RACQ MotorFest

PEOPLE

2,711
RACQ employees

72%
employee engagement score, up 2% on prior year

6,697
community volunteer hours through RACQ initiatives

ENABLE
Established EnAble employee resource group to support disability inclusion

New and enhanced suite of employee entitlements

COMMUNITY

2023
Queensland Corporate Philanthropist of the Year

$9.9m
provided to charities and communities across the State

60,705
students participated in RACQ road safety programs across Queensland

3,229
rescues performance by RACQ Air Rescue Network

33
community grants applications approved by RACQ Foundation

ENVIRONMENT

49%
of our electricity consumption from renewable energy sources

An Accredited NABER* Energy rating of 6 stars for our Edward Street building

Delivered first nature-based solution disaster resilience community assistance project

38%
reduction in Scope 1 & 2 greenhouse gas (GHG) emissions from a FY20 baseline [1]

Sponsorship of Queensland Electric Super Highway extended to 55 EV charging sites

KEY MILESTONES

Risk Transformation Program approved for mobilisation by APRA

Launched new Roadside Assistance solutions for all new and emerging mobility needs

Launched Sustainability Framework, *A Force for Good*

Established new operating model in line with 2032 vision and strategy

Hosted inaugural EV Test Drive Day at Mobility Centre

[1] Our FY20-23 Scope 1 and 2 Greenhouse gas (GHG) emissions performance has been calculated and quality checked by Sphera Consulting. Our Scope 2 emissions performance uses the market-based GHG accounting methodology and the Australian Government Residual Mix Factor (RMF) from March 2023.

> The Club is holding itself accountable to the targets and the commitments we have made to improve how we operate, contribute to Queensland's economy and support our members to reduce carbon emissions.

LEONA MURPHY
RACQ President and Chair

RACQ's President and Chair's Report

Dear member,

FY23 was a big year for RACQ and for me personally, as it marked my first year as Chair and President of this great member-owned organisation. Throughout its history, your Club has remained firmly anchored to its purpose *to make a positive difference to the lives of our members, now and into the future.*

This purpose has been particularly important this year as we navigated the challenges and opportunities posed by Queensland's operating environment. While the State's economy demonstrated positive growth, high inflation continued to place significant pressure on household budgets for many of our members who are struggling with fuel, energy and grocery prices, interest rate hikes and increasing insurance premiums.

We recognise these pressures and remain focused on working hard to balance the increasing supply chain, wage and reinsurance costs while continuing to offer competitively priced products and services, prioritising our vulnerable members and contributing to the wellbeing and resilience of our communities.

To help ease cost-of-living pressures, we continued to invest in RACQ's Member Benefits program. We have partnered with leading retail brands to help our members access better pricing on the items we know are putting the biggest strain on household budgets. This, together with daily fuel advice through our Fair Fuel Finder App and mainstream media, is helping to reduce the cost of living for many Queenslanders.

Our performance

Notwithstanding the operating headwinds of FY23 and the challenges we faced in 2022, your Club delivered a profit this year of $7.4 million after tax. This was largely driven by returned profitability of our Insurance business, positive sales in our auto glass, batteries and vehicle inspection services in Assistance and solid balance sheet growth in the Bank.

Insurance reported an after-tax profit of $31.9 million, RACQ Bank recorded its third consecutive profit, $5.7 million, and Assistance recorded a strong $41.1 million profit.

The profit delivered by our businesses enabled us to provide $9.9 million to communities and charities across the State and make the investments we need to positively transform our business. This includes a $16 million provision for the incremental cost of our Risk Transformation Program.

The result also reflects an increase of $29 million to the pricing promises-related provision for additional costs to be incurred, including a small number of pricing promises matters identified during the year that require remediation.

The board remains focused on ensuring the long-term financial sustainability of RACQ. As such, the Group remains well capitalised to deliver on our commitments to members and the Queensland community, and our Insurance and Bank businesses hold excess capital to provide a strong buffer given our risk environment.

As we look ahead to FY24 and beyond, your Club remains financially strong to deliver for our members today and support our operations well into the future.

Risk Transformation

As we deal with the pressing challenges of the here and now, we are also laying stronger foundations for our future through our Risk Transformation Program.

Over the past few decades, RACQ has evolved the way we support our members with new products and services to meet their changing needs. An unintended consequence of this expansion has been that our products and the way we apply discounts has become overly complex. In recognising this, we have begun to simplify our products and discounting processes to make it easier for our people to deliver on our promises to members.

As mentioned, we are embarking on a deliberate strategy to transform the organisation, including how we do business, to deliver a new benchmark of performance.

Planning for the program began in FY23 following the outcomes of the pricing promises review. The board is 100% committed to this significant piece of work that will deliver stronger risk management practices, leading to improved outcomes for our members. Delivery of the program will support the organisation into the future and will be overseen by the Australian Prudential Regulatory Authority (APRA).

One of the eight streams of work involved includes 'The Role of the Board', which is focused on reviewing how the board operates and how we govern the organisation. This stream also includes examining committee structures, risk behaviours and risk reporting. Further, the need for improvements to our risk culture and behaviours extends to every part of our organisation and this will be led from the very top.

By the time the program formally concludes, we will have proven, over successive years, our board's improvement in oversight and the discharge of our risk management responsibilities, consistent with leading governance practices and with other organisations of RACQ's size and scale.

Cyber security

Your board is also rightly expected to ensure RACQ's risk management framework adequately addresses cyber security threats, and that controls are implemented to protect key assets and enhance cyber resilience.

In response to the increased threat of cybercrime, addressing the security of our technology systems is critical to protect our members who do business with us through our digital channels or who are receiving refunds as part of the pricing promises review.

You can be assured that RACQ continually invests in strengthening the security of our systems through an annual cyber security resilience program. Throughout the year, RACQ improved its maturity across all cyber security capabilities by implementing additional controls, doubling the number of security incident response exercises, strengthening employee system access processes, and completing a major program to improve the security of the technology network and core systems.

We routinely engage third parties to test our security defences and our processes, and have invested in our cyber security capabilities to protect our members and our people by providing a secure environment to best service and support their needs.

We educated our people on the role they play in protecting our organisation against cyber security risk, and focused on new ways to help our members protect themselves against the most common scams impacting the community. This included regular education campaigns via social media and direct communications to members with educational resources and information.

However, just as fast as we are improving our cyber security, criminals continue to develop new ways to infiltrate systems and technology. This threat is ever present for all organisations and the board remains committed to protecting its members and their data in every way possible.

Sustainability and community

In FY23, we developed our Sustainability Framework, *A Force for Good*, which focuses on the role RACQ plays in addressing some of the biggest challenges facing Queenslanders – climate risk, cost of living and road safety. The Framework also outlines our non-financial commitments and targets, and how we align to the globally recognised United Nations Sustainability Development Goals.

As outlined in the Framework, the Club is holding itself accountable to the targets and the commitments we have made to improve how we operate, contribute to Queensland's economy, and support our members to reduce carbon emissions. Our progress will be reported annually in our *For the Greater Good Report*, and we are committed to keeping our stakeholders updated as we work towards ensuring the liveability of Queensland for future generations.

We are working on reducing emissions in RACQ's operations, shifting

RACQ employees volunteering in Gympie for RACQ Foundation community assistance project

to purchase 100% renewable electricity for our owned buildings by 2024, and building a diverse workplace that promotes equal opportunity for all our people through a range of programs.
As the country's most vulnerable state when it comes to natural disasters, our focus also remains sharply on doing everything we can to build stronger, more resilient communities. We continued to advocate across all levels of government for greater investments in household mitigation and resilience projects to better protect our most at-risk communities.

We were pleased to welcome several Federal and State Government commitments that align with our advocacy efforts to support large and small disaster resilience projects across the State. Resilience programs can help keep insurance affordable and accessible as they can reduce and manage the risks faced in our communities.

To this end, we are helping tackle this issue in vulnerable communities, providing support where it is needed most through the RACQ Foundation.

You may recall the devastating floods that hit the Gympie region in 2022. This event cost the insurance industry more than $67 million, however the social cost to the community was arguably far greater. To support this community, in May 2023, the RACQ Foundation travelled to Gympie, where our volunteers restored community hubs and boosted resilience. I was privileged to be part of the team's efforts to complete restoration and resilience building projects for 18 organisations in Gympie's hardest hit areas.

The major project, dubbed the 'Mary River Sands Muster', was the revegetation of The Sands along the River to Rail Trail, where 3,000 trees and shrubs were planted on the riverbank to improve the region's flood resilience. Planting native vegetation is critical to strengthening our riverbanks, sand dunes and natural environment as it reduces the risk of soil loss and resulting erosion when flooding occurs and this affects the entire river system. The three-day initiative was completed in collaboration with the Minderoo Foundation's Australian Resilience Corps and supported by the Gympie Regional Council and Gympie & District Landcare Group.

The Foundation's other trips for the year included the Aboriginal community of Yarrabah in far north Queensland in October, where the team carried out repairs and upgrades to facilities, followed by Texas and Goondiwindi in November.

In FY23, the Foundation approved more than $950,000 in community grants to help 33 groups across Queensland affected by extreme weather events and natural disasters.

In recognition of RACQ's work, your Club was independently nominated and awarded the 2023 Corporate Philanthropist of the Year by the Queensland Community Foundation.

We also continued our commitment to strengthening relationships with First Nations people and launched the second phase of our Reconciliation Action Plan (RAP). The Innovate RAP provides RACQ with a blueprint to make further meaningful contributions to reconciliation in Queensland and drive the inclusion of First Nations people over the next two years and beyond.

Board changes

At our Annual General Meeting in November 2022, Elizabeth Jameson AM stepped down from her role as Chair and President. I would like to personally thank Elizabeth for her 14-year tenure on the board and her guidance and leadership during the difficult and challenging year in 2022.

During the year, director Duncan Brain temporarily stepped down from his board role, director Andrew Kearnan resigned to pursue other opportunities and the decision was made not to replace the Deputy Chair position. The upcoming AGM will be the last for Group Company Secretary Brad Bowes who will retire after nearly 11 years in the role. I would sincerely like to thank Brad for his hard work and commitment to the board and to RACQ over this time and wish him well in his retirement.

We created new board committees including the People and Purpose Committee, which I chair, and the Strategy and Innovation Committee, chaired by Sarah Pearson. These changes assist the board in effectively focusing on its long-term strategy development disciplines, the difference we make in Queensland and ensuring we have a value proposition for our people that supports our purpose and effective member delivery. The Audit and Risk and Compliance Committees remain in place and play a key role in oversight and governance as we progress delivery of the pricing promises remediation and risk transformation.

I would like to thank my fellow board members for their dedication over the past year. Their skills, experience, hard work, and commitment have been highly valued in what has been the start of a transformational year for our Club.

Towards 2032

For more than 118 years, RACQ has been part of the Queensland community. From our early days as the Automobile Club of Queensland, helping members transition from horse and cart to internal combustion vehicles, to today where we are playing an active role in educating and supporting our members as the world transitions to electric cars and low-emission vehicles.

We have made good progress in reshaping our business and aligning our operations behind three strategic focus areas: mobility, home, and member and community.

Our vision *to be the trusted partner for our members, providing solutions to live and move safely, securely and sustainably*, now aligns with the opportunities that will flow from the 2032 Brisbane Olympic and Paralympic Games which have been declared to be climate positive.

We have significant opportunities as global economies accelerate the shift to decarbonising transport and transitioning to home renewable energy. In the first three months of 2023, electric vehicle (EV) sales surged from 3.84% of all new car sales in Queensland to 6.9%. This rapid uptake, combined with renewable energy solutions through RACQ Solar, provides us with exciting opportunities to expand our offering and capabilities beyond roadside assistance, insurance and banking.

RACQ's solar team installing panels on a home in South East Queensland

To realise these opportunities, our experts continue to review, assess and provide free information to help members confidently transition to EVs and our car comparison platform on racq.com will be launched in quarter 2 FY24.

In our submission to the Federal Government's National EV Strategy, we outlined 29 recommendations to ensure the strategy is fair and effective, while outlining what is needed to accelerate the uptake of EVs across Australia.

Recognising the important role we play in Queensland, your Club continued to work with governments to ensure practical and affordable ways to address decarbonisation while maximising benefits to our members and their diverse needs. We must get the transition to EVs right, in a fair and balanced way, without leaving anyone behind.

As Brisbane embarks on the journey to deliver the Games, our members have been overwhelming in their support for governments to fix infrastructure and improve essential services, rather than investing in new solutions like urban air transport. Our members want the focus to be on improving existing transport infrastructure and fixing the State's busiest highways.

Your Club is here to help you get heard on these matters. With rapid population growth and the need to fix existing transport, RACQ continues to advocate for new, cost-effective public transport solutions to avoid future gridlock in Brisbane and South East Queensland.

In closing

Finally, I would like to thank our people. Every day they serve our members, dedicated to making a difference at every opportunity. While it has been a difficult year, FY23 has also reinforced RACQ's culture which is built on the incredible hard work and commitment of its people.

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

Setting aside the internal and external headwinds that have impacted RACQ, the organisation has made great strides in helping our more than 1.7 million members live more safe, affordable and sustainable lives. It is our commitment to you to come through our recent challenges a better and stronger organisation.

As we move into FY24, RACQ remains focused on ensuring we continue to be a trusted partner for you, our valued members. Stay safe everyone.

Regards

Leona

Leona Murphy
RACQ President and Chair

> As we embrace change, our commitment to our members remains at the core of everything we do.
>
> **DAVID CARTER**
> Group Chief Executive Officer

RACQ's Group CEO Report

Dear member,

The events of the past few years have been some of the most defining in RACQ's history – a global pandemic, historic floods, geopolitical instability, and the outcomes of the pricing promises review.

It is clear RACQ must evolve to make it easier for our people and members and enable us to deliver the high standards, affordable products and great service that our members expect and deserve.

As we embrace change, our commitment to our members remains at the core of everything we do.

At a time of rapidly increasing inflation and cost-of-living pressures, we have tried to support affordability for members. However, in more recent times significant premium increases have been necessary and an industry-wide feature. We understand the impact any price increase can have on our members and we encourage you to please reach out if you are experiencing financial hardship.

Risk Transformation Program

Undertaking a Risk Transformation Program was identified as a necessary and important response to the findings of our pricing promises review.

The multi-year program of works formally commenced on 3 July 2023 following APRA's approval of the plan in FY23. It includes a systematic review of RACQ's risk management practices, processes and systems. Our people are pivotal to the success of this program and will be leading this change. A significant investment to support the program has also been set aside over the next three-plus years.

Pricing promises

In 2022, we advised members that RACQ Insurance (RACQI) had self-reported a regulatory breach to ASIC. The pricing promises review identified members who did not receive the full benefit of discounts, and members who had insurance policies with Product Disclosure Statement (PDS) wording that inadequately described how premiums were calculated for optional benefits.

Our remediation program, which has ASIC oversight is well underway and continues to be independently monitored by an external party. To minimise the impact on members, we are refunding in batches relating to individual insurance products. It has been a complex process given the extensive look-back period and different systems involved.

Since we reported on the outcomes of the review, we have processed more than $13.6 million (as at 6 September 2023) in refunds to eligible members.

In response to the outcomes of the review, ASIC launched Federal Court action against RACQI, alleging misleading conduct in relation to the matter. These proceedings were expected and we admitted to the Federal Court that our PDS could have misled the public. RACQI has been cooperating with ASIC throughout the process and has provided for an estimated penalty and related costs in the FY23 result.

FY23 performance

Despite an uncertain economic environment, this year the Group recorded a net surplus after tax of $7.4 million. This result reflects an increase of $29 million to the pricing promises-related provision for additional costs to be incurred, including a small number of pricing promises matters identified during the year that require remediation. It also includes a $16 million provision for the incremental cost of our multi-year Risk Transformation Program.

During the year we updated the Group's cost allocation methodology which led to a reduction in costs being directly allocated to RACQ's business lines. While this change provides a clearer picture of the results for each business line, it makes comparison of year-on-year results more challenging.

The Group remains well capitalised to deliver on our commitments to our members and the Queensland community. Our Insurance and Bank businesses hold capital well in excess of board targets, providing a strong buffer given our risk environment. Our withdrawal from the Queensland Compulsory Third Party (CTP) insurance scheme further strengthens our capital position, allowing us to deliver more for our members into the future.

Insurance

Insurance reported an after-tax profit of $31.9 million driven by strong gross written premium, lower natural hazards costs, improved underlying claims cost performance, a more normal year of returns on investments, and the benefits of our CTP Loss Portfolio Transfer (LPT) arrangement.

Our core portfolios of home and motor reflected the impact of significant premium increases, with gross premium revenue up 14.3% to $1.291 million and our market share in Queensland remains steady (number one in motor, two in home).

In late June, RACQ concluded its CTP LPT with global reinsurer Enstar. An LPT effectively transfers the claims liability risk to a third party and allows us to release capital which would have normally been held against that risk. We took this action to reduce the risks posed to RACQ by the imbalances in the CTP scheme, which is further explained below.

While premium revenue increased, RACQ's Whole of Account Quota Share arrangement and CTP LPT reduced the net premium revenue to $506.3 million, 43.1% below FY22.

These programs, which help to improve our overall capital position, also led to a notable decrease in Net Incurred Claims – $405.1 million, down 51.9% on the prior corresponding period (FY22 $842.5 million).

In late June, we were pleased to finalise our FY24 reinsurance program which was within our capital and cost expectations. Our remaining period as a CTP insurer continues to be supported by a 50% quota share arrangement and we took the opportunity to increase our Whole of Account Quota Share arrangement to 28% from 25%.

This program, alongside the successful placement of our CTP claims liabilities to a third party via the LPT and improved operating performance in motor claims, results in RACQI remaining financially strong, with a further strengthened balance sheet and capital position.

At the same time, we have been and will continue to look for ways to drive greater efficiencies and improvements across our business. Improvements to our technical pricing, underwriting, distribution and claims management capabilities have all contributed to our improved underlying performance.

Pleasingly, our claims progress from the February 2022 floods remains ahead of industry. To date, we have finalised 96.5% of our more than 16,000 claims arising from Australia's worst natural disaster, including 95.8% of property claims and 99.9% of motor claims and paid more than $283 million to members. We now expect the final cost of this disaster to be below our initial estimate of $350 - $380 million. Supply chain management continues to be a critical area of focus in both home and motor, with pressures notably easing in home in the latter part of the financial year as a result of greater capacity in trades and more reliable supplies of materials.

While the pace of cost inflation in RACQ's motor claims reduced in FY23 after a rapid escalation in FY22, we expect continued pressure on supply chains throughout FY24.

I acknowledge that some members have experienced delays and other frustrations when making claims and this has resulted in an increase in complaints. We are taking this matter very seriously and we are confident our sharp focus on claims management and the supply chain, will improve the experience for members moving forward.

Our distribution partners, including Honey Insurance and Carpeesh, have not been immune to this challenging operating environment. Honey Insurance is a new, innovative insurance offer and after an insurance loss in FY23, Honey is budgeted to contribute a small profit in FY24 as the portfolio continues to grow.

In response to the historic floods, this year we partnered with the Federal and State Governments to deliver the insurer element of its Resilient Homes Fund. The program enabled flood-impacted homeowners to undertake resilience works at the same time as their insurance claim repairs.

We also joined the Federal Government's Cyclone Reinsurance Pool ahead of this year's cyclone season. While we supported the introduction of a Pool, RACQ has long highlighted that the design and implementation of the current model means it will only deliver marginal benefits to members exposed to cyclone risks. RACQ remains committed to passing on any benefits of the Pool to our eligible members.

In FY23, RACQ announced it will exit Queensland's Compulsory Third Party insurance scheme

CTP insurance scheme

After 20 years of helping people injured on our roads, RACQ made the difficult but necessary decision to withdraw from Queensland's Compulsory Third Party (CTP) insurance scheme. This decision only affects RACQ CTP insurance policies, which are paid with your vehicle registration. RACQI's suite of motor insurance products remain unchanged.

Our CTP losses do not relate to our high standard of claims management performance. Put simply, the money we are allocated from the CTP scheme is not enough to cover the frequency and cost of claims that we receive. We would have liked nothing more than to stay in the scheme and support the 1.2 million Queensland motorists who choose RACQ as their preferred CTP insurance provider.

However, the reality is, despite the extensive steps we have taken over many years to restore equity, it is no longer viable for us to continue participating in the scheme.

Assistance

Our Assistance portfolio delivered a $41.1 million profit in FY23, with the automotive businesses experiencing positive sales in our auto glass, batteries and vehicles inspection services. The demand for travel and travel insurance also increased with more of our members travelling overseas for the Northern Hemisphere summer.

Pleasingly, our Net Promoter Score remained strong at 89% on the back of a 95% member satisfaction score. Product retention also held steady at 87.4%.

As part of our strategy to meet the changing mobility needs of our members, we marked the biggest change in our Roadside Assistance history with the launch of a new suite of products providing members with cover for all their mobility devices. RACQ became the first roadside assistance provider in the country to cover everything from e-scooters, e-bikes, bicycles, wheelchairs and mobility scooters through to motor vehicles, motorbikes, large RVs and vehicles up to eight tonnes. The latest product offering recognises the growing demand for new methods of transport.

Following the Club's investment in GEM Energy, we also launched RACQ Solar, a key addition to our commitment to deliver products and services that will help Queenslanders live more sustainably. While it has been a challenging start for the residential arm due to labour shortages, the response from our members and the Queensland community has been positive, with close to 500 members installing roof-top solar and a strong pipeline of enquiries.

RACQ Chief Executive Assistance Glenn Toms with RACQ Patrol Officer at the RACQ Mobility Centre

Bank

RACQ Bank continues to positively support the Group's overall performance, recording a net profit after tax of $5.7 million, supported by increasing margins as the RBA increased interest rates. This is the Bank's third consecutive profit which was driven by balance sheet growth and a 13% increase in its net interest income to $56.7 million. The Bank's capital position remains strong at 18.1% which is in line with APRA's new capital framework and comfortably above its prudential minimum.

Loans and advances increased by $64.3 million to $2.2 billion during the year with the bank funding 1,640, or $440 million, in mortgage loans and 1,390, or $38.4 million, in personal loans. Members' deposits also remained stable over the year, at $21 billion, while the Bank experienced a shift in member deposits from at-call accounts to term deposits, with members looking to take advantage of the increasing interest rate environment.

The Bank remains well positioned to weather the storm of the inflationary cycle, with a good quality book, low arrears, low high-LVR lending and a competitive product suite.

Unfortunately, we did have to make some tough decisions in response to the RBA lifting rates. These decisions were not taken lightly and we always look for ways to minimise the impact on our members. Following its October decision to increase rates, the Bank did not pass on the full rise to our home loan members and in November we extended the effective date for the rate change to give our members more time to prepare for the change. We offer market-leading rates on deposit products and saw good growth in term deposits and bonus saver account balances as a result.

In FY23 we entered the broker market, giving more choice and flexibility to members applying for a mortgage. We were also one of the few banks to offer extended loan terms of up to 40 years to help younger Queenslanders achieve their property goals and a new loan was introduced for members who wanted a simple loan with a great rate.

The Bank's progress throughout the year received industry endorsement with 17 awards including Canstar's Outstanding Value – Personal Loan category and Green Award for our Green Home Loan.

Advocacy

RACQ continued to be a leading voice for our members, advocating on issues to help them live and move safely, securely and sustainably, while preserving Queensland's liveability.

The importance of our advocacy efforts was again reinforced when Queensland recorded 297 deaths at the end of December – the worst road toll in 13 years. This devastating result led to the State Government's Road Safety Roundtable in which RACQ was invited to participate. It was great to see the State Government adopt our recommendation for more peer-to-peer road safety initiatives with the introduction of Ride to Zero.

RACQ continued to become a leading voice on new mobility solutions. Our EV Test Drive Days at our Mobility Centre at Mt Cotton provided members with the opportunity to learn about a variety of electric cars. We also led the inaugural Electric Transport Industry

Transformation Forum with support from QUT and the University of Queensland. Researchers, industry leaders, advocates and government representatives shared insights and debated plans for the future of an electric transport industry in the Sunshine State.

Our people

I would firstly like to thank our people for their dedication to serving our members in what has been the start of a transformational journey.

In December, the Club changed its operating model, allowing us to bring together the right expertise and capability to implement our risk transformation agenda and effectively deliver our strategic priorities.

As a result of the changes, former Chief People Officer Heidi Suominen left the Club. Heidi made a significant contribution over many years and we wish her all the best in the future.

RACQ remains firmly committed to providing an organisational culture and workplace that cultivates diversity and inclusion across every aspect of our business. Women make up 63% of executive roles and more than 53% of all leaders in the organisation. At the board level, 43% are women, including RACQ's President and Chair.

As part of our diversity and inclusion strategy, in FY23 we launched a suite of new and enhanced entitlements for our people to provide greater flexibility and support including flexible leave options to celebrate cultural or religious days of significance and an increase in paid parental leave and compassionate leave, as well as leave to support gender transition.

Our EnAble employee resource group was also created to promote a safe, accessible and inclusive workplace culture to support our people who have lived experience with a disability and make it easier for them to work at RACQ and build a career.

As part of our annual Your Voice Survey of employees, it was pleasing to see the Group's engagement score increase 2% to 72% and our participation rate increase 3% to 89%. The engagement score is in line with the financial services benchmark at 73%.

Our marketing team working at MotorFest 2023

In closing

As I look back on my three and a half years as CEO of RACQ, I remain just as proud today as I did when I joined the organisation. While it has been challenging, I am comforted by the passion and commitment of our people and by the significant contribution our Club makes to our members and communities right across Queensland. Remaining true to our purpose and focusing on strategic priorities will allow us to make the progress we need to be successful into the future.

In the year ahead, we will:

- Build on the mobilisation phase of our Risk Transformation Program to ensure we have the right people, plans and activities in place to achieve our goals.
- Finalise the refunds arising out of the pricing promises review for our members.
- Continue to drive our product simplification work to make our products easier to understand for our members and reduce complexity for our people.
- Ensure we maximise the benefits of the claims excellence program and reduce pressure on insurance premiums for members.
- Continue to prioritise the development of affordable and accessible RACQ products and services that help our members transition their mobility and home energy needs, and solutions that increase our communities' climate resilience.
- Increase advocacy for government policies and initiatives that increase the disaster resilience of Queensland communities.

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

I look forward to making big strides as we drive towards our 2032 strategy.

David

David Carter
Group Chief Executive Officer

RACQ Directors

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

Leona C Murphy, President and Chair

BCom, GAICD
RACQ Limited Elected Director – South East Queensland

Leona has been a Director of RACQ Limited since 2018, and President and Chair since November 2022. She is Chair of the Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. She is also Chair of the People and Purpose Committee and a member of the Strategy and Innovation Committee.

Leona is an experienced company director and brings more than 25 years' experience in the insurance and financial services sectors, having held senior executive positions for several ASX-listed companies. She is currently a Director of Liberty Financial Limited and Director of Helia Group Limited. Leona has a deep passion for building resilient communities which is reflected through her current role as board member and ambassador for the Climate Ready Initiative and former role as Co-Chair of the United Nations Environment Programme Finance Initiative for Sustainable Insurance. In 2015, she was recognised as one of Australia's Top 100 Women of Influence in the Australian Financial Review and Westpac Awards for her work in Global Resilience.

Duncan V Brain

BAppSc (Maths), MBA, MAICD
RACQ Limited Appointed Director

Duncan has been a Director of RACQ since 2021. He is a Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd.

He is also a member of the Group Audit Committee and RACQ Limited Risk and Compliance Committee.

With more than 30 years' experience, Duncan is an experienced financial services executive with extensive knowledge of the insurance industry.

He has worked for a number of ASX-listed insurance companies, including as Divisional CEO for a major general insurer.

Beyond his domestic experience, Duncan has held CEO and 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
RACQ Limited Elected Director – Regional Queensland

Annabel has been a Director of RACQ Limited since 2019. She is a Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Annabel is also Chair of the RACQ Limited Risk and Compliance Committee and is a member of the People and Purpose Committee.

Annabel is an experienced company director with more than 20 years specialising in strategic human resources, organisational design and culture change across a diverse range of sectors.

Annabel is passionate about regional Queensland and has occupied positions which have allowed her to support communities across the State.

She is President of the Saints Netball Club Mackay Inc, non-executive Director for Tourism Australia and is also Director of Dolphin Ventures Pty Ltd where she sits on several independent advisory boards. She is also a Director of Wander Beyond Pty Ltd t/a Helloworld Travel Mackay, Mt Pleasant and Townsville.

William (Will) J Fellowes

BCom, GradDipCA, GAICD
RACQ Limited Elected Director – Regional Queensland

Will has been a Director of RACQ Limited since November 2021. He is a Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. He is also a member of the People and Purpose Committee and Group Audit Committee.

Will is an experienced non-executive Director with an executive career specialising in advisory and assurance.

He has worked both domestically and globally across external audit, internal audit and financial consulting, and most recently spent four years in various senior executive roles with a Sydney-based health technology company.

Based in outback Queensland, Will is proud to bring a regional perspective to the RACQ board. Will is also a member of the Children's Health Queensland Hospital & Health Service, Northern Australia Primary Health Limited and Opera Queensland boards and also sits on a number of advisory committees as a financial specialist.

Robert (Rob) Hubbard

BA (Hons), Accy, FCA
RACQ Limited Elected Director – South East Queensland

Rob has been a Director of RACQ Limited since November 2021. He is a Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Rob is also Chair of the Group Audit Committee and is a member of the RACQ Limited Risk and Compliance Committee.

Rob has more than 20 years' experience in accounting, corporate finance, assurance and audit and is a former partner of consulting firm PwC in Brisbane. During his time with PwC, he was also a Director of MS Australia and Opera Queensland, and a member of the Council of the University of the Sunshine Coast.

Since retiring from his executive career in 2013, Rob has held several non-executive Director roles at top ASX-listed companies. He is a Director of Lifeline Australia and JK Tech Pty Ltd and a member of the Queensland Advisory Committee to the Australian Institute of Company Directors (AICD). Rob was Chair of healthcare company Healius Limited, Deputy Chair of Allkem Limited, Chair of Central Petroleum Limited, and a Director of Bendigo and Adelaide Bank Limited from 2013 until 2021 where he chaired the Bank's Audit Committee.

John F Minz

BCom, Grad Dip Commercial Computing, Sen. Fellow FINSIA, FAIM, FAICD
RACQ Limited Elected Director – Regional Queensland

John has been a Director of RACQ Limited since 2016. He is a Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. John is a member of the People and Purpose Committee and Strategy and Innovation Committee.

John is an experienced financial services executive, having retired as the Chief Executive Officer of Heritage Bank in 2015 after 23 years with the bank where he led the organisation through a period of sustained growth and modernisation.

John 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 Downs Community Policing Board.

Andrew G Moore

BEcon, BSc, MBA (INSEAD), CA, F FIN, GAICD
RACQ Limited Appointed Director

Andrew has been a Director of RACQ Limited since 2020. He is a Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Andrew is a member of the Strategy and Innovation Committee and RACQ Limited Risk and Compliance Committee.

Andrew is a financial services executive, with more than 30 years' domestic and global experience. His previous executive positions include Managing Director of GE Capital Home Lending (Aust & NZ) and General Manager of St. George Retail Bank.

In recent years, Andrew has been instrumental in driving digital transformation and disruption in the financial services industry, particularly through his work as CEO of Spaceship Financial Services, a business focused on delivering an innovative and engaging investment and superannuation experience to young Australians.

Sarah J P Pearson

DPhil (Oxon), FTSE, GAICD
RACQ Limited Elected Director – South East Queensland

Sarah has been a Director of RACQ Limited since November 2021. She is a Director of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Sarah is also Chair of the Strategy and Innovation Committee, and is a member of the Group Audit Committee.

Sarah is an experienced non-executive Director, investor and advisor with global executive leadership expertise spanning FTSE 100 multinationals, international C-suite roles, brands such as Cadbury and McKinsey, universities and startups.

Her passion is to leverage emerging technology and innovation to accelerate economic growth, disrupt disadvantage and address global challenges. She applies this through director roles with the Royal Flying Doctor Service and ANU Council, and sits on investment committees and boards responsible for ~$1Bn of venture capital globally, investing in emerging technology and women-led businesses. Sarah is Chair of Inspiring Australia QLD Reference Group.

She has represented Australia globally as Chief Scientist & Chief Innovation Officer at the Department of Foreign Affairs and Trade, helped the growth of new technology companies, led the uptake of innovation and technology in the public and private sectors, and helped build innovation communities that have driven economic diversification across Australia.

GROUP CHIEF EXECUTIVE OFFICER

David Carter

BCom, FCPA, F FIN, G.Dip Fin Planning, G.Dip Applied Finance and Investment, GAICD
Director of RACQ Foundation.

Joining in March 2020, David leads the Club to deliver long-term, sustainable value to its members. With over 30 years' experience, mostly in financial services companies including Suncorp Group and ANZ Limited, David has a strong connection to his home state of Queensland.

David is the RACQ representative Director of the Australian Automobile Association (AAA), Australian Motoring Services (AMS), LifeFlight Australia Ltd, and Honey Insurance Pty Limited. He is also a Director of the Business Council of Co-operatives and Mutuals, Qld Ballet and Netball Qld.

Reflecting the importance RACQ places on the activities, he has both the Group Member Advocate and the Remediation and Rectification program reporting directly to him. David is supported in the running of RACQ by the diverse and broadly experienced Group Executive Team.

GROUP COMPANY SECRETARY

Bradley (Brad) D Bowes

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

Brad is Company Secretary for the legal entities within the RACQ Group. He leads the Group Secretariat with responsibility for the secretariat function and associated corporate governance, including managing all matters associated with the efficient and effective operation of the boards and committees, and of each annual general meeting of members.

Brad is a chartered company secretary and governance professional with significant experience in senior management and executive leadership, including governance, risk, compliance and secretariat roles in private enterprise and the public sector across a range of industries and corporate structures.

From left: Glenn Toms, Michelle Winzer, Bernadette Stone, David Carter, Trent Sayers, MJ Bellotti, Michael Lonergan, Ailsa Heise and Wendy Parker.

Group Executive Team

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

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

Chief Purpose Officer – Mary-Jane (MJ) Bellotti
MBA, GAICD

Chief Risk Officer – Ailsa Heise
BBus, FCPA, GAICD

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

Chief Audit Officer – Wendy Parker
BCom (Law, Economics), B.Acc, Chartered Accountant CA(SA)

Chief Executive Insurance – Trent Sayers
BCom, GAICD

Chief Operating Officer – Bernadette Stone
BSC(Hons) Physics

Chief Executive Assistance – Glenn Toms
BBus, G.Dip Fin & Inv, F FIN, FAIM, GAICD

Chief 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

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 2023 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.

- **Leona C Murphy**
  (appointed President and Chair, 22 November 2022)
- **Annabel L Dolphin**
- **William J Fellowes**
- **Robert Hubbard**
- **John F Minz**
- **Andrew G Moore**
- **Sarah J P Pearson**
- **Duncan V Brain**
  (ceased appointment 21 September 2022, re-appointed 19 July 2023)
- **Elizabeth M Jameson AM**
  (ceased appointment 22 November 2022)
- **Andrew J Kearnan**
  (ceased appointment 19 March 2023)

Further information on the current directors is contained in the RACQ Directors section on pages 14-16. This section also includes their qualifications, experience and responsibilities.

RACQ Bank Member Engagement Lead supporting a member

Company Secretary

Bradley D Bowes is RACQ's Company Secretary in office as at the end of the financial year. The qualifications and experience of the Company Secretary are outlined on page 17.

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 Limited Board		Group Audit Committee		RACQ Limited Risk and Compliance Committee		People and Purpose Committee*		Group Strategic Capital Committee**		Strategy and Innovation Committee***	
	A	H	A	H	A	H	A	H	A	H	A	H
Leona Murphy	18	18	-	-	3	3	3	3	5	5	-	-
Annabel Dolphin	17	18	4	4	3	3	6	7	-	-	1	2
William Fellowes	18	18	4	4	-	-	7	7	4	5	2	2
Robert Hubbard	17	18	8	8	3	3	4	4	-	-	-	-
John Minz	18	18	8	8	6	6	-	-	-	-	-	-
Andrew Moore	17	18	-	-	6	6	-	-	5	5	2	2
Sarah Pearson	18	18	4	4	3	3	3	3	5	5	2	2
Duncan Brain	3	3	4	4	3	3	-	-	-	-	-	-
Elizabeth Jameson AM	6	6	-	-	-	-	4	4	-	-	-	-
Andrew Kearnan	14	14	5	6	-	-	-	1	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 People, Nominations and Remuneration Committee was re-purposed as the People and Purpose Committee (incorporating additional responsibilities for purpose and sustainability) with effect from 1 January 2023.
** The Group Strategic Capital Committee ceased operating on 31 December 2022.
*** The Strategy and Innovation Committee commenced on 1 January 2023.

Objectives, strategy and principal activities

RACQ is a public company limited by guarantee, incorporated and domiciled in Australia.

RACQ's purpose is to make a positive difference to the lives of our members now and into the future. To deliver on this purpose, our 2032 vision is to be a 'trusted partner for our members providing solutions to live and move safely, securely and sustainably'.

In FY23, RACQ made progress against its long-term strategic objectives to help members navigate the transition to the electrification of mobility. This included the delivery of key initiatives:

- Redesigning Roadside Assistance offers to provide integrated cover across broader mobility types such as electric vehicles, micro-mobility and motorised mobility devices.
- Developing resources to provide members with information and advice on electric mobility and opportunities to trial vehicles at EV Test Days at our Mt Cotton Mobility Centre.
- Launching RACQ Solar to help members navigate the convergence of mobility and home through renewable energy solutions.
- Successfully obtaining Queensland Government funding for the establishment of EV chargers in regional Queensland.
- Investing in Chargefox, in partnership with the other Australian auto clubs, to wholly own Australia's largest EV public charging network.

The plan to deliver our multi-year Risk Transformation Program was also finalised and approved by APRA. This program formally commenced on 3 July 2023 and will deliver stronger risk management and governance practices, leading to a new benchmark of performance for the organisation.

Refunding eligible members impacted by the Club's pricing promises review was and continues to be a key focus. Beyond this, we continued to deliver value for our members through our motoring, insurance, assistance and banking services and advocated for safer roads and more resilient communities in the face of increasing climate risk.

RACQ monitors its financial performance against the objectives and priorities outlined in the 'RACQ Group Strategic Plan and Budget' through financial analysis including profit and loss, balance sheet, and capital and liquidity reporting. Key performance measures include member engagement, retention and acquisition, product metrics and growth, key financial ratios and people and culture metrics.

As a diverse organisation operating across multiple industries, RACQ is exposed to a wide range of business risks. RACQ adopts a risk management framework that applies to all entities within the Group. This includes a Group Risk Management Strategy that is reviewed and approved by the boards annually. The Risk Management Strategy outlines the material risks across RACQ, categorised as strategic, governance, financial and operational risks.

Within RACQ's internal environment, the following major change activities represent material risks to RACQ's future financial performance:

- The delivery of RACQ's Risk Transformation Program, as the completion of this program sets the foundations to enable the future growth of our organisation and ensures compliance with our prudential obligations for our APRA-regulated businesses. This is a multi-year program for RACQ, with the risk to the organisation decreasing in line with the closure of the specified activities. The board and management have allocated significant resources to deliver this program and respond to this risk, as discussed further below.
- The completion of RACQ's Member Remediation program, given the significance of the cost of this program to our Insurance business. This risk will continue to decrease in line with the increasing volume of payments made to our members. RACQ has established a dedicated Member Remediation team that is solely focused on the delivery of this program, with the progress made across FY23 discussed further below.
- RACQ's exit from Queensland's CTP insurance scheme, which when completed successfully, presents a positive opportunity for the future financial performance of our Insurance business. This is due to the negative impact it had on historic and future projected financial performance. The board and management are committed to ensuring a seamless transition for existing RACQ CTP policy holders, and the Club remains focused on advocating for initiatives and changes that improve road safety across Queensland.

Taking account of the external environment as well, RACQ's future performance is also exposed to the following material risks:

- Capital and Reinsurance risks - Managing the resilience of the Group's balance sheet and liquidity. This includes the deployment of capital to progress long-term strategic objectives and to ensure our regulated entities maintain sufficient capital to comply with their Internal Capital Adequacy Assessment Process, having regard to APRA prudential obligations. The availability of reinsurance and the expectations from reinsurers in relation to the future frequency of natural hazard events in Queensland, presents a material risk to both profitability and capital. Capital resilience will increase in line with progress on completion of the Risk Transformation Program, Member Remediation Program and exit from the CTP Insurance Scheme.
- Climate change risk – RACQ's operations will be impacted by the changing climate over future time horizons, necessitating an adaptation of existing operational activities. The changed weather conditions will have impacts on the liveability of Queensland communities, and therefore how RACQ services members in these areas and prices its products to respond. Understanding these impacts and prioritising investment in adapting our operations to respond, will be a focus in managing this risk.

Member Engagement Consultant

- Members' affordability risk – The general cost of living for our members continues to increase and will likely reduce the affordability of RACQ's products and services for many Queenslanders in the near term. RACQ's input costs are also increasing, with areas of significant change including the hardening in the reinsurance market, supply chain challenges and increasing interest rates. Cost increases will impact the pricing of RACQ's products and services to ensure the financial sustainability of the Group, as will the ability of our members to afford the products and services that RACQ offers.
- People risk – Access to skilled resources is a risk for RACQ, particularly in the short term as significant change initiatives are underway across the business and we are operating in a low unemployment environment. Longer-term, the changing expectations of RACQ's workforce, particularly with respect to their workplace environments and flexibility, presents a risk to attracting and retaining talent within the organisation. Investment in the evolution of RACQ's employee value proposition will reduce this risk.
- Cyber risk – As a large member-based organisation, we are exposed to the growing threat of cyber security risk and the significant impact a data breach could have on our members, business and reputation. RACQ continues to enhance the security of our technology and data systems and infrastructure capabilities to better protect our members and our business. This year, as part of our annual Cyber Security resilience program, we implemented additional security and control measures across our organisation, strengthened employee system access processes, and completed a program of securing our internal network through segmentation. As technology continues to evolve, cyber security will remain a significant risk for all organisations, and RACQ will continue to prioritise investments to protect our business, members and data.

Risk Transformation Program

In response to the ASIC pricing promises review, the board committed to the establishment of a risk transformation program. This program was in addition to the significant investment committed for an uplift in systems and processes to deliver improved outcomes for our members, stronger risk management, simplified products, and easier processes for our people.

Subsequent to this, in FY23 APRA finalised a prudential review of RACQ's regulated entities, RACQ Insurance Limited[2] and Members Banking Group Limited[3]. To address the findings from the prudential review, APRA advised that the Risk Transformation Program (RTP) was required to be oversighted and approved by APRA.

RACQ Group has engaged Promontory Financial Group, an independent firm that has expertise in risk management, to review the organisation's activities and identify opportunities for improvement. This work is now complete and a comprehensive RTP Plan (the Plan) has been developed. The multi-year program of works formally commenced on 3 July 2023, following approval of the Plan by APRA, and includes a systematic review of RACQ's risk management practices, processes and systems. It contains clear and measurable responses across eight workstreams, supported by a target state, timeline and executive accountabilities. The Plan is subject to a comprehensive assurance framework, with periodic reporting to APRA. Progress against this Plan will be reported annually in our Annual Report.

[2] Includes Club Insurance Holdings Pty Ltd as part of the Level 2 Insurance Group
[3] Includes Club Finance Holdings Limited as part of the Level 2 Banking Group

At 30 June 2023, RACQ has recognised a provision of $16.0m (2022: $nil) for costs to be incurred over the next four years in undertaking the RTP. The provision relates to management's best estimate of RTP costs that are incremental to the Group and are not associated with the ongoing activities of the Group.

Withdrawal from Compulsory Third Party insurance scheme

In June 2023, RACQ announced plans to withdraw from Queensland's CTP insurance scheme, effective 1 October 2023. This change does not affect RACQ's other insurance products in any way, or its commitment to providing Queenslanders with motor and home insurance now and into the future. The decision follows years of taking actions to improve its own financial position and discussing concerns with the Queensland Government and Motor Accident Insurance Commission (MAIC) about addressing scheme inequity. For more information about RACQ's withdrawal from the scheme, please visit racq.com.au/insurance/ctp-scheme.

Member remediation

In 2022, RACQ committed to remediating members to address the findings from the pricing promises review.

During the year, ASIC launched Federal Court action against RACQ Insurance Limited (RACQI), alleging misleading conduct in regard to the matter. RACQI admitted to the Federal Court that its Product Disclosure Statements (PDS) could have unintentionally misled the public. The legal proceedings were expected and RACQI has been working cooperatively with ASIC throughout the process.

The member remediation program has been a complex process given the timeframe and different systems involved. RACQ's priority is to ensure our eligible members are refunded accurately and the process we have developed is being independently reviewed. Since reporting the outcomes of the review last year, RACQ has processed more than $13.6 million (as at 6 September 2023) in refunds to eligible members.

RACQ has provided for the cost of member refunds, interest attributable to those refunds, and other administrative costs and obligations as a result of the remediation program.

Strategic outlook

The directors recognise the challenges caused by increasing climate risk and the impacts of natural hazard claim costs on RACQ Insurance. This resulted in exploration of enhanced capital management with the insurance company expanding its use of reinsurance through quota share reinsurance on its personal lines portfolio, entering into a Loss Portfolio Transfer agreement to reinsure CTP liabilities, and joining the Federal Government's Cyclone Reinsurance Pool on 30 June 2023. The board continues to review RACQ Insurance, focused on the exploration of optimal capital structures with the aim of improving the utilisation of members funds in delivering insurance products and services.

Members' guarantee

RACQ is a company limited by guarantee and has no share capital. In the event of winding up, all classes of members are liable to the amount of $2 per member. As at 30 June 2023, RACQ had 1,745,057 guaranteeing members resulting in a total contribution of $3,490,114 upon winding up.

Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 23 and forms part of the Directors' Report for the year ended 30 June 2023.

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 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.

LEONA MURPHY
President and Chair
8 September 2023

RACQ Employee Expo at Eight Mile Plains head office

Building a better working world

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

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 2023, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

RBurrows

Rebecca Burrows
Partner
8 September 2023

Consolidated statement of comprehensive income

For the financial year ended 30 June 2023

	Note	2023 $'000	2022 $'000
Revenue			
Insurance premium revenue	3.1	1,290,034	1,128,783
Revenue from contracts with members	7.1.1	262,499	242,451
Banking interest income	4.1	101,532	60,033
Reinsurance and other recoveries revenue	3.1	602,629	547,063
Reinsurance commission revenue	3.1	68,166	25,502
Investment interest and dividend income	5.1	63,926	44,752
Other income		3,112	213
Total revenue		**2,391,898**	**2,048,797**
Expenses			
Insurance claims expense	3.1	(989,962)	(1,375,265)
Employee benefits expense	6.3.1	(216,458)	(196,376)
Outwards reinsurance premium expense	3.1	(784,177)	(238,571)
Payments to contractors for assistance services		(97,611)	(88,864)
Banking interest expense	4.1	(44,741)	(9,826)
Other underwriting and acquisition costs		(337)	(36,522)
Net losses on financial assets at fair value through profit or loss	5.1	(6,439)	(85,031)
Depreciation and amortisation expense		(33,540)	(36,691)
Member remediation expense	3.1	(28,784)	(193,180)
Communication and information technology expenses		(74,730)	(67,616)
Contractor and consulting expenses		(29,031)	(25,283)
Other expenses	7.2	(74,035)	(55,784)
Credit and other financial asset impairment (loss) / reversal	4.3	(172)	1,451
Total expenses		**(2,380,017)**	**(2,407,558)**
Share of profit in associates and joint ventures	7.8	1,110	366
(Loss) / Gain on disposal of business assets		(666)	5,977
Surplus / (Deficit) before income tax		**12,325**	**(352,418)**
Income tax (expense) / benefit	6.5	(4,925)	107,238
Surplus / (Deficit) for the year		**7,400**	**(245,180)**
Surplus / (Deficit) attributable to:			
Non-controlling interest		-	(1)
Members		7,400	(245,179)
Surplus / (Deficit) for the year		**7,400**	**(245,180)**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains		-	34
Net losses on equity investments at fair value through other comprehensive income		(3,187)	(9,105)
Related income tax benefit	6.5	956	2,721
Total other comprehensive loss for the year		**(2,231)**	**(6,350)**
Total comprehensive income/(loss) for the year		**5,169**	**(251,530)**
Total comprehensive income/(loss) attributable to:			
Non-controlling interest		-	(1)
Members		5,169	(251,529)

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 28 to 68.

Consolidated balance sheet

As at 30 June 2023

	Note	2023 $'000	2022 $'000
Assets			
Cash and cash equivalents		208,323	299,257
Trade and other receivables	5.3.2	450,311	415,541
Current tax receivable		6,192	35,930
Deferred acquisition costs	3.5	47,609	17,080
Financial assets	5.2	2,101,664	2,172,283
Loans and advances	4.2	2,156,330	2,092,017
Reinsurance and other recoveries receivable	3.4	767,032	636,976
Deferred reinsurance assets	3.1	463,675	46,523
Other assets		29,835	32,353
Equity-accounted investments	7.8	18,438	24,904
Property, plant and equipment	6.1	137,290	139,052
Deferred tax assets	6.5.3	110,302	121,190
Goodwill and other intangible assets	6.2	264,218	270,641
Total assets		**6,761,219**	**6,303,747**
Liabilities			
Trade and other payables	5.3.3	130,934	93,562
Reinsurance payables	5.3.3	466,851	28,967
Provisions	7.3	270,258	239,211
Deposits	4.4	2,199,526	2,194,528
Unearned premium liability	3.7	717,008	598,589
Contract liabilities	7.1.2	91,286	85,813
Borrowings	4.5	217,258	210,102
Outstanding claims liabilities	3.3	1,343,523	1,542,399
Employee benefit liabilities	6.3.2	52,816	43,986
Total liabilities		**5,489,460**	**5,037,157**
Net assets		**1,271,759**	**1,266,590**
Accumulated funds			
Retained surplus		1,253,249	1,245,845
Reserves		18,510	20,745
Total accumulated funds attributable to members		**1,271,759**	**1,266,590**
Non-controlling interest		-	-
Total accumulated funds		**1,271,759**	**1,266,590**

The Consolidated Balance Sheet is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 28 to 68.

Consolidated statement of changes in accumulated funds

For the financial year ended 30 June 2023

2023	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 2022	**1,245,845**	**-**	**2,116**	**18,629**	**1,266,590**	**-**	**1,266,590**
Surplus for the year	7,400	-	-	-	7,400	-	7,400
Other comprehensive income / (loss) for the year	4	-	(2,235)	-	(2,231)	-	(2,231)
Total comprehensive income / (loss) for the year	**7,404**	**-**	**(2,235)**	**-**	**5,169**	**-**	**5,169**
As at 30 June 2023	**1,253,249**	**-**	**(119)**	**18,629**	**1,271,759**	**-**	**1,271,759**
2022							
As at 30 June 2021	**1,477,389**	**3,600**	**19,223**	**18,629**	**1,518,841**	**(721)**	**1,518,120**
Deficit for the year	(245,179)	-	-	-	(245,179)	(1)	(245,180)
Other comprehensive income / (loss) for the year	10,757	-	(17,107)	-	(6,350)	-	(6,350)
Total comprehensive loss for the year	**(234,422)**	**-**	**(17,107)**	**-**	**(251,529)**	**(1)**	**(251,530)**
Transfers							
Transfers to general reserve for credit losses	3,600	(3,600)	-	-	-	-	-
Total transfers	**3,600**	**(3,600)**	**-**	**-**	**-**	**-**	**-**
Transactions with owners in their capacity as owners							
Purchase of minority interest	(722)	-	-	-	(722)	722	-
Total transactions with owners in their capacity as owners	**(722)**	**-**	**-**	**-**	**(722)**	**722**	**-**
As at 30 June 2022	**1,245,845**	**-**	**2,116**	**18,629**	**1,266,590**	**-**	**1,266,590**

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 28 to 68.

Consolidated statement of cash flows

For the financial year ended 30 June 2023

	Note	2023 $'000	2022 $'000
Cash flows from operating activities			
Insurance premiums received		1,474,283	1,280,290
Revenue from contracts with members received		257,761	263,082
Banking interest received		101,532	59,890
Reinsurance and other recoveries received		472,573	275,071
Reinsurance commission received		68,166	26,087
Insurance investment income received		61,003	37,215
Insurance claims paid		(1,302,135)	(1,183,263)
Outwards reinsurance premiums paid		(763,445)	(246,275)
Banking interest paid		(34,232)	(9,351)
Payments to suppliers and employees		(529,897)	(486,997)
Income taxes received / (paid)		35,701	(1,368)
Net movement in operating assets and liabilities			
Loans and advances		(64,487)	(55,707)
Deposits		(4,854)	60,396
Net cash flows from operating activities	**7.4**	**(228,031)**	**19,070**
Cash flows from investing activities			
Proceeds from other investing activities		2,873	9,340
Proceeds from sale or maturity of financial assets		3,558,029	1,061,021
Payments for financial assets		(3,402,748)	(842,539)
Payments for intangible assets		(8,378)	(5,494)
Payments for property, plant and equipment		(13,721)	(14,208)
Proceeds from sale of business assets		113	15,992
Payments for investments in joint ventures and associates		-	(8,168)
Net cash flows from investing activities		**136,168**	**215,944**
Cash flows from financing activities			
Payments for redeemed preference shares		(25)	(84)
Repayments of principal for lease liabilities		(4,046)	(4,253)
Proceeds from borrowings	4.5	65,000	55,000
Repayments of borrowings	4.5	(60,000)	(60,000)
Net cash flows from financing activities		**929**	**(9,337)**
Net increase / (decrease) in cash and cash equivalents		(90,934)	225,677
Cash and cash equivalents at the beginning of the year		299,257	73,580
Cash and cash equivalents at the end of the year		**208,323**	**299,257**

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 28 to 68.

Notes to the consolidated financial statements

For the financial year ended 30 June 2023

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 8 September 2023.

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

Statement of compliance

The consolidated financial statements are general purpose financial statements that has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) and Interpretations issued by the International Accounting Standards Board (IASB). The Group has prepared the financial statements on the basis that it will continue to operate as a going concern.

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 re-presented to conform with changes in presentation in the current financial year.

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 3.3)
- Reinsurance and other recoveries receivable (Note 3.4)
- Liability adequacy test (Note 3.6)
- Deferred reinsurance assets (Note 3.1)
- Impairment of loans and advances (Note 4.3)
- Fair value of financial instruments (Note 5.2)
- Impairment testing of cash-generating units containing goodwill (Note 6.2.1)
- Recognition of deferred tax assets (Note 6.5.3)
- Provisions and contingent liabilities (Note 7.3)

Basis of measurement

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

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

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

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

Basis of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2023. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Interests in equity-accounted investees

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

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

(iii) Transactions eliminated on consolidation

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

2. Standards issued but not yet effective

As at the date of this financial report, there are several new or revised accounting standards published by the AASB that will be mandatory in future financial years. The new or revised accounting standards that are expected to have a material impact on the Group's consolidated financial statements are set out below. The Group has not early adopted this accounting standard.

AASB 17 *Insurance Contracts*

AASB 17 *Insurance Contracts* (AASB 17) was issued in July 2017 and it will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* (AASB 1023) and AASB 1038 *Life Insurance Contracts*. In June 2020, the IASB issued Amendments to IFRS 17 which deferred the effective date for annual reporting periods from 1 January 2021 to 1 January 2023. These amendments were adopted by the AASB in July 2020. AASB 17 is effective for the Group's financial statements for the reporting period beginning on 1 July 2023.

Measurement models

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 with all contracts on transition one year or less.

For groups of contracts where the premium allocation approach is applied and coverage period is one year or less, the Group will continue to amortise acquisition costs over the coverage period of the related insurance contracts consistent with current accounting under AASB 1023.
Under the premium allocation approach the Group will continue to discount its claims liabilities as reflected under "Discount rates".

Onerous contracts

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

On transition the onerous contracts losses were higher than the losses under the former liability adequacy test. The main driver being the increase in the risk adjustment. The new aggregation level of the insurance contracts had a minor impact.

Risk adjustment

The measurement of insurance contract liabilities will include a risk adjustment which replaces the risk margin under AASB 1023. The risk margin under AASB 1023 reflects the inherent uncertainty in the net discounted central estimate, whereas the risk adjustment is defined as the compensation required for bearing the uncertainty that arises from non-financial risk. Similar to the risk margin, the risk adjustment includes the benefit of diversification. AASB 17 requires the disclosure of the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities.

Discount rates

AASB 1023 requires the net central estimate of outstanding claims to be discounted using risk-free rates as described in note 3.3.2 to the financial statements. AASB 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows but does not prescribe a methodology for determining the discount rates used. The Group will apply a 'bottom-up approach' which requires the use of risk-free rates adjusted to reflect the illiquidity characteristics of the insurance contracts which will result in higher discount rates relative to current requirements and an increase in opening retained earnings on adoption of AASB 17.

Presentation and disclosure

The standard introduces changes to the presentation and disclosure of line items in the Consolidated Statement of

Comprehensive Income, Consolidated Balance Sheet and related notes, effective for the Group's consolidated financial statements for the reporting period beginning on 1 July 2023, including a restatement of financial statements for the immediate prior year. The changes result in new line items and increased disclosure comparing to current reporting under AASB 1023.

In the Consolidated Balance Sheet, line items relating to premiums receivable within trade and other receivables, reinsurance and other recoveries receivable, deferred reinsurance assets, deferred acquisition costs, reinsurance payables, unearned premium liability, outstanding claims liability, unexpired risk liability within trade and other payables will be replaced by insurance contract assets and/or liabilities and reinsurance contract assets and/or liabilities.

In the Consolidated Statement of Comprehensive Income and related notes, net surplus or loss will be presented under insurance service result, investment income, net insurance financial result, other income and other expenses. Within insurance service result, revenue and expenses from insurance contracts issued is presented separately from net income or expense from reinsurance contracts held. The net insurance financial result relates to effects of financing on insurance and reinsurance contracts which is separately presented in the income statement.

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

Implementation progress
The implementation of AASB 17 is well progressed and work is ongoing to finalise and restate information for reporting on this basis in the next financial year. Current tax laws are constructed in a way that imports accounting concepts of AASB 1023 into tax law. The Group is awaiting tax legislation changes under AASB 17 from the ATO and Treasury to assess the tax impact.

Financial impact

Based on the work performed to date, the impact of AASB 17 on Group's total equity as at 1 July 2022 is currently expected to be within a range of $75 to $85 million increase, before associated tax effects. The opening equity impact is mainly driven by the application of lower risk adjustments and higher discount rates reflecting inclusion of illiquidity premium offset by loss on onerous contracts.

Where appropriate APRA prudential and reporting standards have been updated to ensure compatibility with AASB 17 while avoiding unnecessary misalignment between AASB 17 and APRA's capital and reporting frameworks. The Group does not expect AASB 17 to significantly alter the prescribed capital amount (PCA) in accordance with its internal capital adequacy assessment process (ICAAP) under APRA's capital and reporting frameworks.

3. Insurance activities
3.1 Insurance result

	Note	2023 $'000	2022[2] $'000
Insurance premium revenue – external		1,290,034	1,128,783
Insurance premium revenue – inter-segment[1]		476	425
Outwards reinsurance premium expense		(784,177)	(238,571)
Net premium revenue		**506,333**	**890,637**
Insurance claims expense – external	3.2	(989,962)	(1,375,265)
Insurance claims expense – inter-segment[1]		(17,778)	(14,297)
Insurance claims expense[1]		**(1,007,740)**	**(1,389,562)**
Reinsurance and other recoveries revenue	3.2	602,629	547,063
Net claims incurred[1]		**(405,111)**	**(842,499)**
Acquisition costs[1]		(79,296)	(107,974)
Other underwriting expenses[1]		(57,480)	(55,769)
Member remediation expense	7.3.1	(28,784)	(193,180)
Reinsurance commission revenue		68,166	25,502
Total underwriting expenses[1]		**(97,394)**	**(331,421)**
Underwriting result[1]		**3,828**	**(283,283)**
Investment income / (losses) on technical reserves		36,565	(36,399)
Investment expenses on technical reserves		(1,232)	(1,393)
Insurance result[1]		**39,161**	**(321,068)**

1 Includes intercompany transactions that eliminate on consolidation.
2 Comparatives have been re-presented to conform with changes in presentation in the current financial year.

Accounting policies

(i) Insurance premium revenue

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

(ii) Outwards reinsurance premium expense & deferred reinsurance assets

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, net premium earned, or total risks covered depend on contractual terms for the underwriting year.

The reinsurance premium expense for the Loss Portfolio Transfer (LPT) arrangement is recognised based on losses occurring on and before 31 December 2021 inuring to pre-existing reinsurance arrangements.

Deferred reinsurance assets

The cost of the reinsurance contract is recognised as a reinsurance liability and as a deferred reinsurance asset in the balance sheet for contracts incepted by the balance date. Reinsurance premiums are deferred and recognised as an asset where there are future economic benefits to be received from the reinsurance premiums. The deferred reinsurance asset is measured based on the expected cost of the underlying reinsurance contracts taking into account variables such as forecast gross written premium, forecasted net earned premium or total risks based on experience to date depending on contractual terms for the underwriting year and net of expected commission.

Key reinsurance developments during the financial year were as follows:

- On 1 July 2022, the Group entered into a 25% Whole of Account Quota Share arrangement for all product lines.
- The Group entered into a LPT arrangement on 2 June 2023 for 80% of CTP insurance liabilities arising from losses occurring on and before 31 December 2021.
- The Group entered the Australian Reinsurance Pool Corporation (ARPC) Cyclone Pool on 30 June 2023
- Excess of Loss and Per Risk reinsurance contracts renewal date was brought forward to 30 June 2023 from 1 July 2023 covering the 12 months ending 30 June 2024.

(iii) Insurance claims expense

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

(iv) Reinsurance and other recoveries revenue

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

(iv) Underwriting expenses

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

(v) Member remediation expense

Member remediation expense reflects the expected costs that have been incurred associated with the Group's pricing promises remediation program. Refer to note 7.3.1 for further information on the Member remediation provision.

(vi) Reinsurance commission revenue

Reinsurance commission revenue covers a share of the Insurance segment's operating costs. It is recognised broadly in line with the reference premium over the term of the reinsurance agreements.

3.2 Net claims incurred

	2023			2022		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expense – consolidated						
Gross claims incurred / (released) – undiscounted	1,154,414	(168,055)	986,359	1,412,472	(39,638)	1,372,834
Discount movement	4,040	(437)	3,603	(1,598)	4,029	2,431
	1,158,454	**(168,492)**	**989,962**	**1,410,874**	**(35,609)**	**1,375,265**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	(443,808)	(159,586)	(603,394)	(540,052)	(9,269)	(549,321)
Discount movement	2,529	(1,764)	765	2,610	(352)	2,258
	(441,279)	**(161,350)**	**(602,629)**	**(537,442)**	**(9,621)**	**(547,063)**
Total net claims incurred – consolidated	**717,175**	**(329,842)**	**387,333**	**873,432**	**(45,230)**	**828,202**

Net claims incurred has been impacted by new reinsurance arrangements introduced during the year, including LPT arrangement for CTP insurance liabilities arising from losses occurring on and before 31 December 2021.

3.3 Outstanding claims liability

	2023 $'000	2022 $'000
Gross outstanding claims liability		
Gross central estimate - undiscounted	1,252,904	1,358,858
Claims handling expense	86,159	86,403
	1,339,063	**1,445,261**
Discount to present value	(92,648)	(62,984)
Risk margin	97,108	160,122
Gross outstanding claims liability	**1,343,523**	**1,542,399**
Current	645,352	854,155
Non-current	698,171	688,244
Gross outstanding claims liability	**1,343,523**	**1,542,399**
	%	%
Risk margin on net central estimate	19.8	21.0
Probability of sufficiency	92.5	92.5

Accounting policies

This is an area of significant estimates, judgements and assumptions. 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 3.3.2.

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.

	2023 $'000	2022 $'000
Net outstanding claims liability – opening balance	905,423	881,978
Prior periods		
Claim payments	(367,949)	(317,007)
Discount unwind	17,329	2,618
Margin release on prior periods	(60,866)	(61,000)
Incurred claims due to changes in assumptions and experience	1,401	4,417
Reinsurance recoveries	(279,596)	-
Current period		
Net central estimate for current period	299,957	328,013
Net change in reinsurance on paid claims	4,710	8,624
Risk margin on current period net outstanding claims	56,082	57,780
Net outstanding claims liability – closing balance	**576,491**	**905,423**
Reinsurance and other recoveries receivable	767,032	636,976
Gross outstanding claims liability – closing balance	**1,343,523**	**1,542,399**

The net outstanding claims liability has been impacted by reinsurance arrangements introduced during the year.

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

	Carrying amount $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2023	1,343,523	645,351	609,274	88,898	**1,343,523**
2022	1,542,399	854,155	607,880	80,364	**1,542,399**

3.3.1 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	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000	Total $'000
Estimate of net ultimate CTP claims cost:											
At end of accident year	169,902	155,377	171,782	181,531	187,866	198,207	206,147	152,439	127,037	143,099	
One year later	147,050	146,065	160,153	171,963	167,516	173,960	186,161	159,166	86,359		
Two years later	140,057	133,714	140,977	153,349	156,341	164,497	193,155	84,745			
Three years later	124,223	116,999	125,045	152,349	165,441	169,854	144,270				
Four years later	115,717	114,393	119,928	145,768	171,595	141,745					
Five years later	107,743	115,634	116,239	144,944	144,229						
Six years later	107,575	115,658	117,635	126,027							
Seven years later	104,826	116,201	110,741								
Eight years later	104,138	110,313									
Nine years later	101,984										
Current estimate of net ultimate CTP claims cost	101,984	110,313	110,741	126,027	144,229	141,745	144,270	84,745	86,359	143,099	1,193,512
Cumulative CTP payments	(101,542)	(108,952)	(110,222)	(122,118)	(138,848)	(135,847)	(131,069)	(66,122)	(22,420)	(1,888)	(939,028)
Net outstanding CTP claims - undiscounted	**442**	**1,361**	**519**	**3,909**	**5,381**	**5,898**	**13,201**	**18,623**	**63,939**	**141,211**	**254,484**
Discount to present value											(23,298)
Net claims handling expenses											57,599
2013 and prior											3,881
Outstanding claims - CTP											**292,666**
Outstanding claims - Personal Insurance											**186,717**
Risk margin											97,108
Total net outstanding claims											**576,491**

The net outstanding claims liability has been impacted by reinsurance arrangements introduced during the year.

3.3.2 Actuarial assumptions and methods

Significant accounting judgements and estimates

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

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

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

Actuarial assumptions

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

	2023		2022	
	Personal Insurance	CTP Insurance	Personal Insurance	CTP Insurance
Discount rate	**4.2%**	**4.1%**	2.3%	3.1%
Economic inflation rate	**-**	**3.5%**	-	2.8%
Superimposed inflation rate	**-**	**1.5%**	-	1.5%
Claims handling expense ratio	**6.2%**	**7.4%**	5.3%	7.4%
Risk margin	**13.0%**	**24.3%**	12.9%	24.3%
Duration (years)	**0.61**	**2.13**	0.43	2.09

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

Economic inflation and superimposed inflation rate
Economic inflation for CTP claim settlement costs is based on economic indicators such as growth in average weekly earnings. External views on future wage inflation have increased from those used at 30 June 2022 and led to an increased assumption being employed at 30 June 2023. Superimposed inflation reflects the tendency of claims costs to increase above the rate of economic inflation due to economic, social and political forces. For CTP Insurance, superimposed inflation is unchanged at 1.5% in recognition of the relatively benign experience over the last 10 years.

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

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

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

Risk margin reserves are set to allow for diversification across products to arrive at an overall provision which is intended to have a probability of sufficiency of 92.5% (2022: 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 summarised below as a sensitivity of the surplus/(loss) after tax to a 1% change in the key variable. A change in each variable will have no impact on equity reserves.

Impact of changes in key variables	Movement in variable 2022 and 2023	Surplus/(Loss) after tax 2023 $'000	2022 $'000
Assumption			
Discount rate	+1%	6,387	10,059
	-1%	(6,688)	(10,532)
Inflation rate	+1%	(5,397)	(8,585)
	-1%	5,259	8,383
Claims handling expense rate	+1%	(9,245)	(9,366)
	-1%	9,245	9,366
Risk margin	+1%	(4,152)	(6,903)
	-1%	3,560	5,926

3.4 Reinsurance and other recoveries receivable

	2023 $'000	2022 $'000
Expected undiscounted outstanding reinsurance and other recoveries	801,046	660,463
Discount to present value	(34,014)	(23,487)
Total reinsurance and other recoveries receivable	**767,032**	**636,976**
Current	574,183	450,626
Non-current	192,849	186,350
Total reinsurance and other recoveries receivable	**767,032**	**636,976**

Reinsurance recoveries receivable have been impacted by reinsurance arrangements introduced during the year.

Accounting policies

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

3.5 Deferred acquisition costs

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

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

	2023 $'000	2022 $'000
Opening balance	17,080	35,079
Acquisition costs incurred /deferred in the period	109,825	89,975
Amortisation expense	(70,044)	(78,129)
Write down for premium deficiency (refer to Note 3.6)	(9,252)	(29,845)
Closing balance	**47,609**	**17,080**

3.6 Liability adequacy test

The liability adequacy test (LAT) is completed at each reporting date and assesses the adequacy of the carrying amount of the net unearned premium liability to settle future claims. To determine if any deficiency exists, estimates of future claim costs (premium liabilities net of reinsurance) are compared to the unearned premium liability net of reinsurance and related DAC. If the future claim costs exceed the net premium liabilities, then a deficiency exists. Any deficiency is recognised immediately in profit or loss, with the corresponding impact on the balance sheet recognised first through the write-down of DAC for the relevant portfolio of contracts and then through the establishment of a provision (unexpired risk liability). The LAT is required to be conducted at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

The LAT is conducted using the central estimate of the premium liabilities, applying a methodology consistent for reporting to APRA, which requires an estimation of the present value of future net cash flows (relating to future claims arising from the rights and obligations under current general insurance contracts) and adjusted for an appropriate risk margin for uncertainty in the central estimate for each portfolio of contracts. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

	2023 $'000	2022 $'000
Central estimate present value of expected gross future cash flows arising from future claims	597,768	691,035
Central estimate present value of expected future cash inflows arising from reinsurance and other recoveries on future claims	(195,357)	(152,655)
Risk margin	8,649	7,885
Expected present value of future cash flows for future claims including risk margin	**411,060**	**546,265**
	%	**%**
Risk margin	2.1	1.5
Probability of sufficiency	60	60

The risk margin used in the LAT for individual portfolios is calculated by using a probability of sufficiency (PoS) methodology including diversification benefit, which is consistent with that used for the determination of the risk margin for the outstanding claims liability, based on assessments of the levels of risk in each portfolio. The PoS represented in the LAT differs from the 92.5% PoS represented by the outstanding claims liability (see Note 3.3) 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 3.3.2.

As at 30 June 2023, the LAT resulted in a deficiency of $9.6 million (2022: $31.0 million) which has subsequently been recognised in the Consolidated Statement of Comprehensive Income in Other underwriting and acquisition costs of $9.2 million (2022: $29.8 million) and in the Consolidated Balance Sheet by a write down of DAC of $9.2 million (2022: $29.8 million) and creating an Unexpired risk liability of $0.4 million (2022: $1.1 million). The current year LAT deficiency relates to the portfolio of contracts associated with partner products, with a surplus recorded for the portfolio of contracts associated with RACQ direct products.

Deficient portfolio	2023 $'000	2022 $'000
Unearned premium liability	41,315	598,589
Deferred reinsurance expense	(11,879)	(36,381)
Deferred acquisition costs	(14,105)	(46,925)
	15,331	**515,283**
Central estimate present value of expected gross future cash flows arising from future claims	38,416	691,035
Central estimate present value of expected future cash inflows arising from reinsurance and other recoveries on future claims	(14,078)	(152,655)
Risk Margin	618	7,885
Premium liability provision	**24,956**	**546,265**
Net deficiency	**(9,625)**	**(30,982)**

3.7 Unearned premium liability

	2023 $'000	2022 $'000
Opening balance	598,589	540,351
Insurance premiums written during the financial year	1,408,929	1,187,446
Insurance premiums earned during the financial year	(1,290,510)	(1,129,208)
Closing balance	**717,008**	**598,589**

Accounting policies

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

3.8 Insurance risk management

3.8.1 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 RMS 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.

3.8.2 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.

3.8.3 Concentration of insurance risk

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 2023 is 37.0% (2022: 26.8%) which equates to $224.9 million (2022: $125.0 million).

3.9 Insurance capital management

As RACQ Insurance Limited is a general insurer regulated by APRA, it must maintain adequate capital against the risks associated with its activities.

The Insurance Group, comprising Club Insurance Holdings Pty Ltd and RACQ Insurance Limited, has retained its capital target of 1.95 times and a target range of 1.62 – 2.10 times the prescribed capital amount (PCA) in the period, with 1.71 times being the capital injection trigger point, in accordance with its Internal Capital Adequacy Assessment Process (ICAAP). At 31 December and 30 June each year, management will assess its ability to pay a dividend ensuring that capital levels do not fall below 1.85 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 increase in the PCA multiple is a result of the issuance of additional ordinary shares to its immediate parent entities within the RACQ Group, current year earnings, the net effect of entering into a Loss Portfolio Transfer agreement to reinsure CTP liabilities (release of insurance risk charge offset by lower excess technical provisions) and an increase in the asset risk charge due to the nature of financial instruments held.

Level 2 Insurance Group	2023 $'000	2022 $'000
Common Equity Tier 1 capital		
Paid-up ordinary shares	857,890	825,890
Retained (losses) / earnings brought forward	(68,976)	166,900
Current year earnings	31,794	(235,876)
Excess technical provisions (net of tax)	32,462	59,119
	853,170	**816,033**
Less: Deductions		
Goodwill and other intangible assets	238,679	238,845
Deferred tax asset	61,504	82,222
Common Equity Tier 1 capital	**552,987**	**494,966**
Tier 2 capital		
Subordinated debt	60,000	60,000
Total Tier 2 capital	**60,000**	**60,000**
APRA capital base	**612,987**	**554,966**
Prescribed capital amount		
Insurance risk charge	134,506	191,458
Insurance concentration risk charge	59,671	63,944
Asset risk charge	113,933	89,056
Asset concentration risk charge	-	-
Operational risk charge	42,268	41,194
Aggregation benefit	(64,113)	(57,649)
Prescribed capital amount	**286,265**	**328,003**
PCA multiple	**2.14**	**1.69**

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.

RACQ Insurance Limited has entered into a Deed of Support with its ultimate parent entity, The Royal Automobile Club of Queensland Limited, to receive additional capital if and to the extent it is required for RACQ Insurance Limited to maintain its capital adequacy requirements in accordance with the relevant APRA prudential standards.

4. Banking activities

4.1 Banking result

	2023 $'000	2022 $'000
Interest income	101,532	60,033
Interest expense	(44,741)	(9,826)
Net interest income	**56,791**	**50,207**
Other Income	2,428	3,476
Employee benefits expense	(27,485)	(27,051)
Communication and information technology expenses	(9,340)	(11,587)
Other expenses	(13,985)	(13,477)
Credit and other financial asset impairment (loss) / reversal	(172)	1,451
Banking result	**8,237**	**3,019**

Accounting policies

Interest income and expense

Interest income and expense on financial assets and liabilities is recognised as interest and is accrued using the effective interest rate 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 Expected Credit Loss (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.

Other income

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

4.2 Loans and advances

	2023 $'000	2022 $'000
Housing loans	2,040,690	1,984,353
Personal loans	107,722	98,793
Revolving credit	6,692	6,873
Commercial loans	2,207	3,315
Gross loans and advances	**2,157,311**	**2,093,334**
Unamortised loan fees	833	409
Provision for impairment	(1,814)	(1,726)
Net loans and advances	**2,156,330**	**2,092,017**
Current	549,556	567,411
Non-current	1,606,774	1,524,606
Total	**2,156,330**	**2,092,017**

Accounting policies

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

Loans and advances are recognised at settlement date when loan funding is provided to the borrower. They are initially recognised at their fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at their amortised cost using the effective interest rate method and presented net of provision for impairment. Refer to Note 4.3 for the accounting policy on the provision for impairment.

4.3 Impairment of loans and advances

$'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 2022	**975**	**90**	**170**	**491**	**1,726**
Transfer to/(from) Stage 1	259	(47)	(79)	(133)	-
Transfer to/(from) Stage 2	-	36	(2)	(34)	-
Transfer to/(from) Stage 3	(6)	(2)	6	2	-
New and increased provisions (net of releases)	(430)	87	327	157	141
Write-offs from specific provisions	-	-	-	(53)	(53)
ECL allowance as at 30 June 2023	**798**	**164**	**422**	**430**	**1,814**
ECL allowance as at 1 July 2021	**2,509**	**112**	**146**	**515**	**3,282**
Transfer to/(from) Stage 1	172	(61)	(70)	(41)	-
Transfer to/(from) Stage 2	-	15	(1)	(14)	-
Transfer to/(from) Stage 3	(10)	(5)	10	5	-
New and increased provisions (net of releases)	(1,696)	29	85	179	(1,403)
Write-offs from specific provisions	-	-	-	(153)	(153)
ECL allowance as at 30 June 2022	**975**	**90**	**170**	**491**	**1,726**

Credit and other financial asset impairment (loss) / reversal

	2023 $'000	2022 $'000
Net collective provision - loans and advances	(149)	1,531
Net specific provision - loans and advances	8	(129)
Bad debts recovered - loans and advances	21	27
Impairment (loss) / reversal of other financial assets	(52)	22
Total credit and other financial asset impairment (loss) / reversal	**(172)**	**1,451**

Recognition and measurement

Overview of the ECL principles

The ECL methodology used for determining impairment provisions under AASB 9 applies to 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.

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:

Weightings	30 June 2023	30 June 2022	Considerations at 30 June 2023
Baseline scenario	45%	45%	Reflects current economic conditions and is largely aligned with the Reserve Bank of Australia's (RBA) latest economic forecasts. Unemployment rate is expected to rise in late 2023 but forecast to remain below pre-pandemic levels (below 4.0%) and reaching 4.5% by late 2024. Annual GDP growth is expected to decrease to 1.5% in 2023 and then remain stable in 2024. The RBA's aggressive monetary policy tightening cycle has contributed to a decline in house prices with a forecast drop of 9.0% expected in Brisbane for 2023 followed by a subsequent uplift of 2.0% in 2024.
Downside	40%	40%	Derived from the baseline. Assumes inflation remains highly persistent resulting in greater than usual uncertainty that poses a downside risk to economic activity. Leads to tighter monetary policy resulting in a faster slowing of economic activity than currently expected. Unemployment rate being 2.0% unfavourable and annual GDP 1.0% unfavourable to baseline.
Upside	5%	5%	Derived from the baseline. Assumes a possibility of inflation slowing quicker than expected resulting in stronger GDP, lower unemployment, and higher increases in the house price index. Unemployment rate and annual GDP being 1.0% favourable compared to baseline.
Severe downturn	10%	10%	Derived taking into consideration the results of APRA's stress testing of banks during COVID-19 in December 2020. The economic conditions underlying the stress tests were based on very severe forward-looking economic assumptions, well beyond the impact of COVID-19. The scenario developed by APRA composed of a very large fall in economic activity, with GDP falling by 15.0%, unemployment rising to over 13.0% and national house prices falling by over 30.0% over a 3-year period.

Lifetime of loans

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

ECL governance

Members Banking Group Limited's (RACQ Bank) Credit Committee reviews the ECL methodology and model at least annually, taking into consideration actual loan loss experience and changes in underlying loan portfolios. Where deemed necessary, credit risk parameters may be recalibrated.

RACQ Bank's Asset and Liability Committee is responsible for reviewing and approving the macro-economic forecast scenarios and associated probability weightings on a regular basis.

Management adjustments and overlays may be made to impairment provisions to account for circumstances where known or emerging risks have not been captured in the ECL modelling process. RACQ Bank's Credit Committee is responsible for approving such adjustments.

ECL sensitivity

The table below discloses the collectively assessed provision outcomes assuming a 100% weighting is applied to the relevant scenario, all other assumptions held constant.

Scenario Outcomes	30 June 2023 $'000	30 June 2022 $'000
Baseline scenario	286	494
Downside	369	578
Upside	239	445
Severe downturn	960	2,089

4.4 Deposits

	2023 $'000	2022 $'000
Call deposits	1,331,558	1,451,566
Negotiable certificates of deposit	126,534	111,812
Term deposits	741,434	631,150
Total deposits	**2,199,526**	**2,194,528**
Current	2,178,489	2,170,459
Non-current	21,037	24,069
Total deposits	**2,199,526**	**2,194,528**

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

Accounting policies

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

4.5 Borrowings

	2023 $'000	2022 $'000
Medium Term Notes		
Balance at beginning of financial year	115,260	120,129
Proceeds	65,000	55,000
Repayments	(60,000)	(60,000)
Net movement in interest accrued	410	131
Carrying amount at end of financial year	**120,670**	**115,260**
RBA Term Funding Facility		
Balance at beginning of financial year	96,847	96,662
Net movement in interest accrued	182	185
Carrying amount at end of financial year	**97,029**	**96,847**
Interest rate swap hedge	(520)	(2,021)
Net movement in interest accrued	79	16
Carrying amount at end of financial year	**96,588**	**94,842**
Total Borrowings	**217,258**	**210,102**
Total Borrowings (excluding interest rate swap hedge)	**217,699**	**212,107**
Current	97,258	60,577
Non-current	120,000	149,525
Total Borrowings	**217,258**	**210,102**

Accounting policies

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

4.5.1 Borrowing facilities

	Approved facility $'000	Amount drawn $'000	Amount available $'000
2023			
Overdraft facility	10,000	-	10,000
Medium Term Notes	500,000	120,670	379,330
Reserve Bank of Australia (self-securitisation)	471,176	97,029	374,147
Of which: Term Funding Facility [1]	*97,093*	*97,029*	-
	981,176	**217,699**	**763,477**
2022			
Overdraft facility	10,000	-	10,000
Medium Term Notes	500,000	115,260	384,740
Reserve Bank of Australia (self-securitisation)	552,210	96,847	455,363
Of which: Term Funding Facility [1]	*97,093*	*96,847*	-
	1,062,210	**212,107**	**850,103**

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

Medium term notes

The Group has an established $500m Debt Issuance Programme (dated 2 May 2018) under which medium term notes (MTN) and other debt securities may, from time to time, be issued up to the programme limit. During the current financial year, the Bank executed one new MTN transaction, a $65m 3-year floating-rate note issuance, with a maturity date of 24 February 2026.

Self-securitisation vehicle

The amount of liquidity available from RACQ Bank's self-securitisation vehicle at 30 June 2023 was $471.2 million (2022: $552.2 million). The Group did not access any of this contingent liquidity during the current or previous financial year.

Term funding facility

At 30 June 2023 the Group has fully drawn $96.5 million of available Term Funding Facility (TFF) Initial and Supplementary Allowance (2022: $96.5 million). Interest is charged at a fixed rate equivalent to the official cash rate at the time the respective portion of the facility was drawn down. The Initial and Supplementary funding are to mature by June 2024.

To access the funding, the Group pledged eligible collateral which included self-securitised residential mortgage-backed securities (RMBS) issued by the Arrow Funding Trust No.1. As at 30 June 2023, $114.7 million (2022: $114.7 million) of RMBS were pledged as collateral.

4.6 Banking capital management

As Members Banking Group Limited (RACQ Bank) is an ADI regulated by APRA, it must maintain a minimum level of capital adequacy.

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.

From 1 January 2023, APRA implemented its revisions to the ADI capital framework. The adequacy of the Banking Group's capital is managed in accordance with the new 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 and Policy Document, which sets out the objectives, processes, responsibilities and reporting requirements for the ICAAP, and an ICAAP Annual Report, which sets out the results of the annual assessment process. The ICAAP is approved by the RACQ Bank Board on an annual basis.

The Banking Group has entered into a Deed of Support with its ultimate parent entity, The Royal Automobile Club of Queensland Limited, to receive additional capital if and to the extent it is required for the Banking Group to maintain its capital adequacy in accordance with the relevant APRA prudential standards.

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.

Level 2 Banking Group	2023 $'000	2022 $'000
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	65,500	65,500
Retained earnings	114,203	108,451
Other reserves	21,390	21,510
Common Equity Tier 1 Capital	**201,093**	**195,461**
Less: prescribed deductions	(16,764)	(18,809)
Net Common Equity Tier 1 Capital	**184,329**	**176,652**
Tier 2 Capital		
Provision for future credit losses	1,240	1,291
Net Tier 2 Capital	**1,240**	**1,291**
APRA Capital base	**185,569**	**177,943**
Risk weighted assets	**1,026,728**	**1,120,135**
Tier 1 Capital Ratio	18.0%	15.8%
Tier 2 Capital Ratio	0.1%	0.1%
Total Capital Ratio	**18.1%**	**15.9%**

5. Financial instruments

5.1 Net investment income

	2023 $'000	2022 $'000
Interest income		
Financial assets at amortised cost	369	387
Financial assets at fair value through profit or loss	63,234	37,275
Dividend income		
Financial assets at fair value through other comprehensive income	323	7,090
Total investment interest and dividend income	**63,926**	**44,752**
Net gains / (losses) on:		
Disposal of financial assets at amortised cost	4	(336)
Financial assets mandatorily held at fair value through profit or loss	5,767	1,502
Financial assets designated at fair value through profit or loss	(12,210)	(86,197)
Net losses on financial assets	**(6,439)**	**(85,031)**

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

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

5.2 Financial assets

	2023 $'000	2022 $'000
Amortised cost		
Deposits with ADIs	417,831	431,710
Mandatorily held at fair value through profit or loss		
Unit trusts	72,529	79,978
Hybrid securities	15,484	15,178
Debt securities	425,096	623,073
Designated at fair value through profit or loss		
Debt securities	1,157,876	1,006,275
Designated at fair value through OCI		
Shares in listed equities	-	106
Shares in unlisted equities	12,848	15,963
Total financial assets	**2,101,664**	**2,172,283**
Current	854,501	591,376
Non-current	1,247,163	1,580,907
Total financial assets	**2,101,664**	**2,172,283**

Accounting policies for financial assets are provided in Note 5.4.

5.2.1 Fair value hierarchy

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

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

5.2.2 Financial instruments measured at fair value

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2023				
Financial assets at fair value through profit or loss				
Unit trusts	-	72,529	-	**72,529**
Hybrid securities	15,484	-	-	**15,484**
Debt securities	438	1,582,534	-	**1,582,972**
Financial assets designated at fair value through OCI				
Shares in unlisted entities	-	-	12,848	**12,848**
	15,922	**1,655,063**	**12,848**	**1,683,833**
2022				
Financial assets at fair value through profit or loss				
Unit trusts	-	79,978	-	**79,978**
Hybrid securities	15,178	-	-	**15,178**
Debt securities	412	1,628,936	-	**1,629,348**
Financial assets designated at fair value through OCI				
Shares in listed entities	106	-	-	**106**
	15,696	**1,708,914**	**15,963**	**1,740,573**

There were no transfers between the levels of the fair value hierarchy during the year ended 30 June 2023 (2022: nil).

5.2.3 Financial instruments not measured at fair value

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

		Fair value			Carrying amount
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	$'000
2023					
Financial Assets					
Financial assets at amortised cost	-	417,362	-	**417,362**	417,831
Loans and advances	-	-	2,146,643	**2,146,643**	2,156,330
	-	**417,362**	**2,146,643**	**2,564,005**	**2,574,161**
Financial Liabilities					
Deposits	-	(2,197,715)	-	**(2,197,715)**	(2,199,526)
Borrowings	-	(218,143)	-	**(218,143)**	(217,258)
Redeemable preference shares[1]	-	-	(500)	**(500)**	(500)
	-	**(2,415,858)**	**(500)**	**(2,416,358)**	**(2,417,284)**
2022					
Financial Assets					
Financial assets at amortised cost	-	415,856	-	**415,856**	431,710
Loans and advances	-	-	2,078,588	**2,078,588**	2,092,017
	-	**415,856**	**2,078,588**	**2,494,444**	**2,523,727**
Financial Liabilities					
Deposits	-	(2,193,810)	-	**(2,193,810)**	(2,194,528)
Borrowings	-	(205,357)	-	**(205,357)**	(210,102)
Redeemable preference shares[1]	-	-	(525)	**(525)**	(525)
	-	**(2,399,167)**	**(525)**	**(2,399,692)**	**(2,405,155)**

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

5.2.4 Valuation approach

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

Cash and cash equivalents	The carrying values approximate their fair value as they are short term in nature or are receivable on demand.
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 in unlisted equities that are not traded on an active market, the fair value has been determined using valuation techniques that required the use of unobservable inputs. The Group uses its judgement in determining fair value, making assumptions with respect to illiquidity and potential market participants in the event the shares were to be sold.
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 2023 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 repricing date of the loans. The discount rates applied were based on the 30 June 2023 benchmark rates on offer for the remaining 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 2023 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 2023.
Borrowings	Borrowings are comprised of medium-term notes and the RBA Term Funding Facility. The fair value was calculated by using discounted cash flow models based on the maturity of the notes. The discount rates applied were based on the 30 June 2023 benchmark rates on offer for the remaining term of each instrument.

5.3 Financial risk management

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

5.3.1 Overview

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

The Group adopts an enterprise risk management approach, which includes a Group Risk Management Strategy. The Group adopts the three lines of risk management and assurance model to encourage effective risk governance that contains checks and balances for supporting the appropriate consideration of risk. The three lines are:

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

5.3.2 Credit risk

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

Insurance Operations

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

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

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. Short-term ratings are applied to cash and cash equivalents and long-term ratings are applied to other financial assets.

	Neither past due nor impaired					Past due but not impaired	Impaired	Total
	AAA $'000	AA+ to AA- $'000	A+ to A- $'000	Below A- $'000	Not Rated $'000	$'000	$'000	$'000
2023								
Cash and cash equivalents	147,635	-	20,918	-	498	-	-	**169,051**
Trade and other receivables								
Insurance premiums receivable	-	-	-	-	422,366	-	-	**422,366**
Other current trade and other receivables	-	-	-	-	3,946	-	-	**3,946**
Indirect taxes receivable	20,377	-	-	-	-	-	-	**20,377**
Total current trade and other receivables	**20,377**	**-**	**-**	**-**	**426,312**	**-**	**-**	**446,689**
Non-current trade and other receivables	-	-	-	-	3,622	-	-	**3,622**
Total Trade and other receivables	**20,377**	**-**	**-**	**-**	**429,934**	**-**	**-**	**450,311**
Reinsurance and other recoveries receivable	75,570	530,634	71,684	718	88,426	-	-	**767,032**
Debt securities	605,453	747,849	113,680	115,990	-	-	-	**1,582,972**
Deferred reinsurance assets	24,544	333,743	104,383	1,005	-	-	-	**463,675**
Total	**873,579**	**1,612,226**	**310,665**	**117,713**	**518,858**	**-**	**-**	**3,433,041**
2022								
Cash and cash equivalents	114,778	-	110,620	-	4,073	-	-	**229,471**
Trade and other receivables								
Insurance premiums receivable	-	-	-	-	314,982	-	-	**314,982**
Other current trade and other receivables	-	-	-	-	70,442	-	-	**70,442**
Indirect taxes receivable	24,044	-	-	-	-	-	-	**24,044**
Total current trade and other receivables	**24,044**	**-**	**-**	**-**	**385,424**	**-**	**-**	**409,468**
Non-current trade and other receivables	-	-	-	-	6,073	-	-	**6,073**
Total Trade and other receivables	**24,044**	**-**	**-**	**-**	**391,497**	**-**	**-**	**415,541**
Reinsurance and other recoveries receivable	80,657	314,698	147,161	872	93,588	-	-	**636,976**
Debt securities	591,902	706,767	150,625	180,054	-	-	-	**1,629,348**
Deferred reinsurance assets	-	44,197	2,326	-	-	-	-	**46,523**
Total	**696,603**	**1,180,440**	**410,732**	**180,926**	**489,158**	**-**	**-**	**2,957,859**

The carrying amount of the relevant asset classes in the Consolidated Balance Sheet represents the maximum amount of credit exposures as at reporting date. The indirect taxes receivable relates to the estimated amounts recoverable under the Member remediation programme (Refer note 7.3.1).

(i) Investment in interest-bearing securities

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

(ii) Reinsurance and other recoveries and deferred reinsurance assets

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

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

(iii) Premium receivables

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

Banking operations

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

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

The framework consists of:

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

RACQ Bank has a dedicated Credit Policy and Review team, as part of the second line, reporting to the Head of Risk Bank who maintain the CRMS. The CRMS has been endorsed by the RACQ Bank board 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.

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

RACQ Bank has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure to individual borrowers, interest-only, high loan-to-value ratio lending and high Debt-to-income (DTI) ≥6 times;
- Reassessment and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and advances;
- Hardship and debt recovery procedures; and
- Review of compliance with the above policies by the RACQ Bank second line Credit Policy and Review team.

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

During the previous financial year, RACQ Bank's Credit Committee implemented appropriate risk-based enhancements to the credit policy to maintain and manage the current risk environment.

Maximum credit risk exposure

RACQ Bank's maximum exposures to credit risk at the end of the reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Balance Sheet, except loans and advances, where the maximum credit risk is $2,202.4 million (2022: $2,146.2 million). In adopting these values as the maximum exposures, this does not consider the value of any collateral or other security held in the event other parties fail to perform their obligations under the financial instruments in question. Further, these values do not consider the value of financial liabilities that carry a legally recognised right of set-off against certain financial assets.

Credit quality analysis

Loan-to-valuation (LVR) ratios – Residential mortgage lending

Gross carrying amount 2023	ECL Stage 1 $'000	ECL Stage 2 $'000	ECL Stage 3 $'000	Total $'000
LVR 0% - 60%	823,867	1,020	1,040	**825,927**
LVR 60.01% - 80%	874,893	2,751	1,206	**878,850**
LVR 80.01% - 90%	241,181	1,831	1,679	**244,691**
LVR 90.01% - 100%	84,904	-	1,177	**86,081**
LVR > 100%	5,141	-	-	**5,141**
	2,029,986	**5,602**	**5,102**	**2,040,690**
2022	**$'000**	**$'000**	**$'000**	**$'000**
LVR 0% - 60%	835,151	1,571	364	**837,086**
LVR 60.01% - 80%	759,397	2,258	2,774	**764,429**
LVR 80.01% - 90%	252,489	404	-	**252,893**
LVR 90.01% - 100%	127,331	519	278	**128,128**
LVR > 100%	1,667	-	150	**1,817**
	1,976,035	**4,752**	**3,566**	**1,984,353**

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 4.3.

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

	2023 $'000	2022 $'000
Performing loans	2,108,141	2,054,963
Past due but not impaired	48,726	37,605
Collective provision for impairment	(1,384)	(1,235)
Net performing and past due loans not impaired	**2,155,483**	**2,091,333**
Gross impaired loans	444	766
Specific provision for impairment	(430)	(491)
Net impaired loans	**14**	**275**
Unamortised loan fees	833	409
Net loans and advances	**2,156,330**	**2,092,017**

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

Gross carrying amount	1-29 days $'000	30-89 days $'000	90-179 days $'000	>=180 days $'000	Total $'000
2023					
Past due but not impaired	40,330	3,023	3,324	2,049	**48,726**
2022					
Past due but not impaired	31,240	2,946	1,427	1,992	**37,605**

Collateral management

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

94.5% (2022: 94.8%) of the Group's loans and advances are residential mortgage loans, secured by residential property in Australia. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security. Residential Lenders Mortgage Insurance (LMI) is obtained by RACQ Bank in order to cover any shortfall in the outstanding loan principal and accrued interest after selling the collateral post-default. In accordance with RACQ Bank's credit policy, LMI is generally required for new residential mortgage loan with an LVR in excess of 80%. The financial effect of these measures is that the residual credit risk on residential mortgage loans is significantly reduced.

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

	2023 $'000	2022 $'000
Loans and advances with collateral	2,143,001	2,079,734
Loans and advances with no collateral	14,310	13,600
Total gross loans and advances	**2,157,311**	**2,093,334**

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

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

(i) Concentration risk

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

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

RACQ Bank holds no significant concentrations of exposures to members.

RACQ Bank has a concentration of loans to members employed in the education industry. This concentration has arisen as RACQ Bank was originally formed to service these members. Loans and advances to members employed in the education industry amounted to $486.4 million or 23% of gross loans and advances (2022: $525.5 million or 25%). The concentration is considered acceptable on the basis that RACQ Bank was originally established to service the education industry, the industry is essential and stable, and the concentration is diversified amongst many employers, including government.

All loan and advances are within Australia with the major exposure being to home loans in Queensland, reflecting 98.0% (2022: 97.5%) of total home loans. These exposures are segmented according to major population centres and regions in Queensland.

(ii) Other financial assets at amortised cost

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

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

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

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

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

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	2023 $'000	2022 $'000
ADIs – rated AA- and above	280,571	250,763
ADIs – rated A- and above, but below AA-	103,705	199,461
ADIs – rated BBB- and above, but below A-	71,789	51,150
Total	**456,065**	**501,374**

5.3.3 Liquidity risk

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

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

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.

Operating cash flows have been impacted by reinsurance arrangements introduced during the year.

Banking operations

RACQ Bank manages liquidity risk by:

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

RACQ Bank's self-securitisation vehicle, the Arrow Funding Trust, has issued Residential Mortgage-Backed Securities (RMBS) to RACQ Bank which are eligible for repurchase by the RBA. This facility arrangement is for the purposes of contingent liquidity management and serves to strengthen RACQ Bank's liquidity risk management. The facility limit for the RMBS is outlined in Note 4.5.1.

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	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Financial Liabilities												
Deposits	2,199,526	2,194,528	2,214,104	2,202,097	1,460,139	1,597,499	273,264	239,486	456,642	339,829	24,035	25,283
Borrowings[1]	217,258	210,102	233,696	218,710	671	260	58,590	375	44,693	62,194	129,742	155,881
Trade & other payables												
Redeemable preference shares	500	525	500	525	-	-	-	-	500	-	-	525
Trade & other payables	130,434	93,037	130,434	93,037	119,061	76,902	692	1,147	2,900	1,702	7,782	13,286
Total trade & other payables	**130,934**	**93,562**	**130,934**	**93,562**	**119,061**	**76,902**	**692**	**1,147**	**3,400**	**1,702**	**7,782**	**13,811**
Reinsurance payables	466,851	28,967	466,851	28,967	37,899	11,702	61,550	17,265	280,034	-	87,367	-
Total Financial Liabilities	**3,014,569**	**2,527,159**	**3,045,561**	**2,543,336**	**1,617,769**	**1,686,363**	**394,096**	**258,273**	**784,769**	**403,725**	**248,926**	**194,975**
Off-balance sheet positions												
Undrawn commitments	340,879	344,039	340,879	344,039	340,879	344,039	-	-	-	-	-	-

1 During the period the Group entered into a standby facility agreement with National Australia Bank. As at 30 June 2023, the facility provided access to an approved limit of $40 million expiring 31 October 2025, secured against the Group's land and buildings. The amount drawn at 30 June 2023 was $nil.

5.3.4 Market risk

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

The Board of Directors 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 and Board of Directors. The ALCO of RACQ Bank is responsible for capital and balance sheet risk including treasury credit, liquidity and market risk.

(i) Interest rate risk

Insurance operations

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

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

At 30 June 2023, if interest rates had changed by +/- 1% (2022: +/- 1%) from the year-end rates, with all other variables held constant, net surplus after tax and equity for the year would have been $17.0 million higher/lower (2022: $19.2 million higher/lower).

Banking operations

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

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

VaR measures the theoretical loss in the economic value of the balance sheet based on historical movements in interest rates. The VaR Model uses a historical simulation approach with underlying assumptions of the model including a 20-day (2022: 20-day) holding period at a 99% (2022: 99%) confidence level for a 1500-day (2022: 1500-day) observation period.

RACQ Bank	2023 $'000	2022 $'000
VaR Exposure at the end of the financial year	1,198	1,408
Average VaR exposure during the financial year	1,488	1,138

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 2023, RACQ Bank had a single interest rate swap agreement in place with a notional amount of $57.2 million (2022: $57.2 million). This swap is used to hedge RACQ Bank's exposure to changes in fair value of its fixed rate RBA Term Funding Facility Initial Allowance borrowings, caused by movements in interest rates.

(ii) Price risk

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

Equity risk is reduced by incorporating a diverse holding of liquid equities. Movements in global equity markets including unit trusts of +/- 1% (2022: +/- 1%) from the 30 June 2023 indexes, with all other variables held constant, would result in equity reserves increased/decreased by $0.7 million (2022: $0.7 million) after tax.

5.3.5 Group capital management

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

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

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

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

During the prior financial year, the Group deployed $355 million additional capital into the Level 2 Insurance Group to ensure its capital position remained above PCA trading minimums in accordance with its ICAAP. The capital contributions were necessary to accommodate for the member remediation provision recognised, operational losses, and the resultant capital impacts of the FY23 reinsurance program. An additional $32 million of capital was contributed in FY23.

The Royal Automobile Club of Queensland Limited has entered into a Deed of Support with its subsidiaries, RACQ Insurance Limited and Members Banking Group Limited, to provide additional capital, if and to the extent it is required for the subsidiary to maintain its capital adequacy in accordance with the externally imposed capital requirements as set by APRA. Further details on the regulated entities' approach to capital management are outlined in Note 3.9 for insurance operations and Note 4.6 for banking operations.

5.4 Accounting policies for financial assets and financial liabilities

Non-derivative financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15 *Revenue from Contracts with Customers*. Refer to the accounting policies in note 7.1.

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

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

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

Subsequent measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

(v) Trade and other receivables

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15. Refer to the accounting policies in note 7.1 for Revenue from contracts with members.

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

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

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

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

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

Non-derivative financial liabilities

(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.

5.5 Accounting policies for reserves

(i) Investment revaluation reserve

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

(ii) 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.

6. Other assets and liabilities

6.1 Property, plant and equipment

	Freehold land $'000	Buildings and leasehold improvements $'000	Plant and equipment $'000	Capital works in progresss $'000	Total $'000
At 30 June 2023					
Cost	13,128	153,251	50,833	3,305	**220,517**
Accumulated depreciation	-	(52,546)	(30,681)	-	**(83,227)**
Net book value at 30 June 2023	**13,128**	**100,705**	**20,152**	**3,305**	**137,290**
Year ended 30 June 2023					
Opening net book value	13,128	100,596	21,896	3,432	**139,052**
Additions	-	5,182	5,606	3,303	**14,091**
Disposals	-	(225)	(957)	-	**(1,182)**
Transfers	-	1,973	1,457	(3,430)	**-**
Depreciation	-	(6,821)	(7,850)	-	**(14,671)**
Net book value at 30 June 2023	**13,128**	**100,705**	**20,152**	**3,305**	**137,290**
At 30 June 2022					
Cost	13,128	147,932	49,363	3,432	**213,855**
Accumulated depreciation	-	(47,366)	(27,467)	-	**(74,803)**
Net book value at 30 June 2022	**13,128**	**100,596**	**21,896**	**3,432**	**139,052**
Year ended 30 June 2022					
Opening net book value	21,376	103,586	21,783	2,561	**149,306**
Additions	-	4,309	6,468	3,431	**14,208**
Disposals	(8,248)	(539)	(636)	-	**(9,423)**
Transfers	-	411	2,149	(2,560)	**-**
Depreciation	-	(7,172)	(7,867)	-	**(15,039)**
Net book value at 30 June 2022	**13,128**	**100,596**	**21,896**	**3,432**	**139,052**
Remaining useful life	Indefinite	40 years or lease term, if shorter	2.5 – 25 years	n/a	

Accounting policies

(i) Recognition and measurement

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

(ii) Depreciation

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

(ii) 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.

6.2 Goodwill and other intangible assets

	Goodwill $'000	Customer relationships $'000	Core deposits $'000	Outstanding claims fair value adjustment $'000	Software $'000	Software in development $'000	Total $'000
At 30 June 2023							
Cost	249,550	38,583	4,800	48,962	147,449	4,306	**493,650**
Accumulated amortisation and impairment	(7,794)	(38,554)	(4,800)	(48,491)	(129,793)	-	**(229,432)**
Net book value at 30 June 2023	**241,756**	**29**	**-**	**471**	**17,656**	**4,306**	**264,218**
Year ended 30 June 2023							
Opening net book value	241,756	42	-	640	26,749	1,454	**270,641**
Additions	-	-	-	-	-	8,378	**8,378**
Transfers	-	-	-	-	5,526	(5,526)	**-**
Amortisation	-	(13)	-	(169)	(14,619)	-	**(14,801)**
Net book value at 30 June 2023	**241,756**	**29**	**-**	**471**	**17,656**	**4,306**	**264,218**
At 30 June 2022							
Cost	249,550	38,583	4,800	48,962	149,686	1,454	**493,035**
Accumulated amortisation and impairment	(7,794)	(38,541)	(4,800)	(48,322)	(122,937)	-	**(222,394)**
Net book value at 30 June 2022	**241,756**	**42**	**-**	**640**	**26,749**	**1,454**	**270,641**
Year ended 30 June 2022							
Opening net book value	241,756	142	78	890	39,363	1,090	**283,319**
Additions	-	-	-	-	-	5,494	**5,494**
Disposals	-	-	-	-	(270)	-	**(270)**
Transfers	-	-	-	-	5,130	(5,130)	**-**
Amortisation	-	(100)	(78)	(250)	(17,474)	-	**(17,902)**
Net book value at 30 June 2022	**241,756**	**42**	**-**	**640**	**26,749**	**1,454**	**270,641**
Maximum remaining useful life	Indefinite	12 years	-	7 years	10 years	n/a	

6.2.1 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:

	2023 $'000	2022 $'000
General insurance	238,208	238,208
Other CGUs	3,548	3,548
Carrying amount of goodwill	**241,756**	**241,756**

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

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

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

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

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

For the year ended 30 June 2023, no impairment of goodwill has been recognised (2022: $nil).

General insurance

For the current financial year, the recoverable amount of the Insurance CGU has been determined on a FVLCD basis (2022: FVLCD basis), calculated using a dividend discount model. The cash flow forecasts used in the fair value assessment were derived from financial forecasts for FY24 to FY26 approved by the Board of Directors, projected to FY38. The fair value derived from the dividend discount model was then compared to a range of market multiples relevant to the insurance industry to ensure consistency with comparable organisations. The fair value assessment requires the use of assumptions, which represent management's assessment of future trends in the industry and are based on both external and internal sources of data.

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

	Discount rate (post-tax)		Terminal value		PCA Target		Forecast combined ratio (average)	
	2023	2022	2023	2022	2023	2022	2023	2022
	%	%	NPAT multiple	Growth rate %	Times	Times	%	%
General insurance	10.0	9.0	12.0x	2.5	1.95	1.70	89.4	94.1

- The discount rate is a post-tax measure estimated based on the historical industry weighted average cost of capital. The pre-tax equivalent discount rate is 13.16% (2022: 12.03%).
- Cash flow projections include specific estimates for FY24 to FY26 and forecasts until FY38 and a terminal value based on a 12.0x multiple applied to FY38 Net Profit after Tax (NPAT), based on an average of comparable trading and transaction precedents.
- The PCA target reflects management's estimate of a market participant's view, with access to capital markets, and is based on the average capital targets from a range of comparable industry participants.
- The forecast combined ratio includes key assumptions for changes in gross earned premium, a market participant's view of reinsurance costs, net incurred claims and operating expenses and is based on past experience, with adjustments for external sources of information or where future activities are expected to differ materially from past performance.
- The costs of disposal are estimated at 3% of the equity value.

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

As at 30 June 2023, the recoverable amount of the Insurance CGU exceeded its carrying amount using a FVLCD approach. Management performed additional sensitivity testing including changing key assumptions and running additional scenarios which supported that no impairment is required in the current financial year.

Other CGUs

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

Accounting policies

(i) Recognition and measurement

Goodwill	Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment.
Research and development	Expenditure on research activities is recognised in surplus as incurred. Development expenditure is capitalised only if: • the expenditure can be measured reliably; • the product or process is technically and commercially feasible; • future economic benefits are probable; • the amount is above the Group's internal capitalisation threshold; and • the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in net 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.
Other intangible assets	Other intangible assets include those acquired in a business combination (customer relationships, core deposits and outstanding claims fair value adjustment) and are recognised at its fair value at acquisition date. These assets have finite useful lives and are measured at cost less accumulated amortisation and accumulated impairment.

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

(ii) Amortisation

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

6.3 Employee benefits

6.3.1 Employee benefits expense

	2023 $'000	2022 $'000
Wages and salaries	192,306	175,451
Defined contribution superannuation expenses	24,152	21,061
Benefit related to defined benefits superannuation fund	-	(136)
Total employee benefits expense	**216,458**	**196,376**

6.3.2 Employee benefits liabilities

	2023 $'000	2022 $'000
Other employee benefit liabilities	5,776	2,117
Incentive accrual	10,446	7,318
Liability for annual leave	17,833	17,057
Liability for long service leave	18,761	17,494
Total employee benefit liabilities	**52,816**	**43,986**
Current	44,791	37,328
Non-current	8,025	6,658
Total employee benefit liabilities	**52,816**	**43,986**

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.

6.4 Transactions with related parties

6.4.1 Key management personnel compensation

	2023 $	2022 $
Short-term employee benefits	4,316,406	8,794,897
Post-employment benefits	254,381	424,173
Other long-term benefits	548,232	505,779
Total key management personnel compensation	**5,119,019**	**9,724,849**

From 1 July 2022, the Company's assessment of roles meeting the definition of key management personnel (KMP) was revised, taking into consideration changes in the Group's operating structure that occurred during FY23. The roles considered KMP in FY23 are the Directors of the Company, Group Chief Executive Officer and Chief Financial Officer. The number of roles considered KMP as at 30 June 2023 is 9 (30 June 2022: 20 roles).

6.4.2 Director compensation

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

During the year, non-executive directors received the following fees for their services to the Company and its subsidiaries.

	The Royal Automobile Club of Queensland Limited			Subsidiaries		Total Group
	Board	Committees	Total	RACQ Insurance	RACQ Bank	
2023	$	$	$	$	$	$
Directors who served full year						
Leona Murphy (Appointed Chair 22 November 2022)	167,666	9,220	**176,886**	112,144	54,882	**343,912**
Annabel Dolphin	91,800	28,229	**120,029**	75,161	46,258	**241,448**
William Fellowes	91,800	16,206	**108,006**	82,873	34,234	**225,113**
Robert Hubbard	91,800	7,842	**99,642**	75,162	46,258	**221,062**
John Minz	91,800	15,683	**107,483**	83,003	47,303	**237,789**
Andrew Moore	91,800	5,228	**97,028**	79,344	50,440	**226,812**
Sarah Pearson	91,800	19,394	**111,194**	73,122	51,014	**235,330**
Directors who served partial year						
[1,2] Duncan Brain (Ceased as Director of Company 21 September 2022, re-appointed 19 July 2023)	22,961	2,615	**25,576**	52,375	21,358	**99,309**
Elizabeth Jameson AM (Ceased 22 November 2022)	90,155	-	**90,155**	56,100	26,350	**172,605**
Andrew Kearnan (Ceased 19 March 2023)	65,524	-	**65,524**	68,947	-	**134,471**
Total 2023	**897,106**	**104,417**	**1,001,523**	**758,231**	**378,097**	**2,137,851**
Total 2022	**917,393**	**103,646**	**1,021,039**	**924,580**	**397,408**	**2,343,027**

1 Ceased as Director of the Company on 21 September 2022 and ceased as Director of RACQ Insurance Limited and Members Banking Group Limited on 19 December 2022.
2 In accordance with the RACQ constitution and at the approval of the Board, Mr Duncan Brain was also remunerated for additional services performed for Group related activities that were considered outside the scope of the ordinary duties of a Director of the Company. The additional compensation paid was $158,307 during the period that Mr Duncan Brain was a Director of a RACQ entity (1 July 2022 to 19 December 2022).

Directors of the Company are paid fees for their services of $91,800 per annum (2022: $91,800 per annum). Additional fees are paid by the Company, RACQ Insurance and RACQ Bank for committee and Chair responsibilities. Director compensation is included in employee benefits (Note 5.3.1). Fees paid are inclusive of superannuation.

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

(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. RACQ Insurance director fees for FY23 were $67,320 per annum (2022: $67,320). This remuneration is supplementary to the remuneration paid by the Company for their services as a director of the Company.

The directors of RACQ Insurance are also directors of Club Insurance Holdings Pty Limited but receive no additional remuneration in this capacity. There were no other benefits received by directors during the year ended 30 June 2023 (2022: 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. RACQ Bank director fees for FY23 were $31,620 per annum (2022: $31,620). This remuneration is supplementary to the remuneration paid by the Company for their services as a director of the Company.

The directors of RACQ Bank are also directors of Club Finance Holdings Limited but receive no additional remuneration in this capacity. There were no other benefits received by directors during the year to June 2023 (2022: nil).

6.4.3 Transactions with KMP and their close family members

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 2023:

	2023 $	2022 $
The aggregate gross carrying amount of loans	549,461	4,905,592
The aggregate amount of revolving and other credit facilities (including redraws) available	-	1,911,616
Interest earned on loans and revolving credit facilities during the year	12,507	99,903

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 2023:

	2023 $	2022 $
The aggregate carrying amount of deposits	542,350	1,124,605
Total interest paid on these deposits during the year	9,732	2,318

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.

6.4.4 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)	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Provision of services				
Joint ventures	(1,387)	(587)	2,097	419
Associates	(41)	(166)	-	-
Other related parties	(59)	-	4,856	5,819
Purchase of services				
Joint ventures	1,246	18	(19)	-
Associates	14,999	2,353	(9,141)	(1,958)
Other related parties	4,972	4,340	-	-
Capital contribution to associates	**-**	**-**	**-**	**-**
Dividend income from associates	**3,191**	**1,400**	**-**	**-**
Interest income from other related parties	**(227)**	**(145)**	**35**	**15**

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

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

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

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

6.5 Income tax

6.5.1 Income tax expense

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

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

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

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

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

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

	2023 $'000	2022 $'000
Recognised in net surplus		
Current tax benefit		
Current tax movement	(5,566)	(33,058)
Adjustments in respect of previous year	(1,354)	33
Total current tax benefit	**(6,920)**	**(33,025)**
Deferred tax		
Origination and reversal of temporary differences	11,845	(74,213)
Total deferred income tax expense / (benefit)	**11,845**	**(74,213)**
Total income tax expense / (benefit)	**4,925**	**(107,238)**
Deferred tax recognised directly in equity		
Relating to re-measurement of defined benefit plan	-	10
Relating to equity investments designated at FVOCI	(956)	(2,731)
Total income tax benefit	**(956)**	**(2,721)**

6.5.2 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:

	2023 $'000	2022 $'000
Prima facie tax expense / (benefit) calculated at 30% (2022: 30%)	3,698	(105,725)
Adjust for tax effect of:		
- Non-deductible expenses	3,812	578
- Assessable income	728	177
- Non-assessable income	(541)	(3)
- Tax offset for franked dividends	(2,078)	(2,295)
- Foreign income tax offsets	-	(4)
- Derecognition of DTA not previously brought to account	67	20
- Prior year (over) / under provision	(761)	14
Income tax expense / (benefit) on net surplus/deficit	**4,925**	**(107,238)**

6.5.3 Recognised deferred tax assets and liabilities

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

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilties		Net	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Property, plant and equipment and intangibles	15,061	11,786	(950)	(1,740)	**14,111**	**10,046**
Trade and other payables	4,244	2,882	-	-	**4,244**	**2,882**
Financial assets	9,471	13,034	(4,496)	(6,950)	**4,975**	**6,084**
Claims handling costs on outstanding claims	26,630	27,232	-	-	**26,630**	**27,232**
Employee benefits	10,978	10,365	-	-	**10,978**	**10,365**
Provisions	31,557	35,231	-	-	**31,557**	**35,231**
Other items	8,662	13,687	(2,652)	(4,074)	**6,010**	**9,613**
Tax offsets carried forward	-	5,050	-	-	**-**	**5,050**
Tax losses recognised	11,797	14,687	-	-	**11,797**	**14,687**
Deferred tax assets /(liabilities)	**118,400**	**133,954**	**(8,098)**	**(12,764)**	**110,302**	**121,190**
Set off of tax	(7,941)	(12,475)	7,941	12,475	**-**	**-**
Net deferred tax assets / (liabilities)	**110,459**	**121,479**	**(157)**	**(289)**	**110,302**	**121,190**

7. Other notes

7.1 Revenue from contracts with members

7.1.1 Disaggregation of revenue from contracts with members

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

	2023 $'000	2022[1] $'000
Revenue from sale of goods	45,131	41,622
Revenue from assistance activities	195,368	182,779
Trade towing revenue	9,284	8,385
Rental revenue	4,478	3,692
Advertising revenue	1,521	1,126
Other fee and commission revenue	6,717	4,847
Total	**262,499**	**242,451**
Timing of revenue recognition		
At a point in time	65,474	58,309
Over time	197,025	184,142
Total	**262,499**	**242,451**

1 Comparatives have been re-presented to conform with changes in presentation in the current financial year.

7.1.2 Assets and liabilities related to contracts with members

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

	2023 $'000	2022 $'000
Trade and other receivables	7,636	27,364
Expected credit loss	(115)	(116)
Net trade and other receivables	**7,521**	**27,248**
Contract liabilities	(91,286)	(85,813)

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.

	2023 $'000	2022 $'000
Revenue recognised in the current period that was included in the contract liability balance at the beginning of the period		
Assistance activities	85,813	83,833

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 for the unexpired period of the subscription term. 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 products that complement assistance services, and 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.

7.2 Other expenses

	2023 $'000	2022 $'000
Property and related occupancy costs	7,936	7,488
Advertising and sponsorship	2,007	1,583
Bank fees	5,204	4,029
Donations	7,971	10,420
Marketing, research and development	15,898	16,869
Motor vehicle expenses	3,997	3,673
Other fee and commission expense	7,980	6,982
Subscriptions and printing	4,225	3,692
Travel accommodation and entertainment	1,061	721
Other expenses	17,756	327
Total other expenses	**74,035**	**55,784**

7.3 Provisions and contingent liabilities

7.3.1 Provisions

	Member remediation provision $'000	Other provisions $'000	Total $'000
Balance at the beginning of the financial year	**237,589**	**1,622**	**239,211**
Additions	27,366	16,751	**44,117**
Provisions used during the year	(11,796)	(1,274)	**(13,070)**
Release of provision	-	-	**-**
Balance at the end of the financial year	**253,159**	**17,099**	**270,258**
Current	253,159	12,457	**265,616**
Non-current	-	4,642	**4,642**
Balance at the end of the financial year	**253,159**	**17,099**	**270,258**

Accounting policy

RACQ Group recognises provisions when:

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

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

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

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

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

Member remediation provision

In 2022, RACQ committed to remediating members to address the findings from the pricing promises review. During the year, ASIC launched Federal Court action against RACQ Insurance Limited, alleging misleading conduct in regard to the matter. RACQ Insurance admitted to the Federal Court that its product disclosure statement could have unintentionally misled the public. The legal proceedings were expected and RACQ Insurance has been working cooperatively with ASIC throughout the process.

At 30 June 2023, the Group has recognised a provision of $253.2 million (2022: $237.6 million) for member refunds, interest attributable to those refunds and other administrative costs and obligations as a result of the remediation program. An associated estimated recovery of $23.3 million (2022: $24.8 million) relating to GST and Insurance Duty has been recognised within 'Trade and other receivables' on the Balance Sheet. The increase to the provision of $27.4m comprises additional interest, program and other associated costs, inclusive of $11.1m for a small number of pricing promises matters identified during the year.

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

Other provisions

In response to the ASIC pricing promises review the board committed to the establishment of a risk transformation program. This program was in addition to the significant investment committed for an uplift in systems and processes to deliver improved outcomes for our members, stronger risk management, simplified products, and easier processes for our people.

Subsequent to this, in FY23 APRA finalised a prudential review of RACQ's regulated entities, RACQ Insurance Limited[4] and Members Banking Group Limited[5]. To address the findings from the prudential review, APRA advised that the Risk Transformation Program (RTP) was required to be oversighted and approved by APRA.

During FY23, RACQ engaged Promontory Financial Group, an independent firm that has expertise in risk management, to review RACQ's activities and identify opportunities for improvement. This work is now complete and a comprehensive Risk Transformation Program Plan (the Plan) has been developed. The multi-year program of works formally commenced on 3 July 2023, following approval of the plan by APRA, and includes a systematic review of RACQ's risk management practices, processes and systems. It contains clear and measurable responses across eight workstreams, supported by a target state, timeline and executive accountabilities. The Plan is subject to a comprehensive assurance framework, with periodic reporting to APRA. Progress against this Program will be reported annually in the Annual Report.

At 30 June 2023, RACQ has recognised a provision of $16.0m (2022: $nil) for costs to be incurred over the next four years in undertaking the RTP. The provision relates to management's best estimate of RTP costs that are incremental to the Group and are not associated with the ongoing activities of the Group.

Determining the amount of the provision required the exercise of significant judgement. Management has formed a view on a number of significant assumptions, including nature and extent of the work required to address the matters identified and resources required to deliver the work required, including systems and external support, contractors and independent assurance providers. The provision has been recognised at present value (discounted) utilising three-year Australian bond yields. Further appropriateness of the underlying assumptions will be reviewed on an ongoing basis as the program progresses through detailed planning with adjustments to be made to the provision as appropriate.

[4] Includes Club Insurance Holdings Pty Ltd as part of the Level 2 Insurance Group
[5] Includes Club Finance Holdings Limited as part of the Level 2 Banking Group

7.3.2 Contingent Liability

As at 30 June 2023, RACQ had a contingent liability in respect of the matters outlined below:

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

From time to time in the ordinary course of business, RACQ receives enquiries from various regulators and government bodies. RACQ cooperates fully with all enquiries and these enquiries do not require disclosure in their initial state, however, should RACQ become aware that an enquiry is developing further or if any regulatory or government action is taken against the Group, appropriate disclosure is made in accordance with the relevant accounting standards. From time to time, RACQ is also subject to various claims and litigation from third parties during the ordinary course of its business. The directors of RACQ have given consideration to such matters which are or may be subject to claims or litigation at year end and, unless specific provisions have been made, are of the opinion that no material contingent liability for such claims of litigation exists.

7.4 Notes to the consolidated statement of cash flows

7.4.1 Reconciliation of cash flows from operating activities

	2023 $'000	2022 $'000
Surplus/(Deficit) for the year	**7,400**	**(245,180)**
Add/(less) items classified as investing activities		
(Gain)/loss on disposal of business assets	666	(6,180)
Investment losses	12,565	77,941
Investment interest income	(2,600)	(447)
Rental income	(3,446)	(2,777)
Add/(less) non-cash items		
Impairment loss on loans and advances	172	-
Impairment (reversal) loss on associates and joint ventures	(1,514)	108
Depreciation and amortisation expense	33,880	36,988
Share of profit in associates and joint ventures	(1,110)	(366)
Net cash provided by/(used in) operating activities before change in operating assets and liabilities	**46,013**	**(139,913)**
Changes in operating assets and liabilities		
Trade and other receivables	(9,877)	23,852
Premium receivables	(87,881)	(69,748)
Reinsurance and other recoveries receivable	(130,056)	(262,911)
Loans and advances	(64,487)	(57,158)
Deferred reinsurance assets	(417,152)	691
Other assets	2,811	20
Deferred acquisition costs	(30,530)	17,999
Contract liability	5,473	1,979
Unearned revenue	118,419	58,238
Trade and other payables	14,179	(24,051)
Reinsurance payables	437,884	(5,993)
Deposits	4,999	60,728
Outstanding claims liability	(198,877)	286,356
Provision for employee benefits	8,739	104
Deferred tax balances	10,888	(76,931)
Income tax receivable	29,738	(31,675)
Provisions	31,686	237,483
Net cash (used in)/provided by operating activities	**(228,031)**	**19,070**

Certain assets and liabilities have been impacted by reinsurance arrangements introduced during the year.

7.4.2 Cash and cash equivalents

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

Cash and cash equivalents include restricted balances of $37.5 million (2022: $40.6 million) relating to the activities of RACQ Bank's self-securitisation vehicle (Arrow Funding Trust No 1.) which operates as a contingent liquidity facility and are not available to the Group.

7.5 Commitments

Capital commitments

Commitments not provided for in the financial statements and payable:	<1 Year $'000	1-5 Years $'000	5+ Years $'000	Total $'000
2023				
Capital commitments	16,098	1,500	-	**16,098**
2022				
Capital commitments	560	-	-	**560**

The above table reflects the Group's contractual commitments for the acquisition of property, plant and equipment and intangible assets as at 30 June 2023, but not provided for in the consolidated balance sheet.

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 a total of $14.7 million of capital investment over five years. As at 30 June 2023, the remaining committed capital investment is $5.6 million (2022: $6.8 million).

Credit commitments and guarantees

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

	2023 $'000	2022 $'000
Loans approved but not funded	45,045	52,905
Undrawn overdraft and line of credit facilities	68,723	72,261
Amounts available for redraw	223,404	215,081
Guarantees	3,707	3,792
	340,879	**344,039**

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 (2022: $3.52 million) to the State Government of Queensland as support for capital improvements to be completed at the RACQ Mobility Centre of Excellence.

7.6 Auditor's remuneration

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

	2023 $	2022 $
Audit services:		
Audit of the financial report	1,090,149	874,100
Other regulatory audit services	713,302	411,126
Total audit services	**1,803,450**	**1,285,226**
Audit related services:		
Other assurance services	2,295,481	72,875
Total audit related services	**2,295,481**	**72,875**
Other services:		
Taxation services	-	6,880
Total other services	**-**	**6,880**
Total auditor's remuneration	**4,098,931**	**1,364,981**

7.7 Group structure

7.7.1 Parent entity disclosures

The parent entity, The Royal Automobile Club of Queensland Limited, is a company limited by guarantee and has no share capital. In the event of winding up, members are liable to the amount of $2.00 per member at a total contribution of $3,490,114 (2022: $3,514,968).

The Royal Automobile Club of Queensland Limited	2023 $'000	2022 $'000
Deficit for the year	(16,900)	(7,727)
Other comprehensive income	-	-
Total comprehensive loss for the year	**(16,900)**	**(7,727)**

The Royal Automobile Club of Queensland Limited	2023 $'000	2022 $'000
Financial position of the Company:		
Current assets	287,486	351,012
Total assets	**984,685**	**1,017,258**
Current liabilities	(310,982)	(326,653)
Total liabilities	**(310,982)**	**(326,653)**
Total accumulated funds of the Company comprising of:		
Reserves	166,476	166,467
Retained surplus	507,236	524,138
Total accumulated funds	**673,703**	**690,605**

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 7.7.2 and 7.7.3.

The parent entity has entered into Deeds of Support with its subsidiaries, RACQ Insurance Limited and Members Banking Group Limited, to provide additional capital, if and to the extent it is required for the subsidiary to maintain its capital adequacy in accordance with the externally imposed capital requirements as set by APRA. Further details on the regulated entities' approach to capital management are outlined in Note 3.9 for insurance operations and Note 4.6 for banking operations.

Parent entity commitments and contingent liabilities

The Royal Automobile Club of Queensland Limited	2023 $'000	2022 $'000
Operating lease commitments as lessor		
Within one year	3,472	4,976
Between one but not more than 5 years	9,705	11,881
More than 5 years	4,085	6,038
Total	**17,262**	**22,895**

There are no parent entity contingent liabilities (2022: nil).

7.7.2 Controlled entities

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

	Interest held	
	2023 %	2022 %
RACQ Operations Pty Ltd [1]	100	100
RACQ Investments Pty Ltd	100	100
RACQ-Queensland Driving Excellence Centre Pty Ltd	100	100
Automotive Assistance Services Pty Ltd	100	100
Q Garage Pty Ltd	100	100
Basecamp No.2 Pty Ltd (formerly Hug Insurance Pty Ltd)	100	100
Basecamp Innovations Pty Ltd	100	100
RACQ Investments No.2 Pty Ltd [1]	100	100
Club Insurance Holdings Pty Ltd [2]	100	100
RACQ Insurance Limited	100	100
Club Finance Holdings Limited [3]	100	100
Members Banking Group Limited	100	100
RACQ Financial Planning Pty Ltd	100	100
Arrow Funding Trust No1	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 7.7.3.
2 50% of the shares in Club Insurance Holdings Pty Ltd are held by RACQ Investments Pty Ltd, and 50% of the shares in Club Insurance Holdings Pty Ltd are held by RACQ InvestmentsNo.2 Pty Ltd.
3 Redeemable preference shares in Club Finance Holdings are held by 49,292 (2022: 52,502) legacy shareholders in Members Banking Group Limited.

7.7.3 Deed of cross guarantee

Pursuant to ASIC Corporations (*Wholly-owned Companies*) Instrument 2016/785, the Company's subsidiaries, RACQ Operations Pty Ltd and RACQ Investments No.2 Pty Ltd are 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 these subsidiaries 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 Statement of Comprehensive Income and Consolidated Balance Sheet, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed, are as follows:

Consolidated Statement of Comprehensive Income for the year ended 30 June 2023

	Consolidated parties to the Deed	
	2023 $'000	2022 $'000
Revenue		
Revenue from contracts with members	479,088	423,204
Investment income	12,536	10,228
Total Revenue	**491,624**	**433,432**
Expenses		
Employee benefits expense	(289,436)	(259,833)
Payments to contractors for assistance services	(85,340)	(76,940)
Communication and information technology expenses	(22,062)	43
Depreciation and amortisation expense	(32,649)	(35,416)
Property and related occupancy costs	(6,923)	(6,477)
Other expenses	(105,311)	(79,617)
Total expenses	**(541,721)**	**(458,240)**
Share of profit in associates and joint ventures	1,110	366
(Loss) / Gain on sale of property, plant and equipment	(753)	4,551
Impairment reversal / (charge) of joint venture	1,514	(50)
Gain on sale of investment property	-	1,396
Deficit before income tax	**(48,226)**	**(18,495)**
Income tax benefit	17,265	6,919
Deficit for the year	**(30,961)**	**(11,576)**
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gains	(77)	34
Net gains / (losses) on equity investments at fair value through other comprehensive income	5	(9,090)
Income tax benefit	21	2,717
Total other comprehensive loss for the year, net of income tax	**(51)**	**(6,339)**
Total comprehensive loss for the year	**(31,012)**	**(17,915)**

Consolidated balance sheet as at 30 June 2023

	Consolidated parties to the Deed	
	2023 $'000	2022 $'000
Assets		
Cash and cash equivalents	4,961	23,628
Trade and other receivables	109,421	166,551
Financial assets	1,324,366	1,284,634
Property, plant and equipment	121,785	125,027
Right of use assets	9,960	9,910
Deferred tax assets	43,367	31,393
Intangible assets	21,846	28,064
Other assets	39,319	47,123
Current tax receivable	5,848	-
Total assets	**1,680,873**	**1,716,330**
Liabilities		
Trade and other payables	47,453	79,904
Provisions	17,086	413
Contract liability	91,286	85,813
Current tax payable	-	1,017
Employee benefits	52,816	44,077
Lease liability	10,259	10,016
Total liabilities	**218,900**	**221,240**
Net assets	**1,461,973**	**1,495,090**
Accumulated funds		
Retained surplus	331,587	325,259
Reserves	1,130,386	1,169,831
Total accumulated funds	**1,461,973**	**1,495,090**

7.8 Equity-accounted investments

Four associates (2022: four) and two joint ventures (2022: two) were accounted for in the consolidated financial statements using the equity method.

	Joint Ventures		Associates		Total	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Individually immaterial interests in joint ventures and associates						
Aggregate carrying amount	7,466	12,412	10,972	12,492	**18,438**	**24,904**
Aggregate amount of the Group's share of:						
Surplus / (deficit) from continuing operations	2,630	(279)	(1,520)	645	**1,110**	**366**
Other comprehensive income	-	-	-	-	**-**	**-**
Total comprehensive income / (loss)	**2,630**	**(279)**	**(1,520)**	**645**	**1,110**	**366**

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

7.9 Events subsequent to reporting date

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

Directors' declaration

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

a) The consolidated financial statements and notes, set out on pages 24 to 68, 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 2023 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 7.7.3 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:

LEONA MURPHY
President and Chair
8 September 2023

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

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 2023, the consolidated statement of comprehensive income, consolidated statement of changes in accumulated funds and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year ended on that date; and
- 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 comprises the information included in the annual report, but does not include the financial report and out auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Building a better working world

- 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

RBurrows

Rebecca Burrows
Partner
Brisbane
8 September 2023

Corporate directory

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

President and Chair – Leona C Murphy
BCom, GAICD

AUDITORS
Ernst & Young
111 Eagle Street, Brisbane, Qld, 4000

REGISTERED HEAD OFFICE
2649 Logan Road, Eight Mile Plains, QLD 4113
Telephone: 61 7 3361 2444
Email: racq@racq.com.au
Website: racq.com
Postal Address: PO Box 4 Springwood, QLD 4127

ACN 009 660 575
ABN 72 009 660 575

RACQ Foundation volunteers in Yarrabah

The Royal Automobile Club
of Queensland Limited
ACN 009 660 575 ABN 72 009 660 575 13 1905
racq.com