Financial Report

KEY TO ABBREVIATIONS

CGU	Cash Generating Unit
Deed	Deed of Cross Guarantee
EBIT	Earnings Before Income Tax
EBITDA	Earnings Before Income Tax, Depreciation and Amortisation
IBNR	Incurred But Not Reported
IBNER	Incurred But Not Enough Reported
ICAAP	Internal Capital Adequacy Assessment Process
LAT	Liability Adequacy Test
PCA	Prescribed Capital Amount
PML	Probable Maximum Loss
RMS	Risk Management Strategy
ReMS	Reinsurance Management Strategy

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Consolidated Statement of Profit and Loss and Other Comprehensive Income

for the year ended 30 June 2016

	Note	RACQ Group 2016 $'000	RACQ Group 2015 $'000
Revenue			
Insurance premium revenue	2.1	717,879	704,207
Roadside and home assistance subscription and entrance fee revenue		135,902	134,342
Reinsurance and other recoveries revenue	2.1	58,583	162,538
Investment income	3.1	58,246	57,895
Other assistance and lifestyle product revenue		34,842	32,157
Other income		25,835	19,205
Total revenue		**1,031,287**	**1,110,344**
Expenses			
Insurance claims expense	2.1	(500,636)	(573,159)
Employee benefits expense	4.4.1	(136,240)	(135,621)
Outwards reinsurance premium expense	2.1	(75,071)	(76,548)
Payments to contractors for assistance services		(54,991)	(51,929)
Communication and information technology expenses		(44,503)	(41,163)
Other underwriting and acquisition costs		(60,373)	(56,146)
Depreciation and amortisation expense		(53,112)	(51,159)
Property and related costs		(12,538)	(12,197)
Other expenses	5.1	(61,362)	(42,358)
Total expenses		**(998,826)**	**(1,040,280)**
Share of profit/(loss) of equity-accounted investments in Associates	5.3	(252)	(60)
Surplus before income tax		**32,209**	**70,004**
Income tax expense	4.7.1	(9,136)	(19,779)
Surplus for the year		**23,073**	**50,225**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains/(losses)		(1,216)	1,179
Income tax benefit/(expense)	4.7	365	(354)
Total items that will not be reclassified to profit or loss		**(851)**	**825**
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of financial assets held as available-for-sale		(2,622)	(195)
Net change in fair value of available-for-sale financial assets sold reclassified to profit or loss		(1,405)	550
Income tax benefit/(expense)	4.7	1,208	(107)
Total items that may be reclassified subsequently to profit or loss		**(2,819)**	**248**
Total other comprehensive income for the year, net of income tax		**(3,670)**	**1,073**
Total comprehensive income for the year		**19,403**	**51,298**

The Consolidated Statement of Profit and Loss and Other Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 43 to 82.

Consolidated Balance Sheet

as at 30 June 2016

	Note	RACQ Group 2016 $'000	RACQ Group 2015 $'000
Assets			
Cash and cash equivalents		55,559	55,311
Trade and other receivables	3.4.2	180,981	159,606
Reinsurance and other recoveries receivable	2.4	75,077	135,263
Investment securities	3.2	381,618	435,193
Deferred acquisition costs	2.5	38,668	37,351
Other current assets		11,002	9,575
Current tax receivable		8,826	10,061
Total current assets		**751,731**	**842,360**
Reinsurance and other recoveries receivable	2.4	59,288	72,017
Investment securities	3.2	1,152,347	1,028,685
Investment property	4.1	7,240	7,398
Property, plant and equipment	4.2	152,653	147,089
Intangible assets	4.3	331,788	347,197
Deferred tax assets	4.7	33,596	24,118
Other non-current assets		6,329	8,280
Equity-accounted investment in Associates	5.3	689	941
Total non-current assets		**1,743,930**	**1,635,725**
Total assets		**2,495,661**	**2,478,085**
Liabilities			
Trade and other payables	3.4.3	59,870	64,086
Unearned revenue	4.6	439,540	411,715
Outstanding claims liability	2.3	279,337	327,436
Employee benefits	4.4.2	25,476	26,291
Total current liabilities		**804,223**	**829,528**
Outstanding claims liability	2.3	545,417	522,663
Employee benefits	4.4.2	5,199	4,470
Other non-current liabilities	3.4.3	5	10
Total non-current liabilities		**550,621**	**527,143**
Total liabilities		**1,354,844**	**1,356,671**
Net assets		**1,140,817**	**1,121,414**
Accumulated funds			
Reserves		7,526	10,345
Retained surplus		1,133,291	1,111,069
Total accumulated funds		**1,140,817**	**1,121,414**

The Consolidated Balance Sheet is to be read in conjunction with the Notes to the Financial Statements set out on pages 43 to 82.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2016

2016	Investment revaluation reserve $'000	Retained surplus $'000	Total accumulated funds $'000
Balance at beginning of year	10,345	1,111,069	1,121,414
Surplus for the year	–	23,073	23,073
Total other comprehensive income for the year	(2,819)	(851)	(3,670)
Total comprehensive income for the year	**(2,819)**	**22,222**	**19,403**
Balance at end of year	**7,526**	**1,133,291**	**1,140,817**

2015	Investment revaluation reserve $'000	Retained surplus $'000	Total accumulated funds $'000
Balance at beginning of year	10,097	1,060,019	1,070,116
Surplus for the year	–	50,225	50,225
Total other comprehensive income for the year	248	825	1,073
Total comprehensive income for the year	**248**	**51,050**	**51,298**
Balance at end of year	**10,345**	**1,111,069**	**1,121,414**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 43 to 82.

Consolidated Statement of Cash Flows

for the year ended 30 June 2016

	Note	RACQ Group 2016 $'000	RACQ Group 2015 $'000
Cash flows from operating activities			
Insurance premiums received		801,972	780,391
Subscriptions and entrance fees received		138,651	135,629
Reinsurance and other recoveries received		131,498	138,471
Insurance claims paid		(576,548)	(579,166)
Outwards reinsurance premiums paid		(75,734)	(74,769)
Other cash receipts in the course of operations		30,625	44,682
Other cash payments in the course of operations		(378,060)	(344,403)
Income taxes paid		(17,014)	(48,370)
Net cash provided by/(used in) operating activities	5.2	**55,390**	**52,465**
Cash flows from investing activities			
Interest received		56,947	57,487
Trust distributions received		1,543	–
Dividends received		3,340	2,377
Rental income received		1,537	4,077
Payments for investments		(1,106,670)	(1,279,066)
Proceeds from sale of investments		1,030,631	1,288,506
Payments for intangible assets		(25,985)	(36,124)
Payments for property, plant and equipment		(16,984)	(82,283)
Payments for investments in Associates		–	(1,001)
Proceeds from sale of property, plant and equipment		499	1,641
Net cash flows from investing activities		**(55,142)**	**(44,386)**
Net increase/(decrease) in cash and cash equivalents		248	8,079
Cash and cash equivalents at the beginning of the year		55,311	47,232
Cash and cash equivalents at the end of the year		**55,559**	**55,311**

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 43 to 82.

Notes to the Financial Statements

for the year ended 30 June 2016

1 Basis of preparation

Reporting entity

The Royal Automobile Club of Queensland Limited (the Company) is a company limited by guarantee domiciled in Australia. The Company's registered office is 2649 Logan Road, Eight Mile Plains, Queensland, 4113. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Company is a not-for-profit entity.

The consolidated financial statements were authorised for issue by the Board of Directors on 12 September 2016.

Significant accounting policies have been included in the relevant note to which the policies relate. The significant accounting policies have been applied consistently to all periods presented in these financial statements.

Statement of compliance

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board.

Significant estimates, judgements and assumptions

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

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

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

- Outstanding claims liability (Note 2.3);
- Liability adequacy test (Note 2.6);
- Reinsurance and other recoveries (Note 2.4); and
- Goodwill impairment (Note 4.3.1).

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 assets that are measured at fair value:

- Available-for-sale financial assets;
- Financial assets at fair value through profit or loss; and
- Assets backing general insurance liabilities.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that legislative Instrument, amounts in the consolidated financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Current asset deficiency

The majority of investment securities held are highly liquid securities. Some of these securities have maturity dates beyond the next 12 months and are classified as non-current. This has resulted in a reported net current asset deficit as at 30 June 2016. Despite this deficiency, the majority of non-current investment securities are highly liquid investments to ensure the Group is able to meet operating requirements when due.

Notes to the Financial Statements

for the year ended 30 June 2016

1 Basis of preparation (continued)

Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Group controls an entity when it is exposed, 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) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

New standards and interpretations not yet adopted

AASB 9 *Financial Instruments* was issued and introduces changes in the classification and measurement of financial assets and financial liabilities, impairment of financial assets and new rules for hedge accounting. This standard becomes mandatory for the Group's 30 June 2019 financial statements. The potential effects on adoption of the standard are currently being assessed.

AASB 16 *Leases* was issued and introduces changes to lessee accounting. It requires recognition of lease liabilities and assets other than short-term leases or leases of low-value assets on balance sheet. This will replace the operating/finance lease distinction and accounting requirements prescribed in AASB 117 *Leases*. This standard will become mandatory for the Group's 30 June 2020 financial statements. The potential effects on adoption of the standard are currently being assessed.

AASB 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces existing revenue guidance, including AASB 118 *Revenue*. The standard becomes mandatory for the Group's 30 June 2019 financial statements. The potential impact of this standard on the Group has not yet been determined. The Group does not intend to early adopt this standard

AASB 9, AASB 16 and AASB 15 are available for early adoption but have not been applied by the Group in this financial report.

2 Insurance activities

2.1 Insurance result

The following table presents details of the underwriting result in respect of the insurance activities included in the Consolidated Statement of Profit and Loss and Other Comprehensive Income:

		RACQ Group	
	Note	2016 $'000	2015 $'000
Insurance premium revenue		717,879	704,207
Outwards reinsurance premium expense		(75,071)	(76,548)
Net premium revenue		**642,808**	**627,659**
Claims expense	2.2	(500,636)	(573,159)
Reinsurance and other recoveries revenue	2.2	58,583	162,538
Net claims incurred	2.2	**(442,053)**	**(410,621)**
Acquisition costs		(79,487)	(72,901)
Other underwriting expenses		(109,327)	(106,549)
Underwriting expenses		**(188,814)**	**(179,450)**
Underwriting result		**11,941**	**37,588**
Investment income on technical reserves		31,416	31,408
Investment expenses on technical reserves		(1,086)	(1,052)
Insurance result		**42,271**	**67,944**

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 over the period of the insurance policy, which is usually one year.

Premium on unclosed business is brought to account based on the pattern of processing renewals and new business.

(ii) Outwards reinsurance premium expense

Premium ceded to reinsurers is recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract.

(iii) Claims expense

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to a loss or accident according to the terms of the policy. Claims expense is recognised as losses are incurred, which is usually the point in time when the event giving rise to the claim occurs.

(iv) Reinsurance and other recoveries revenue

Reinsurance and other recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the outstanding claims liabilities.

(v) Underwriting expenses

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

2 Insurance activities (continued)

2.2 Net claims incurred

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

	2016 Current year $'000	2016 Prior years $'000	2016 Total $'000	2015 Current year $'000	2015 Prior years $'000	2015 Total $'000
Gross claims expense						
Gross claims incurred – undiscounted	586,252	(97,093)	**489,159**	684,419	(125,669)	**558,750**
Discount movement	(11,353)	22,830	**11,477**	(20,473)	34,882	**14,409**
	574,899	**(74,263)**	**500,636**	**663,946**	**(90,787)**	**573,159**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(62,883)	7,274	**(55,609)**	(182,859)	25,095	**(157,764)**
Discount movement	2,068	(5,042)	**(2,974)**	2,940	(7,714)	**(4,774)**
	(60,815)	**2,232**	**(58,583)**	**(179,919)**	**17,381**	**(162,538)**
Total net claims incurred	**514,084**	**(72,031)**	**442,053**	**484,027**	**(73,406)**	**410,621**

The decrease in prior year net provisions is primarily due to the release of risk margins as claims were paid and valuation releases arising from favourable claims experience in CTP Insurance.

2.3 Outstanding claims liability

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

The expected future payments include those in relation to claims reported but not yet paid, 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.

2 Insurance activities (continued)

2.3 Outstanding claims liability (continued)

A breakdown of the total outstanding claims liability is as follows:

	RACQ Group	
	2016 $'000	2015 $'000
Gross outstanding claims liability		
Gross central estimate – undiscounted	660,680	707,621
Claims handling expense	45,401	41,356
	706,081	**748,977**
Discount to present value	(26,200)	(33,871)
Risk margin	144,873	134,993
Gross outstanding claims liability	**824,754**	**850,099**
Current	279,337	327,436
Non-current	545,417	522,663
Gross outstanding claims liability	**824,754**	**850,099**

	%	%
Risk margin	**25.8**	**26.1**
Probability of sufficiency	**92.5**	**92.5**

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

	RACQ Group	
	2016 $'000	2015 $'000
Net outstanding claims liability at the beginning of the year	642,819	623,496
Prior periods		
Claim payments	(192,921)	(146,406)
Discount unwind	9,495	12,542
Margin release on prior periods	(42,611)	(35,144)
Incurred claims due to changes in assumptions and experience	(35,403)	(78,261)
Current period		
Net central estimate for current period	241,316	214,338
Net change in reinsurance on paid claims	6,476	(366)
Risk margin on current period net outstanding claims	61,218	52,620
Net outstanding claims liability at the end of the year	**690,389**	**642,819**
Reinsurance and other recoveries receivable	134,365	207,280
Gross outstanding claims liability	**824,754**	**850,099**

2 Insurance activities (continued)

2.3 Outstanding claims liability (continued)

2.3.1 Claims development table

The following table shows the development of the estimated undiscounted outstanding claims liabilities relative to the ultimate expected claims for the 10 most recent accident years. Amounts are net of reinsurance and third party recoveries. Personal Insurance (Home, Motor, Pleasurecraft and Pet) claims are disclosed separately as there are no material claim developments that require disclosure because the majority of claims are settled within 12 months following the reported incident

Accident year	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Estimate of net ultimate CTP claims cost:											
At end of accident year	87,335	104,281	128,115	141,527	142,357	151,096	155,581	169,902	155,377	171,782	171,782
One year later	89,412	118,697	125,969	125,074	128,012	126,160	139,449	147,050	146,065	–	146,065
Two years later	95,363	112,780	113,055	108,598	110,494	109,153	118,280	140,057	–	–	140,057
Three years later	87,769	101,825	114,349	103,134	99,573	102,062	98,069	–	–	–	98,069
Four years later	80,064	97,086	108,279	93,537	91,412	96,824	–	–	–	–	96,824
Five years later	82,096	94,507	102,649	96,195	89,111	–	–	–	–	–	89,111
Six years later	83,549	90,138	102,354	92,525	–	–	–	–	–	–	92,525
Seven years later	88,015	89,086	102,680	–	–	–	–	–	–	–	102,680
Eight years later	85,846	88,898	–	–	–	–	–	–	–	–	88,898
Nine years later	85,411	–	–	–	–	–	–	–	–	–	85,411
Current estimate of net ultimate claims cost	85,411	88,898	102,680	92,525	89,111	96,824	98,069	140,057	146,065	171,782	1,111,421
Cumulative payments	(84,479)	(85,988)	(97,862)	(87,134)	(82,707)	(79,736)	(66,384)	(49,002)	(22,973)	(2,235)	(658,499)
Net outstanding claims – undiscounted	**932**	**2,910**	**4,818**	**5,391**	**6,404**	**17,088**	**31,685**	**91,055**	**123,092**	**169,547**	**452,922**
Discount to present value											(22,736)
Claims handling expenses											37,095
2006 and prior											11,857
Outstanding claims – CTP											**479,138**
Outstanding claims – Personal Insurance											66,378
Risk margin											144,873
Total net outstanding claims											**690,389**

2 Insurance activities (continued)

2.3 Outstanding claims liability (continued)

2.3.2 Actuarial assumptions and methods

The estimation of the outstanding claims liabilities is based on multiple actuarial models that analyse experience, trends and other factors utilising the Group's specific data, relevant industry data and general economic data. The selection of the appropriate model takes into account the characteristics of a claim type and 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 sufficient, a combination of actual and industry experience is utilised to calculate the ultimate claims cost. An allowance is made, including relevant industry issues faced by the Group, for changes or uncertainties in the underlying assumptions derived from historical data, which might cause the cost of unsettled claims to increase or reduce compared with the cost of previously settled claims.

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in estimating claims provisions, it is likely that the final outcome will prove to be different from the original liability established. 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 display increased complexity and longer settlement periods and are generally subject to a greater degree of uncertainty with claims often not being adequately reported until many years after the events giving rise to the claims have happened.

Actuarial assumptions

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

	2016		2015	
	Personal Insurance	CTP Insurance	Personal Insurance	CTP Insurance
Discount rate	1.6%	1.7%	2.1%	2.3%
Economic inflation rate	–	3.3%	–	3.5%
Superimposed inflation rate	–	3.5%	–	3.5%
Claims handling expense ratio	6.6%	7.4%	4.8%	6.8%
Risk margin	20.5%	27.3%	17.6%	27.3%

Discount rate

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

Inflation and superimposed inflation rate

Economic inflation is based on economic indicators such as growth in average weekly earnings. Superimposed inflation reflects the tendency of claims costs to increase above the rate of economic inflation, due to economic, social and political forces. Inflation assumptions reflect past experience and future expectations.

No explicit allowance for economic or superimposed inflation has been made in the valuation of Personal Insurance claims. Allowances for future inflation are implicit in the selected claims cost development patterns.

Claims handling expense ratio

The future claims handling expense ratio is calculated with reference to past experience of claim handling costs as a percentage of past payments.

Risk margin

The overall risk margin is determined by the Board after analysis of the relative uncertainty of the outstanding claims estimate for each class of business. Uncertainties surrounding the outstanding claims liability estimation process include those relating to the robustness of the various valuation models and the underlying assumptions, reliability and volume of data available, past claims experience, characteristics of the classes of business written, and industry and market conditions.

2 Insurance activities (continued)

2.3 Outstanding claims liability (continued)

2.3.2 Actuarial assumptions and methods (continued)

Risk margin (continued)

The assumptions regarding uncertainty for each class of business were applied to the net central estimates, and the results are aggregated, allowing for diversification in order to arrive at an overall provision that is intended to have a probability of sufficiency of around 90% (2015: 90%).

Sensitivity analysis – insurance contracts

The Group conducts sensitivity analyses to quantify the exposure to the risk of changes in the key actuarial assumptions. A sensitivity analysis is conducted on each variable while holding all other variables constant.

The following table summarises the sensitivity of the surplus/(loss) after tax. A change in each variable will have no impact on equity reserves.

	Movement in Variable		Financial Impact on Surplus/(Loss) after tax	
Impact of changes in key variables	2016	2015	2016 $'000	2015 $'000
Assumption				
Discount rate	+1%	+1%	10,238	9,338
	-1%	-1%	(10,584)	(9,644)
Inflation rate	+1%	+1%	(9,963)	(7,855)
	-1%	-1%	9,691	7,835
Claims handling expense rate	+1%	+1%	(5,328)	(5,279)
	-1%	-1%	5,328	5,279
Risk margin	+1%	+1%	(7,696)	(6,097)
	-1%	-1%	7,155	5,691

2 Insurance activities (continued)

2.4 Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable are measured as the present value of expected future receipts, calculated on the same basis as the provision for outstanding claims. These calculations are based on past recovery experience or relevant industry benchmarks and include adjustments to these assumptions where appropriate. The recoverability of these assets is assessed on a periodic basis, taking into consideration factors such as counterparty credit risk.

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

	RACQ Group	
	2016 $'000	2015 $'000
Reinsurance recoveries		
Expected undiscounted outstanding reinsurance recoveries		
On paid claims	2,277	8,765
On outstanding claims	40,681	103,975
	42,958	**112,740**
Discount to present value	(3,095)	(4,898)
	39,863	**107,842**
Other recoveries		
Expected undiscounted outstanding other recoveries		
On paid claims	56,616	55,678
On outstanding claims	40,861	47,890
	97,477	**103,568**
Discount to present value	(2,975)	(4,130)
	94,502	**99,438**
Total reinsurance and other recoveries receivable	**134,365**	**207,280**
Current	75,077	135,263
Non-current	59,288	72,017
	134,365	**207,280**

2 Insurance activities (continued)

2.5 Deferred acquisition costs

Acquisition costs incurred in obtaining and recording general insurance contracts are deferred and recognised as assets when they can be reliably measured and where it is probable that they will give rise to premium revenue in subsequent reporting periods.

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

Deferred acquisition costs are 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. Refer note 2.6 Liability Adequacy Test.

The following is a reconciliation of the deferred acquisition costs:

	RACQ Group	
	2016 $'000	2015 $'000
Deferred acquisition costs at beginning of the year	37,351	33,757
Acquisition costs incurred in the period	80,804	76,495
Amortisation expense	(79,487)	(72,901)
Deferred acquisition costs at end of the financial year	**38,668**	**37,351**

2.6 Liability Adequacy Test (LAT)

At each reporting date the Group assesses whether the net unearned premium liability less any deferred acquisition costs is sufficient to cover expected future claims costs against current general insurance contracts. This assessment is performed separately for each portfolio of contracts subject to broadly similar risks and managed together as a single portfolio. The Group has one portfolio of contracts being personal lines, which incorporates Personal Insurance and CTP Insurance.

If a LAT deficiency occurs, it is recognised immediately in profit or loss. The deficiency is recognised first by writing down any deferred acquisition costs, with any excess being recorded in the Balance Sheet as an unexpired risk liability.

Future claim costs are calculated as the present value of the expected future cash flows relating to future claims and includes a risk margin to reflect the inherent uncertainty in the central estimate, as follows:

	RACQ Group	
	2016 $'000	2015 $'000
Central estimate present value of expected future cash flows arising from future claims	335,899	311,602
Central estimate present value of expected future cash inflows arising from reinsurance recoveries on future claims	(31,069)	(31,204)
Risk margin	22,169	20,622
Expected present value of future cash flows for future claims including risk margin	**326,999**	**301,020**

The risk margin adopted in 2016 is 7.3% (2015: 7.4%). The risk margin applied in the calculation of the LAT is intended to achieve a 75% probability of sufficiency. This differs from the 92.5% probability of sufficiency used in the calculation of the outstanding claims liability. The 75% level of sufficiency is considered appropriate given the purpose and nature of the test, which is to test the sufficiency of the net premium liabilities and to highlight deficiencies in product pricing. The process for determining the risk margin is outlined in Note 2.3.2 Actuarial assumptions and methods. As at 30 June 2016 and 30 June 2015, the LAT resulted in a surplus.

2 Insurance activities (continued)

2.7 Insurance risk management

2.7.1 Risk management objectives and policies for mitigating insurance risk

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

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

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

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

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

2.7.2 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 have a material impact upon the consolidated financial statements.

2.7.3 Concentration of insurance risk

The Group aims to reduce its exposure to concentration of insurance risk by maintaining a balanced diversified portfolio across both short tail (Personal Insurance) and long tail (Compulsory Third Party) classes of business. Concentration within the classes is also monitored to ensure excessive levels of exposure to certain perils and/or geographical regions are within desired levels.

All risks are aggregated via postcode and then modelled with commercial catastrophe modelling tools to evaluate the single largest risk, or PML. The largest risk faced in respect of concentration is the risk of natural catastrophes.

3 Financial instruments and capital management

3.1 Investment income

Investment income is comprised of interest income on funds invested (including available-for-sale financial assets), dividend income, realised gains/losses on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised using the effective interest method. Dividends and distribution income are recognised when the right to receive income is established.

Investment income comprises the following:

	RACQ Group	
	2016 $'000	2015 $'000
Interest income		
Available for sale financial assets	10,006	12,165
Financial assets designated at fair value through profit or loss	46,919	45,322
Net gain/(loss) on disposal of available-for sale financial assets transferred from equity	1,405	(550)
Net change in fair value of financial assets designated at fair value through profit or loss		
Unrealised gains/(losses)	(2,089)	2,327
Realised losses	(2,878)	(3,746)
Dividend income	3,340	2,377
Trust distribution income	1,543	–
Total investment income	**58,246**	**57,895**

3.2 Investment securities

Investment securities are classified as follows:

	RACQ Group	
	2016 $'000	2015 $'000
Current		
Available for sale		
Debt securities	8,432	13,497
Deposits and bills	30,493	76,308
Unit trusts	53,380	–
Designated at fair value through profit or loss		
Debt securities	187,424	201,158
Deposits and bills	101,889	144,230
Total current investment securities	**381,618**	**435,193**
Non-current		
Available for sale		
Equity securities	44,724	27,790
Debt securities	29,839	123,331
Deposits and bills	38,994	62,018
Unit trusts	99,022	–
Designated at fair value through profit or loss		
Debt securities	912,268	807,046
Deposits and bills	27,500	8,500
Total non-current investment securities	**1,152,347**	**1,028,685**

For accounting policies for investments, refer to Note 3.6.

3 Financial instruments and capital management (continued)

3.3 Fair value hierarchy

The table below analyses financial assets carried at fair value, by valuation method.

The different levels have been defined as follows:

- 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); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

RACQ Group	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2016				
Equities	44,724	–	–	44,724
Debt securities	233	1,137,730	–	1,137,963
Deposits and bills	198,876	–	–	198,876
Unit trusts	–	152,402	–	152,402
	243,833	**1,290,132**	**–**	**1,533,965**
2015				
Equities	27,790	–	–	27,790
Debt securities	–	1,145,032	–	1,145,032
Deposits and bills	291,056	–	–	291,056
	318,846	**1,145,032**	**–**	**1,463,878**

There were no transfers between the levels of the fair value hierarchy during the year ended 30 June 2016 (2015: nil).

3.3.1 Valuation approach

For securities traded in an active market, fair value is determined by reference to quoted bid price or redemption price or broker quotes for similar instruments at the reporting date. For securities traded in a market that is not active, valuation techniques are used based on market observable inputs. At 30 June 2016, the Group also held units in the QIC Global Infrastructure Fund, the value of which is based on the redemption price.

The fair values of financial assets and liabilities are equal to the carrying amounts shown in the Consolidated Balance Sheet. The carrying amounts of the following financial assets and financial liabilities are a reasonable approximation of their fair value as they are short term in nature:

- Cash and cash equivalents;
- Trade and other receivables; and
- Trade and other payables.

3 Financial instruments and capital management (continued)

3.4 Financial risk management

The Group's activities expose it to a variety of financial risks, including credit risk, market risk and liquidity risk. This note presents information about the Group's financial risks and the objectives, policies and processes for managing these risks.

3.4.1 Overview

The Board of Directors, including the Board for each of the regulated entities, Club Insurance Holdings Pty Limited and RACQ Insurance Limited, have overall responsibility for the establishment and oversight of the risk management framework. Each Board has established Risk and Compliance Committees that assist their respective boards in developing and monitoring risk management policies. These committees report regularly to their boards on their activities.

The Group adopts an enterprise risk management approach, which incorporates the concept of the 'three lines of defence'. The 'three lines of defence' relate to function and not people. It is recognised that in a practical environment the Group requires its people resources to be employed with a core function within a specific line of defence, however, from time to time people will be fulfilling functional outcomes in other lines of defence. The three lines are:

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

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

3.4.2 Credit risk

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

(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.

(ii) Reinsurance and other recoveries

Credit risk with respect to reinsurance programs is mitigated by the placement of cover with a number of reinsurers with high credit ratings. Reinsurance arrangements and recoveries are regularly monitored and managed by a Senior Executive Committee of RACQ Insurance 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) Trade and other receivables

The majority of trade and other receivables relate to insurance policies that 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.

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.

3 Financial instruments and capital management (continued)

3.4 Financial risk management (continued)

3.4.2 Credit risk (continued)

(iii) Trade and other receivables (continued)

The following table provides information regarding the credit risk exposure of the Group's financial and insurance assets classified according to Standard & Poor's credit ratings:

	AAA $'000	AA+ to AA- $'000	A+ to A- $'000	Below A- $'000	Not rated $'000	Total $'000
2016						
Cash and cash equivalents	24,684	29,898	–	–	977	55,559
Trade and other receivables						
Trade receivables	–	–	–	–	4,588	4,588
Insurance premiums receivable	–	–	–	–	167,355	167,355
Other receivables	–	–	–	–	9,038	9,038
Total trade and other receivables					**180,981**	**180,981**
Reinsurance and other recoveries receivable	41,092	21,220	18,643	–	53,410	134,365
Debt securities	420,697	447,005	210,244	60,017	–	1,137,963
Deposits and bills	51,881	90,538	52,354	–	4,103	198,876
	538,354	**588,661**	**281,241**	**60,017**	**239,471**	**1,707,744**

	AAA $'000	AA+ to AA- $'000	A+ to A- $'000	Below A- $'000	Not rated $'000	Total $'000
2015						
Cash and cash equivalents	21,467	33,783	–	–	61	55,311
Trade and other receivables						
Trade receivables	–	–	–	–	6,393	6,393
Insurance premiums receivable	–	–	–	–	148,733	148,733
Other receivables	–	–	–	–	4,480	4,480
Total trade and other receivables	–	–	–	–	**159,606**	**159,606**
Reinsurance and other recoveries receivable	48,098	51,990	55,851	–	51,341	207,280
Debt securities	466,853	429,136	241,661	7,092	290	1,145,032
Deposits and bills	103,974	107,986	74,969	–	4,127	291,056
	640,392	**622,895**	**372,481**	**7,092**	**215,425**	**1,858,286**

At 30 June 2016, no receivables of the Group were past due or impaired (2015: nil). The amount of the impairment provision was nil (2015: nil).

3 Financial instruments and capital management (continued)

3.4 Financial risk management (continued)

3.4.3 Liquidity risk

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

The assets backing insurance liabilities consist of government securities and other quality securities that can generally 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.

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.

The following table represents the contractual maturities of financial liabilities and the net discounted outstanding claims liability:

	Less than 1 year $'000	1 – 3 years $'000	3 – 5 years $'000	More than 5 years $'000	Total $'000
2016					
Outstanding claims liability	279,337	318,954	140,029	86,434	824,754
Trade and other payables					
Trade payables	43,753	–	–	–	43,753
Other payables and accruals	16,117	–	–	–	16,117
Total trade and other payables	**59,870**	**–**	**–**	**–**	**59,870**
Other non-current liabilities	–	–	5	–	5
Unearned revenue	439,540	–	–	–	439,540
	778,747	**318,954**	**140,034**	**86,434**	**1,324,169**

	Less than 1 year $'000	1 – 3 years $'000	3 – 5 years $'000	More than 5 years $'000	Total $'000
2015					
Outstanding claims liability	327,436	314,726	131,958	75,979	850,099
Trade and other payables					
Trade payables	42,694	–	–	–	42,694
Other payables and accruals	21,392	–	–	–	21,392
Total trade and other payables	**64,086**	**–**	**–**	**–**	**64,086**
Other non-current liabilities	–	–	10	–	10
Unearned revenue	411,715	–	–	–	411,715
	803,237	**314,726**	**131,958**	**75,979**	**1,325,910**

3 Financial instruments and capital management (continued)

3.4 Financial risk management (continued)

3.4.4 Market risk

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

The Group, through its Group Investment Committee, reviews and approves the Investment Management Strategies and Investment Mandates at least annually. The performance of all investment managers (both external and internal), including compliance with investment guidelines stipulated within the investment strategies and mandates, is reviewed on a regular basis by management, the Group Investment Committee and the Boards of Directors.

(i) Interest rate risk

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 interest rates should have minimal impact on the insurance profit due to the Group's policy of investing in assets backing insurance liabilities principally in fixed interest securities broadly matched to the expected payment pattern of the 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.

At 30 June 2016, if interest rates had changed by +/- 1% (2015: +/- 1%) from the year-end rates, with all other variables held constant, surplus for the year would have been $17,437,000 higher/lower (2015: $14,776,000 higher/lower) and equity reserves would have been $830,000 higher/lower (2015: $5,672,000 higher/lower).

(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 investment in available-for-sale funds or equity securities. Available for sale financial assets are exposed to price risk as redemption prices or share price fluctuates.

Equity risk is reduced by incorporating a diverse holding of blue-chip equities. 59% (2015: 100%) of the market value of the equity securities portfolio comprises stock that forms part of the Standard & Poors ASX 200 Index. At 30 June 2016, if a 1% increase/decrease was applied to the ASX 200 index and all other variables were held constant, equity reserves would have increased/decreased by $447,230 (2015: $277,902).

At 30 June 2016, the Group also held units in a number of trusts, the underlying assets of which separately comprised ASX200 Australian equities, international bonds, listed and unlisted infrastructure, and international equities. The fair values of such financial instruments are affected by changes in the market price of the underlying instruments.

3.5 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 businesses for the benefit of the members.

The Board of Director's 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 excessive capital, which could otherwise be put to the benefit of members.

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

3 Financial instruments and capital management (continued)

3.5 Capital management (continued)

Regulatory capital

All insurers that conduct general insurance business in Australia are regulated by APRA and are required to maintain internal capital targets. The Insurance Group, comprising Club Insurance Holdings Pty Ltd and RACQ Insurance Limited, has retained its capital target of 2.0 times the Prescribed Capital Amount (PCA) and has a trading minimum of 1.75 times the PCA, which is the capital injection trigger point, in accordance with its Internal Capital Adequacy Assessment Process (ICAAP). If the trading range exceeds 2.15 times the PCA, management will consider paying a dividend to bring the PCA back within range.

The Insurance Group uses the standardised framework for calculating the PCA in accordance with the relevant APRA prudential standards. The Insurance Group has satisfied all externally imposed capital requirements that it was subject to during both the current and prior financial year.

The regulatory capital position of the Insurance Group is as follows:

	2016 $'000	2015 $'000
Common Equity Tier 1 capital		
Paid-up ordinary shares	470,890	470,890
Retained earnings brought forward	91,873	88,620
Current year's earnings	15,160	38,254
Dividends declared or paid	–	(35,000)
Excess technical provisions (net of tax)	67,773	64,086
	645,696	**626,850**
Less: Deductions		
Goodwill and other intangible assets	247,286	251,775
Deferred tax asset	10,955	5,689
Common Equity Tier 1 capital	**387,455**	**369,386**
Tier 2 capital		
Subordinated debt	60,000	60,000
Total Tier 2 capital	**60,000**	**60,000**
APRA capital base	**447,455**	**429,386**
Prescribed Capital Amount (PCA)		
Insurance risk charge	135,877	127,306
Insurance concentration risk charge	28,750	25,000
Asset risk charge	54,959	53,230
Asset concentration risk charge	–	–
Operational risk charge	27,277	25,562
Aggregation benefit	(35,897)	(34,441)
Prescribed Capital Amount (PCA)	**210,966**	**196,657**
PCA multiple	**2.12**	**2.18**

3 Financial instruments and capital management (continued)

3.5 Capital management (continued)

Regulatory capital (continued)

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 position 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 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 on an annual basis. This analysis incorporates a number of factors, such as current and future profitability, reinsurance arrangements, investment mix and the insurance liability profile. It also provides simulations of multiple scenarios to determine a range of impairment risk measures. The Boards of the Insurance Group consider the risk of impairment measures through the annual risk appetite setting process to set a target and trading range of capital to sustain the business in the event of numerous adverse impacts.

3.6 Accounting policies for financial assets and financial liabilities

Non-derivative financial assets

The RACQ Group initially recognises financial assets (including assets designated at fair value through profit or loss) on the trade date at which the Group becomes a part of the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from that asset expire, or it transfers substantially all risks and rewards of the financial asset.

The Group has the following non-derivative financial assets:

(i) Cash and cash equivalents

Cash includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

(ii) Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments, evaluates the performance and makes purchases and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

Upon initial recognition, transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value on each reporting date, and changes therein are recognised in profit or loss.

The Group's financial assets at fair value through profit or loss include those investment securities held to back insurance liabilities.

(iii) Trade and other receivables

Trade and other receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest method, less any impairment losses. Trade and other receivables are assessed at each reporting date to determine whether there is objective evidence of impairment, such as default or delinquency by a debtor.

(iv) Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities (those that are not held to back general insurance liabilities) are classified as available-for-sale financial assets where they are intended to be held for an indefinite period of time, but which may be sold in response to a need for liquidity or changes in interest rates. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised directly in other comprehensive income and presented within equity in the investment revaluation reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to surplus.

3 Financial instruments and capital management (continued)

3.6 Accounting policies for financial assets and financial liabilities (continued)

(iv) Available-for-sale financial assets (continued)

Impairment losses on available-for-sale financial assets are recognised by reclassifying the cumulative losses in the investment revaluation reserve in equity to surplus. The amount reclassified is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in surplus.

Non-derivative financial liabilities

The Group initially recognises financial liabilities on the date at which the Group becomes a part of the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(i) Trade and other payables

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

4 Other assets and liabilities

4.1 Investment property

Investment property comprises land and buildings held for the purpose of either capital appreciation or to earn rental income, or both. The Group has chosen the cost model approach in accounting for investment properties. Accordingly investment properties are recorded at cost less any accumulated depreciation and any accumulated impairment losses. Investment properties are depreciated on a straight line basis at 2.5% per annum.

The table below presents the movement in the carrying amount of the investment properties:

	RACQ Group	
	2016 $'000	2015 $'000
Carrying amount at beginning of year	7,398	7,552
Acquisitions	–	–
Depreciation Expense	(158)	(154)
Carrying amount at the end of the year	**7,240**	**7,398**

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. During the year to 30 June 2016, rental income of $1,537,796 was recognised in the surplus (2015: $1,409,169) and direct operating expenses, including repairs and maintenance associated with holding these investment properties, was $367,305 (2015: $237,811).

4.1.1 Measurement of fair values

The fair value of the investment properties has been determined by external, independent property valuers as at 5 September 2014 (2015: 5 September 2014). The fair value of the investments properties is $16,480,000 (2015: $16,480,000). The valuation basis of investment properties is fair value having regard to the highest and best use of the asset. The independent valuer used the discounted cash flow approach to determine the fair value.

The fair value measurement for all of the investment properties has been categorised as Level 3 fair value based on the inputs to the valuation techniques used.

4 Other assets and liabilities (continued)

4.2 Property, plant and equipment

The composition of property, plant and equipment is as follows:

2016	Freehold land $'000	Buildings $'000	Plant and equipment $'000	Capital works in progress $'000	Total $'000
Cost					
Balance at 1 July 2015	20,830	81,147	98,678	9,606	210,261
Additions	–	–	–	16,984	16,984
Disposals	–	(209)	(2,341)	–	(2,550)
Transfer from capital works in progress	–	–	21,744	(21,744)	–
Balance at 30 June 2016	**20,830**	**80,938**	**118,081**	**4,846**	**224,695**
Depreciation and impairment loss					
Balance at 1 July 2015	–	(6,058)	(57,114)	–	(63,172)
Depreciation charge for the year	–	(2,022)	(9,636)	–	(11,658)
Disposals	–	–	2,788	–	2,788
Balance at 30 June 2016	**–**	**(8,080)**	**(63,962)**	**–**	**(72,042)**
Carrying amounts					
Carrying amounts as at 1 July 2015	**20,830**	**75,089**	**41,564**	**9,606**	**147,089**
Carrying amounts as at 30 June 2016	**20,830**	**72,858**	**54,119**	**4,846**	**152,653**

2015	$'000	$'000	$'000	$'000	$'000
Cost					
Balance at 1 July 2014	20,830	16,728	92,589	1,614	131,761
Additions	–	64,419	476	17,391	82,286
Disposals	–	–	(3,786)	–	(3,786)
Transfer from capital works in progress	–	–	9,399	(9,399)	–
Balance at 30 June 2015	**20,830**	**81,147**	**98,678**	**9,606**	**210,261**
Depreciation and impairment loss					
Balance at 1 July 2014	–	(4,733)	(50,291)	–	(55,024)
Depreciation charge for the year	–	(1,325)	(9,076)	–	(10,401)
Disposals	–	–	2,253	–	2,253
Balance at 30 June 2015	**–**	**(6,058)**	**(57,114)**	**–**	**(63,172)**
Carrying amounts					
Carrying amounts as at 1 July 2014	**20,830**	**11,995**	**42,298**	**1,614**	**76,737**
Carrying amounts as at 30 June 2015	**20,830**	**75,089**	**41,564**	**9,606**	**147,089**

4 Other assets and liabilities (continued)

4.2 Property, plant and equipment (continued)

Accounting policies

(i) Recognition and measurement

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

(ii) Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful life of the property, plant and equipment. Land is not depreciated. The depreciation rates used for each class of asset in the current and comparative periods are as follows:

	Useful life
Buildings	40 years or lease term, if shorter
Plant and equipment	2.5 – 25 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(iii) Impairment

Property, plant and equipment that is subject to depreciation is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For further detail on impairment, refer to 4.3.1.

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.3 Intangible assets

The composition of intangible assets is as follows:

2016	Goodwill $'000	Software and licensing costs $'000	Customer relationships $'000	Customer contracts $'000	Outstanding claims fair value adjustment $'000	Development costs $'000	Total $'000
Cost							
Balance at 1 July 2015	238,927	159,349	27,979	3,744	48,962	33,488	**512,449**
Additions – internally developed	–	–	–	–	–	25,985	**25,985**
Additions – other additions	–	–	–	–	–	–	
Disposals	–	(98)	–	–	–	–	**(98)**
Transfer from capital works in progress	–	51,269	–	–	–	(51,269)	**–**
Balance at 30 June 2016	**238,927**	**210,520**	**27,979**	**3,744**	**48,962**	**8,204**	**538,336**
Depreciation and impairment loss							
Balance at 1 July 2015	–	(98,130)	(22,079)	(3,744)	(41,299)	–	**(165,252)**
Amortisation charge for the year	–	(36,810)	(1,907)	–	(2,579)	–	**(41,296)**
Disposals	–	–	–	–	–	–	**–**
Balance at 30 June 2016	**–**	**(134,940)**	**(23,986)**	**(3,744)**	**(43,878)**	**–**	**(206,548)**
Carrying amounts							
Carrying amounts as at 1 July 2015	**238,927**	**61,219**	**5,900**	**–**	**7,663**	**33,488**	**347,197**
Carrying amounts as at 30 June 2016	**238,927**	**75,580**	**3,993**	**–**	**5,084**	**8,204**	**331,788**
2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cost							
Balance at 1 July 2014	238,927	162,869	27,979	3,744	48,962	7,208	**489,689**
Additions – internally developed	–	–	–	–	–	36,124	**36,124**
Additions – other additions	–	–	–	–	–	–	**–**
Disposals	–	(13,364)	–	–	–	–	**(13,364)**
Transfer from capital works in progress	–	9,844	–	–	–	(9,844)	**–**
Balance at 30 June 2015	**238,927**	**159,349**	**27,979**	**3,744**	**48,962**	**33,488**	**512,449**
Depreciation and impairment loss							
Balance at 1 July 2014	–	(77,393)	(19,423)	(3,744)	(37,298)	–	**(137,858)**
Amortisation charge for the year	–	(34,101)	(2,656)	–	(4,001)	–	**(40,758)**
Disposals	–	13,364	–	–	–	–	**13,364**
Balance at 30 June 2015	**–**	**(98,130)**	**(22,079)**	**(3,744)**	**(41,299)**	**–**	**(165,252)**
Carrying amounts							
Carrying amounts as at 1 July 2014	**238,927**	**85,476**	**8,557**	**–**	**11,664**	**7,208**	**351,831**
Carrying amounts as at 30 June 2015	**238,927**	**61,219**	**5,900**	**–**	**7,663**	**33,488**	**347,197**

4 Other assets and liabilities (continued)

4.3 Intangible assets (continued)

4.3.1 Impairment testing for cash-generating units containing goodwill

The aggregate carrying amounts of goodwill allocated to each cash generating unit (CGU) is as follows:

	RACQ Group	
	2016 $'000	2015 $'000
RACQ Insurance Limited	238,208	238,208
Other CGU without significant goodwill	719	719
Carrying amount at end of year	**238,927**	**238,927**

The recoverable amounts of CGUs have been determined based on value-in-use calculations, determined by discounting the future cash flows generated from the continuing use of the CGUs based on cash flows projected from the financial forecasts approved by the Board of Directors covering a five-year period. These calculations require 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 recoverable amounts are as follows:

	Discount Rate		Terminal Value Growth Rate		Budgeted Average EBITDA Growth Rate	
	2016	2015	2016	2015	2016	2015
	%	%	%	%	%	%
RACQ Insurance Limited	9.5	9.25	2.5	2.5	5.6	2.1

The discount rate is a post-tax measure estimated based on past experience, and industry average weighted average cost of capital. A long-term growth rate into perpetuity has been determined that does not exceed the long term average growth rate for the industry. Budgeted EBITDA growth rate has been based on past experience, with adjustments where future activities are expected to differ materially from past performance.

No impairment loss has been recognised (2015: nil). A reasonably possible change in any of these assumptions is not expected to result in impairment.

Accounting policies

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Other intangible assets, including customer relationships, which are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at acquisition date.

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 and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in surplus as incurred.

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.

4 Other assets and liabilities (continued)

4.3 Intangible assets (continued)

Accounting policies (continued)

(ii) Amortisation

Except for goodwill, intangible assets are amortised over the estimated useful life of the intangible asset from the date the asset is available for use. The amortisation bases used for each class of asset for the current and comparative periods are as follows:

	Basis	*Useful life*
Software and licensing costs	Straight line	4 –10 years
Customer relationships	Discounted cash flow	10 years
Net fair value of claims reserve	Claims runoff	19 years

Amortisation methods, useful lives and residual values are reassessed at each reporting date.

(iii) Impairment

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. Goodwill is tested annually for impairment.

For the purpose of impairment testing assets are grouped together by the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGU).

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.4 Employee benefits

4.4.1 Employee benefits expense

Employee benefits expense comprise:

	RACQ Group	
	2016 $'000	2015 $'000
Wages and salaries	124,954	125,776
Defined contribution superannuation expenses	11,286	9,735
Expense related to defined benefit superannuation funds	–	110
	136,240	**135,621**

4.4.2 Employee benefits liabilities

Employee benefits liabilities comprise:

	RACQ Group	
	2016 $'000	2015 $'000
Current		
Salaries & wages accrued	3,860	4,769
Liability for annual leave	12,546	12,602
Liability for long service leave	9,070	8,920
	25,476	**26,291**
Non-current		
Liability for long service leave	5,199	4,470
	5,199	**4,470**

Accounting policies

(i) Short term 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 12 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 benefits

The RACQ Group's net 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 to determine its present value. Remeasurements 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 is provided.

4 Other assets and liabilities (continued)

4.5 Transactions with key management personnel

Key management personnel of the Group may obtain membership, insurance products and other services and products from the Company and/or its controlled entity, RACQ Insurance Limited, on the same terms and conditions as those obtained by Company employees and are trivial or domestic in nature.

No key management personnel have entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving key management personnel interests subsisting at 30 June 2016. There are no loans to/from key management personnel.

4.5.1 Key management personnel compensation

Key management personnel compensation comprise:

	RACQ Group	
	2016 $	2015 $
Short-term employee benefits	6,071,000	6,527,388
Post-employment benefits	361,504	375,556
Other long-term benefits	675,571	745,764
Termination benefits	–	21,049
	7,108,076	**7,669,757**

The remuneration paid by RACQ Insurance Limited to RACQ directors for their services as an RACQ Insurance Limited director during the year to June 2016 totalled $525,064 (2015: $476,810). Directors of all other subsidiary companies within the RACQ Group are not separately remunerated for their services to those subsidiary companies.

The Group Chief Executive Officer of The Royal Automobile Club of Queensland Limited, Mr Ian A Gillespie, is a director of RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Mr Gillespie acted in his role as the nominee for The Royal Automobile Club of Queensland Limited and was not separately remunerated.

4 Other assets and liabilities (continued)

4.5 Transactions with key management personnel (continued)

4.5.2 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 service as directors on the Boards described above (excluding the RACQ Insurance Limited Board). As of 1 January 2015, directors received $87,500 per annum with additional fees paid for committee work and chairman responsibilities. Fees paid are inclusive of superannuation.

	2016 $	2015 $
Nigel Alexander, Chairman*	175,541	137,271
Fay Barker	113,382	105,735
Campbell Charlton	113,382	106,068
Arthur Gearon (resigned 30 March 2016)	85,332	22,385
Anthony Gambling*	88,091	98,817
Elizabeth Jameson*	100,441	113,427
Geoffrey Leddy* (retired 20 November 2014)	–	79,137
Stephen Maitland*	125,732	111,342
Bronwyn Morris*	100,441	108,536
Karl Morris	113,382	105,735
Richard Pietsch* (retired 13 December 2014)	–	49,635
	1,015,724	**1,038,088**

* Director of Club Insurance Holdings Pty Ltd while also a director of RACQ Insurance Limited.

(ii) Director compensation for RACQ Insurance Limited

Directors of the Company who are also directors of RACQ Insurance Limited are paid fees by RACQ Insurance Limited. This remuneration is supplementary to the remuneration paid by the Company. Directors of RACQ Insurance Limited who also sit on The Royal Automobile Club of Queensland Limited Board receive $82,300 per annum and directors who do not sit on The Royal Automobile Club of Queensland Limited board receive $113,000 per annum. Additional fees are paid for committee work and chairman responsibilities. Fees paid are inclusive of superannuation.

During the year non-executive directors received the following fees for their service as directors of RACQ Insurance Limited. Fees are inclusive of the services delivered for board and committee responsibilities.

	2016 $	2015 $
Nigel Alexander, Chairman	165,241	165,727
Anthony Gambling	119,941	68,909
Neville Ide	138,882	139,985
Elizabeth Jameson	119,941	36,327
Raymond Jones	138,882	136,985
Geoffrey Leddy (retired 20 November 2014)	–	31,901
Stephen Maitland (resigned 13 March 2015)	–	65,569
Bronwyn Morris	119,941	108,699
Vyn Tozer	151,232	145,639
	954,060	**899,741**

4 Other assets and liabilities (continued)

4.6 Unearned revenue

The unearned revenue at the end of the reporting period was as follows:

	RACQ Group	
	2016 $'000	2015 $'000
Unearned premiums		
Balance at the beginning of the year	343,055	342,662
Insurance premiums written during the year	742,955	704,600
Insurance premiums earned during the year	(717,879)	(704,207)
Balance at the end of the year	**368,131**	**343,055**
Unearned member subscriptions	71,409	68,660
Total unearned revenue	**439,540**	**411,715**

Accounting policies

(i) Roadside and home assistance subscriptions and entrance fees

Roadside and home assistance subscriptions comprise amounts received from members for roadside and home assistance. The earned portion of subscriptions received is recognised as revenue evenly over the subscription period using the 365 day method (earned over one year). Revenue received applicable to the unexpired period of the subscription term is recognised as unearned income. Entrance fees are recognised as revenue upon receipt.

(ii) Unearned insurance premium liability

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

4.7 Income tax

4.7.1 Income tax expense

Income tax expense comprises current and deferred tax and is recognised in surplus 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.

4 Other assets and liabilities (continued)

4.7 Income tax (continued)

4.7.1 Income tax expense (continued)

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. As a consequence each entity is separately assessed for tax.

Details of the aggregated current and deferred tax expense are as follows:

	RACQ Group	
	2016 $'000	2015 $'000
Recognised in surplus		
Current tax expense:		
Current year	15,911	22,596
Adjustments for prior years	1,130	1,093
	17,041	**23,689**
Deferred tax expense:		
Origination and reversal of temporary differences	(7,905)	(3,910)
Total income tax expense	**9,136**	**19,779**
Deferred tax recognised directly in equity		
Relating to remeasurement of defined benefit plan	(365)	354
Relating to available for sale financial assets	(1,208)	107
Total income tax expense/(benefit) recognised directly in accumulated funds	**(1,573)**	**461**

4.7.2 Reconciliation of the prima facie income tax expense on operating surplus before tax

	RACQ Group	
	2016 $'000	2015 $'000
Prima facie tax expense calculated at 30% (2015: 30%) on operating surplus before tax	9,663	21,001
Movement in income tax expense due to:		
– Non-deductible expenses	484	218
– Non-assessable income	(630)	–
– Mutual income and related deductions	190	(826)
– Tax offset in franked dividends	(804)	(711)
– Foreign income tax offsets	(41)	–
– Withholding tax credits	(10)	–
– Prior year under/(over) provision for research and development amendments	(663)	(289)
– Prior year under/(over) provision other	947	386
Income tax expense/(benefit) on operating surplus	**9,136**	**19,779**

4 Other assets and liabilities (continued)

4.7 Income tax (continued)

4.7.3 Recognised deferred tax assets and liabilities

A deferred tax asset is recognised to the extent that it is probable that a future taxable surplus will be available against which the asset 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.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset.

Deferred tax assets and liabilities are attributable to the following:

RACQ Group	Assets		Liabilities		Net	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Property, plant and equipment	27	–	(4,939)	(8,761)	(4,912)	(8,761)
Accruals	2,401	–	–	–	2,401	–
Acquisition adjustment	–	–	(2,723)	(4,069)	(2,723)	(4,069)
Investments	1,525	–	(7,967)	(6,679)	(6,442)	(6,679)
Claims handling costs on outstanding claims	14,676	13,056	–	–	14,676	13,056
Employee benefits	8,045	7,798	–	–	8,045	7,798
Provisions	2,766	–	(38)	–	2,728	–
Other items	1,490	2,493	(502)	(425)	988	2,068
Tax offsets carried forward	15,993	13,973	–	–	15,993	13,973
Tax losses recognised	2,842	6,732	–	–	2,842	6,732
Tax assets/(liabilities)	**49,765**	**44,052**	**(16,169)**	**(19,934)**	**33,596**	**24,118**
Set off of tax	(16,169)	(19,934)	16,169	19,934	–	–
Net tax assets/(liabilities)	**33,596**	**24,118**	**–**	**–**	**33,596**	**24,118**

5 Other notes

5.1 Other expenses

Included in other expenses is the amount of $9,121,000 relating to ex-gratia payments. These ex-gratia payments relate to payments made to claim service providers' for payments to contractors of Stream Group Australia following their voluntary administration in December 2015. The payments are deemed ex-gratia as there was no contractual obligation for RACQ Insurance to settle the outstanding creditors of Stream Group Australia.

5.2 Notes to the Statement of Cash Flow

	RACQ Group	
	2016 $'000	2015 $'000
Surplus for the year	23,073	50,225
Add/(less) items classified as investing activities		
Loss/(profit) on disposal of property, plant and equipment	(637)	44
Dividend income	(3,340)	(2,377)
Rental income	(1,537)	(4,077)
Interest income	(56,925)	(57,487)
Trust distribution income	(1,543)	–
Add/(less) non-cash items		
Impairment loss on investments	–	398
Depreciation and amortisation expense	53,112	51,159
Gain on sale of investments	1,473	3,746
Change of fair value of investments	2,089	(2,327)
Share of profit of equity accounted for investments	252	60
Contribution holiday taken for payment of RACQ Superannuation Fund	394	3,595
Net cash provided by/(used in) operating activities before change in net assets and liabilities	**16,411**	**42,959**
Change in assets and liabilities		
Trade and other receivables	(21,375)	(5,615)
Reinsurance and other recoveries receivable	72,915	(37,322)
Other assets	(1,427)	(2,189)
Deferred acquisition costs	(1,317)	(3,594)
Unearned revenue	27,825	1,680
Trade and other payables	(4,216)	25,286
Outstanding claims liability	(25,345)	56,645
Provision for employee benefits	167	2,841
Deferred tax balances	(9,478)	(3,511)
Income tax receivable	1,235	(24,725)
Other non-current liabilities	(5)	10
Net cash provided by/(used in) operating activities	**55,390**	**52,465**

5 Other notes (continued)

5.3 Equity accounted for investments

The Group's interest in equity accounted investees comprises interests in associates. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost and subsequently adjusted for to include the Group's share of the profit or loss of equity accounted investees.

The Group has a 33.3% interest in Australian Club Consortium Pty Ltd. During the prior financial year, Australian Club Consortium commenced operations. Australian Club Consortium is a strategic supplier for the RACQ group, which is principally involved in the investigation and investment in systems, products and services beneficial to Automotive Clubs in Australia. Australian Club Consortium is not publicly listed.

The table below summarises the financial position of Australian Club Consortium Pty Ltd as included in its own financial statements.

	RACQ Group	
	2016 $'000	2015 $'000
Percentage ownership interest held in entity by Group	33.3%	33.3%
Current assets	2,181	2,238
Non-current assets	11,158	3,079
Current liabilities	1,221	2,495
Non-current liabilities	10,050	–
Net assets (100%)	2,068	2,822
Group's share of net assets	689	941
Carrying amount of interest in Associate	**689**	**941**
Revenue	–	–
Profit/(loss) from continuing operations (100%)	(755)	(180)
Total comprehensive income	–	–
Group's share of loss	**(252)**	**(60)**

Below is a reconciliation of the financial position reported by Australian Club Consortium Pty Ltd and the carrying amount of the Group's interest in the entity as at 30 June 2016.

	RACQ Group	
	2016 $'000	2015 $'000
Carrying amount of interest in Associate at beginning of period	941	1
New investment made during period	–	1,000
Share of loss from operations	(252)	(60)
Carrying amount of interests in Associate at end of period	**689**	**941**

5 Other notes (continued)

5.4 Leases and commitments

The Group leases property under operating leases expiring from one to six years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Some leases provide for additional rent payments that are based on changes in a price index. Payments made under operating leases are recognised on a straight-line basis over the term of the lease.

Commitments not provided for in the financial statements and payable:	<1 Year $'000	1-5 Years $'000	5+ Years $'000	Total $'000
2016				
Non-cancellable operating lease commitments	4,368	5,473	268	**10,109**
Property, plant and equipment commitments	–	–	–	–
Intangible asset commitments	1,451	788	–	**2,239**
2015				
Non-cancellable operating lease commitments	3,925	9,413	998	**14,336**
Property, plant and equipment commitments	3,058	–	–	**3,058**
Intangible asset commitments	2,913	269	–	**3,182**

During the year to 30 June 2016 minimum operating lease payments of $3,676,492 were recognised (2015: $4,652,335).

Future revenues not provided for in the financial statements and receivable:	<1 Year $'000	1-5 Years $'000	5+ Years $'000	Total $'000
2016				
Operating lease revenue as lessor	4,921	7,534	831	**13,286**
2015				
Operating lease revenue as lessor	4,889	13,602	682	**19,173**

5 Other notes (continued)

5.5 Auditors' remuneration

The following services were provided by the Group's auditor during the reporting period:

	RACQ Group	
	2016 $	2015 $
Audit services:		
Auditors of the Group – KPMG Australia		
Audit of the financial report	316,050	266,814
Other regulatory audit services	151,456	58,400
	467,506	**325,214**
Audit related services:		
Auditors of the Group – KPMG Australia		
Actuarial services	–	54,500
Other assurance	–	44,297
		98,797
Other services:		
Auditors of the Group – KPMG Australia		
Taxation services	212,882	338,172
IT Advisory services	156,720	13,238
Other advisory services	246,396	58,448
	615,998	**409,858**

5 Other notes (continued)

5.6 Group structure

5.6.1 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. The Company has 1,718,049 (2015: 1,355,356) guaranteeing members.

	The Royal Automobile Club of Queensland Limited	
	2016 $'000	2015 $'000
Surplus for the year	12,951	11,633
Other comprehensive income	–	–
Total comprehensive income for the year	**12,951**	**11,633**

	The Royal Automobile Club of Queensland Limited	
	2016 $'000	2015 $'000
Financial position of the Company as at the end of the year:		
Current assets	680,082	597,021
Total assets	780,629	738,996
Current liabilities	264,731	233,423
Total liabilities	264,731	233,423
Total accumulated funds of the Company comprising of:		
Retained surplus	515,898	505,573
Total accumulated funds	**515,898**	**505,573**

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into 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 Notes 5.6.2 and 5.6.3.

5 Other notes (continued)

5.6 Group structure (continued)

5.6.2 Controlled entities

The following depicts the Group structure and the interest held in each controlled entity:

	Interest held	
	2016 %	2015 %
RACQ Operations Pty Ltd [2]	100	100
The Road Ahead Publishing Co Pty Ltd [2]	100	100
RACQ Investments Pty Ltd [2]	100	100
Club Equities Pty Ltd	100	100
Club Equities Holdings Pty Ltd	100	100
RACQ-Queensland Driving Excellence Centre Pty Ltd	100	100
Fuel Assist Pty Ltd	100	–
RACQ Investments No.2 Pty Ltd [2]	100	100
Club Insurance Holdings Pty Ltd [1]	100	100
RACQ Insurance Limited	100	100
Club Finance Holdings Limited	100	–
RACQ Foundation Pty Ltd	100	100
RACQ Foundation Fund	100	100
RACQ Foundation Trust	100	100

1 50% of the shares in Club Insurance Holdings Pty Ltd are held by RACQ Investments Pty Ltd, and 50% of the shares in Club Insurance Holdings Pty Ltd are held by RACQ Investments No.2 Pty Ltd.

2 Subsidiaries are parties to the Deed of Cross Guarantee, as described in Note 5.6.3.

5 Other notes (continued)

5.6 Group structure (continued)

5.6.3 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, RACQ Operations Pty Ltd is relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgment of a financial report and a directors' report. It is a condition of the Class Order that the Company and each of the subsidiaries noted in Note 5.6.2 enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the *Corporations Act 2001*, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

A consolidated 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, for the year ended 30 June 2016 is set out as follows:

	Consolidated parties to the Deed	
	2016 $'000	2015 $'000
Revenue	333,085	309,655
Expenses	322,861	262,603
Surplus before tax	**10,224**	**47,052**
Share of profit/(loss) of equity-accounted for investments in Associates	(252)	(60)
Income tax expense	(2,510)	(2,362)
Surplus for the year	**7,462**	**44,630**
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gains	(1,216)	1,179
Income tax expense	365	(354)
Total items that will not be reclassified to profit or loss	**(851)**	**825**
Items that may be reclassified subsequently to profit or loss:		
Net change in fair value of financial assets held as available-for-sale	(2,622)	(195)
Net change in fair value of available-for-sale financial assets sold reclassified to profit or loss	(1,405)	550
Income tax expense	1,208	(107)
Total items that may be reclassified subsequently to profit or loss	**(2,819)**	**248**
Total other comprehensive income for the year, net of income tax	**(3,670)**	**1,073**
Total comprehensive income for the year	**3,792**	**45,703**

5 Other notes (continued)

5.6 Group structure (continued)

5.6.3 Deed of cross guarantee (continued)

	Consolidated parties to the Deed	
	2016 $'000	2015 $'000
Assets		
Cash and cash equivalents	30,051	27,605
Trade and other receivables	94,406	92,126
Investment securities	92,305	89,805
Other current assets	10,495	8,048
Total current assets	**227,257**	**217,584**
Investment securities	683,468	684,028
Investment property	7,240	7,398
Property, plant and equipment	148,551	142,029
Intangible assets	84,499	95,423
Deferred tax assets	21,888	17,497
Other non-current assets	6,329	8,281
Investment in Associates	689	941
Total non-current assets	**952,664**	**955,597**
Total assets	**1,179,921**	**1,173,181**
Liabilities		
Trade and other payables	40,673	42,388
Unearned revenue	71,408	68,659
Current tax payable	3,697	3,428
Employee benefits	23,376	22,460
Total current liabilities	**139,154**	**136,935**
Employee benefits	5,199	4,470
Total non-current liabilities	**5,199**	**4,470**
Total liabilities	**144,353**	**141,405**
Net assets	**1,035,568**	**1,031,776**
Accumulated funds		
Reserves	7,526	10,345
Retained surplus	1,028,042	1,021,431
Total accumulated funds	**1,035,568**	**1,031,776**

5.7 Contingent liability

As at reporting date, there has not arisen any events that give rise to a contingent liability (2015: nil) of the Group or its subsidiaries.

5.8 Events subsequent to reporting date

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

Directors' Declaration

1. 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 39 to 82, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the financial position of the RACQ Group as at 30 June 2016 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.
2. There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 5.6.2 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.
3. The directors draw attention to Note 1 to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Nigel Alexander

Nigel WF Alexander
Chairman

Dated at Brisbane
this 12th day of September 2016

KPMG

Independent Auditor's Report

to the members of The Royal Automobile Club of Queensland Limited

We have audited the accompanying financial report of The Royal Automobile Club of Queensland Limited (the company), which comprises the Consolidated Balance Sheet as at 30 June 2016, and Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash flows for the year ended on that date, Notes 1 to 5.8 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement whether due to fraud or error. In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independent Auditor's Report
to the members of The Royal Automobile Club of Queensland Limited

Independence
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion
In our opinion:

(a) the financial report of the Group is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

KPMG

KPMG

Robert S Jones

Robert S Jones
Partner

Brisbane
12 September 2016

T Barker

Tracey Barker
Partner

Brisbane
12 September 2016

Lead Auditor's Independence Declaration
under Section 307C of the *Corporations Act 2001*

To: the directors of The Royal Automobile Club of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Robert S Jones
Partner

Brisbane
12 September 2016

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Corporate Directory

Club Patron
His Excellency Mr Paul de Jersey AC
Governor of Queensland

President and Chairman
Nigel WF Alexander
B.Bus, MAppFin, FCPA, FAICD

GROUP LEADERSHIP TEAM

Group Chief Executive Officer
Ian A Gillespie
BA, Dip Laws (BAB), FCEOI, FAICD, FAIM

Chief Information Officer
Gregory R Booker
MBA, MMgmnt, MAICD

Chief Executive Officer, Insurance
Bradley P Heath
B.Bus Acc, GAICD

Group Chief Financial Officer
Michael Lonergan
B.Bus, FCPA, GDip App Fin

Chief Executive Officer, Operations
Glenn A Toms
B.Bus, GDip Fin & Inv, FFin, FAIM, GAICD

Chief Development Officer
Christopher P Walsh
B.Com (Acc), GAICD

Auditors
KPMG
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Website:	racq.com

Postal Address
PO Box 4 Springwood QLD 4127
ACN 009 660 575
ABN 72 009 660 575

STORES AND MAJOR AGENCIES

Brisbane
Browns Plains – Grand Plaza Shopping Centre
Carindale – Westfield Carindale Shopping Centre
City – 103 Adelaide Street, Brisbane
Chermside – Westfield Chermside Shopping Centre
Eight Mile Plains – RACQ Operations Centre, 2649 Logan Road
Inala – Inala Plaza
Indooroopilly – Indooroopilly Shopping Centre
Mitchelton/Brookside – Brookside Shopping Centre
Strathpine – Westfield Strathpine Shopping Centre

Other Areas
Beenleigh – Shop 6 Beenleigh Mall, Main Street
Bundaberg – 249 Bourbong Street
Cairns – Stockland Shopping Centre, Earlville
Caloundra – 104 Bulcock Street
Capalaba – Shop 74 Capalaba Park Shopping Centre, Crn Redland Bay & Mt Cotton Rd
Elanora – The Pines Shopping Centre, Guineas Creek Road
Gladstone – 50 Hanson Road
Gympie – Goldfields Plaza, 71 Monkland Street
Hervey Bay – Shop 10 Stockland Shopping Centre, 6 Central Ave, Pialba
Ipswich – Riverlink Shopping Centre, Downs Street and The Terrace, North Ipswich
Mackay – Caneland Central, Cnr Victoria Street and Mangrove Road
Maroochydore – 25-33 Cornmeal Parade
Morayfield – Morayfield Shopping Centre, Morayfield Road
Nambour – 23-25 Currie Street
Nerang – My Centre, Station Street
Noosaville – Noosa Civic, 28 Eenie Creek Road
Redcliffe – Blue Water Square, Cnr Anzac Avenue and Sutton Street
Robina – Robina Town Centre, Arbour Court
Rockhampton – Red Hill Homemaker Centre, Yaamba Road, North Rockhampton
Southport West – 239 Nerang Road
Toowoomba – Clifford Gardens Shopping Centre, Cnr James Street and Anzac Ave
Townsville – 202 Ross River Road, Aitkenvale
Warwick – Rose City Shopping World, Palmerin Street

RACQ

The Royal Automotive Club of Queensland Limited
ACN 009 660 575 ABN 72 009 660 575