RACQ

Annual Report 2016–17

We're here for Queenslanders

RACQ

The Royal Automotive Club
of Queensland Limited

ACN 009 660 575

ABN 72 009 660 575

www.racq.com.au

2016–17 at a glance

1.67M
Valued members across Queensland

$4.2B+
Assets post-QTMB merger

$26.74M
Surplus after tax

$145.4M
Returned in member value

95.2%
Members were satisfied

250,000+
Members with online accounts

882,653
Roadside assistance jobs

177,025
Batteries sold and expertly fitted

5,461
Home assistance jobs

1,972,555
Insurance policies in force

83.92%
Of member policy holders retained their policy with RACQ Insurance

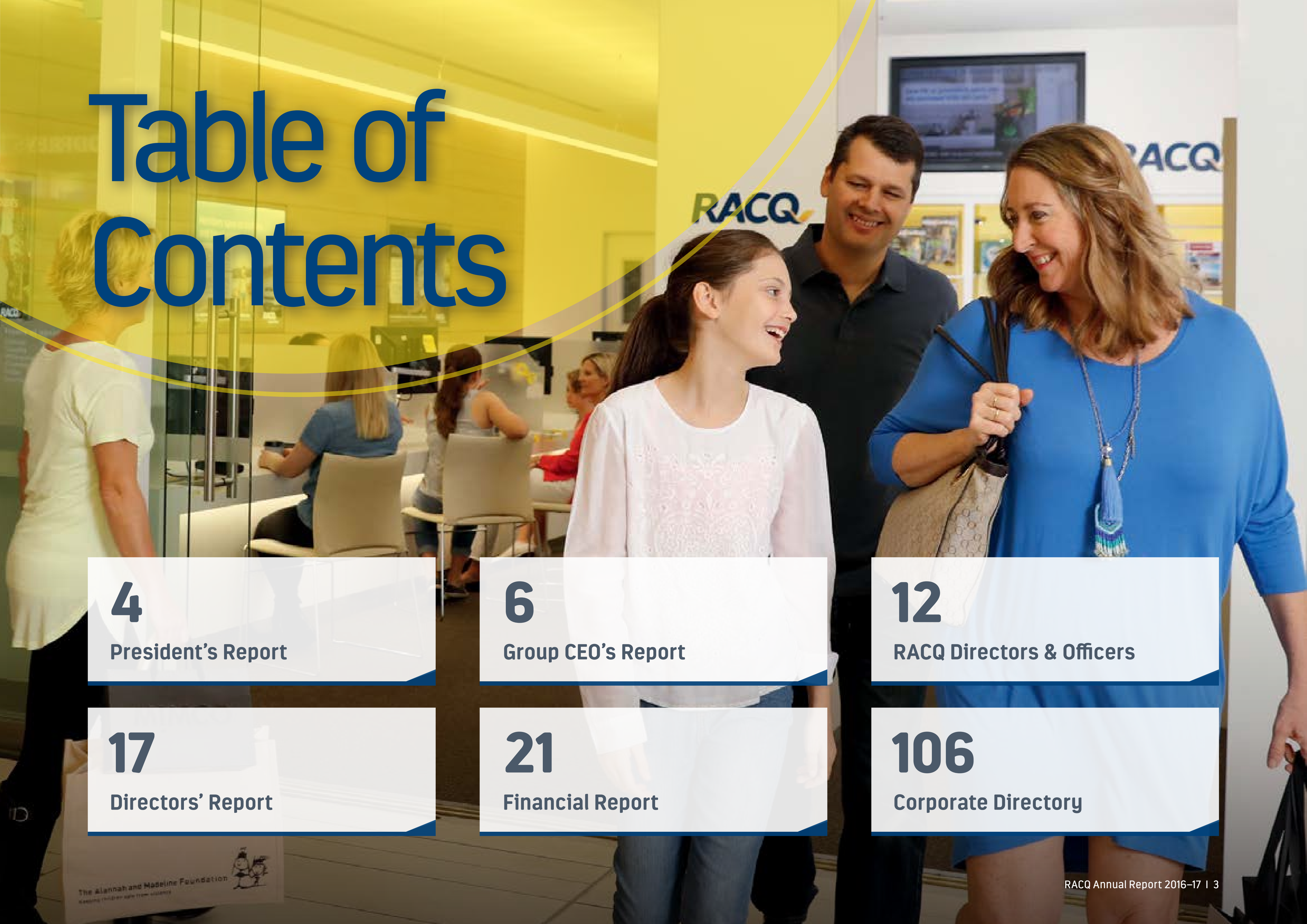
300
Approved repairers state wide

52,991
Traffic incident management and quick clearance jobs

13,051
Vehicle inspections

21%
Average savings through RACQ discounts app

$5.6M
To support community helicopter rescue



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President's Report

Mutual and co-operative associations are again on the rise as Australians increasingly look to do business with organisations they can not only trust, but which genuinely share their values.

As Queensland's largest mutual, RACQ is at the forefront of that movement of organisations that exist fundamentally to serve their members (customers) and not shareholders.

While the business practices of most of our 'for profit' competitors are fundamentally driven by shareholders seeking regular dollar dividends, your Club's goal is the delivery of products and services at the highest quality and the best price, to help make Queenslanders' lives better.

We recognise, though, that RACQ cannot rest on its hard-earned laurels of unsurpassed trust and world-class service reputation if we are going to continue to sustainably achieve that goal in the future.

I can assure members that RACQ is not only committed to a mutuality model, but also to ensuring that model evolves strategically to continue to meet members' needs in terms of mobility, protection and lifestyle.

In driving this agenda, the RACQ board is constantly encouraged to stay the mutuality course by customer satisfaction scores that 'for-profit' competitors can only dream of. We also take heart in the positive differences—great and small—our direct services and community programs make in the lives of members and Queenslanders.

Yes, we seek to make profit in all our businesses—from assistance and insurance to, now, banking. After all, good profits are the key to remaining viable and sustaining both our organisation and its ability to support the community now and into the future. Given the Club finished FY17 with total assets of $4.2 billion, members are assured the future is bright. As the Group CEO's report outlines in more detail, our returns to members and the community far exceed any financial surplus.

For example, in the aftermath of Cyclone Debbie, RACQ Insurance is handling $60 million in claims from members affected by the storm. For the Group to be able to help Queenslanders in this way and still return an after-tax surplus of more than $26 million, is testament to the Club's strength and resilience.

Now with some 1.67 million members in almost two-thirds of Queensland homes, we are conscious of the opportunities we have to keep returning value to them in an increasing number of relevant ways, while also contributing positively to the wellbeing and vitality of the state of Queensland, in which we have such a huge footprint.

The successful merger with another trusted Queensland mutual, QT Mutual Bank, is a historic milestone in RACQ's progress towards being a truly multi-faceted mutual, offering day-to-day value and relevance to our membership proposition. Over a two-stage ballot process, QT Mutual Bank members voted overwhelmingly for their mutual to merge with ours. We welcome them warmly, excited by the possibilities the merger has created. I would personally like to thank the Chairman of QT Mutual Bank, Peter Whitelaw, for his invaluable contribution to this process.

RACQ's commitment to the merger is reflected by our significant investment in creating a technology platform that provides members with more ways to interact and do business with us.

After 112 years of primarily looking after members' motoring and insurance needs, we are now in a unique position to offer them an alternative to the traditional banks and clearly prioritise members' financial wellbeing, free from the constraints of shareholders' dividend expectations. At the same time, the merger—and the additional business it generates for the RACQ Group—will provide us with even greater means to serve the wider Queensland community through the RACQ Foundation, sponsorships, education and advocacy.

At RACQ, we are setting a course for sustainable mutuality within a renaissance for the co-operative and mutual movement throughout Australia. We have joined with other not-for-profit enterprises in Australia's Business Council of Co-operatives and Mutuals (BCCM) to help ensure, among other objectives, better recognition of the sector's importance to both the economy and society by national policy-makers and regulators.

Organisations such as RACQ need to be able to compete with 'for-profits' if we are going to continue to deliver our social dividends. We are pleased to note the growing support for the co-operative and mutual movement among our federal politicians, as we collectively press for a more level regulatory playing field with the 'for profit' sector, including reform to the Corporations Law to permit us to raise capital, if necessary, to enhance business viability.

Meanwhile, RACQ continues to benefit from ongoing interaction and ideas-sharing with fellow member-owned motoring organisations throughout the world—comparing experiences on very similar challenges and opportunities within the context of technical and social disruption to traditional personal mobility models. As just one indicator of the Club's proactive role in the process, we were honoured to host in Brisbane this year's meeting of the Global Mobility Alliance—a group of the world's leading motoring associations representing over 130 million members.

As current president of the Australian Automobile Association—representing RACQ and fellow state motoring organisations at the national and international levels—I have had the opportunity to experience first-hand the power of collaboration and ideas-sharing in shaping a response to the opportunities and challenges presented by the rising tide of autonomous, 'connected' and alternatively-powered vehicles. Under the leadership of the Federation Internationale de l'Automobile (FIA), the independent motoring movement's response to this wave of change impacting on mobility is predicated on ensuring our members benefit from it—and not have their privacy, safety or rights as consumers ignored in the process.

This is my third and final report as RACQ President. Over that past three years, thanks to the collective wisdom and expertise of my fellow directors, together with the leadership and commitment of our Group CEO, Ian Gillespie, and his executive team, we have set and steered a course towards the creation of a mutual organisation that is even more relevant and valuable to members in their everyday lives, while giving back even more to the Queensland community through the RACQ Foundation, sponsorships, advocacy and education.

I acknowledge also the hard work and dedication of the wider RACQ team—staff, agents and contractors—who have embraced and helped facilitate the changes that are vital to our organisation's sustainable progress, while continuing to deliver world-leading standards of service.

Under the presidency of my successor, Bronwyn Morris, members can be confident they—and their fellow Queenslanders—will find even more compelling reasons to belong to Queensland's largest Club.

Nigel Alexander.

Nigel Alexander
President and Chairman

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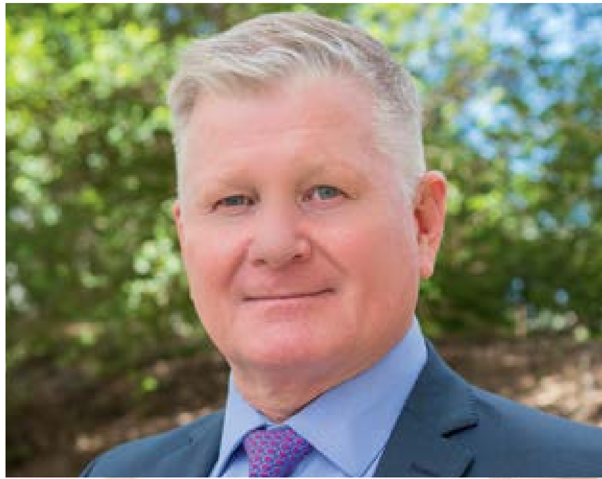
Group CEO's Report



Today, more than ever, Queenslanders can bank on RACQ.

The recent official launch of RACQ Bank marks more than the extension of Queensland's most-trusted brand into a sector where customer trust is often lower than current interest rates. It also sends a strong signal of our intent as a mutual organisation to leverage our reputation, financial stability and membership strength to add even more value to the lives of members and their fellow Queenslanders.

This new arm of the RACQ Group will enhance our everyday member product and service offerings, ensuring we remain relevant. It will allow us to create and share even more value with members and the Queensland community.

For current and prospective members, our new bank offers honest, easy banking with great-value products. The merger takes the group's total assets to more than $4.2 billion and provides a solid foundation on which to build and grow the bank as we seek to establish it as a true alternative to the mainstream offerings.

In welcoming QT Mutual Bank members to RACQ, we appreciate their overwhelming support for bringing our two mutuals together. An illustration of the strong compatibility between the organisations was the over 35,000 QT Mutual Bank members who were already RACQ members.

This merger will endow RACQ with the enhanced capability to continue to deliver members value that far exceeds annual profits.

The RACQ Group's 2016–17 after tax surplus of $26.74 million, for example, is complemented by the $145.4 million worth of value that has been returned to members and their communities during the year. This tangible member value includes the quantifiable value of member discounts and rebates on our core products, in addition to partner discounts, headlined by a total $78 million in loyalty discounts from RACQ Insurance and strongly supported by our rewards programs respectively delivering more than $20m in savings to members at an average discount of 21 percent per transaction.

The total value of savings to members grew by $10.7 million last year, and we expect aggregate member value to continue to grow in line with continuing membership growth and new product and service offerings, including those of our new banking venture.

More and more members are moving to the member discounts app and logging on to their account on the RACQ website and viewing their personal savings under the 'Membership Benefits' tab.

In lieu of the dividend distributions of our publicly listed competitors, our disbursement of member value is RACQ's way of providing a return to the almost 1.7 million Queenslanders who choose to invest their money—and trust—in the state's largest Club.

The broader return to Queensland comes in the form of RACQ's continued underwriting of the RACQ Foundation's funding of grassroots community programs (now totalling $7.32 million in funding paid since 2011); RACQ sponsorship totalling $5.6 million last year to support the life-saving work of our community helicopter rescue network; and our ongoing advocacy and education work in support of road safety, consumer protection and learning among Queenslanders of all ages.

Complimentary Lifestyle membership was offered to all 137,000 young members of our free2go program, with free or discounted roadside assistance available when they first start driving. Lifestyle membership was also gifted to 7500 Silver, Gold and Gold50 members who are more than 60 years of age, to enable them to continue enjoying the benefits of RACQ membership.

Our special focus on the state that sustains RACQ through our membership base also helps support regional Queensland, as we share value with scores of small to medium businesses and their employees. From membership agents and roadside assistance contractors to approved repairers, these enterprises benefit from the business their association with the RACQ brand brings them, both directly and indirectly, while our members benefit from their dedication and expertise. The continuing struggle of many regional centres under the twin burdens of the post-mining boom downturn and drought, serves only to reinforce our commitment to providing a meaningful service presence in such areas, as well as supporting those communities through our social action and advocacy programs.

From a strictly business perspective, sharing value makes solid sense for RACQ. Unconstrained by conflicting shareholder expectations, we plan to continue to share the wealth, especially with members, sustaining and growing the 'virtuous cycle' which benefits our business, our customers and our partners as we expand our product and service offerings.

More broadly, the presence of such a large mutual organisation focused on working for members rather than maximising profits from them, benefits all Queensland consumers in the assistance, insurance and banking markets by serving to constrain our competitors' ability to inflate prices.

This is certainly the case when it comes to compulsory third party (CTP) insurance. Our ability to continue to deliver this important community benefit (the profits from which are fully reinvested in the RACQ ecosystem in Queensland for the benefit of members) will depend largely on the State Government's willingness to implement reforms that allow the state's few remaining CTP providers to sustainably operate on a level playing field. Claims farming—a growing practice involving a small number of personal injury lawyers buying information from syndicates that 'cold call' people following motor vehicle crashes—needs to be legislatively curbed to reduce the incidence of unnecessary or fraudulent claims. Left unchecked, this practice will ultimately lead to higher costs for CTP insurers and insureds alike.

Critical to our accelerated evolution to a genuinely multi-faceted, member-centric organisation is better understanding the needs of both current and potential members. Our recently formed Members' Voice panel of up to 1000 members will better inform us not only on potential new service offerings, but also on the value and effectiveness of RACQ advocacy and how well we're keeping our service and value promises. With our research already telling us that 95.2 percent of members were satisfied overall with the job we did in 2016–17, Members' Voice promises to provide us with a greater insight into how to maintain, or even improve on, that enviable performance and where our shared journey with members could take us in future.

The rapid, technology-driven evolution in consumer expectations is already driving change in how we enhance our interactions with members. RACQ has embraced new technologies for the benefit of its members—RACQ Bank has launched a cutting-edge banking app and internet banking functionality to align with our roadside app, members' discounts app and e-discount cards. Work has also begun on transforming our insurance claims delivery model.

RACQ's continuing regional presence through branches, agencies and roadside assistance network (now enhanced by the bank network) highlights a key point of difference from many organisations that have opted for 'virtual businesses' outside their head-office cities. As a multi-dimensional mutual, we do both.

We recognise a growth in the number of members whose clear preference is to shop, subscribe and have services delivered online, whenever and wherever possible. More than 250,000 members now have online accounts with us, and that number is growing by around 12,000 each month.

We're catering for this growing consumer preference with a strategy to integrate our technology into the day-to-day routine of members, either in their cars or through their mobile devices. A prime example—in our most traditional of services—is our roadside assistance app, which keeps members completely in the information loop via their mobile devices, from the moment they request assistance until the RACQ patrol arrives.

› RACQ Insurance continues to successfully run its business on the RACQ principles of sharing value with policy-holding members while contributing strongly to the club's community-supporting programs.

We're also making the consumer experience less expensive—and more convenient—for members with the launch of discounted e-gift cards for purchases with more than 30 major retailers, in addition to the facility to source Show Your Card & Save benefits closest to their present location via the RACQ Discounts app.

These apps are emblematic of our approach to technology: using it either to literally put savings in members' hands, or to enhance, rather than replace, the professional, personal service that ultimately makes the RACQ difference in members' lives. Just as members are benefiting directly from RACQ's digital direction, so too is the business as we increasingly deploy automation to improve efficiency.

In line with our goal to be a truly multi-dimensional membership organisation by 2030, we now offer RACQ membership to all Queenslanders who purchase a renewable product from us, be it for roadside or home assistance, car and home insurance or, now, an RACQ Bank account.

Our merger with QT Mutual Bank progressed that aim with another reason to belong to Queensland 's largest Club—and through the net addition of another 32,000 members.

Inclusive of the merger, net membership grew by 4.5 percent—or more than 70,000—in 2016–17. Without the inclusion of QT Mutual Bank members, this would have been 2.5 percent. We are well on track to surpass the 1.7 million member mark in the very near future.

Apart from expanding our overall presence in homes across the state, we will also move closer to achieving that goal by convincing members that there is more than one good reason to belong.

RACQ's ongoing commitment to training and real-time technical support for our patrols and contractors, plus a genuinely statewide service network deploying some 750 vehicles, helps RACQ maintain a huge competitive advantage when it comes to providing motoring peace of mind.

A roadside 'go' rate of 93.6 percent and average 'time to scene' of 34 minutes help maintain RACQ's pre-eminence in this space—a competitive and member advantage we intend to maintain with the forthcoming launch of our CARS roadside assistance management system, which will fully integrate all aspects of this service across Queensland. Among many world-class features, the new roadside assistance platform will provide incident management and mobile point-of-sale facility, as well as communications with, and real time technical support for, patrols and contractors, even in the most remote areas of the state.

The development of CARS is an outstanding example of cooperation between motoring organisations—in this case with our interstate colleagues, RAASA

(South Australia) and RACWA (Western Australia)—sharing expertise and costs to benefit all our motoring members as well those of RACT (Tasmania). Members can expect to be rewarded by an even better service experience—and to continue to pay the least expensive subscription of any Australian motoring organisation.

RACQ's proven record and continually evolving capabilities on the road have made us the preferred supplier to the Queensland Government, south-east Queensland councils and tollway operator Transurban for the provision of traffic incident management and quick clearance operations. It's yet another example of shared value, in which a commercial venture, based on our organisational skills-set, earns valuable revenue while providing an important service to all the region's commuters.

Our entry into home assistance continues to make encouraging progress, as we prove to the early adopters among our members that our long-held reputation for reliability, expertise and trust can be transferred from the roadside to the home. Service coverage now extends across greater south-east Queensland, including Toowoomba. This means more than one million members can access the service, if they choose. Meanwhile, we look at other regional centres where a network of trusted tradesmen can be established, and investigate other value-for-money options for subscribing to the service.

Competing in an increasingly crowded, discount-driven market that is cluttered with promises, RACQ Insurance continues to successfully run its business on the RACQ principles of sharing value with policy-holding members while contributing strongly to the Club's community-supporting programs

Beyond the quantifiable financial benefit to members of loyalty and product bundling discounts, our insurance arm continues to excel when it comes to the crunch, showing fairness and efficiency in the handling of close to half a billion dollars in claims paid.

Seldom does a natural disaster season in Queensland go by without the value of an RACQ Insurance policy being tested. In 2017 that test came with Cyclone Debbie triggering a trail of destruction from north Queensland to northern New South Wales from late March to early April 2017. RACQ Insurance has been there to support Queenslanders when they needed us the most.

Informed by policyholder feedback and research into their needs—and in line with our aim to make everything we do truly member-centric—RACQ Insurance has been working to transform its motor claims process to enhance customer ease and convenience. The outcome of that project, including trialling the delivery of complimentary rental cars to policyholders' homes or workplaces for use while their vehicles are being repaired, will be realised this financial year. The changes should further consolidate our position as Queensland's largest motor vehicle insurer and, more importantly, help ensure we continue to meet members' high expectations of service and value from their club.

Meanwhile, the recent launch of a specially-designed policy for classic vehicle enthusiasts promises to be just the first of a suite of new RACQ Insurance policies designed to meet member needs in the vehicle, home and lifestyle spheres. Additionally, to strengthen the home insurance product, a landlord insurance product has been included as part of home insurance.

Insurance is just one area in which we seek to tie our business activities to worthwhile social outcomes as well. An example is our pet insurance business, which is supporting the care and adoption of cats and dogs by offering three months' free pet insurance for anyone adopting an eligible animal through the Animal Welfare League of Queensland or using the services of an AWLQ veterinary clinic.

RACQ Bank is maintaining QT Mutual Bank's long-standing commitment to fostering a love of reading among young Queenslanders through sponsorship of the Premier's Reading Challenge. QT Mutual Bank members contributed more than 4700 books, valued at more than $70,000, to primary school students.

Since the merger of RACQ and QT Mutual Bank, a dedicated team has been working to seamlessly bring these two organisations together. Our focus on maintaining QT Mutual Bank's long-standing relationship with teachers and the education sector, despite the predatory behaviour of interstate teachers mutuals, will ensure we continue to have meaningful relationships with Queensland educators in the years ahead.

RACQ has not, however, rested on the great work QT Mutual Bank had done over the years. We have worked to deliver an improved package of products and services including a new online banking experience for members and a mobile banking app. This investment means RACQ Bank will be able to provide a similar online and branch experience to the big banks, with a far more human and member-centric focus, as you would expect from RACQ. We want to be a genuine alternative to the more established players in the Australian finance sector, not by copying them, but by providing something new and different—a true service model for banking.

Like other funding to community-based organisations provided through the RACQ Foundation, the amounts invested in sponsorships and partnerships such as those above are relatively small in comparison with our financial support that keeps the state's life-saving community rescue helicopters flying some 2600 critical medical or rescue missions across Queensland each year. But they help ensure the widest possible spread of RACQ's funds to make life better for all Queenslanders. Rather than being an 'add-on' item in an Annual Report, corporate social responsibility, or shared value, is at the core of everything we do.

It is especially pleasing to have government recognition of that fact. This is demonstrated by State Government funding (sourced from speed camera fine revenue) to expand our road safety education capabilities. It has already allowed us to base two specialist staff in Rockhampton to deliver our *Streets Ahead* and *Docudrama* road safety education programs to primary and secondary schools respectively in central Queensland. Over the next two years, this funding will also permit similar deployment of RACQ education teams in Townsville and Toowoomba.

This partnership with the Queensland Government further highlights a unique relationship. It is one in which RACQ operates a number of commercial enterprises—sometimes with government as a regulator (for example, CTP insurance) and, with others, as a customer (traffic incident management). At the same time, our jealously protected independence and in-house policy expertise keep the doors of politicians and bureaucrats open to us when advocating on our members' behalf.

While an adversarial position is sometimes necessary in protecting members' interests, our recent advocacy successes have owed much to this constructive engagement approach. In the past year, these have included contributing to a realistic compromise between federal and state governments over funding for upgrading the Brisbane-Gold Coast M1 motorway, a start on the much-delayed Toowoomba bypass, the State Government's ban on offensive slogans on hire vehicles, and legislation on ride-sharing that recognises consumers' rights of choice as well as the need to preserve personal and road safety.

A group of RACQ staff volunteers recently headed to Longreach with the support of the RACQ Foundation to yet again lend a practical hand to a drought-stricken community. Though necessarily just a handful of our 2000 staff, these volunteers exemplify a workforce that sees itself as very much part of this state's community and are well attuned to our philosophy of sharing the fruits of our organisation's success with fellow Queenslanders.

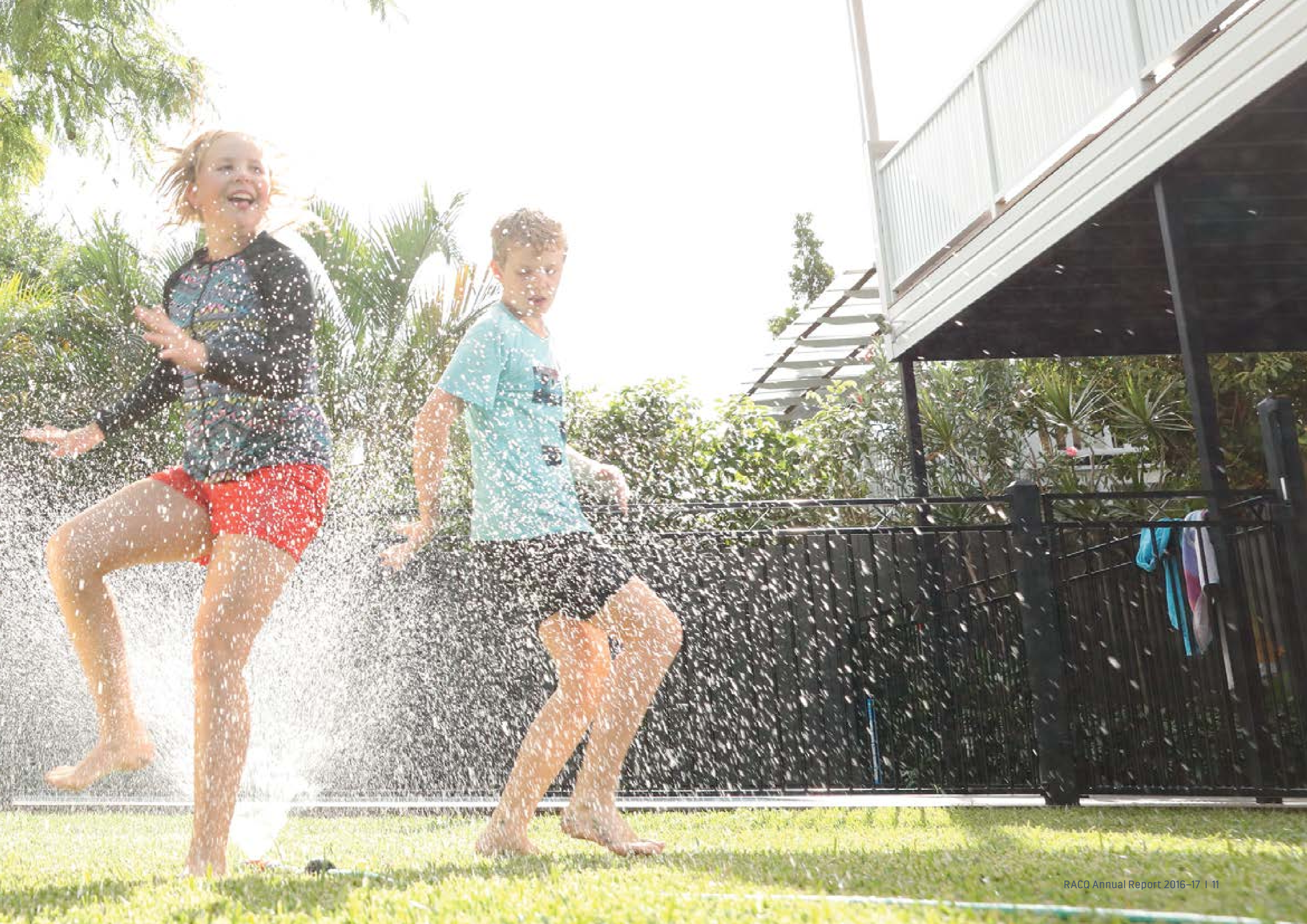
It's all the more to the credit of RACQ's people that they maintain a general willingness to contribute to our social objectives, even as we transition to a multi-faceted, even more member-centric organisation. Senior management recognises that the nature and rate of change is a major challenge to society generally, not least in the workplace. Hence, we're working hard to support staff in acquiring the required skills and mindsets to meet members' expectations now and in the future.

The increasing reliance on technology in maintaining 21st century relevance and competitiveness requires a committed and dedicated staff, and for those with a positive outlook towards innovation, RACQ still offers the real and rewarding prospect of being not just a place to work but to build a meaningful career. We take great pride in creating a diverse and inclusive workplace, aware that differing backgrounds, perspectives and life experiences help us innovate, make better business decisions and better serve members.

A committed and capable workforce, financial strength and iconic brand combine to provide a rock-solid base from which to launch our journey to further diversification and enhanced relevance, of which RACQ Bank is the first major step. We will continue to share the rewards of that journey with members and the Queensland community.

I take this opportunity to thank the board of RACQ and its many staff, agents and contractors for their ongoing support in making this great organisation even greater.

Ian Gillespie
Group Chief Executive Officer



RACQ Directors & Officers

Nigel W F Alexander (President and Chairman)

BBus, MAppFin, FCPA, FCA, FAICD

DIRECTOR, SOUTH EAST ZONE, SINCE 2000

President and Chairman of RACQ, Chairman of RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Member of the Group Governance and Remuneration Committee and the Level 2 Insurance Group Risk and Compliance Committee.

Mr Alexander is President of the Australian Automobile Association and Region 2 (Asia Pacific) Treasurer of the Federation Internationale De L'Automobile. He is also a director of Uniting Care Queensland, QIC Agribusiness Holdings Pty Ltd and various private companies. In 2016 he retired as CEO of The North Australian Pastoral Company Pty Ltd.

He is an Agribusiness specialist and qualified accountant, with a career spent in corporate agriculture and in corporate finance roles with both Australian and international banks.

Bronwyn K Morris (Vice President and Deputy Chairman)

BCom, FCA, FAICD

DIRECTOR, SOUTH EAST ZONE, SINCE 2008

Vice President and Deputy Chairman of RACQ, Director of Members Banking Group Limted, RACQ Insurance Limited, Club Finance Holdings Limited and Club Insurance Holdings Pty Ltd. Chair of the Group Governance and Remuneration Committee and member of the Group Audit Committee.

Ms Morris specialised for more than 20 years as a chartered accountant in audit and corporate services. Ms Morris is a Queensland Councillor of the Australian Institute of Company Directors. She serves as a director of a number of entities including the Gold Coast 2018 Commonwealth Games Corporation, Watpac Limited, and Collins Foods Limited.

Ms Morris was previously a partner of the current audit firm, KPMG (retired 1996), at a time when KPMG undertook an audit of RACQ but was not a director of RACQ at that time.

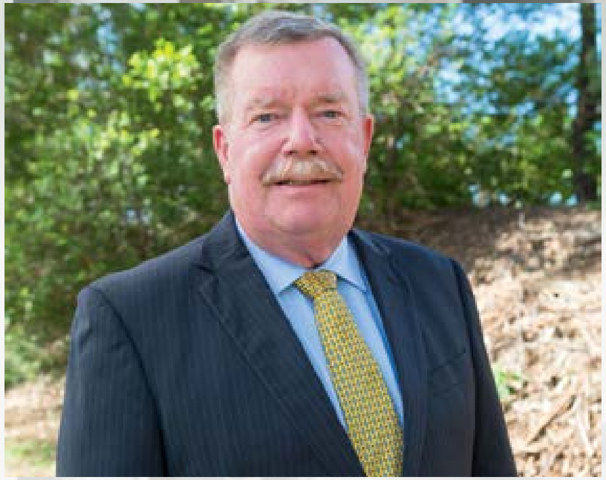
Jayne P Arlett

BSc Pod Med, FASMF, FAAPSM, FAIM, GAICD

DIRECTOR, NORTH ZONE, SINCE 1 JANUARY 2017

Member of the Group Investment Committee and Group Audit Committee.

Ms Arlett has a background in national sporting organisations, medicine and the private sector. She has a 30-year career in business and extensive skills in innovation and marketing, particularly in the digital media space. She is Chair of the Friends of the Museum of Tropical Queensland, former Chair of the Townsville Fire Limited, former Commissioner for the WNBL and a director of several private companies. She has served on a variety of boards in the private, not-for-profit and government sectors over 20 years.

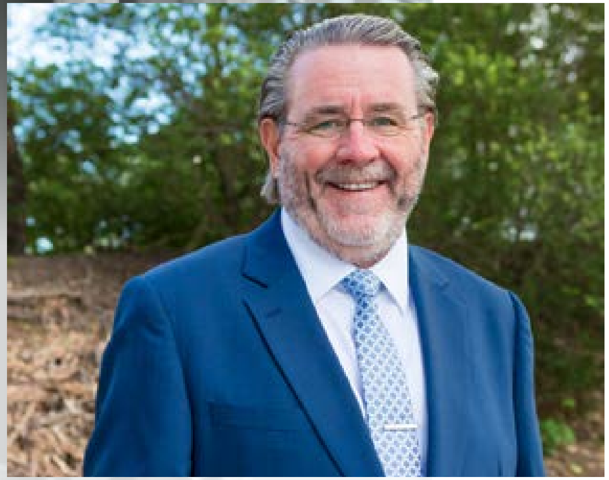


Campbell J Charlton
BCom, LLB, FCA(Rtd), MAICD

DIRECTOR, FAR NORTH ZONE, SINCE 2014

Member of the Group Investment Committee and the Risk and Compliance Committee.

Mr Charlton has a 35-year career as a Chartered Accountant and Corporate Advisor. He is a member of the James Cook University Council, the Queensland Government's Commonwealth Games Legacy Advisory Committee and is also a director of North Queensland Cowboys Rugby League Club Limited, and a director of Citizens of the Great Barrier Reef Foundation Limited. He is a former Chairman of the Tourism Tropical North Queensland and Advance Cairns Limited and a former member of the Executive Committee of the Australia Papua New Guinea Business Council. Mr Charlton is also a past Chairman of the judging panels of both the Australian Tourism Awards and the Queensland Tourism Awards.



Anthony (Tony) M Gambling
BBus, BEcon, MBA, FCPA, FAIM, FAICD, JP (Qual)

DIRECTOR, CENTRAL ZONE, SINCE 2005

Director of RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Chair of the Group Investment Committee and member of the Level 2 Insurance Group Risk and Compliance Committee.

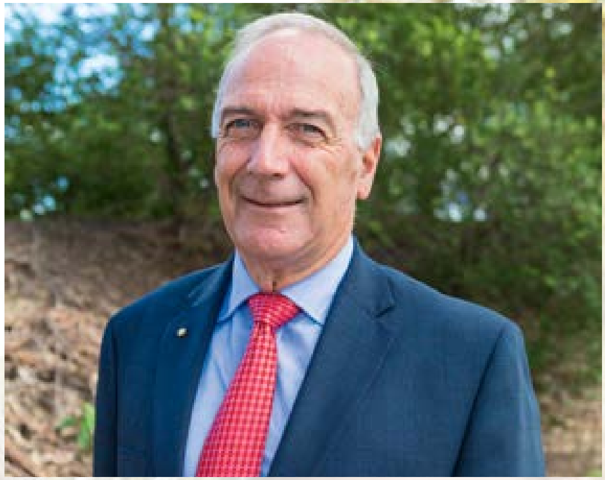
Mr Gambling is General Manager of Mango 4 Office Technology and a former director of companies involved in the commercialisation of emerging technologies. He is a member of the Central Queensland Committee of the Australian Institute of Company Directors and the Queensland Small Medium Enterprise Committee of CPA Australia.

Elizabeth M Jameson
LLB (Hons1), BA, FAICD, MQLS

DIRECTOR, SOUTH EAST ZONE, SINCE 2008

Director of RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Chair of the Group Audit Committee and member of the Group Governance and Remuneration Committee.

Ms Jameson is the principal and founder of corporate governance consultancy Board Matters Pty Ltd and associated firm Board Matters Legal (since 2002). With her prior background as a partner of a national law firm, she is a respected governance specialist, who is consulted widely at a national and international level. In addition, Elizabeth is an experienced director, serving over the past 25 years on the boards of more than 20 other organisations in the private, not-for-profit and public sectors. She is presently also chair of Brisbane Girls Grammar School, chair of Queensland Theatre and an independent member of the Board of Management of the Queensland Police Service.



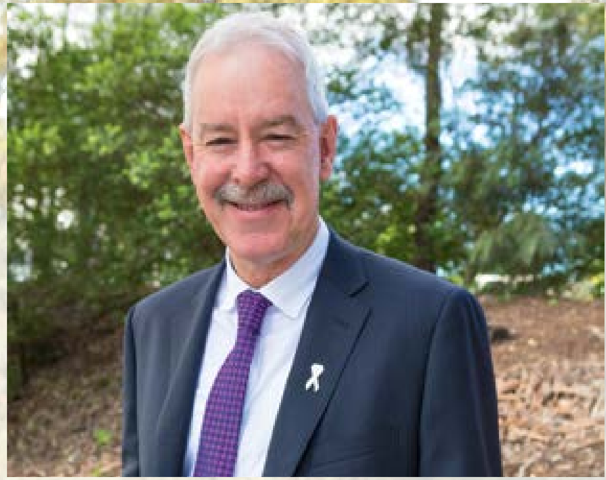
Stephen J Maitland

OAM, RFD, BEc, MBus, LLM, FAICD, FCPA , FCIS, SFFin, GCURP

DIRECTOR, SOUTH EAST ZONE, SINCE 2008

Chair of the Risk and Compliance Committee and member of the Group Audit Committee.

Mr Maitland has a background in finance, is a qualified accountant and company secretary and the principal of corporate advisory firm Delphin Associates. He was Chief Executive Officer of the Queensland Office of Financial Supervision (1992 to 1999) and had a 20-year career in corporate banking. Mr Maitland is also a Director of Australian Unity Limited, QInsure Ltd and several private companies.



John F Minz

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

DIRECTOR, SOUTH WEST ZONE, SINCE AUGUST 2016

Director of Members Banking Group Limited and Club Finance Holdings Limited. Member of the Risk and Compliance Committee, Group Governance and Remuneration Committee and the Level 2 Banking Group Audit Committee.

Mr Minz retired as the Chief Executive Officer of Heritage Bank in November 2015, after 23 years with the Bank. Mr Minz is Chairman of the Darling Downs and West Moreton PHN and President of Toowoomba Together Incorporated, a community charity created to help eliminate domestic and family violence. He is also Chairman of the charity Australia's CEO Challenge and a member of the Toowoomba Regional Committee of the Australian Institute of Company Directors.

Karl D Morris

BCom, MSAA, FAICD, FFin

DIRECTOR, SOUTH EAST ZONE, SINCE 2010

Member of the Group Investment Committee and the Risk and Compliance Committee.

Karl Morris is Executive Chairman of Ord Minnett Limited with a career spanning over 30 years in financial services and wealth management. He is a Commerce graduate of Griffith University and holds diplomas from the Stockbrokers and Financial Advisers Association of Australia, Institute of Company Directors and FINSIA.

Karl is Chairman and a Master Member of the Stockbrokers and Financial Advisers Association of Australia, Chairman of QSuper, Director of Gallipoli Medical Research, Board Member of JP Morgan Australia Advisory Council, Board Member of the Financial Sector Advisory Council, Board Member of Archdiocese of Brisbane Catholic Foundation, Chair of Mary MacKillop Brisbane Catholic School Access Fund, Chair of Griffith University Foundation Board and Governor of the University of Notre Dame Australia.

RETIRED DIRECTOR

Fay L Barker

OAM, FAICD (retired 22 November 2016)

DIRECTOR, NORTH ZONE, 2001–2016

Ms Barker was RACQ director representing the North Zone from 2001 until her retirement in 2016. She continues as Chairman of the RACQ Foundation.

OFFICERS

Ian A Gillespie

BA, Dip Laws(BAB), FCEOI, FAICD, FAIM

GROUP CHIEF EXECUTIVE OFFICER

Mr Gillespie has been CEO of the RACQ Group since 2006. He is a director of Members Banking Group Limited, RACQ Insurance Limited, Club Insurance Holdings Pty Ltd, Club Finance Holdings Limited, RACQ Foundation Pty Ltd, RACQ Operations Pty Ltd and several other RACQ Group and related entities. He is also a director of the Confederation of Australian Motor Sport, Business Council of Co-operatives and Mutuals (BCCM), Chairman of Australian Motoring Services Pty Ltd, and Vice-Chair of the Global Mobility Alliance. Mr Gillespie has more than 30 years' experience at general management and chief executive level in a broad range of industries in Australia and internationally.

Mr Gillespie is supported by a Group Executive Team covering membership, advocacy, assistance, banking, finance, governance, insurance, legal and risk, people, sales and marketing, and technology.

Bradley D Bowes

PhD, FGIA, FCIS, MAICD

COMPANY SECRETARY

Mr Bowes is company secretary for all the legal entities within the RACQ Group and heads the Group Secretariat with responsibility for group-wide corporate governance matters, including managing all matters associated with the efficient operation of the various boards and committees and of each annual general meeting. Mr Bowes is a chartered company secretary with over 20 years' experience in senior management and similar governance roles in both private enterprise and the public sector across a range of industries

GROUP EXECUTIVE TEAM

The RACQ Group is organised along its main operating divisions, each of which is headed by a member of the Group Executive Team (GEX), directly reporting to the Group CEO.

- **Ian Gillespie, Group Chief Executive Officer**
  BA, Dip Laws(BAB), FCEOI, FAICD, FAIM
- **Gregory Booker, Chief Information Officer**
  MBA, MMgmnt, MAICD
- **Bradley Bowes, Group Company Secretary**
  PhD, FGIA, FCIS, MAICD
- **Darryn Hammond, Chief Risk Officer and General Counsel**
  BSci (Hons), LLB, G.Dip Corp Gov, MQLS, FGIA, FCIS
- **Michael Lonergan, Group Chief Financial Officer**
  BBus, FCPA, Grad Dip App Fin
- **Mark Mugnaioni, Chief Strategy Officer**
  BBus(Mgt), LLB(Hons), LLM, GradDip(LegalPrac), GradCert(AppFin), FAICD, FAIM
- **John Myler, Chief Executive Officer, Insurance**
  BCom & Marketing, Grad Dip Insurance, Fellow ANZIIF, MAICD
- **Heidi Suominen, Chief People Officer**
  BBus (HR Mgt), Grad Dip Training and Development, GAICD
- **Steve Targett, Chief Executive Officer, Bank**
  MAIEx (Diploma), Series 3 US Futures, MAICD
- **Glenn Toms, Chief Executive Officer, Assistance**
  BBus, GDip Fin & Inv, FFin, FAIM, GAICD
- **Paul Turner, Chief Communication Officer**
  GAICD
- **Christopher Walsh, Chief Sales and Marketing Officer**
  BCom (Acc.), GAICD, FIML

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

Directors' Report

The directors present their report together with the consolidated financial report of the Group comprising The Royal Automobile Club of Queensland Limited (RACQ) and its controlled entities, for the year ended 30 June 2017 and the auditor's report thereon.

DIRECTORS

The following persons were directors of RACQ during the whole of the financial year and until the date of this report, except where otherwise indicated:

- Nigel W F Alexander (President and Chairman)
- Bronwyn K Morris (Vice President and Deputy Chairman)
- Jayne P Arlett (appointed 1 January 2017)
- Fay L Barker (retired 22 November 2016)
- Campbell J Charlton
- Anthony M Gambling
- Elizabeth M Jameson
- Stephen J Maitland
- John F Minz (appointed 14 August 2016)
- Karl D Morris.

Further information on the RACQ directors is contained in the RACQ Directors and Officers section of this Annual Report on pages 12–16. This section also includes their qualifications, experience and particular responsibilities.

DIRECTORS' MEETINGS

The number of RACQ board and committee meetings as well as each RACQ director's attendance at those meetings during the financial year, are set out on page 20.

COMPANY SECRETARY

The company secretary is detailed in the Directors and Officers section of this Annual Report on page 16.

OFFICERS

The persons who were officers of RACQ during the financial year are detailed in the RACQ Directors and Officers section of this Annual Report on pages 12–16.

PRINCIPAL ACTIVITIES, STRATEGY AND OBJECTIVES

RACQ is one of the largest mutuals in Australia. The principal activities of RACQ during the year included the provision of motoring, insurance, lifestyle, banking and advocacy services.

RACQ exists for members' benefit and wellbeing. By 2030, RACQ will be a multi-dimensional membership organisation offering products and service that add value to our members across a wider range of business sectors. To achieve this, RACQ will:

- Provide and endeavour to enhance member value in a compelling way across products and services;
- Where appropriate, continue to leverage the RACQ brand for new products and services that provide value to members;
- Streamline the digital member experience by investing in cutting-edge and value-adding technologies; and
- Focus on our sustainability and efficiencies to ensure that RACQ delivers the best outcomes for our members.

The 'RACQ Group Strategic Plan and Budget' details the strategy, priorities, targets and activities that are being undertaken to deliver on our strategic objectives. The strategy is built around the following framework:

- Deliver—Delivering on our member promise by anticipating and exceeding member expectations;
- Drive—Growing our existing pillars sustainably, while continuing to ensure efficiency across the organisation; and
- Build—Creating an optimal business model that places us in a competitive position in our chosen markets.

RACQ will continue its transformative journey in pursuit of a stronger, more relevant and sustainable business. One key element to this will be leveraging our successful entry into the Banking sector through the merger with Members Banking Group Limited (Members Banking Group), trading as RACQ Bank, previously QT Mutual Bank Limited (QT Mutual Bank).

RACQ monitors its performance against the strategic business plan and budget through detailed financial analysis including profit and loss, balance sheet, cash flows and capital expenditure reporting. Key performance parameters including member satisfaction, retention and acquisition, products per members, policy growth and key financial ratios are used to measure performance throughout the financial year.

The President's Report and the Group Chief Executive Officer's Report provide further details on how the Group's activities assist in achieving RACQ's objectives.

REVIEW OF OPERATIONS (OPERATING AND FINANCIAL REVIEW)

The net result of operations of the RACQ Group and its controlled entities, after tax and after making adequate provision for depreciation and all known contingencies, was a surplus of $26.7 million (2016: surplus of $23.1 million). The key driver of the change in result, relative to the prior year, was the inclusion of RACQ Bank in the Group's financial position. Total revenue was 13.4% higher over the year due to the inclusion of income from RACQ Bank and an increase in reinsurance recoveries, primarily due to claims arising from Cyclone Debbie.

A review of operations is contained in the President's Report and the Group Chief Executive Officer's Report. The review assesses membership, assistance products and services, banking, insurance, advocacy, travel, touring and community activities.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

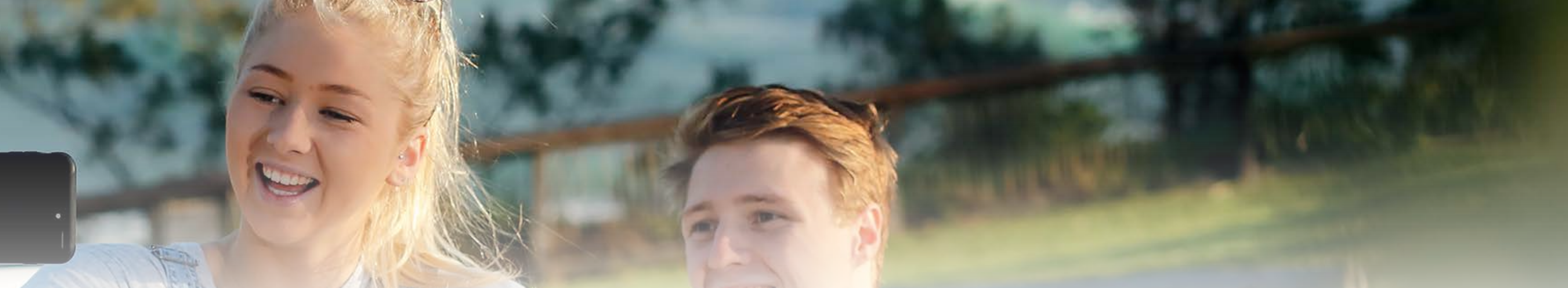
On 24 November 2016 Club Finance Holdings Limited (CFH) acquired 100% of the shares of QT Mutual Bank via a court approved Scheme of Arrangement. CFH is a majority owned subsidiary of RACQ, a mutual. Therefore, the merger with QT Mutual Bank was a joining of two mutual entities. As per the Scheme of Arrangement, each QT Mutual Bank member received a redeemable preference share in CFH. CFH issued 67,882 redeemable preference shares. As a consequence of the merger, each QT Mutual Bank member also became a member of RACQ.

On 22 September 2017, QT Mutual Bank changed it name to Member Banking Group Limited, and will trade as RACQ Bank.

RACQ Bank provides retail financial products and services and the merger will enable RACQ to offer banking products to its members. The transaction will also provide RACQ Bank with access to RACQ's scale, brand and resources, which will provide the opportunity to significantly grow the banking business.

Other than as referred to in the Review of Operations, there were no other significant changes in the affairs of RACQ during the year.

> By 2030, RACQ will be a multi-dimensional membership organisation offering products and services that add value to our members across a wider range of business sectors.



EVENTS SUBSEQUENT TO REPORTING DATE

In accordance with the court approved Scheme of Arrangement, the QT Mutual Bank brand will be removed and replaced with the RACQ brand. This change will occur across the end of September and early to mid-October 2017. All existing RACQ Bank customers will be communicated with directly to advise of the changes. All necessary approvals with the various regulators for the name change have been granted.

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

DIRECTORS' INTERESTS

Since the previous financial year, no director of RACQ has received or become entitled to receive a benefit (other than a benefit included in the total remuneration received or receivable by RACQ directors as shown in the notes to the accounts) by reason of a contract made by RACQ or a related corporation with a director or with a company in which he or she has a substantial financial interest.

Directors may obtain membership, insurance services, banking services and other services from the RACQ Group on the same terms and conditions as those obtained by all employees.

ENVIRONMENTAL REGULATIONS

RACQ's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the directors believe that RACQ has adequate systems in place for the management of its environmental requirements and are not aware of any breach of said environmental requirements as they apply to RACQ.

INDEMNIFICATION AND INSURANCE

RACQ has entered into standard form deeds with directors and executives to indemnify them to the extent permitted by law against all liabilities that may arise from their position in RACQ or a controlled entity of RACQ. The agreement stipulates that RACQ will meet the full amount of any such liabilities, including losses, costs, charges, damages and expenses.

RACQ holds a Directors' and Officers' Liability Insurance policy on behalf of current and former directors and officers of RACQ and its controlled entities. The directors have not included details in this report of the nature of the liabilities covered, the limit of liabilities covered, or the amount of premium paid in respect of the Directors' and Officers' Liability Insurance contract, as such disclosure is prohibited under the terms of the contract.

MEMBERS' GUARANTEE

RACQ is a company limited by guarantee and has no share capital. In the event of winding up, all classes of members are liable to the amount of $2.00 per member. RACQ has 1,775,813 guaranteeing members resulting in a total contribution of $3,551,626 upon winding up.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration is set out on page 105 (of the Financial Report) and forms part of the Directors' Report for the year ended 30 June 2017.

ROUNDING OFF

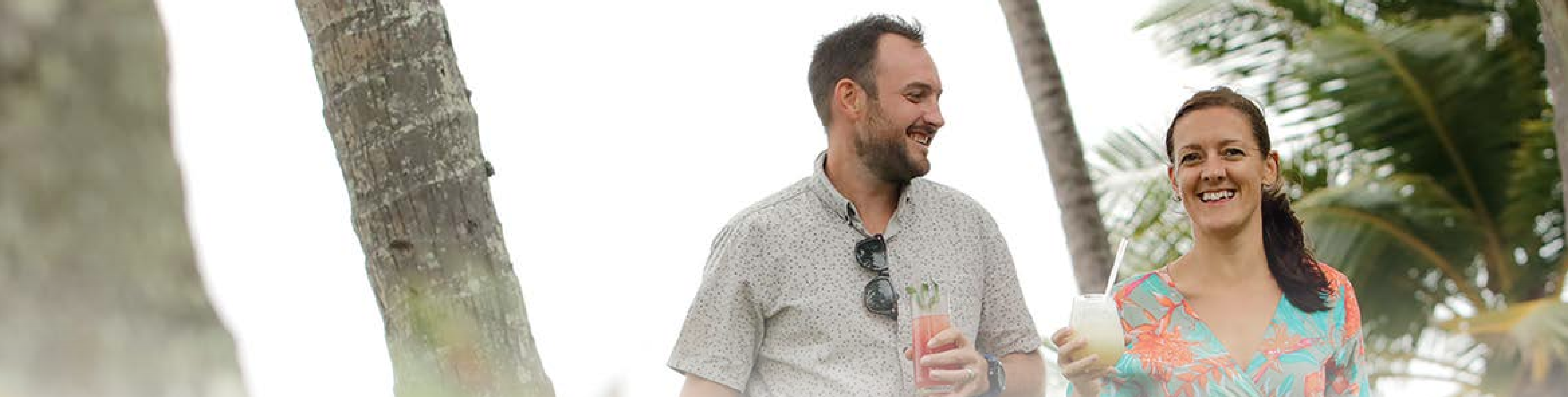
RACQ is a company of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, therefore, in accordance with that instrument, amounts in the consolidated Financial Report have been rounded off to the nearest one thousand dollars, unless otherwise indicated.

CORPORATE GOVERNANCE

RACQ's 2017 Corporate Governance Statement is available in the Corporate Governance section on RACQ's website **racq.com/corporategovernance**.

Signed in accordance with a resolution of the RACQ Directors.

Nigel Alexander, President and Chairman
28 September 2017



RACQ Limited board and committee meetings

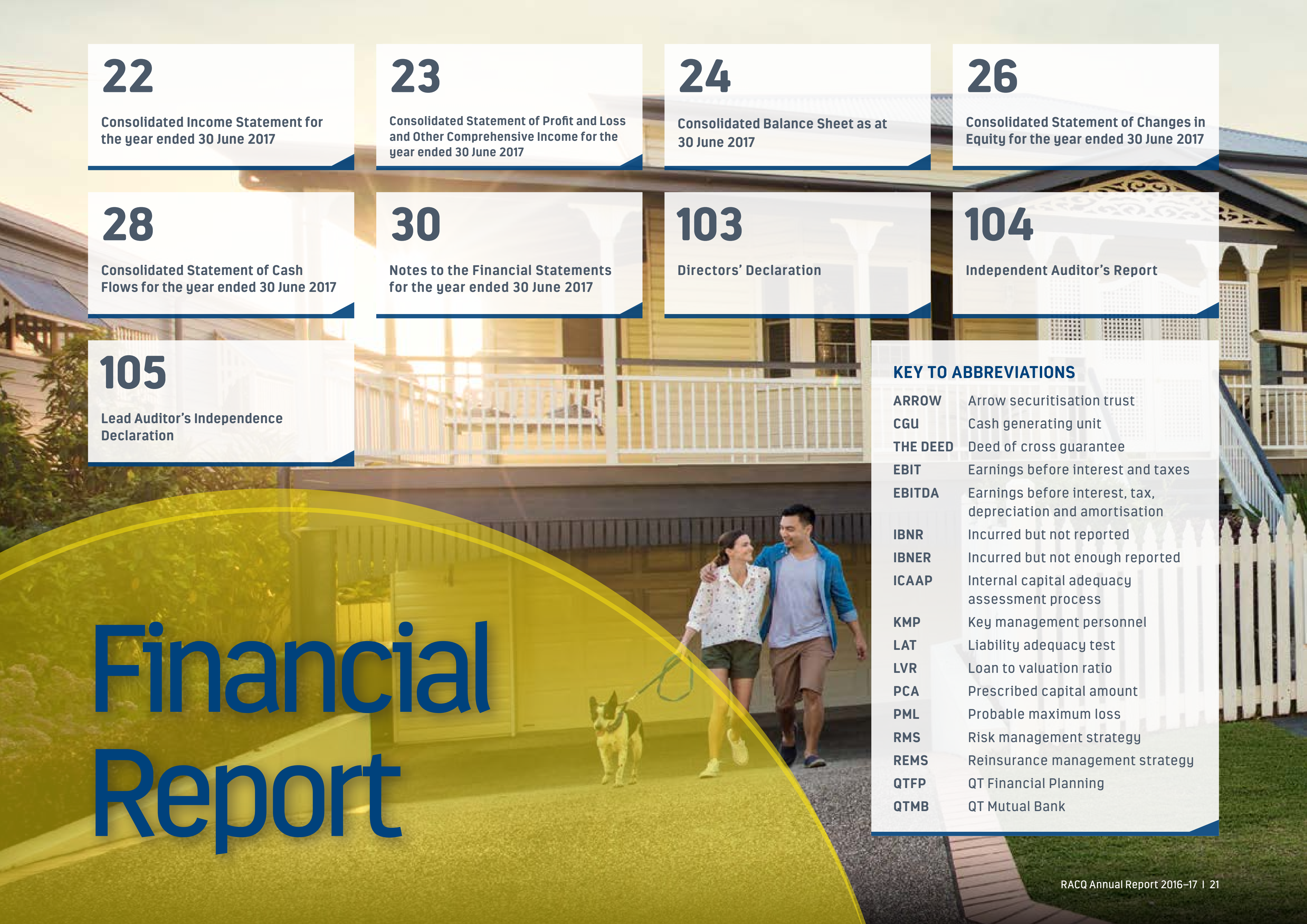
Director	RACQ Board		Group Audit Committee		Group Investment Committee		Group Governance and Remuneration Committee		Risk and Compliance Committee		QT Mutual Bank Merger Implementation Committee[1]	
	A	H	A	H	A	H	A	H	A	H	A	H
Nigel Alexander	12	12	–	–	–	–	6	6	–	–	4*	6*
Jayne Arlett (appointed 1 January 2017)	4	4	3	3	2	2	–	–	–	–	–	–
Fay Barker (retired 22 November 2016)	5	7	–	–	2	2	3	3	–	–	–	–
Campbell Charlton	12	12	3	3	2	2	–	–	4	4	–	–
Anthony Gambling	12	12	–	–	4	4	–	–	–	–	–	–
Elizabeth Jameson	11	12	6	6	–	–	5	6	–	–	–	–
Stephen Maitland	11	12	4	6	–	–	–	–	4	4	2	3
John Minz (appointed 14 August 2016)	9	10	–	–	–	–	3	3	3	3	3	3
Bronwyn Morris	12	12	6	6	–	–	6	6	–	–	6	6
Karl Morris	11	12	–	–	3	4	–	–	4	4	–	–

1 The QT Mutual Bank Merger Implementation Committee was formed by resolution of the RACQ Limited board on 24 March 2016 and disbanded on 2 February 2017.

A meetings attended during the financial year.

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

* Mr Alexander was an alternate member to both Ms Morris and Mr Maitland on the QT Mutual Bank Merger Implementation Committee.



Financial Report

KEY TO ABBREVIATIONS

ARROW	Arrow securitisation trust
CGU	Cash generating unit
THE DEED	Deed of cross guarantee
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, tax, depreciation and amortisation
IBNR	Incurred but not reported
IBNER	Incurred but not enough reported
ICAAP	Internal capital adequacy assessment process
KMP	Key management personnel
LAT	Liability adequacy test
LVR	Loan to valuation ratio
PCA	Prescribed capital amount
PML	Probable maximum loss
RMS	Risk management strategy
REMS	Reinsurance management strategy
QTFP	QT Financial Planning
QTMB	QT Mutual Bank

Consolidated Income Statement

for the year ended 30 June 2017

		RACQ Group	
		2017	2016
	Note	$'000	$'000
Revenue			
Insurance premium revenue	2.1	758,362	717,879
Assistance activities revenue		151,032	147,385
Banking interest income on loans and advances	3.1	37,263	–
Reinsurance and other recoveries revenue	2.1	100,805	58,583
Investment income	4.1	47,987	58,246
Fee and other income	6.1	74,067	49,194
Total revenue		**1,169,516**	**1,031,287**
Expenses			
Insurance claims expense	2.1	(565,973)	(500,636)
Employee benefits expense	5.3.1	(165,431)	(136,240)
Outwards reinsurance premium expense	2.1	(82,613)	(75,071)
Payments to contractors for assistance services		(58,292)	(54,991)
Banking interest expense	3.1	(14,353)	–
Communication and information technology expenses		(58,627)	(44,503)
Other underwriting and acquisition costs		(61,257)	(60,373)
Depreciation and amortisation expense		(55,179)	(52,954)
Property and related occupancy costs		(12,459)	(12,696)
Other expenses	6.2	(55,967)	(61,362)
Net impairment loss on loans and advances	3.3	(202)	–
Total expenses		**(1,130,353)**	**(998,826)**
Share of profit/(loss) of equity-accounted investments in Associates		606	(252)
Surplus before income tax		**39,769**	**32,209**
Income tax expense	5.6.1	(13,026)	(9,136)
Surplus for the year		**26,743**	**23,073**

The Consolidated Income Statement is to be read in conjunction with the Notes to the Financial Statements set out on pages 30 to 102.

Consolidated Statement of Profit and Loss and Other Comprehensive Income

for the year ended 30 June 2017

		RACQ Group	
		2017	2016
	Note	$'000	$'000
Surplus for the year		**26,743**	**23,073**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains/(losses)		634	(1,216)
Income tax (expense)/benefit	5.6.1	(190)	365
Total items that will not be reclassified to profit or loss		**444**	**(851)**
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of financial assets held as available-for-sale		13,312	(2,622)
Net change in fair value of available-for-sale financial assets sold reclassified to profit or loss		(4,563)	(1,405)
Income tax (expense)/benefit	5.6.1	(2,625)	1,208
Total items that may be reclassified subsequently to profit or loss		**6,124**	**(2,819)**
Total other comprehensive income for the year, net of income tax		**6,568**	**(3,670)**
Total comprehensive income for the year		**33,311**	**19,403**
Surplus attributable to:			
Non-controlling interest		160	–
Members		26,583	23,073
Surplus for the year		**26,743**	**23,073**
Total comprehensive income attributable to:			
Non-controlling interest		160	–
Members		33,151	19,403
Total comprehensive income for the year		**33,311**	**19,403**

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 30 to 102.

Consolidated Balance Sheet

as at 30 June 2017

		RACQ Group	
		2017	2016
	Note	$'000	$'000
Assets			
Cash and cash equivalents		43,818	55,559
Trade and other receivables	4.4.2	211,936	181,134
Current tax receivable		–	8,826
Investment securities	4.2	1,894,636	1,540,201
Loans and advances	3.2	1,349,114	–
Reinsurance and other recoveries receivable	2.4	168,919	134,365
Deferred acquisition costs	2.5	36,927	38,668
Property, plant and equipment	5.1	162,489	152,653
Deferred tax assets	5.6.3	34,538	33,596
Intangible assets	5.2	328,787	331,788
Other assets		16,460	18,693
Total assets		**4,247,624**	**2,495,483**
Liabilities			
Trade and other payables		97,155	59,546
Current tax payable		3,628	–
Deposits	3.4	1,366,536	–
Borrowings	3.5	20,030	–
Unearned revenue	5.5	469,332	439,540
Outstanding claims liability	2.3	915,019	824,754
Employee benefits	5.3.2	35,303	30,675
Total liabilities		**2,907,003**	**1,354,515**
Net assets		**1,340,621**	**1,140,968**

Consolidated Balance Sheet (continued)

as at 30 June 2017

		RACQ Group	
		2017	2016
	Note	$'000	$'000
Accumulated funds			
Retained surplus		1,304,107	1,133,442
Reserves		34,479	7,526
Total accumulated funds attributable to members		1,338,586	1,140,968
Non-controlling interest		2,035	–
Total accumulated funds		**1,340,621**	**1,140,968**

The Consolidated Balance Sheet is to be read in conjunction with the Notes to the Financial Statements set out on pages 30 to 102.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2017

2017	Retained surplus $'000	Reserve for credit losses $'000	Investment revaluation reserve $'000	Merger reserve $'000	Accumulated funds attributable to members $'000	Non-controlling interest $'000	Total accumulated funds $'000
Balance at beginning of year	1,133,442	–	7,526	–	1,140,968	–	1,140,968
Surplus for the year	26,583	–	–	–	26,583	160	26,743
Other comprehensive income for the year	444	–	6,124	–	6,568	–	6,568
Total comprehensive income for the year	**27,027**	**–**	**6,124**	**–**	**33,151**	**160**	**33,311**
Transfers							
Transfers to general reserve for credit losses	(60)	60	–	–	–	–	–
Total transfers	**(60)**	**60**	**–**	**–**	**–**	**–**	**–**
Transactions with owners in their capacity as owners							
Dividends paid	–	–	–	–	–	(125)	(125)
Merger with QT Mutual Bank	143,698	2,140	–	18,629	164,467	2,000	166,467
Total Transactions with owners in their capacity as owners	**143,698**	**2,140**	**–**	**18,629**	**164,467**	**1,875**	**166,342**
Balance at end of year	**1,304,107**	**2,200**	**13,650**	**18,629**	**1,338,586**	**2,035**	**1,340,621**

Consolidated Statement of Changes in Equity (continued)

for the year ended 30 June 2017

2016	Retained surplus $'000	Investment revaluation reserve $'000	Controlling interest $'000	Non-controlling interest $'000	Total accumulated funds $'000
Balance at beginning of year	1,111,220	10,345	1,121,565	–	1,121,565
Surplus for the year	23,073	–	23,073	–	23,073
Other comprehensive income for the year	(851)	(2,819)	(3,670)	–	(3,670)
Total comprehensive income for the year	**22,222**	**(2,819)**	**19,403**	**–**	**19,403**
Balance at end of year	**1,133,442**	**7,526**	**1,140,968**	**–**	**1,140,968**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 30 to 102.

Consolidated Statement of Cash Flows

for the year ended 30 June 2017

	Note	RACQ Group 2017 $'000	RACQ Group 2016 $'000
Cash flows from operating activities			
Insurance premiums received		842,157	801,972
Assistance revenue received		155,595	138,651
Interest received from loans and advances		37,061	–
Reinsurance and other recoveries received		80,293	131,498
Insurance claims paid		(536,054)	(576,548)
Outwards reinsurance premiums paid		(77,925)	(75,734)
Banking interest paid		(14,353)	–
Fee and other income received		62,833	54,506
Payments to suppliers and employees		(416,479)	(401,941)
Net movement in loans and advances		(63,924)	–
Net movement in deposits		50,644	–
Income taxes paid		(6,186)	(17,014)
Net cash provided by operating activities	**6.3.2**	**113,662**	**55,390**
Cash flows from investing activities			
Investment income received		58,972	61,830
Rental income received		1,267	1,537
Proceeds from sale of investments		1,637,165	1,030,631
Payments for investments		(1,837,245)	(1,106,670)
Payments for intangible assets		(21,838)	(25,985)
Payments for property, plant and equipment		(19,199)	(16,984)
Payments for investments in Associates		(1,645)	–
Proceeds from sale of property, plant and equipment		1,937	499
Proceeds from sale of investment property		15,000	–
Merger of QT Mutual Bank, net of cash acquired		40,396	–
Net cash flows from investing activities		**(125,190)**	**(55,142)**

Consolidated Statement of Cash Flows (continued)

for the year ended 30 June 2017

	Note	RACQ Group 2017 $'000	RACQ Group 2016 $'000
Cash flows from financing activities			
Payments for redeemed preference shares		(7)	–
Net movement in medium term notes		(81)	–
Dividends paid by controlled entities to non-controlling interest		(125)	–
Net cash flows from financing activities		**(213)**	**–**
Net (decrease)/increase in cash and cash equivalents		(11,741)	248
Cash and cash equivalents at the beginning of the year		55,559	55,311
Cash and cash equivalents at the end of the year		**43,818**	**55,559**

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 30 to 102.

1. Basis of preparation

notes to the financial statements for the year ended 30 June 2017

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 2017 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Company is a not-for-profit entity for the purposes of preparing the financial statements.

The consolidated financial statements were authorised for issue by the Board of Directors on 28 September 2017.

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, except as disclosed in note 5.2.

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 corporate activity and business changes during the year

On 24 November 2016 Club Finance Holdings Limited (CFH) acquired 100% of the shares of QT Mutual Bank Limited (QT Mutual Bank), via a court approved Scheme of Arrangement. CFH is a majority owned subsidiary of The Royal Automobile Club of Queensland Limited (RACQ), a mutual. Therefore, the merger with QT Mutual Bank was a joining of two mutual entities. As per the Scheme of Arrangement, each QT Mutual Bank member received a redeemable preference share in CFH. CFH issued 67,882 redeemable preference shares. As a consequence of the merger, each QT Mutual Bank member became a member of RACQ.

QT Mutual Bank provides retail financial products and services to members and the merger will help RACQ diversify its operations into banking. The transaction will also provide QT Mutual Bank with access to RACQ's scale, brand and resources, which will provide the opportunity to significantly grow the banking business.

Further information on this transaction can be found at note 6.6.2.

Presentation

For the reporting period ended 30 June 2017, the presentation of the Consolidated Balance Sheet has changed to reflect presentation on a liquidity basis. Separate disclosure has been made where there are amounts that are expected to be recovered or settled more than 12 months from reporting date, either in the relevant note to the accounts or by way of a maturity analysis (in respect of financial liability captions).

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)
- Reinsurance and other recoveries receivable (Note 2.4)
- Liability adequacy test (Note 2.6)
- Impairment of loans and advances (Note 3.3)
- Fair value of financial instruments (Note 4.3)
- Goodwill impairment (Note 5.2.1)
- Tax (Note 5.6.1)

1. Basis of preparation (continued)

notes to the financial statements for the year ended 30 June 2017

Basis of measurement

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

Items	Measurement basis
Available-for-sale financial assets	Fair Value
Financial assets at fair value through profit and loss (FVTPL)	Fair Value
Assets backing general insurance liabilities	Fair Value
Derivative financial instruments	Fair Value

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 and unless otherwise stated, amounts in the consolidated financial report have been rounded off to the nearest thousand dollars.

Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. 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) Non-controlling interests

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

(iii) Transactions eliminated on consolidation

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

1. Basis of preparation (continued)

notes to the financial statements for the year ended 30 June 2017

New standards and interpretations not yet adopted

Reference	Title	Nature of change to accounting policy	Impact to the Group	Application of the Standard	Application date for the Group
AASB 9	Financial Instruments	AASB 9 (December 2014) replaces AASB 139 *Financial Instruments: Recognition and Measurement* and supersedes AASB 9 versions previously issued in December 2009 and December 2010. The new standard includes a model for classification and measurement of financial assets and financial liabilities, a single forward-looking 'expected loss' impairment model and new rules for hedge accounting.	The Group has carried out a preliminary impact assessment of the new standard for changes in the classification and measurement of financial assets and liabilities. The potential effects on impairment of financial assets are currently being assessed. The effects on the adoption of the standard on hedge accounting are expected to be immaterial. Please refer below for the details of the impact assessment completed to date.	1 January 2018	1 July 2018
AASB 15	Revenue from contracts with customers	AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards. This standard replaces AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related interpretations.	The Group is in the process of assessing the impact of the new standard but does not expect a significant impact as a large portion of its revenues arise from the provision of financial and general insurance contracts which are governed by AASB 9 *Financial Instruments* and AASB 1023 *General Insurance Contracts*.	1 January 2018	1 July 2018
AASB 16	Leases	AASB 16 was issued in February 2016. Early application is permitted for entities that apply AASB 15 *Revenue from Contracts* with Customers at or before the date of initial application of this standard. The key features of AASB 16 in respect of lessee accounting are as follows: ▪ Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. ▪ Assets and liabilities arising from a lease are initially measured on a present value basis taking into consideration the contractual lease period and likely option periods. ▪ A lease subsequently measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.	The Group has commenced a preliminary impact assessment of the new standard.	1 January 2019	1 July 2019
AASB 17	Insurance Contracts	AASB 17 was issued in July 2017 and established principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held.	The Group has commenced a preliminary impact assessment of the new standard.	1 January 2020	1 July 2020

1. Basis of preparation (continued)

notes to the financial statements for the year ended 30 June 2017

AASB 9 impact assessment

The Group has carried out a high-level impact assessment of AASB 9 on the key areas and requirements of the standard as follows:

Classification and measurement

(i) Financial assets

The classification and measurement of financial assets will be determined based on the contractual cash flow characteristics and the objective of the business model in holding the asset.

Key changes include the removal of the Held to Maturity (HTM) and Available for Sale (AFS) asset categories. A new asset category measured at Fair Value through Other Comprehensive Income (FVOCI) is introduced. This applies to financial asset debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Classification and measurement of financial assets will remain largely unchanged for the Group with the HTM investments reclassified as amortised cost and FVOCI categories, and the AFS investments reclassified as FVOCI. There may be possible impacts that arise dependent on the financial assets and liabilities held at the date of transition.

(ii) Financial liabilities

Classification and measurement of financial liabilities will remain largely unchanged for the Group as the majority of its financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

2. Insurance activities

notes to the financial statements for the year ended 30 June 2017

2.1 Insurance result

The following table presents details of the Insurance result included in the Consolidated Income Statement.

		RACQ Group	
		2017	2016
	Note	$'000	$'000
Insurance premium revenue		758,362	717,879
Outwards reinsurance premium expense		(82,613)	(75,071)
Net premium revenue		**675,749**	**642,808**
Insurance claims expense	2.2	(565,973)	(500,636)
Reinsurance and other recoveries revenue	2.2	100,805	58,583
Net claims incurred	**2.2**	**(465,168)**	**(442,053)**
Acquisition costs		(79,854)	(79,487)
Other underwriting expenses		(99,303)	(109,327)
Underwriting expenses		**(179,157)**	**(188,814)**
Underwriting result		**31,424**	**11,941**
Investment income on technical reserves		16,624	31,416
Investment expenses on technical reserves		(1,224)	(1,086)
Insurance result		**46,824**	**42,271**

2. Insurance activities (continued)

notes to the financial statements for the year ended 30 June 2017

2.1 Insurance result (continued)

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 represents claim recovery receipts adjusted for the movement in the reinsurance and other recoveries receivable. Recovery receipts are recognised at the point in time when the recovery is received from the third party.

(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)

notes to the financial statements for the year ended 30 June 2017

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:

	2017			2016		
	Current year $'000	Prior years $'000	Total $'000	Current year $'000	Prior years $'000	Total $'000
Gross claims expense						
Gross claims incurred—undiscounted	656,097	(83,690)	**572,407**	586,252	(97,093)	**489,159**
Discount movement	(13,756)	7,322	**(6,434)**	(11,353)	22,830	**11,477**
	642,341	**(76,368)**	**565,973**	**574,899**	**(74,263)**	**500,636**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue—undiscounted	(99,939)	(1,854)	**(101,793)**	(62,883)	7,274	**(55,609)**
Discount movement	1,798	(810)	**988**	2,068	(5,042)	**(2,974)**
	(98,141)	**(2,664)**	**(100,805)**	**(60,815)**	**2,232**	**(58,583)**
Total net claims incurred	**544,200**	**(79,032)**	**465,168**	**514,084**	**(72,031)**	**442,053**

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. Insurance activities (continued)

notes to the financial statements for the year ended 30 June 2017

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.

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

	RACQ Group	
	2017	2016
	$'000	$'000
Gross outstanding claims liability		
Gross central estimate—undiscounted	744,327	660,680
Claims handling expense	50,394	45,401
	794,721	**706,081**
Discount to present value	(33,998)	(26,200)
Risk margin	154,296	144,873
Gross outstanding claims liability	**915,019**	**824,754**
Current	336,640	279,337
Non-current	578,379	545,417
Gross outstanding claims liability	**915,019**	**824,754**
	%	**%**
Risk margin	**26.0**	**25.8**
Probability of sufficiency	**92.5**	**92.5**

2. Insurance activities (continued)

notes to the financial statements for the year ended 30 June 2017

2.3 Outstanding claims liability (continued)

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

	RACQ Group	
	2017	2016
	$'000	$'000
Net outstanding claims at the beginning of the year	690,389	642,819
Prior periods		
Claims payments	(162,045)	(192,921)
Discount unwind	7,761	9,495
Margin release on prior periods	(37,693)	(42,611)
Incurred claims due to changes in assumptions and experience	(72,128)	(35,403)
Current period		
Net central estimate for current period	256,071	241,316
Net change in reinsurance on paid claims	914	6,476
Risk margin on current period net outstanding claims	62,831	61,218
Net outstanding claims liability at the end of the year	**746,100**	**690,389**
Reinsurance and other recoveries receivable	168,919	134,365
Gross outstanding claims liability	**915,019**	**824,754**

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

	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000
2017	915,019	336,640	492,048	86,331	**915,019**
2016	824,754	279,337	458,983	86,434	**824.754**

2. Insurance activities (continued)

notes to the financial statements for the year ended 30 June 2017

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 as the majority of claims are settled within twelve months following the reported incident.

Accident year	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	Total $'000
Estimate of net ultimate CTP claims cost:											
At end of accident year	104,281	128,115	141,527	142,357	151,096	155,581	169,902	155,377	171,782	181,530	181,530
One year later	118,697	125,969	125,074	128,012	126,160	139,449	147,050	146,065	160,153	–	160,153
Two years later	112,780	113,055	108,598	110,494	109,153	118,280	140,057	133,714	–	–	133,714
Three years later	101,825	114,349	103,134	99,573	102,062	98,069	124,223	–	–	–	124,223
Four years later	97,086	108,279	93,537	91,412	96,824	93,543	–	–	–	–	93,543
Five years later	94,507	102,649	96,195	89,111	93,601	–	–	–	–	–	93,601
Six years later	90,138	102,354	92,525	88,520	–	–	–	–	–	–	88,520
Seven years later	89,086	102,680	92,753	–	–	–	–	–	–	–	92,753
Eight years later	88,898	101,746	–	–	–	–	–	–	–	–	101,746
Nine years later	88,362	–	–	–	–	–	–	–	–	–	88,362
Current estimate of net ultimate claims cost	88,362	101,746	92,753	88,520	93,601	93,543	124,223	133,714	160,153	181,530	1,158,145
Cumulative payments	(86,552)	(99,858)	(85,772)	(83,940)	(84,565)	(73,785)	(73,468)	(50,989)	(25,822)	(1,655)	(666,406)
Net outstanding claims—undiscounted	**1,810**	**1,888**	**6,981**	**4,580**	**9,036**	**19,758**	**50,755**	**82,725**	**134,331**	**179,875**	**491,739**
Discount to present value											(28,914)
Claims handling expenses											39,511
2007 and prior											12,240
Outstanding claims—CTP											**514,576**
Outstanding claims—Personal Insurance											77,228
Risk margin											154,296
Total net outstanding claims											**746,100**

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:

	2017		2016	
	Personal Insurance	CTP Insurance	Personal Insurance	CTP Insurance
Discount rate	1.9%	2.1%	1.6%	1.7%
Economic inflation rate	–	3.3%	–	3.3%
Superimposed inflation rate	–	3.5%	–	3.5%
Claims handling expense ratio	6.5%	7.4%	6.6%	7.4%
Risk margin	17.6%	27.3%	20.5%	27.3%

Discount rate

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

2. Insurance activities (continued)

notes to the financial statements for the year ended 30 June 2017

2.3 Outstanding claims liability (continued)

2.3.2 ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

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.

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 which is intended to have a probability of sufficiency of 92.5% (2016: 92.5%).

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.

Impact of changes in key variables	Movement in Variable		Financial Impact on Surplus/(Loss) after tax	
	2017	2016	2017 $'000	2016 $'000
Assumption				
Discount rate	+1%	+1%	11,007	10,238
	-1%	-1%	(11,381)	(10,584)
Inflation rate	+1%	+1%	(5,677)	(9,963)
	-1%	-1%	5,540	9,691
Claims handling expense rate	+1%	+1%	(5,700)	(5,328)
	-1%	-1%	5,700	5,328
Risk margin	+1%	+1%	(8,209)	(7,696)
	-1%	-1%	7,643	7,155

2. Insurance activities (continued)

notes to the financial statements for the year ended 30 June 2017

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	
	2017	2016
	$'000	$'000
Reinsurance recoveries		
Expected undiscounted outstanding reinsurance recoveries		
On paid claims	1,363	2,277
On outstanding claims	71,965	40,681
	73,328	**42,958**
Discount to present value	(3,322)	(3,095)
	70,006	**39,863**
Other recoveries		
Expected undiscounted outstanding other recoveries		
On paid claims	56,738	56,616
On outstanding claims	45,918	40,861
	102,656	**97,477**
Discount to present value	(3,743)	(2,975)
	98,913	**94,502**
Total reinsurance and other recoveries receivable	**168,919**	**134,365**
Current	105,242	75,077
Non-current	63,677	59,288
Total reinsurance and other recoveries receivable	**168,919**	**134,365**

2. Insurance activities (continued)

notes to the financial statements for the year ended 30 June 2017

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	
	2017	2016
	$'000	$'000
Deferred acquisition costs at beginning of the year	38,668	37,351
Acquisition costs incurred in the period	78,113	80,804
Amortisation expense	(79,854)	(79,487)
Deferred acquisition costs at end of the financial year	**36,927**	**38,668**

2.6 Liability adequacy test

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 the Consolidated Income Statement. The deficiency is recognised first by writing down any deferred acquisition costs, with any excess being recorded in the Consolidated 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	
	2017	**2016**
	$'000	**$'000**
Central estimate present value of expected future cash flows arising from future claims	356,488	335,899
Central estimate present value of expected future cash inflows arising from reinsurance recoveries on future claims	(31,838)	(31,069)
Risk margin	24,159	22,169
Expected present value of future cash flows for future claims including risk margin	**348,809**	**326,999**

The risk margin adopted in 2017 is 7.4% (2016: 7.3%). 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 2017 and 30 June 2016 the LAT resulted in a surplus.

2. Insurance activities (continued)

notes to the financial statements for the year ended 30 June 2017

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 has 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.

2. Insurance activities (continued)

notes to the financial statements for the year ended 30 June 2017

2.8 Insurance capital management

All insurers that conduct general insurance business in Australia are regulated by APRA and are required to maintain internal capital targets. The Insurance Group, comprising Club Insurance Holdings Pty Ltd and RACQ Insurance Limited, has retained its capital target of 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:

	2017 $'000	2016 $'000
Common Equity Tier 1 capital		
Paid-up ordinary shares	470,890	470,890
Retained earnings brought forward	107,034	91,873
Current year earnings	23,463	15,160
Excess technical provisions (net of tax)	75,721	67,773
	677,108	**645,696**
Less: Prescribed Deductions		
Goodwill and other intangible assets	244,197	247,286
Deferred tax asset	14,160	10,955
Common Equity Tier 1 capital	**418,751**	**387,455**
Tier 2 capital		
Subordinated debt	48,000	60,000
Total Tier 2 capital	**48,000**	**60,000**
APRA capital base	**466,751**	**447,455**

2. Insurance activities (continued)

notes to the financial statements for the year ended 30 June 2017

2.8 Insurance capital management (continued)

	2017 $'000	2016 $'000
Prescribed capital amount (PCA)		
Insurance risk charge	144,956	135,877
Insurance concentration risk charge	28,750	28,750
Asset risk charge	55,690	54,959
Operational risk charge	29,237	27,277
Aggregation benefit	(36,667)	(35,897)
Prescribed capital amount (PCA)	**221,966**	**210,966**
PCA multiple	**2.10**	**2.12**

The ICAAP ensures that all material risks to which the Insurance Group is exposed have been considered and ensures an appropriate level of capital is held against these risks which is consistent with the Board's risk appetite. The ICAAP also ensures that there is adequate review, monitoring and reporting of actual and forecast capital positions to the Board on a monthly basis.

Key considerations of the Insurance Group's ICAAP are return on capital targets, current and forecast profitability as defined in the annual budget process, capital structure, dividend payments, investment strategy, product mix, reserving strength and reinsurance arrangements.

Incorporated within the ICAAP are regular reviews of the Insurance Group's capital needs and risk profile. In order to quantify the Insurance Group's risk profile a dynamic financial analysis is undertaken 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.

The prudential standard GPS 12 *Capital Adequacy: Measurement of Capital* requires Tier 2 Capital to be amortised on a straight-line basis at a rate of 20 percent per annum over the last four years to maturity. The subordinated debt is due in August 2020 and therefore has been amortised to $48 million in 2017 (2016: $60 million).

3. Banking activities

notes to the financial statements for the year ended 30 June 2017

3.1 Banking result

The Banking result reflects the period from 24 November 2016 to 30 June 2017.

The following table presents details of the Banking result included in the Consolidated Income Statement.

	RACQ Group 2017 $'000
Interest income	37,263
Interest expense	(14,353)
Net interest income	**22,910**
Other income	6,460
Other expenses	(23,191)
Banking result	**6,179**

Accounting policies

(i) Interest income and expense

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

When a loan is classified as impaired, the Group generally ceases to recognise interest and other income earned but not yet received.

Loan origination fee income that is direct and incremental to the establishment of loans are deferred and amortised as a component of the calculation of the effective interest rate.

3. Banking activities (continued)

notes to the financial statements for the year ended 30 June 2017

3.2 Loans and advances

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Losses arising from impairment are recognised in the Consolidated Income Statement in Net impairment loss on loans and advances.

	RACQ Group 2017 $'000
Housing loans	1,301,295
Revolving credit	11,795
Personal loans	26,118
Commercial loans	10,337
Gross loans and advances	**1,349,545**
Unamortised loan fees	99
Provision for impairment	(530)
Net loans and advances	**1,349,114**
Current net loans and advances	257,917
Non-current net loans and advances	1,091,197
Net loans and advances	**1,349,114**

3. Banking activities (continued)

notes to the financial statements for the year ended 30 June 2017

3.3 Impairment of loans and advances

Recognition and measurement

Provision for impairment is recognised when there is objective evidence that impairment of a loan has occurred. All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired.

Specific provisions for impairment losses on loans and advances are measured as the difference between the carrying amount of loans and advances and the present value of estimated future cash flows (excluding further credit losses that have not been incurred) discounted at the loan's original effective interest rate. Bad debts are written off, as determined by management, when it is reasonable to expect that the recovery of the debt is unlikely. On secured loans, the write-off takes place following ultimate realisation of collateral value. Bad debts are written off against the provision for impairment where impairment has previously been recognised in relation to a loan. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in profit and loss. When a subsequent event results in the recovery of an impairment loss, this is recognised through profit and loss.

A collective provision is also maintained to cover risks inherent in the loan portfolio. The provision applies a loss rate approach that uses historical loss experience to calculate incurred but not reported losses on the performing portfolio. The loss rates are based on the arrears severity of the loans, and other default indicators such as industrial restructuring, job losses or economic circumstances.

Use of judgements and estimates

The amount provided for impairment of loans is determined by management and the Board of QTMB. The Prudential Standards issued by APRA enable the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by the Group.

An additional specific provision is also calculated on individual loan accounts where it is unlikely that all amounts owed will be received. Management makes judgements about the borrower's financial situation and the current net realisable fair value of collateral when determining the specific provision required. Management and the Board of QTMB also make a provision for loans in arrears where the collectability of the debt is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impractical.

3. Banking activities (continued)

notes to the financial statements for the year ended 30 June 2017

3.3 Impairment of loans and advances (continued)

3.3.1 IMPAIRMENT OF LOANS AND ADVANCES

	RACQ Group 2017 $'000
Specific Provision	
Opening balance	74
Impairment expense	(21)
Bad debts written off	(6)
Closing balance	**47**
Collective provision	
Opening balance	350
Impairment expense	255
Bad debts written off	(122)
Closing balance	**483**
Total provision for impairment	**530**
Impairment expense	(234)
Bad debts recovered	32
Total impairment of loans and advances	**202**

During the year, no bad debts have been written off directly to surplus.

3. Banking activities (continued)

notes to the financial statements for the year ended 30 June 2017

3.4 Deposits

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

The following table presents the deposits in QTMB:

	RACQ Group 2017 $'000
Call deposits	715,092
Negotiable certificates of deposit	141,038
Term deposits	510,406
Total deposits	**1,366,536**
Current	1,326,406
Non-Current	40,130
Total deposits	**1,366,536**

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

3. Banking activities (continued)

notes to the financial statements for the year ended 30 June 2017

3.5 Borrowings

The following table presents the borrowings in QTMB:

	RACQ Group 2017 $'000
Medium term notes	20,030
Total borrowings	**20,030**
Current	30
Non-Current	20,000
Total borrowings	**20,030**

The medium term notes portfolio of QTMB does not include any notes which represents 10% or more of total liabilities.

The accounting policy for borrowings is provided in note 4.6.

3.5.1 BORROWING FACILITIES

The following table presents the borrowings in QTMB:

	Approved Facility $'000	Current Borrowings $'000	Net Available $'000
2017			
Overdraft facility	10,000	–	10,000
Medium term notes	500,000	20,030	479,970
Reserve Bank of Australia repo eligible securities	379,000	–	379,000
	889,000	**20,030**	**868,970**

3. Banking activities (continued)

notes to the financial statements for the year ended 30 June 2017

3.6 Banking capital management

The Banking Group including QTMB, QT Financial Planning Pty Ltd and The Arrow Funding Trust maintains sufficient capital resources to support business activities and operating requirements and to ensure continuous compliance with externally and internally imposed capital ratios.

The adequacy of the Banking Group's capital is monitored using, among other measures, the rules and ratios outlined by APRA. To manage, monitor and report regulatory and economic capital, the Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP). During the current and prior year, the Banking Group has complied with all externally and internally imposed capital requirements.

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

	Banking Group 2017 $'000
Common Equity Tier 1 Capital	
Paid-up ordinary share capital	6,117
General reserves	(55)
Retained earnings brought forward	146,610
Current year earnings	217
Other reserves	20,810
Common Equity Tier 1 Capital	**173,699**
Less: prescribed deductions	(34,563)
Net Common Equity Tier 1 Capital	**139,136**
Tier 2 Capital	
General reserve for credit losses	2,200
Less: prescribed deductions	–
Net Tier 2 Capital	**2,200**

3. Banking activities (continued)

notes to the financial statements for the year ended 30 June 2017

3.6 Banking capital management (continued)

	Banking Group 2017 $'000
APRA Capital base	141,336
Risk weighted assets	710,646
Risk weighted capital ratios	
Tier 1	19.6%
Tier 2	0.3%
Total capital ratio	**19.9%**

4. Financial instruments

notes to the financial statements for the year ended 30 June 2017

4.1 Investment income

Investment income is comprised of interest income on funds invested, dividend income, realised gains/losses on the disposal of available-for-sale financial assets and changes in the fair value of financial assets held 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	
	2017	2016
	$'000	$'000
Interest income		
Available for sale financial assets	5,624	10,006
Financial assets designated at fair value through profit or loss	48,036	46,919
Net gain on disposal of available-for-sale financial assets transferred from equity	4,563	1,405
Net change in fair value of financial assets designated at fair value through profit or loss		
Unrealised losses	(16,818)	(2,089)
Realised losses	(4,883)	(2,878)
Dividend income	4,319	3,340
Trust distribution income	7,146	1,543
Total investment income	**47,987**	**58,246**

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

4.2 Investment securities

Investment securities are classified as follows:

	RACQ Group	
	2017	2016
	$'000	$'000
Available for sale		
Equity securities	89,081	44,724
Debt securities	–	38,271
Deposits and bills	137,120	69,487
Unit trusts	147,105	152,402
Shares in unlisted equities	15,758	6.389
Held to Maturity		
Deposits with ADIs	162,001	–
Designated at fair value through profit or loss		
Debt securities	1,214,458	1,099,693
Deposits and bills	129,113	129,235
Total investment securities	**1,894,636**	**1,540,201**
Current	582,430	337,042
Non-current	1,312,206	1,203,159
Total investment securities	**1,894,636**	**1,540,201**

Accounting policies for investments are provided in note 4.6.

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

4.3 Fair value hierarchy

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

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

4.3.1 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

RACQ Group	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2017				
Financial Assets				
Available for sale	226,201	147,105	15,758	389,064
Fair value through profit or loss	129,113	1,214,458	–	1,343,571
	355,314	**1,361,563**	**15,758**	**1,732,635**
2016				
Financial Assets				
Available for sale	117,041	187,843	6,389	311,273
Fair value through profit or loss	129,469	1,099,459	–	1,228,928
	246,510	**1,287,302**	**–**	**1,540,201**

There were no transfers between the levels of the fair value hierarchy during the year ended 30 June 2017 (2016: nil).

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

4.3 Fair value hierarchy (continued)

4.3.2 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The table below sets out the fair value of financial instruments not measured at fair value after initial recognition or where their carrying value is not a reasonable approximation of fair value, and analyses them by the level in the fair value hierarchy into which each instrument is categorised.

RACQ Group	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Carrying Amount $'000	Total fair value $'000
2017					
Financial Assets					
Financial assets held to maturity	–	162,001	–	162,001	164,549
Loans and advances	–	–	1,349,114	1,349,114	1,366,000
Financial Liabilities					
Deposits	–	(1,366,536)	–	(1,366,536)	(1,373,028)
Medium term notes	–	(20,030)	–	(20,030)	(20,068)
Redeemable preference shares[1]	–	–	(673)	(673)	(673)
	–	**(1,224,565)**	**1,348,441**	**123,876**	**136,780**

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

In 2016, the fair values of financial assets and liabilities were equal to the carrying amounts shown in the Consolidated Balance Sheet.

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

4.3 Fair value hierarchy (continued)

4.3.3 VALUATION APPROACH

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

Available for sale/fair value through profit or loss	For investments traded in an active market, fair value is determined by reference to quoted bid price or redemption price for similar instruments at the reporting date. For investments traded in a market that is not active, valuation techniques are used based on market observable inputs. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.
Assets measured at amortised cost	The fair value of these assets was determined using discounted cash flow models based on the maturity of the deposits. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining term of each deposit
Loans and Advances	The carrying value is net of provisions for impairment. For variable rate loans the carrying value is a reasonable estimate of the fair value. The fair value for fixed rate loans was calculated by using discounted cash flow models based on the repricing date of the loans. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining fixed term of each loan.
Deposits and Medium Term Notes	The fair value of non-interest bearing, at call and variable rate deposits is the carrying value as at 30 June. Discounted cash flow models based upon deposit types and related maturities were used to calculate the fair value of other deposits. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining term of each deposit
Derivatives	The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves.

4.4 Financial risk management

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

4.4.1 OVERVIEW

The Board of Directors, including the Board for each of the regulated entities, Club Insurance Holdings Pty Ltd, Club Finance Holdings Limited, RACQ Insurance Limited and QT Mutual Bank Limited, have overall responsibility for the establishment and oversight of the risk management framework, including setting the risk appetite. Each Board has established Risk Committees which assist their respective Boards in developing and monitoring risk management policies. These Committees report regularly to their Boards on activities.

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

4.4 Financial risk management (continued)

4.4.2 CREDIT RISK

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

Insurance Operations

Credit risk arises principally from the Group's investment in interest-bearing securities, receivables under reinsurance contracts and other insurance-related recoveries from third parties and 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. The risk of losses is further reduced by limit settings for credit risk rating bands.

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

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

(iii) Trade and other receivables

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

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

4.4 Financial risk management (continued)

4.4.2 CREDIT RISK (CONTINUED)

The following table provides information regarding the credit risk exposure of non-QTMB related financial assets classified according to Standard & Poor's credit ratings.

	Neither past due nor impaired					Past due but not impaired	Impaired	Total
	AAA	AA+ to AA-	A+ to A-	Below A-	Not Rated			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2017								
Cash and cash equivalents	25,529	1,197	–	–	2,280	–	–	29,006
Trade and other receivables								
Trade and other receivables	–	–	–	–	17,433	–	–	17,433
Insurance premiums receivable	–	–	–	–	194,503	–	–	194,503
Total Trade and other receivables	**–**	**–**	**–**	**–**	**211,936**	**–**	**–**	**211,936**
Reinsurance and other recoveries receivable	52,921	28,157	41,848	–	45,993	–	–	168,919
Debt securities	376,767	559,160	193,979	84,552	–	–	–	1,214,458
Deposits and bills	145,508	55,034	45,559	17,132	3,000	–	–	266,233
	600,725	**643,548**	**281,386**	**101,684**	**263,209**	**–**	**–**	**1,890,552**
2016								
Cash and cash equivalents	24,684	29,898	–	–	977	–	–	55,559
Trade and other receivables								
Trade and other receivables	–	–	–	–	12,337	–	–	12,337
Insurance premiums receivable	–	–	–	–	168,797	–	–	168,797
Total Trade and other receivables	**–**	**–**	**–**	**–**	**181,134**	**–**	**–**	**181,134**
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**	**239,624**	**–**	**–**	**1,707,897**

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

4.4 Financial risk management (continued)

4.4.2 CREDIT RISK (CONTINUED)

Banking operations

Due to the nature of QTMB's business, credit risk exposure arising from QTMB's financial assets is managed separately to other business areas of the Group. Credit risk arises principally from the loan book, investment assets and derivative contracts.

(i) Loans and Advances

The method of managing credit risk on loans is by way of strict adherence with credit assessment policies before the loans are approved, close monitoring of any defaults in the repayment of loans thereafter and active monitoring of the quality of the loan portfolio on an ongoing basis. The Credit Risk Management System has been endorsed by the Board of QTMB to ensure that loans are only made to members that are assessed as credit-worthy (capable of meeting loan repayments) and that appropriate security is taken against loans made. Adherence to the Credit Risk Management Strategy is monitored by QTMB's Credit Committee.

QTMB has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure to individual borrowers;
- Reassessment and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures; and
- Review of compliance with the above policies by a dedicated Credit Risk Review unit.

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

Maximum credit risk exposure

QTMB's maximum credit risk exposure on loans and advances is $1,374,459,000. This does not take into account the value of any collateral or other security held in the event other parties fail to perform their obligations.

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

4.4 Financial risk management (continued)

4.4.2 CREDIT RISK (CONTINUED)

Maximum credit risk exposure (continued)

The following table shows the current loan to value ratios (LVRs) on the residential term loan portfolio. Valuation amounts used in these calculations are based on the security value taken at the time the loans were originated.

	RACQ Group 2017 $'000
LVR 0%–60%	406,553
LVR 60.01%–80%	573,846
LVR 80.01%–90%	198,108
LVR 90.01%–100%	123,680
LVR > 100%	416
	1,302,603

Past due and impaired loans

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

A loan or overdraft will be classified as impaired regardless of whether it is past due where there is doubt as to whether the full amount due, including interest and other payments, will be repaid in a timely manner. In such situations, an appropriate provision is made against the exposure.

Loans and similar facilities that are past due 90 days or more and are not well secured will be treated, for the total amounts outstanding, as impaired. Overdrafts and other revolving facilities that have remained continuously outside approved limits for 14 or more consecutive days, and which are not well secured, will also be treated for the total amounts outstanding, as impaired.

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

4.4 Financial risk management (continued)

4.4.2 CREDIT RISK (CONTINUED)

4.4.2.1 LOANS AND ADVANCES BY IMPAIRMENT CLASS

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

	RACQ Group 2017 $'000
Net impaired loans	1,369
Past due but not impaired	46,930
Neither past due nor impaired	1,300,716
Unamortised loan fees	99
Net loans and advances	**1,349,114**

4.4.2.2 AGEING ANALYSIS OF LOANS PAST DUE BUT NOT IMPAIRED

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

	0–30 days $'000	31–90 days $'000	91–180 days $'000	181+ days $'000	Total $'000
2017					
Past due but not impaired	37,728	4,873	3,675	654	46,930

Collateral securing loans

The major portion of the loan book is secured against residential property in Australia. Therefore, QTMB is exposed to the potential risk of an increase in the LVR, and thus a reduction in security cover should the property market experience a decline in values.

Lender's Mortgage Insurance (LMI) is obtained by QTMB in order to cover any shortfall in the outstanding loan principal and accrued interest. LMI is generally obtained for residential mortgages with a LVR in excess of 80%. The financial effect of these measures is that the remaining credit risk on residential loans is minimal.

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

4.4 Financial risk management (continued)

4.4.2 CREDIT RISK (CONTINUED)

4.4.2.2 AGEING ANALYSIS OF LOANS PAST DUE BUT NOT IMPAIRED

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

	RACQ Group 2017 $'000
Loans and advances with collateral	1,328,294
Loans and advances with no collateral	21,251
Total gross loans and advances	**1,349,545**

Where collateral is held, it is in the form of mortgage interests over property, other registered securities over assets, mortgage insurance and guarantees. The fair value of the collateral is measured at the time of providing the loan or advance. The fair value of the collateral is generally not updated except when a loan or advance is individually assessed as impaired.

No assets were acquired by QTMB during the financial year. The policy of QTMB is to sell the assets via auction at the earliest opportunity, after the measures to assist the members to repay debts have been exhausted.

Concentration risk

QTMB holds no significant concentrations of exposures to individuals

QTMB has a concentration of loans to members employed in the teaching profession and the education industry generally. As a risk, this concentration has largely arisen as QTMB was originally formed to service these members. Loans and advances to members employed in the education industry amounted to $875,378,000 or 65% of total loans and advances.

(ii) Investments

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent credit rating of the investment counterparty and the limits to concentrations with any one counterparty. Their risk of losses is further reduced by limit settings for credit risk rating bands.

QTMB's policy is to maintain liquid investments with Cuscal Limited (Cuscal) of at least 120% of all committed facility limits with them. Cuscal is a company set up to support its mutual ADI members and has a Standard & Poor's long term rating of A+ and a short-term rating of A-.

All liquid investments are required to be with financial institutions with a minimum Standard and Poor's rating of BBB- long term and A-3 short term (or equivalent) or in securities eligible for repurchase by the Reserve Bank of Australia.

The carrying values of liquid investments associated with each credit quality category for QTMB are listed below. There are no provisions held against these exposures.

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

4.4 Financial risk management (continued)

4.4.2 CREDIT RISK (CONTINUED)

4.4.2.2 AGEING ANALYSIS OF LOANS PAST DUE BUT NOT IMPAIRED (CONTINUED)

	RACQ Group 2017 $'000
ADIs—rated AA- long term and above	80,020
ADIs—rated A- long term and above, but below AA- long term	55,322
ADIs—rated BBB- long term and above, but below A- long term	41,400
Total	**176,742**

4.4.3 LIQUIDITY RISK

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

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

Insurance operations

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

Banking operations

QTMB manages liquidity risk by:

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

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

4.4 Financial risk management (continued)

4.4.2 CREDIT RISK (CONTINUED)

4.4.3 LIQUIDITY RISK (CONTINUED)

During the financial year, QTMB's special purpose vehicle, the Arrow Funding Trust, issued Residential Mortgage Backed Securities (RMBS) which are eligible for repurchase by the RBA. This facility arrangement is for the purposes of contingent liquidity management and serves to strengthen QTMB's liquidity risk management.

Under APRA Prudential Standards, QTMB is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within two business days. QTMB's policy is to maintain an agreed buffer above this level and includes a number of measures to ensure that appropriate actions are taken where it is anticipated that liquidity levels will fall below various levels prescribed in the policy. These measures include, but are not limited to, accessing any unutilised borrowing facilities.

Note 3.5.1 sets out the borrowing facilities as at the end of the reporting date.

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

	Carrying Amount		Gross Nominal Outflows		Within 1 month		1–3 months		3–12 months		1–5 years		Over 5 years	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Financial Liabilities														
Deposits	1,366,536	–	1,375,975	–	848,208	–	247,748	–	236,692	–	43,327	–	–	–
Medium term notes	20,030	–	20,275	–	–	–	137	–	20,138	–	–	–	–	–
Redeemable preference shares[1]	673	–	673	–	–	–	–	–	–	–	–	–	673	–
Total Financial Liabilities	**1,387,239**	**–**	**1,396,923**	**–**	**848,208**	**–**	**247,885**	**–**	**256,830**	**–**	**43,327**	**–**	**673**	**–**
Unrecognised Items														
Undrawn commitments	182,015	–	182,015	–	182,015	–	–	–	–	–	–	–	–	–

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

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

4.4 Financial risk management (continued)

4.4.2 CREDIT RISK (CONTINUED)

4.4.4 MARKET RISK

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

The Group, through the Group 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 Boards of Directors. The Asset and Liability Committee (ALCO) of QTMB is responsible for capital and balance sheet risk including treasury credit, liquidity and market risk.

(i) Interest rate risk

Insurance operations

Interest rate risk is the risk that the Group is impacted by significant changes in interest rates and mainly arises from investments in interest-bearing securities and the valuation of insurance liabilities.

At 30 June 2017, if interest rates had changed by +/- 1% (2016: +/- 1%) from the year-end rates, with all other variables held constant, the surplus for the year would have been $16,800,000 higher/lower (2016: $17,437,000 higher/lower).

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.

Banking operations

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

QTMB uses the Value at Risk (VaR) methodology for quantifying interest rate risk within the portfolio. VaR measures the theoretical loss in the economic value of the balance sheet based on historical movements in interest rates.

Based on VaR calculations as at 30 June 2017, the net VaR position as a percentage of capital, after allowing for hedges and prepayments was 1.92%. The VaR limit is 7.00% of capital.

Based on calculations as at 30 June 2017, the net profit impact for a 0.01% downwards movement in interest rates was a loss of $19,126.

(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 equity securities classified as available-for-sale financial assets.

Equity risk is reduced by incorporating a diverse holding of equities. 100% (2016: 59%) of the market value of the equity securities portfolio comprises stock that forms part of the Standard & Poor's ASX 200 Index. At 30 June 2017, 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 $1,023,108 (2016: $447,230).

At 30 June 2017, the Group also held units in a number of trusts, the underlying assets of which separately comprised, 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.

4.5 Group capital management

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

The Board of 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 excess capital, which could otherwise be put to the benefit of members.

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

Entities within the group are subject to externally imposed capital requirements as set by APRA. Refer to note 2.8 for Insurance and note 3.6 for Banking capital management.

4.6 Accounting policies for financial assets and financial liabilities

Non-derivative financial assets

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 financial assets with original maturities of three months or less that are readily convertible to known amounts of cash. These are used by the Group in the management of its short-term commitments.

(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, including any interest and dividend income, 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.

4. Financial instruments (continued)

notes to the financial statements for the year ended 30 June 2017

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

Non-derivative financial assets (continued)

(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.

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.

(v) Financial assets held to maturity

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held to maturity financial assets are recognised initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

(vi) Off-setting

Financial assets and financial liabilities are set off and the net amount presented in the Consolidated Balance Sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the financial liability simultaneously.

Non-derivative financial liabilities

(i) Trade and other payables

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

(ii) Deposits and borrowings

Deposits and borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

Interest on deposits is recognised as interest accrues using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments over the life of the financial liability to which they relate.

Derivative financial instruments

Interest rate swaps are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For interest rate swaps which do not qualify for hedge accounting, changes in fair value are recorded through profit or loss. Interest earned or incurred is accrued in interest income or expense respectively, according to the terms of the contract.

5. Other assets and liabilities

notes to the financial statements for the year ended 30 June 2017

5.1 Property, plant and equipment

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

2017	Freehold land $'000	Buildings $'000	Plant and equipment $'000	Capital works in progress $'000	Total $'000
Cost					
Balance at 1 July 2016	20,830	80,938	115,007	4,846	**221,621**
Additions	–	1,695	–	17,504	**19,199**
Disposals	(349)	(100)	(7,914)	–	**(8,363)**
Acquisitions through merger with QTMB	–	–	5,920	327	**6,247**
Transfer from capital works in progress	–	–	11,640	(11,640)	**–**
Balance at 30 June 2017	**20,481**	**82,533**	**124,653**	**11,037**	**238,704**
Depreciation and impairment loss					
Balance a 1 July 2016	–	(8,080)	(60,888)	–	**(68,968)**
Depreciation	–	(2,068)	(10,567)	–	**(12,635)**
Disposals	–	39	5,349	–	**5,388**
Balance at 30 June 2017	**–**	**(10,109)**	**(66,106)**	**–**	**(76,215)**
Carrying amounts					
Carrying amounts as at 1 July 2016	20,830	72,858	54,119	4,846	**152,653**
Carrying amounts as at 30 June 2017	**20,481**	**72,424**	**58,547**	**11,037**	**162,489**
2016					
Cost					
Balance at 1 July 2015	20,830	81,147	98,678	9,606	**210,261**
Additions	–	–	–	16,984	**16,984**
Disposals	–	(209)	(5,415)	–	**(5,624)**
Transfer from capital works in progress	–	–	21,744	(21,744)	**–**
Balance at 30 June 2016	**20,830**	**80,938**	**115,007**	**4,846**	**221,621**
Depreciation and impairment loss					
Balance at 1 July 2015	–	(6,058)	(57,114)	–	**(63,172)**
Depreciation	–	(2,022)	(9,636)	–	**(11,658)**
Disposals	–	–	5,862	–	**5,862**
Balance at 30 June 2016	**–**	**(8,080)**	**(60,888)**	**–**	**(68,968)**
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**

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.1 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:

Category	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. Refer to 5.2.1.(iii) for further detail on impairment.

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.2 Intangible assets

The composition of intangible assets is as follows:

2017	Goodwill $'000	Software and licensing costs $'000	Customer relationships $'000	Core deposit $'000	Outstanding claims fair value adjustment $'000	Software development costs $'000	Total $'000
Cost							
Balance at 1 July 2016	238,927	210,520	31,723	–	48,962	8,204	**538,336**
Additions	–	–	–	–	–	21,838	**21,838**
Merger with QTMB	7,794	2,753	6,700	4,800	–	–	**22,047**
Disposals	–	(14)	–	–	–	–	**(14)**
Transfer from capital works in progress	–	12,037	–	–	–	(12,037)	**–**
Balance at 30 June 2017	**246,721**	**225,296**	**38,423**	**4,800**	**48,962**	**18,005**	**582,207**
Depreciation and impairment loss							
Balance at 1 July 2016	–	(134,940)	(27,730)	–	(43,878)	–	**(206,548)**
Ammortisation	–	(37,840)	(4,009)	(363)	(332)	–	**(42,544)**
Disposals	–	13	–	–	–	–	**13**
Impairment loss	–	(4,341)	–	–	–	–	**(4,341)**
Balance at 30 June 2017	**–**	**(177,108)**	**(31,739)**	**(363)**	**(44,210)**	**–**	**(253,420)**
Carrying amounts							
Carrying amounts as at 1 July 2016	238,927	75,580	3,993	–	5,084	8,204	331,788
Carrying amounts as at 30 June 2017	**246,721**	**48,188**	**6,684**	**4,437**	**4,752**	**18,005**	**328,787**

At 30 June 2017, a review of the developed and acquired software of the Group was undertaken. As a result, software in relation to the Home Assist and Lifestyle products was considered fully impaired. An impairment loss of $4,340,596 is included in the Consolidated Income Statement within communication and information technology expenses.

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.2 Intangible assets (continued)

2016	Goodwill $'000	Software and licensing costs $'000	Customer relationships $'000	Outstanding claims fair value adjustment $'000	Software development costs $'000	Total $'000
Cost						
Balance at 1 July 2015	238,927	159,349	31,723	48,962	33,488	**512,449**
Additions	–	–	–	–	25,985	**25,985**
Disposals	–	(98)	–	–	–	**(98)**
Transfer from capital works in progress	–	51,269	–	–	(51,269)	**–**
Balance at 30 June 2016	**238,927**	**210,520**	**31,723**	**48,962**	**8,204**	**538,336**
Depreciation and impairment loss						
Balance at 1 July 2015	–	(98,130)	(25,823)	(41,299)	–	**(165,252)**
Ammortisation	–	(36,810)	(1,907)	(2,579)	–	**(41,296)**
Balance at 30 June 2016	**–**	**(134,940)**	**(27,730)**	**(43,878)**	**–**	**(206,548)**
Carrying amounts						
Carrying amounts as at 1 July 2015	238,927	159,349	31,723	48,962	33,488	512,449
Carrying amounts as at 30 June 2016	**238,927**	**75,580**	**3,993**	**5,084**	**8,204**	**331,788**

5.2.1 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	
	2017 $'000	2016 $'000
RACQ Insurance Limited	238,208	238,208
QT Mutual Bank Limited	7,794	–
Other CGU without significant goodwill	719	719
Carrying amount at end of year	**246,721**	**238,927**

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.2 Intangible assets (continued)

5.2.1 IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL (CONTINUED)

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	
	2017	2016	2017	2016	2017	2016
	%	%	%	%	%	%
RACQ Insurance Limited	9.25	9.5	2.5	2.5	8.0	10.7

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. A purchase price allocation exercise on the acquisition of QT Mutual Bank was completed in late March 2017 and goodwill associated with this acquisition was valued at this time. There are no indicators at 30 June 2017 to require a further impairment assessment.

No further impairment losses have been recognised (2016: 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, the amount is above the capitalisation threshold and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss 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.

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.2 Intangible assets (continued)

5.2.1 IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL (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:

Category	*Basis*	*Useful life*
Software and licensing costs	Straight line	3–10 years
Customer relationships	Discounted cash flow	9–15 years
Net fair value of claims reserve	Claims runoff	19 years
QTMB brand name	Discounted cash flow	1 year
Core deposits	Discounted cash flow	20 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 purposes of impairment testing assets are grouped together at 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.

Change in accounting policy

In the current year, the Group made a number of changes to the application of its accounting policy relating to the capitalisation of internally generated software assets. These changes comprise increasing the threshold for capitalisation of software development spend, reflecting the increasingly shorter useful life of smaller items of software, and by direct expensing of more project related costs. The impact of these changes was an accelerated amortisation charge of $4.3 million relating to previously capitalised software balances and higher communication and information technology expenses during the period of $1.6 million relating to development costs that would otherwise have been capitalised and amortised in future periods of up to 5 years.

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.3 Employee benefits

5.3.1 EMPLOYEE BENEFITS EXPENSE

	RACQ Group	
	2017	2016
	$'000	$'000
Wages and salaries	152,326	124,954
Defined contribution superannuation expenses	13,105	11,286
	165,431	**136,240**

5.3.2 EMPLOYEE BENEFITS LIABILITIES

	RACQ Group	
	2017	2016
	$'000	$'000
Wages and salaries accrued	5,664	3,860
Liability for annual leave	13,174	12,545
Liability for long service leave	16,465	14,270
	35,303	**30,675**
Current	29,189	25,476
Non-current	6,114	5,199
	35,303	**30,675**

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.3 Employee benefits (continued)

5.3.2 EMPLOYEE BENEFITS LIABILITIES (CONTINUED)

Accounting policies

(i) Short term employee benefits

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

(ii) Long term employee benefits

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

(iii) Superannuation

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

5.4 Transactions with key management personnel

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

No KMP have entered a material contract with the Group since the end of the previous financial year and there were no material contracts involving KMP interests at 30 June 2017 (2016: nil).

5.4.1 KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel has been expanded during the year to incorporate all direct reports of the Group Chief Executive. Key management personnel compensation comprises:

	RACQ Group	
	2017	**2016**
	$	**$**
Short-term employee benefits	8,266,467	6,071,000
Post-employment benefits	537,059	361,504
Other long-term benefits	784,436	675,571
Termination benefits	1,612,820	–
	11,200,782	**7,108,075**

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.4 Transactions with key management personnel (continued)

5.4.2 DIRECTOR COMPENSATION

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

During the year, non-executive directors received the following remuneration and benefits for their service as directors on the Board of The Royal Automobile Club of Queensland Limited. As of 1 January 2015, directors receive $87,500 per annum with additional fees paid for committee work and chairman responsibilities. Fees paid are inclusive of superannuation.

	2017 $	2016 $
Nigel Alexander, Chairman*	196,813	175,541
Jayne Arlett (appointed 1 January 2017)	57,502	–
Fay Barker (resigned 22 November 2016)	45,602	113,382
Campbell Charlton	113,602	113,382
Anthony Gambling*	88,201	88,091
Arthur Gearon (resigned 30 March 2016)	–	85,332
Elizabeth Jameson*	100,551	100,441
Stephen Maitland	125,952	125,732
John Minz (appointed 14 August 2016)**	96,514	–
Bronwyn Morris**	100,317	100,441
Karl Morris	113,602	113,382
	1,038,656	**1,015,724**

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

** Director of Club Finance Holdings Pty Ltd whilst also a director of QTMB.

The remuneration and benefits paid by RACQ Insurance Limited to RACQ directors, for their services as an RACQ Insurance Limited director during the year to June 2017, was $515,184 (2016: $525,064). Refer note 5.4.2 (ii). The remuneration and benefits paid by QT Mutual Limited to RACQ directors, for their services as a QT Mutual Limited director during the year to June 2017 was $39,324. Refer note 5.4.2 (iii). 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, Club Insurance Holdings Pty Ltd, Club Finance Holdings Pty Ltd and QT Mutual Bank Limited. Mr Gillespie acted in his role as the nominee for The Royal Automobile Club of Queensland Limited and was not separately remunerated.

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.4 Transactions with key management personnel (continued)

5.4.2 DIRECTOR COMPENSATION (CONTINUED)

(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 remuneration and benefits for their service as directors of RACQ Insurance Limited. Remuneration is inclusive of the services delivered for board and committee responsibilities.

	2017 $	2016 $
Nigel Alexander, Chairman	165,351	165,241
Anthony Gambling	120,051	119,941
Neville Ide	138,401	138,882
Elizabeth Jameson	115,008	119,941
Raymond Jones	139,102	138,882
Bronwyn Morris	114,774	119,941
Vyn Tozer	151,452	151,232
	944,139	**954,060**

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.4 Transactions with key management personnel (continued)

5.4.2 DIRECTOR COMPENSATION (CONTINUED)

(iii) Director compensation for QT Mutual Bank Limited

Directors of the Company who are also directors of QT Mutual Bank Limited are paid fees by QT Mutual Bank Limited. This remuneration is supplementary to the remuneration paid by the Company. Directors of QT Mutual Bank Limited receive $54,075 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 remuneration and benefits for their service as directors of QT Mutual Bank Limited. Fees are inclusive of the services delivered for board and committee responsibilities. Remuneration and benefits disclosed below are for the period 1 July 2016 to 30 June 2017.

	2017 $
Peter Whitelaw, Chairman	64,702
Adam Allan	31,764
Janette Bowe	34,768
Helen Coyer	31,764
John Fisher-Stamp	34,768
Neville Ide (appointed 24 November 2016)	33,371
Nathan King	31,764
Anthony McGruther	54,453
John Minz (appointed 24 November 2016)	33,371
Bronwyn Morris (appointed 25 May 2017)	5,953
	356,678

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.4 Transactions with key management personnel (continued)

5.4.2 DIRECTOR COMPENSATION (CONTINUED)

(iv) Loans to Key Management Personnel and their Close Family Members

	2017 $
The aggregate value of loans as at year end	4,461,047
The aggregate value of revolving credit facilities available at year end	162,000
Amounts drawn down included in the aggregate value	(10,456)
Total undrawn revolving credit facilities at year end	151,544
Interest earned on loans and revolving credit facilities	133,608

There are no loans that are impaired in relation to the loan balances with KMP or their close family members. All loans and overdrafts completed, guaranteed or secured to KMP and their close family members have been undertaken on normal terms and conditions. The terms and conditions in respect of all loans and overdrafts to KMP and their close family members have not been breached.

(v) Other Transactions with Key Management Personnel and their Close Family Members

	2017 $
Total value of term deposits and savings accounts	986,777
Total interest paid on these deposits during the year	18,499

Interest on deposits are paid on terms and conditions no more favourable than those available on similar transactions to members of QTMB. QTMB's policy for receiving deposits from other related parties and in respect of other related party transactions is that all transactions are approved and deposits are accepted on the same terms and conditions that apply to members.

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.5 Unearned revenue

Unearned revenue at the end of the reporting period was as follows:

	RACQ Group	
	2017	2016
	$'000	$'000
Unearned premiums		
Opening balance	368,131	343,055
Insurance premiums written during the year	784,065	742,955
Insurance premiums earned during the year	(758,362)	(717,879)
Unearned premiums balance	**393,834**	**368,131**
Unearned assistance premiums	75,498	71,409
Total unearned revenue	**469,332**	**439,540**

Accounting policies

(i) Revenue from assistance activities

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

(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.

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.6 Income tax

5.6.1 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.

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.

In determining the amount of current and deferred tax, the Group considers 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.

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

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

The components of income tax expense are:

	RACQ Group	
	2017 $'000	2016 $'000
Recognised in surplus		
Current tax		
Current income tax	19,182	15,911
Adjustments in respect of current income tax of previous year	(1,765)	1,130
	17,417	**17,041**
Deferred tax		
Origination and reversal of temporary differences	(4,391)	(7,905)
Total income tax expense	**13,026**	**9,136**

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.6 Income tax (continued)

5.6.1 INCOME TAX EXPENSE (CONTINUED)

	RACQ Group	
	2017	2016
	$'000	$'000
Deferred tax recognised directly in equity		
Relating to re-measurement of defined benefit plan	190	(365)
Relating to available for sale financial assets	2,625	(1,208)
Total income tax expense/(benefit) recognised directly in accumulated funds	**2,815**	**(1,573)**

5.6.2 RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE

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

	RACQ Group	
	2017	2016
	$'000	$'000
Prima facie tax expense calculated at 30% (2016: 30%) on operating surplus before tax	11,931	9,663
Adjust for tax effect of:		
Non-deductible expenses	673	484
Non-assessable income	(364)	(630)
Mutual income and related deductions	1,672	190
Tax offset for franked dividends	(874)	(804)
Foreign income tax offsets	(115)	(41)
Withholding tax credits	–	(10)
Prior year over provision for research and development amendments	(742)	(663)
Prior year under provision other	845	947
Income tax expense on operating surplus	**13,026**	**9,136**

5. Other assets and liabilities (continued)

notes to the financial statements for the year ended 30 June 2017

5.6 Income tax (continued)

5.6.3 RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable surplus will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

Deferred tax assets and liabilities are attributable to the following:

RACQ Group	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000
Property, plant and equipment	814	27	(2,317)	(4,939)	(1,503)	(4,912)
Intangibles	2,623	–	–	–	2,623	–
Accruals	3,196	2,401	–	–	3,196	2,401
Acquisition adjustment	3,513	–	(6,517)	(2,723)	(3,004)	(2,723)
Investments	1,096	1,525	(8,163)	(7,967)	(7,067)	(6,442)
Claims handling costs on outstanding claims	16,526	14,676	–	–	16,526	14,676
Employee benefits	9,260	8,045	–	–	9,260	8,045
Provisions	1,920	2,766	(152)	(38)	1,768	2,728
Other items	1,465	1,490	(270)	(502)	1,195	988
Tax offsets carried forward	11,544	15,993	–	–	11,544	15,993
Tax losses recognised	–	2,842	–	–	–	2,842
Tax assets/(liabilities)	**51,957**	**49,765**	**(17,419)**	**(16,169)**	**34,538**	**33,596**
Set off of tax	(17,419)	(16,169)	17,419	16,169	–	–
Net tax assets	**34,538**	**33,596**	**–**	**–**	**34,538**	**33,596**

6. Other notes

notes to the financial statements for the year ended 30 June 2017

6.1 Fee and other income

	RACQ Group	
	2017	2016
	$'000	$'000
Trade towing income	12,002	10,692
Rental income	6,625	6,315
Advertising income	1,073	3,472
Financial planning income	2,331	–
Other fee and commission income	21,583	16,260
Profit on sale of investment property	8,335	–
Other income	22,118	12,455
Total fee and other income	**74,067**	**49,194**

Fees charged on loans after origination of the loan are recognised as income when the service is provided.

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

6.2 Other expenses

Included in other expenses is acquisition related costs from the legal merge with QTMB amounting to $1,442,254 (refer note 6.6.2 for further details).

Other expenses in 2016 includes the amount of $9,121,000 relating to ex-gratia payments (2017: $65,000). These ex-gratia payments related 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 Limited to settle the outstanding creditors of Stream Group Australia.

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.3 Notes to the statement of cash flows

6.3.1 RECONCILIATION OF PROFIT AFTER INCOME TAX TO CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

	RACQ Group	
	2017	2016
	$'000	$'000
Surplus for the year	26,743	23,073
Add/(less) items classified as investing activities		
Loss/(profit) on disposal of property, plant and equipment	1,113	(637)
Profit on disposal of investment property	(8,335)	–
Investment income	(16,650)	(7,832)
Investment interest income	(52,825)	(53,976)
Rental income	(1,267)	(1,537)
Add/(less) non-cash items		
Impairment loss on intangibles	4,341	–
Impairment loss on loans and advances	202	–
Depreciation and amortisation expense	55,179	52,954
Gain on sale of investments	4,659	1,473
Change of fair value of investments	16,829	2,089
Share of (profit)/loss of equity accounted for investments	(606)	252
Contribution holiday taken for payment of RACQ Superannuation Fund	13	394
Net cash provided by operating activities before change in net assets and liabilities	**29,396**	**16,411**

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.3 Notes to the statement of cash flows (continued)

6.3.1 RECONCILIATION OF PROFIT AFTER INCOME TAX TO CASH FLOWS PROVIDED BY OPERATING ACTIVITIES (CONTINUED)

	RACQ Group	
	2017	2016
	$'000	$'000
Change in assets and liabilities		
Trade and other receivables	(27,068)	(21,375)
Reinsurance and other recoveries receivable	(34,554)	72,915
Loans and advances	(63,924)	–
Other assets	(139)	(1,427)
Deferred acquisition costs	1,741	(1,317)
Unearned revenue	29,792	27,825
Trade and other payables	29,621	(4,221)
Deposits	50,644	–
Outstanding claims liability	90,265	(25,345)
Provision for employee benefits	858	167
Deferred tax balances	(1,576)	(9,478)
Income tax receivable	8,606	1,235
Net cash provided by operating activities	**113,662**	**55,390**

6.4 Leases and commitments

The Group has entered into commercial leases on certain properties expiring at various times up to 15 years from reporting date. The leases have varying terms, options and rent renewals. On renewal, if applicable, the terms are renegotiated.

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.4 Leases and commitments (continued)

Commitments not provided for in the financial statements and payable:	<1 Year $'000	1–5 Years $'000	5+ Years $'000	Total $'000
2017				
Non-cancellable operating lease commitments	6,011	8,196	382	**14,589**
Capital commitments	6,412	–	–	**6,412**
2016				
Non-cancellable operating lease commitments	4,368	5,473	268	**10,109**
Capital commitments	1,451	788	–	**2,239**

During the year to 30 June 2017 minimum operating lease payments of $5,477,408 were recognised (2016: $3,676,492).

Outstanding Loan Commitments not provided for:	<1 Year	1–5 Years	5+ Years	Total
2017				
Loans and credit facilities approved but not advanced or drawn at the end of the financial years are as follows:				
Loans approved but not advanced	23,606	–	–	**23,606**
Undrawn overdraft and line of credit facilities at call	82,363	–	–	**82,363**
Amounts available for redraw	76,046	–	–	**76,046**
Total	**182,015**	**–**	**–**	**182,015**

The withdrawal of loans approved but not funded is at the discretion of QTMB and is subject to available liquid funds. It is anticipated that these commitments will be paid within twelve months.

Amount undrawn on the overdraft, line of credit and available for redraw facilities are revocable at QTMB's discretion.

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.4 Leases and commitments (continued)

Future revenues not provided for in the financial statements and receivable:	<1 Year $'000	1–5 Years $'000	5+ Years $'000	Total $'000
2017				
Operating lease revenue as lessor	3,153	6,291	–	**9,444**
2016				
Operating lease revenue as lessor	4,921	7,534	831	**13,286**

During the year to 30 June 2017 minimum operating lease receipts of $5,375,791 were recognised (2016: $6,534,446).

6.5 Auditors' remuneration

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

	RACQ Group	
	2017 $	2016 $
Amounts received or due and receivable by KPMG for:		
Audit services:		
Audit of the financial report	495,000	316,050
Other regulatory audit services	94,900	151,456
Total audit services	**589,900**	**467,506**
Audit related services:		
Other assurance services	35,100	–
Total audit related services	**35,100**	**–**
Other services:		
Taxation compliance services	280,892	212,882
IT Advisory services	84,663	156,720
Accounting advisory services	57,948	–
Other services	49,250	246,396
Total other services	**472,753**	**615,998**
Total auditor's remuneration	**1,097,753**	**1,083,504**

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.6 Group structure

6.6.1 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 1,775,813 (2016: 1,718,049) guaranteeing members.

	The Royal Automobile Club of Queensland Limited	
	2017	2016
	$'000	$'000
(Loss)/Surplus for the year	(7,504)	10,324
Other comprehensive income	–	–
Total comprehensive (loss)/income for the year	**(7,504)**	**10,324**

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.6 Group structure (continued)

6.6.1 PARENT ENTITY DISCLOSURES (CONTINUED)

	The Royal Automobile Club of Queensland Limited	
	2017	2016
	$'000	$'000
Financial position of the Company:		
Current assets	743,537	680,082
Total assets	1,012,708	780,629
Current liabilities	337,846	264,731
Total liabilities	337,846	264,731
Total accumulated funds of the Company comprising of:		
Reserves	166,467	–
Retained surplus	508,395	515,898
Total accumulated funds	**674,862**	**515,898**

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered a Deed of Cross Guarantee ("the Deed") with the effect that the Company guarantees debts in respect of its subsidiaries. Further details, including the subsidiaries subject to the Deed are disclosed in note 6.6.3 and 6.6.4.

Parent entity lease commitments

	2017	2016
	$'000	$'000
Operating lease commitments as lessor		
Within one year	5,243	4,862
Between one but not more than 5 years	15,262	17,806
More than 5 years	17,897	20,596
Total	**38,402**	**43,264**

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.6 Group structure (continued)

6.6.2 BUSINESS COMBINATION

Merger of Club Finance Holdings Limited and QT Mutual Bank Limited

On 24 November 2016 Club Finance Holdings Limited (CFH) acquired 100% of the shares of QT Mutual Bank Limited (QTMB), via a court approved Scheme of Arrangement. CFH is a wholly owned subsidiary of The Royal Automobile Club of Queensland Limited, a mutual, and therefore the merger with QTMB is a joining of 2 mutual entities. As per the Scheme of Arrangement, each QTMB member received a redeemable preference share in CFH. CFH issued 67,923 redeemable preference shares. As a consequence of the merger, each QTMB member became a member of The Royal Automobile Club of Queensland Limited.

QTMB provides retail financial products and services to members and the merge will help RACQ diversify its operations into banking. The transaction will also provide QTMB with access to RACQ's scale, brand and resources, which will provide the opportunity to significantly grow the banking business.

For the seven months ended 30 June 2017, QTMB contributed revenue of $43,723,000 and surplus of $2,168,000 to the Group's results. If the acquisition had occurred on 1 July 2016, the consolidated revenue would have been $1,196,964,852 and consolidated surplus for the year would have been $22,711,000. In determining these amounts, management has assumed that the fair value adjustments, that arose on the date of acquisition, would have been the same if the acquisition had occurred on 1 July 2016.

Consideration transferred

As part of the transaction, QTMB members effectively swapped an interest in QTMB for an interest in CFH rather than exchanging their interest for cash and/or marketable securities. Hence the fair market value of QTMB has been used to determine the consideration transferred.

	2017 $'000
Fair value of QTMB	167,150

Acquisition-related costs

The Group incurred acquisition-related costs of $1,442,254 on legal fees and due diligence for the year ended 30 June 2017. These costs have been included in other expenses.

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.6 Group structure (continued)

6.6.2 BUSINESS COMBINATION (CONTINUED)

Identifiable assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of QT Mutual Bank Limited as of the date of acquisition were:

	2017 $'000
Cash and cash equivalents	40,400
Other receivables	3,437
Financial assets at amortised cost	150,647
Financial assets at fair value through other comprehensive income	8,696
Loans and advances	1,285,114
Property, plant and equipment	6,247
Deferred tax assets	4,849
Intangible assets	14,253
Other assets	76
Deposits	(1,326,667)
Accrued interest on deposits	(5,245)
Borrowings	(2,212)
Other payables	(7,089)
Derivatives	(190)
Provision for income tax	(3,872)
Deferred tax liabilities	(5,483)
Employee benefits	(3,100)
Provisions	(505)
Net assets acquired	**159,356**

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.6 Group structure (continued)

6.6.2 BUSINESS COMBINATION (CONTINUED)

Goodwill arising on acquisition

	2017 $'000
Consideration transferred	167,150
Less: fair value of identifiable net assets acquired	159,356
Goodwill arising on acquisition	7,794

The goodwill arising from the acquisition reflects the value of the QTMB workforce and expected synergistic benefit to RACQ in the form of ready access to QTMB's banking platform and cost savings in corporate overhead and IT related costs. None of the goodwill recognised is expected to be deductible for tax purposes.

Accounting polices

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred, the liabilities incurred to former owners of the acquiree, and any equity issued by the group, plus the amount of any non-controlling interest in the acquiree. The non-controlling interest in the acquiree is measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Merger reserve

The excess of the fair value of assets acquired over the liabilities assumed is taken directly to member's funds as a merger reserve.

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.6 Group structure (continued)

6.6.3 CONTROLLED ENTITIES

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

	Interest held	
	2017	2016
	%	%
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	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[3]	100	100
QT Mutual Bank Limited	100	–
QT Financial Planning Pty Ltd	75	–
Arrow Funding Trust	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 provided in note 6.6.4.

3 10% of the shares in Club Finance Holdings are held by 67,261 legacy shareholders in QT Mutual Bank Limited.

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.6 Group structure (continued)

6.6.4 DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations Instrument 2016/191, RACQ Operations Pty Ltd is relieved from the *Corporations Act 2001* requirements for preparation, audit, and lodgement of a financial report, and a directors' report. A condition of the instrument is the Company and each of the subsidiaries noted in note 6.6.3 enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001.*

If a winding up occurs under other provisions of the *Corporations Act 2001*, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

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

Consolidated Income Statement for the year ended 30 June 2017	Consolidated parties to the Deed	
	2017	2016
	$'000	$'000
Revenue		
Revenue from assistance	154,147	149,176
Investment income	25,823	21,224
Fee and other income	242,015	205,678
Total Revenue	**421,985**	**376,078**
Expenses		
Employee benefits expense	(192,541)	(174,559)
Payments to contractors for assistance services	(58,293)	(55,008)
Communication and information technology expenses	(25,823)	(17,131)
Depreciation and amortisation expense	(52,296)	(48,422)
Property and related occupancy costs	(11,895)	(12,553)
Other expenses	(77,746)	(58,178)
Total expenses	**(418,594)**	**(365,851)**
Share of profit/(loss) of equity-accounted investments in Associates	606	(252)
Surplus before income tax	**3,997**	**9,975**
Income tax expense	(2,226)	(2,511)
Surplus for the year	**1,771**	**7,464**

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.6 Group structure (continued)

6.6.4 DEED OF CROSS GUARANTEE (CONTINUED)

Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ended 30 June 2017

	2017 $'000	2016 $'000
Surplus for the year	**1,771**	**7,464**
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gains	634	(1,216)
Income tax (expense)/benefit	(190)	365
Total items that will not be reclassified to profit or loss	**444**	**(851)**
Items that may be reclassified subsequently to profit or loss:		
Net change in fair value of financial assets held as available-for-sale	12,638	(2,622)
Net change in fair value of available-for-sale financial assets sold reclassified to profit or loss	(4,563)	(1,406)
Income tax (expense)/benefit	(2,422)	1,208
Total items that may be reclassified subsequently to profit or loss	**5,653**	**(2,820)**
Total other comprehensive income for the year, net of income tax	**6,097**	**(3,671)**
Total comprehensive income for the year	**7,868**	**3,793**

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.6 Group structure (continued)

6.6.4 DEED OF CROSS GUARANTEE (CONTINUED)

Consolidated Balance Sheet as at 30 June 2017

	Consolidated parties to the Deed	
	2017	2016
	$'000	$'000
Assets		
Cash and cash equivalents	12,234	30,051
Trade and other receivables	89,483	94,407
Investment securities	1,023,169	775,773
Property, plant and equipment	150,798	148,551
Deferred tax assets	20,964	21,888
Intangible assets	64,052	84,499
Other assets	14,224	24,753
Total assets	**1,374,924**	**1,179,922**
Liabilities		
Trade and other payables	56,128	40,673
Unearned revenue	75,498	71,408
Current tax payable	1,768	3,697
Employee benefits	31,627	28,575
Total liabilities	**165,021**	**144,353**
Net assets	**1,209,903**	**1,035,569**
Accumulated funds		
Retained surplus	1,030,258	1,028,043
Reserves	179,645	7,526
Total accumulated funds	**1,209,903**	**1,035,569**

6. Other notes (continued)

notes to the financial statements for the year ended 30 June 2017

6.7 Events subsequent to reporting date

In accordance with the court approved scheme of arrangement the QTMB brand will be removed and replaced with the RACQ brand. This change will occur across the end of September and early to mid-October 2017. All existing QTMB customers will be communicated with directly to advise of the changes. All necessary approvals with the various regulators for the name change have been granted. The carrying value of the QTMB brand as at 30 June 2017 is $153,211.

No matters or circumstances have arisen since the end of the financial year which have significantly affected the operations of the Group, the results of those operations or the state of affairs of the Group.

Directors' Declaration

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

(a) The consolidated financial statements and notes, set out on pages 30 to 102, 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 2017 and of its performance, for the financial year ended on that date; and
- (ii) Complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

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

(c) There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 6.6.3 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Corporations Instrument 2016/191.

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 Alexander, President and Chairman
Brisbane, 28 September 2017

KPMG

Independent Auditor's Report

To the members of The Royal Automobile Club of Queensland Limited

OPINION

We have audited the ***Financial Report*** of The Royal Automobile Club of Queensland Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises the:

- Consolidated Balance Sheet as at 30 June 2017
- Consolidated Income Statement, 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 then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

BASIS FOR OPINION

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

OTHER INFORMATION

Other Information is financial and non-financial information in The Royal Automobile Club of Queensland Limited's Annual Reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL REPORT

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*.
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report (continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: **http://www.auasb.gov.au/auditorsfiles/ar7.pdf**. This description forms part of our Auditor's Report.

KPMG

KPMG

Tracey Barker, Partner
Brisbane, 28 September 2017

KPMG

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 of The Royal Automobile Club of Queensland Limited for the financial year ended 30 June 2017 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Tracey Barker, Partner
Brisbane, 28 September 2017

Corporate Directory

Club Patron

- **His Excellency Mr Paul de Jersey AC Governor of Queensland**

President and Chairman

- **Nigel W F Alexander**
  BBus, MAppFin, FCPA, FAICD

Group Executive Team

- **Ian Gillespie, Group Chief Executive Officer**
  BA, Dip Laws(BAB), FCEOI, FAICD, FAIM
- **Gregory Booker, Chief Information Officer**
  MBA, MMgmnt, MAICD
- **Bradley Bowes, Group Company Secretary**
  PhD, FGIA, FCIS, MAICD
- **Darryn Hammond, Chief Risk Officer and General Counsel**
  BSci (Hons), LLB, .Dip Corp Gov, MQLS, FGIA, FCIS
- **Michael Lonergan, Group Chief Financial Officer**
  BBus, FCPA, Grad Dip App Fin
- **Mark Mugnaioni, Chief Strategy Officer**
  BBus(Mgt), LLB(Hons), LLM, GradDip(LegalPrac), GradCert(AppFin), FAICD, FAIM
- **John Myler, Chief Executive Officer, Insurance**
  BCom and Marketing, Grad. Dip. Insurance, Fellow ANZIIF, MAICD
- **Heidi Suominen, Chief People Officer**
  BBus (HR Mgt), Grad Dip Training and Development, GAICD
- **Steve Targett, Chief Executive Officer, Bank**
  MAIEx (Diploma), Series 3 US Futures, MAICD
- **Glenn Toms, Chief Executive Officer, Assistance**
  BBus, GDip Fin and Inv, FFin, FAIM, GAICD
- **Paul Turner, Chief Communication Officer**
  GAICD
- **Christopher Walsh, Chief Sales and Marketing Officer**
  BCom (Acc.), GAICD, FIML

Auditors

- **KPMG**
  Riparian Plaza Level 16,
  71 Eagle Street Brisbane QLD 4000

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ABN 72 009 660 575

STORES AND MAJOR AGENCIES

BRISBANE

- **Brookside—Brookside Shopping Centre**
  159 Osborne Road, Mitchelton
- **Browns Plains—Grand Plaza Shopping Centre**
  cnr Mt Lindesay Hwy and Browns Plains Road, Browns Plains
- **Brisbane City**
  103 Adelaide Street, Brisbane
- **Capalaba—Capalaba Park Shopping Centre**
  cnr Redland Bay and Mt Cotton Road, Capalaba
- **Carindale—Westfield Carindale Shopping Centre**
  1151 Creek Road, Carindale
- **Chermside—Westfield Chermside Shopping Centre**
  395 Hamilton Road, Chermside
- **Eight Mile Plains—RACQ Operations Centre**
  2649 Logan Road, Eight Mile Plains
- **Inala—Inala Plaza**
  156 Inala Avenue, Inala
- **Indooroopilly—Indooroopilly Shopping Centre**
  322 Moggill Road, Indooroopilly
- **North Lakes—Westfield North Lakes**
  Anzac Avenue and North Lakes Drive, North Lakes
- **Strathpine—Strathpine Shopping Centre**
  295 Gympie Road, Strathpine

OTHER AREAS

- **Beenleigh—Beenleigh Mall**
  Main Street, 249 Bourbong Street, Beenleigh
- **Cairns—Stockland Shopping Centre**
  537 Mulgrave Road, Earlville
- **Caloundra**
  104 Bulcock Street, Caloundra
- **Elanora—The Pines Shopping Centre**
  Guineas Creek Road, Elanora
- **Gladstone**
  50 Hanson Road, Gladstone
- **Gympie—Goldfields Plaza**
  71 Monkland Street, Gympie
- **Helensvale—Westfield Shopping Centre**
  1–29 Millaroo Drive, Helensvale
- **Hervey Bay—Stockland Shopping Centre**
  6 Central Avenue, Pialba
- **Ipswich—Riverlink Shopping Centre**
  cnr Pine Street and The Terrace, North Ipswich
- **Mackay—Caneland Central**
  cnr Victoria Street and Mangrove Road, Mackay
- **Maroochydore**
  25–33 Cornmeal Parade, Maroochydore
- **Morayfield—Morayfield Shopping Centre**
  165–175 Morayfield Road, Morayfield
- **Nambour—Nambour Plaza Shopping Centre**
  28 Ann Street, Nambour
- **Nerang—Centro Shopping Centre**
  57 Station Street, Nerang
- **Noosa—Noosa Civic**
  28 Eenie Creek Road, Noosaville
- **Redcliffe—Blue Water Square**
  cnr Anzac Avenue and Sutton Street, Redcliffe
- **Robina—Robina Town Centre**
  19 Robina Town Centre Drive, Robina
- **Rockhampton**
  Red Hill Homemaker Centre, Yaamba Road
- **Toowoomba—Clifford Gardens Shopping Centre**
  cnr James Street and Anzac Avenue, Toowoomba
- **Townsville**
  202 Ross River Road, Aitkenvale
- **Warwick—Rose City Shopping World**
  Palmerin Street, Warwick

RACQ BANK BRANCHES

- **Cairns—Cairns Central Shopping Centre**
  cnr McLeod Street and Spence Street, Cairns
- **Capalaba—Capalaba Park Shopping Centre**
  Redland Bay Road, Capalaba
- **Fortitude Valley**
  515 St Pauls Terrace, Fortitude Valley
- **Gold Coast—Southport Central Shopping Centre**
  56 Scarborough Street, Southport
- **Greenslopes—Greenslopes Shopping Centre**
  720 Logan Road, Greenslopes
- **Indooroopilly—Indooroopilly Shopping Centre**
  322 Moggill Road, Indooroopilly
- **North Lakes—Westfield North Lakes**
  Anzac Avenue and North Lakes Drive, North Lakes
- **Springfield—Springfield Town Centre**
  1 Main Street, Springfield Central
- **Springwood—Springwood Shopping Mall**
  cnr Rochedale Road and Fitzgerald Avenue, Springwood
- **Stafford—Stafford City Shopping Centre**
  400 Stafford Road, Stafford
- **Toowoomba—**Grand Central Shopping Centre
  cnr Margaret Street and Dent Street, Toowoomba
- **Townsville**
  130 Ross River Road, Mundingburra
- **Upper Mount Gravatt—**The Village
  1932 Logan Road, Upper Mount Gravatt