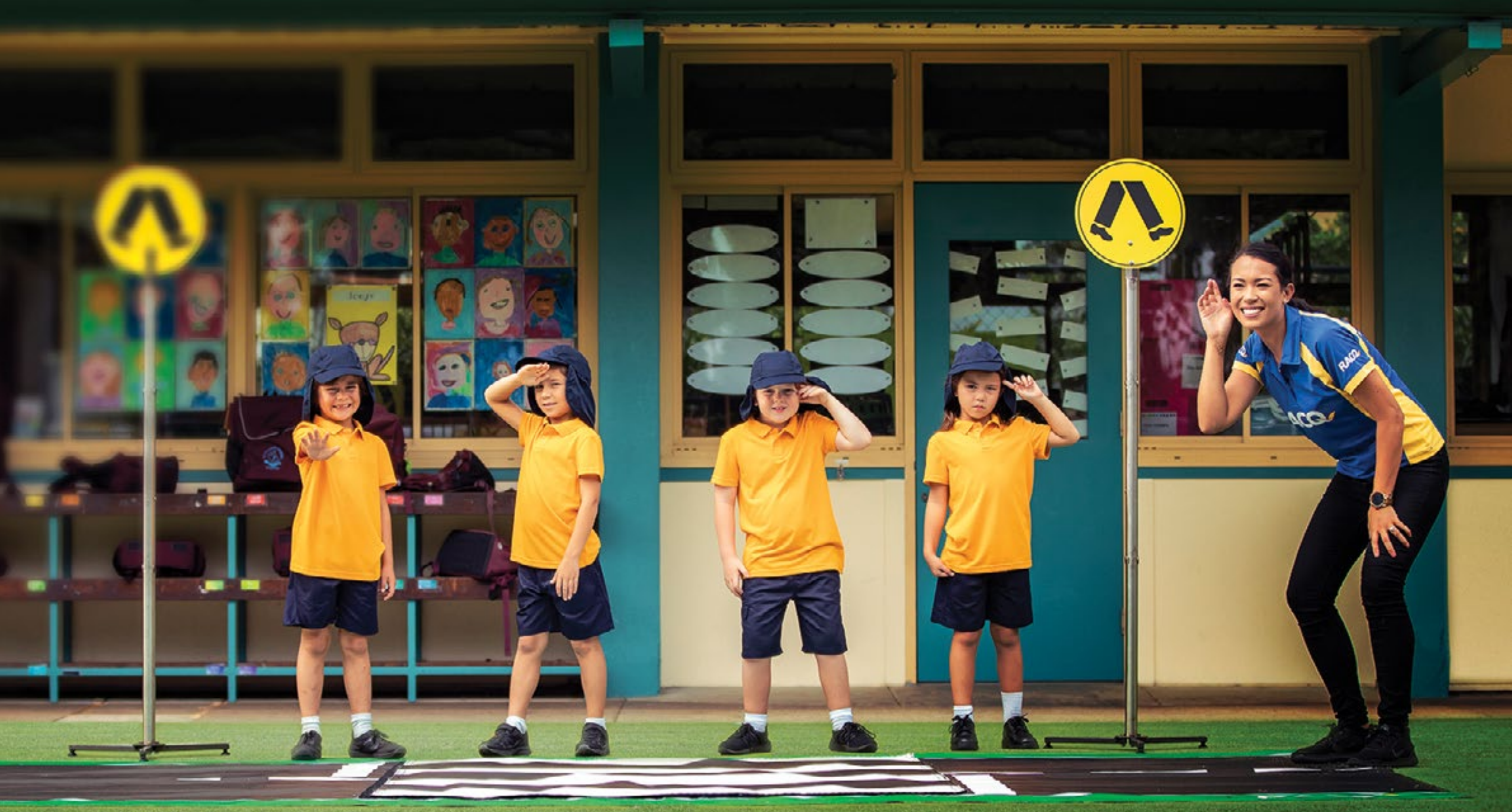
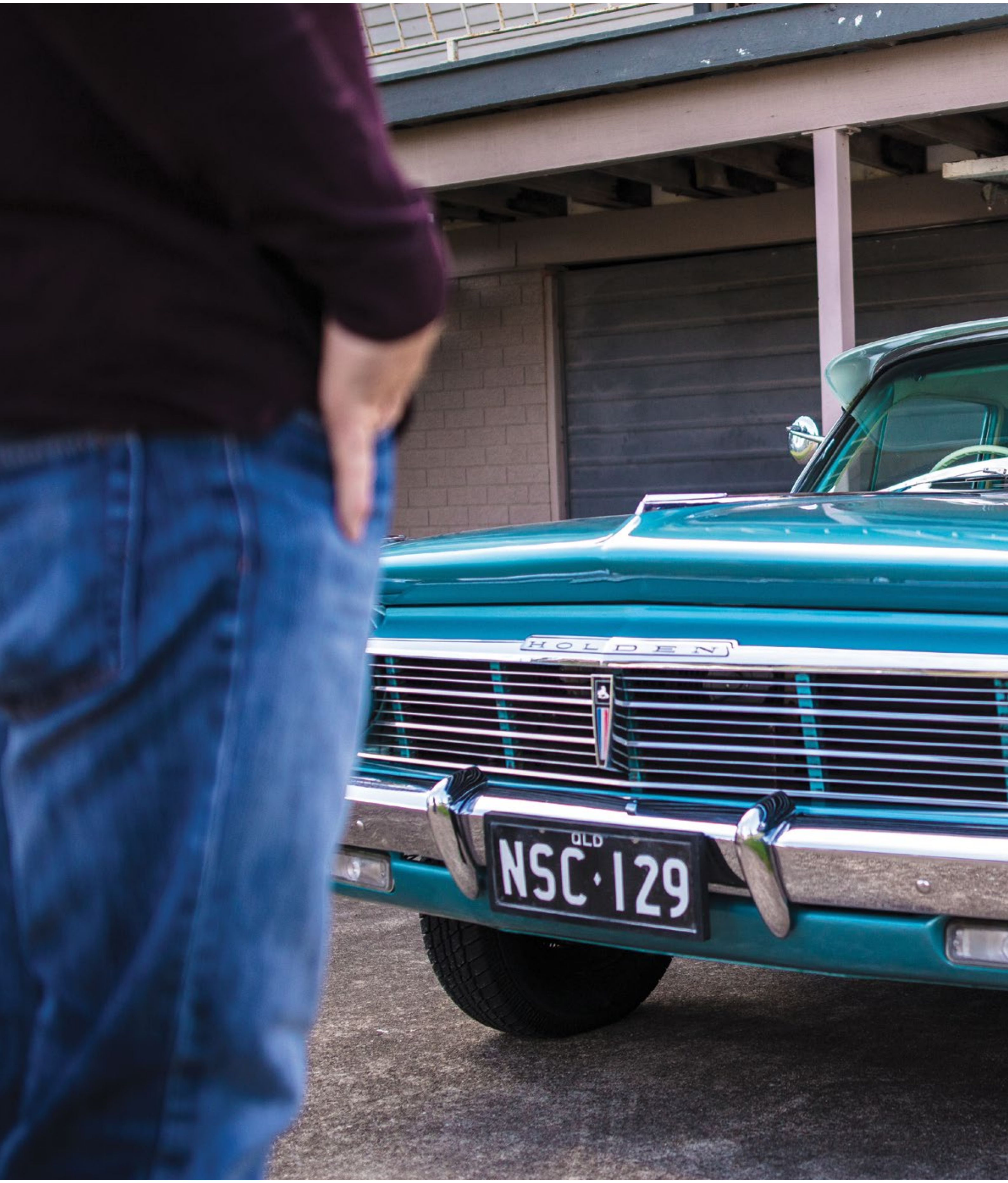


2019–20 ANNUAL STATUTORY REPORT

RACQ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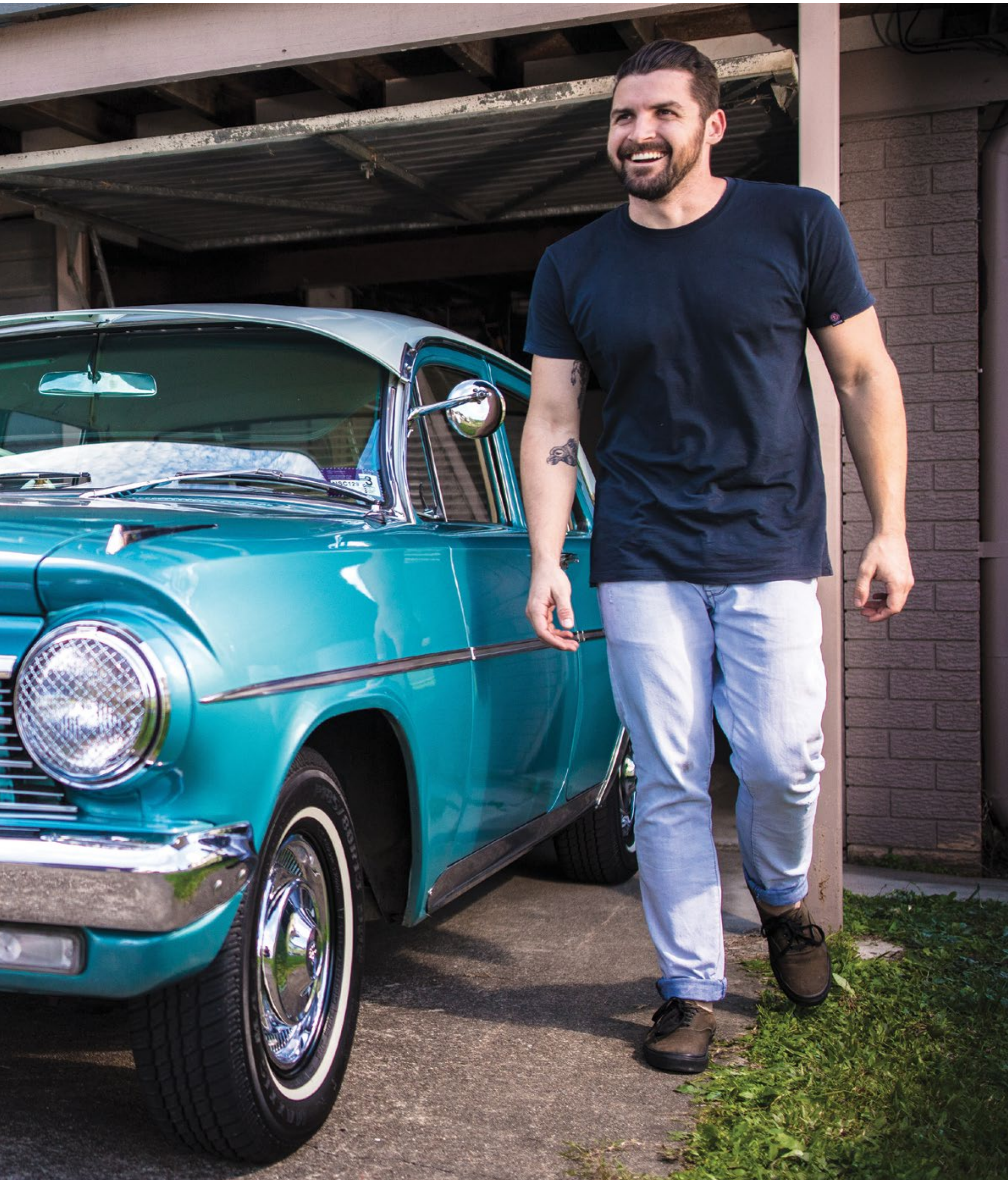


CONTENTS

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

RACQ 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 2020 and the auditor's report thereon.

DIRECTORS

The following persons were directors of RACQ at any time during, or since the end of, the financial year:

Bronwyn K Morris AM
(Chairman and President)

Elizabeth M Jameson AM
(Deputy Chairman and Vice President)

Annabel L Dolphin

Anthony M Gambling

John F Minz

Andrew Moore
(appointed 1 January 2020)

Leona M Murphy

Karl D Morris AO
(resigned 19 November 2019)

Further information on the current directors is contained in the RACQ Directors section on pages 8 to 10. This section also includes their qualifications, experience and particular responsibilities.

RACQ BOARD AND COMMITTEE MEETINGS

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

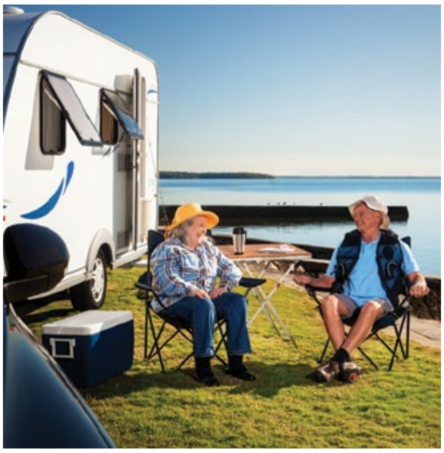
	RACQ Board*		Group Audit Committee		Group Capital and Investment Committee		Group Remuneration and Nomination Committee		Risk and Compliance Committee	
	A	H	A	H	A	H	A	H	A	H
Bronwyn Morris (Chairman and President)	15	15	-	-	-	-	5	5	-	-
Annabel Dolphin	14	15	-	-	-	-	3	5	4	4
Anthony Gambling	15	15	6	6	4	4	-	-	-	-
Elizabeth Jameson	15	15	6	6	-	-	-	-	4	4
John Minz	15	15	5	6	-	-	-	-	3	4
Andrew Moore (appointed 1 January 2020)	7	7	3	3	2	2	-	-	-	-
Leona Murphy	15	15	-	-	2	2	4	4	4	4
Karl Morris (resigned 19 November 2019)	6	8	-	-	2	2	1	3	-	-

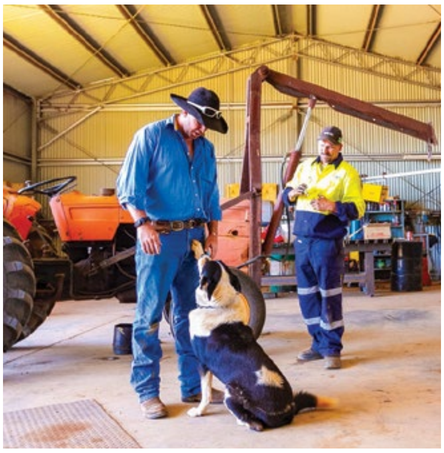
A – meetings attended during the financial year.
H – meetings held during the financial year while the director held office for which the director was eligible to attend.

*When RACQ mobilised and activated its crisis management and business continuity plans in response to the COVID-19 pandemic, the board received weekly and then fortnightly update sessions. Further, the chairman (B Morris) attended management's Crisis Management Team (CMT) meetings during the initial response and then recovery phases, for a period when closer oversight by, and input from, the board was necessary.

COMPANY SECRETARY

The name of the Company Secretary in office as at the end of the financial year is Bradley D Bowes. The qualifications and experience of the Company Secretary are set out on page 11.





IMPACT OF COVID-19 PANDEMIC

During the year, the COVID-19 pandemic had a significant and wide-reaching impact on society, with its effects being observed through economic disruption, volatility in financial markets and increases in unemployment and underemployment rates across Australia. In response, there has been considerable actions from governments, regulators, central banks and industry to mitigate its impact, including a range of stimulus measures and relief packages. RACQ received payroll tax relief offered by the Queensland Office of State Revenue for the months of January and February 2020, seeking a refund for these periods in accordance with guidelines. Further, RACQ holds an investment in Members Travel Group Pty Ltd and Ticketmates Australia Pty Ltd who have both accessed government relief as a result of the COVID-19 pandemic.

Although RACQ has experienced short term impacts resulting from the pandemic, there was no material variation to the Group's longer-term strategy. The board did, however, recognise the immediate uncertainty of the economic environment and responded by way of a 25% reduction in their remuneration for the final quarter of the financial year and a 50% reduction on any incentive entitlements accruing to the Group Executive in FY20. RACQ remains dedicated to supporting members and their communities through these challenging and unprecedented times whilst focusing on long term sustainability of the Group.

RACQ is monitoring motoring, lending and insurance portfolios closely as the situation continues to evolve and is committed to the safety and wellbeing of members and its people.

The 'RACQ Group Strategic Plan and Budget' details the strategy, priorities, targets and activities undertaken to deliver on its strategic objectives.

PRINCIPAL ACTIVITIES, STRATEGY AND OBJECTIVES

RACQ is a public company limited by guarantee, incorporated and domiciled in Australia. RACQ's strategy and objectives shaped the principal activities of RACQ throughout the year including the provision of motoring, insurance, assistance, banking, lifestyle and advocacy services. RACQ's purpose is to make a positive difference to the lives of our members now and into the future. It is underpinned by its vision, that by 2030, RACQ will be valued for its services by all Queenslanders. To achieve this RACQ focused on:

- Delivering to members an unmatched member experience in each of the key moments of trust across all of RACQ's core products and services;
- Continuing to actively drive and deliver a program to optimise the return which RACQ generates from its capital and assets across a balanced scorecard of member value, financial value and strategic value;
- Uplifting RACQ's single most important resource, its people, who deliver the member promise every day, across multiple dimensions, including skills and capability, culture and environment, leadership and empowerment, and employee experience.

The 'RACQ Group Strategic Plan and Budget' details the strategy, priorities, targets and activities undertaken to deliver on its strategic objectives.

RACQ monitored 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 were used to measure performance throughout the financial year.

RACQ will continue to focus on delivering genuine benefits to members and their communities, through a compelling value proposition, and by helping to build community resilience and positioning RACQ as an authority in the future of mobility. Enabling its people continues to be a core focus to deliver on its member promise and build capabilities that support greater sustainability for members and the organisation.

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 at a total contribution of $3,781,656 (2019: $3,728,138).

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration is set out on page 13 and forms part of the Directors' Report for the year ended 30 June 2020.

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 2020 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.

Bronwyn Morris

BRONWYN MORRIS AM
Chairman and President
28 September 2020

RACQ Directors

Information on the RACQ directors is set out below, including qualifications, experience and particular responsibilities.

Bronwyn K Morris AM (President and Chairman)

BCom, FCA, FAICD

Director – South East Zone, joined the board in 2008.

President and Group chairman, chairman of RACQ Insurance Limited and Club Insurance Holdings Pty Ltd, chairman of Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited and director of RACQ Operations Pty Ltd. Member of the Group Remuneration and Nomination Committee.

Ms Morris is a non-executive director with over 20 years' experience across a broad range of industries and entities including ASX-listed, private, government and not-for-profit. She currently serves as chair of Queensland Urban Utilities and is a director of Collins Food Limited and the Menzies Health Institute Queensland. Previously she specialised for more than 20 years as a chartered accountant in audit and corporate services within Australia and overseas. Ms Morris is the former Queensland Council president of the Australian Institute of Company Directors.

Elizabeth M Jameson AM (Vice President and Deputy Chairman)

LLB (Hons1), BA, FAICD, MQLS

Director – Non-Zonal (since 2018; South East Zone Director 2009-2018).

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

Ms Jameson is the 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, Ms Jameson 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 Queensland Theatre, director of John Villiers Trust, director of The Pinnacle Foundation and director of the Australian Major Performing Arts Group.

Annabel L Dolphin

BBus (Mgmt), Dip NSL, GAICD, CAHRI

Director – Northern Zone, joined the board in January 2019.

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

Ms Dolphin is an experienced non-executive director with over 20 years' specialising in strategic human resources, organisational design and culture change across a diverse range of sectors. She is currently chair of TAFE Queensland and director of Dolphin Ventures Pty Ltd where she sits on several independent advisory boards within the mining, construction, manufacturing and professional services sector. In addition, she is also a director of Cooney Investments Pty Ltd t/a Helloworld Travel Mackay and Mt Pleasant. Ms Dolphin is also a former director for Ergon Energy Pty Ltd, North Queensland Bulk Ports, Mater Health Services North Queensland and Mackay Hospital Foundation.

Anthony (Tony) M Gambling

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

Director – Central Zone, joined the board in 2005.

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

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

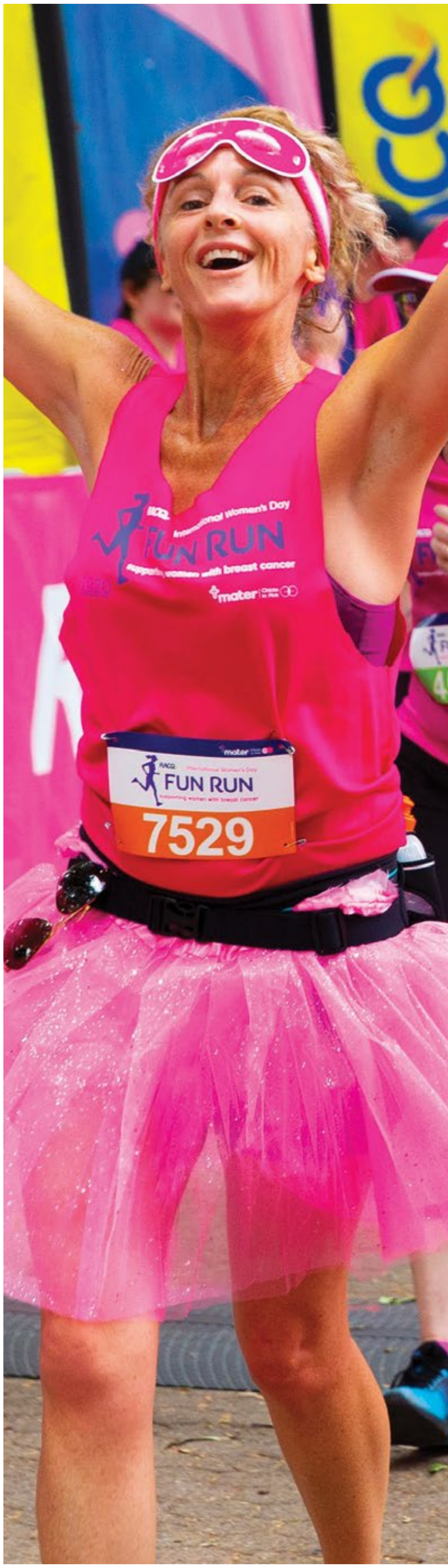
John F Minz

BCom, G.Dip Commercial Computing, Senior F FIN, FAIM, FAICD

Director – South West Zone, joined the board in 2016.

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

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



Andrew G Moore

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

Group Non-Executive Director – Non-Zonal, joined the board in January, 2020.

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

Mr Moore is an experienced senior executive with over 25 years extensive experience in the financial and professional services industries, both in Australia and Europe with previous executive roles including Managing Director of GE Capital Home Lending (Aust&NZ) and General Manager of St.George Retail Bank.

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

Leona C Murphy

BCom, GAICD

Director – Non-Zonal, joined the board in 2018.

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

Ms Murphy is an experienced senior executive with 24 years' experience in insurance and financial services. She has had C-Suite roles in top 20 ASX listed insurance organisations for 10 years, most recently as chief strategy officer at IAG.

She is the chairman of Stone & Chalk, chair of the Royal Brisbane & Women's Hospital Foundation, and a director of Liberty Financial Limited. Ms Murphy has been co-chair of the United Nation Environment's Principles for Sustainable Insurance Initiative and was recognised as one of Australia's Top 100 Women of Influence in the 2015 Australian Financial Review and Westpac Awards for her work in Global Resilience.

Group Chief Executive Officer

David Carter

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

Commenced as Group Chief Executive of RACQ in 2020. Mr Carter is also a director of Australian Automobile Association, Australian Motoring Services Pty Ltd (and its four subsidiaries), the Business Council of Co-operatives and Mutuals, RACQ Financial Planning Pty Ltd and RACQ Foundation Pty Ltd. He also serves as a director of the Queensland Ballet and Netball Queensland and is a Fellow of CPA Australia, and a Fellow of FINSIA.

Mr Carter joined RACQ in March 2020 from Suncorp where he was the senior executive accountable for the activities of an APRA regulated Bank and an APRA regulated Superannuation entity. He has previously fulfilled the role of Managing Director and CEO of a prudentially regulated Life Insurance company in New Zealand and held the role of director of Australian Financial Services Licence (AFSL) entities in Australia. Additionally, Mr Carter has served as a member of, or Chair of, relevant executive and non-executive Investment, Balance Sheet, risk and conduct committees for nearly 20 years.

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

Group Company Secretary

Bradley D Bowes

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

Mr Bowes is a member of the RACQ Group Executive. As Group Company Secretary, he also has particular responsibilities as company secretary for all the legal entities within the RACQ Group and heads the Group Secretariat with responsibility for group-wide corporate governance matters, including managing all matters associated with the efficient and effective operation of the various boards and committees and of each annual general meeting. Mr Bowes is a chartered company secretary and governance professional with more than 20 years' experience in senior management and similar governance roles in both private enterprise and the public sector across a range of industries.

Former Director

Karl D Morris AO

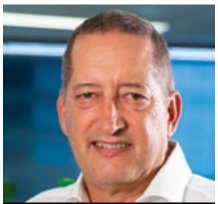
BCom, MSAA, FAICD, F FIN

Director – South East Zone, joined the board in 2010, resigned November 2019. Director of RACQ, Members Banking Group Limited (RACQ Bank), Club Finance Holdings Limited, RACQ Insurance Limited and Club Insurance Holdings Pty Ltd.

Group executive team


David Carter


Michelle Bagnall


Gregory Booker

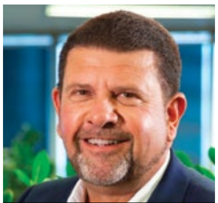

Bradley Bowes

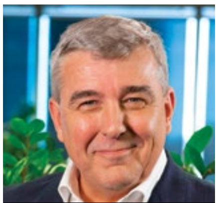

Darryn Hammond


Michael Lonergan


Tracy Green


Heidi Suominen


Glenn Toms


Paul Turner

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

Group Chief Executive Officer
– David Carter
BCom, FCPA, F FIN, G.Dip Fin Planning, G.Dip App Fin and Inv, GAICD

Group Executive Bank
– Michelle Bagnall
BBus, MBA, F FIN, GAICD

Chief Information Officer
– Gregory Booker
MBA, MMgmnt, MAICD

Group Company Secretary
– Bradley Bowes
Phd, MBA, MCommLaw, BBus (Acctg), FGIA, FCIS, MAICD

Chief Risk Officer and General Counsel
– Darryn Hammond
BSci (Hons), LLB, G.Dip Corp Gov, MQLS, FGIA, FCIS

Group Chief Financial Officer
– Michael Lonergan
BBus, FCPA, G.Dip App Fin

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

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

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

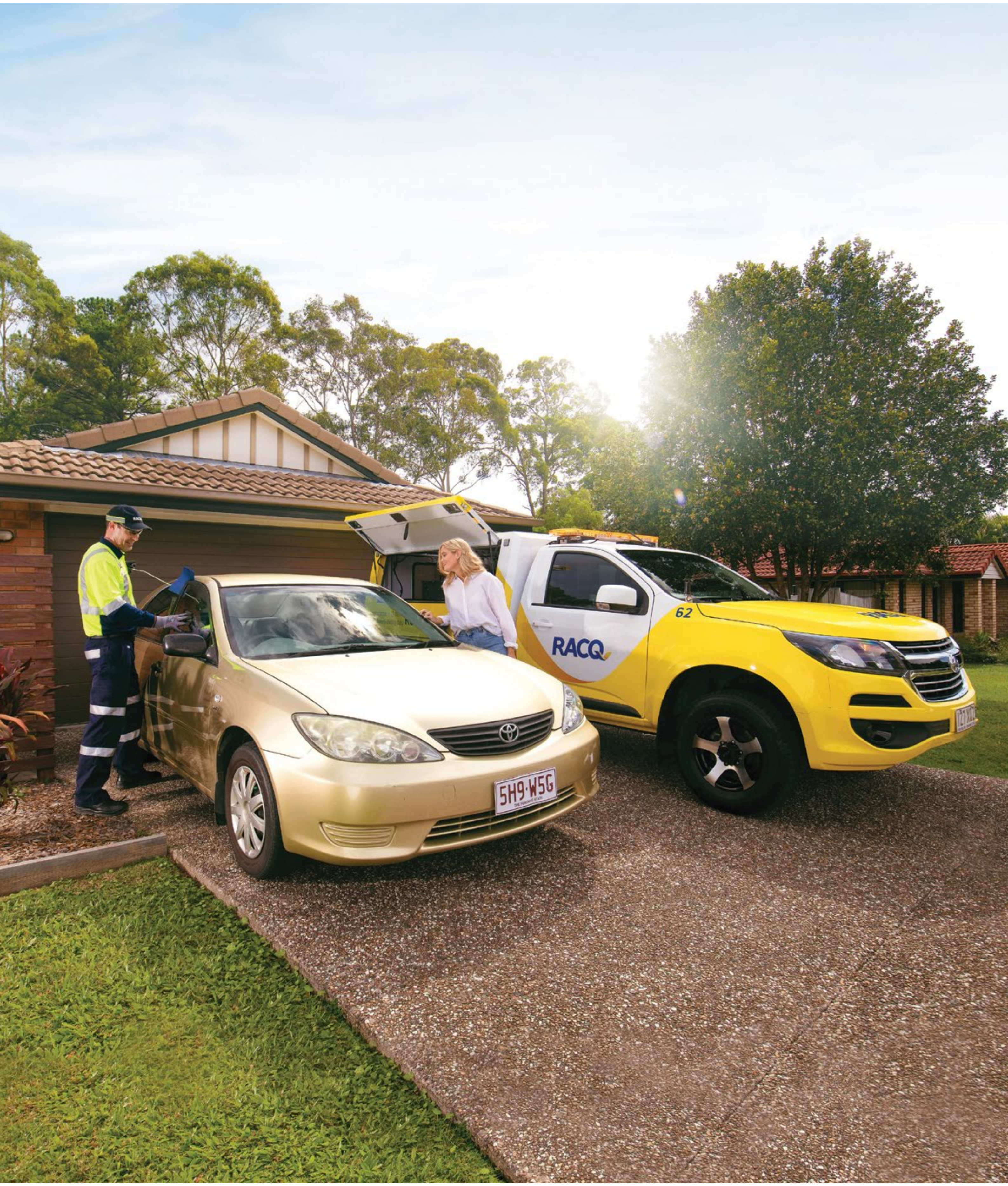
Chief Communication Officer
– Paul Turner
GAICD

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

Former Group Executives

Group Chief Executive Officer
– Ian Gillespie AM
(resigned 31 December 2019)
BA, Dip Laws(BAB), FCEOI, FAICD, FAIM

Chief Sales and Marketing Officer
– Christopher Walsh
(resigned 31 July 2020)
BCom (Acc), GAICD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Fax: +61 7 3011 3100
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Auditor's Independence Declaration to the Directors of The Royal Automobile Club of Queensland Limited

As lead auditor for the audit of The Royal Automobile Club of Queensland Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Alison de Groot
Partner
28 September 2020

Consolidated Income Statement for the year ended 30 June 2020

		RACQ Group	
		2020	2019 (*Restated)
	Note	$'000	$'000
Revenue			
Insurance premium revenue	2.1	968,692	890,071
Revenue from contracts with customers	6.1.1	244,249	246,493
Banking interest income on loans and advances	3.1	69,732	72,338
Reinsurance and other recoveries revenue	2.1	156,218	178,115
Investment income	4.1	38,784	74,972
Total revenue		**1,477,675**	**1,461,989**
Expenses			
Insurance claims expense	2.1	(863,589)	(847,706)
Employee benefits expense	5.3.1	(180,728)	(175,511)
Outwards reinsurance premium expense	2.1	(80,616)	(74,514)
Payments to contractors for assistance services		(77,514)	(78,980)
Banking interest expense	3.1	(29,229)	(33,122)
Communication and information technology expenses		(60,866)	(48,479)
Other underwriting and acquisition costs		(20,442)	(36,131)
Depreciation and amortisation expense		(47,567)	(43,369)
Property and related occupancy costs		(7,753)	(13,448)
Other expenses	6.2	(72,938)	(64,846)
Financial planning remediation	6.3	(5,500)	(5,000)
Restructuring provision		(5,000)	-
Impairment loss on net loans and advances		(1,912)	(184)
Total expenses		**(1,453,654)**	**(1,421,290)**
Share of profit of equity-accounted investments in associates and joint venture		285	1,908
Gain on acquisition of controlling interest		-	1,500
Gain on disposal of business assets		775	-
Gain on sale of property, plant and equipment		-	1,452
Impairment of joint venture	6.8.1	(2,582)	-
Surplus before income tax		**22,499**	**45,559**
Income tax expense	5.5.1	(9,562)	(12,093)
Surplus for the year		**12,937**	**33,466**
Surplus attributable to:			
Non-controlling interest		(478)	(96)
Members		13,415	33,562
Surplus for the year		**12,937**	**33,466**

** Refer to Note 1 for details of restatement*

The Consolidated Income Statement is to be read in conjunction with the Notes to the Financial Statements set out on pages 19 to 77.

Consolidated Statement of Comprehensive Income for the year ended 30 June 2020

		RACQ Group	
		2020	2019
	Note	$'000	$'000
Surplus for the year		**12,937**	**33,466**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial losses		(293)	(274)
Net change in fair value of financial assets designated at fair value through OCI		(8,436)	2,305
Net change in fair value of OCI financial assets sold		1,328	4,572
Income tax expense		2,220	(1,980)
Total items that will not be reclassified to profit or loss		**(5,181)**	**4,623**
Total other comprehensive income for the year, net of income tax		**(5,181)**	**4,623**
Total comprehensive income for the year		**7,756**	**38,089**
Total comprehensive income attributable to:			
Non-controlling interest		(478)	(96)
Members		8,234	38,185
Total comprehensive income for the year		**7,756**	**38,089**

** Refer to Note 1 for details of restatement.*

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 19 to 77.

Consolidated Balance Sheet as at 30 June 2020

		RACQ Group	
		2020	2019 (*Restated)
	Note	$'000	$'000
Assets			
Cash and cash equivalents		128,897	49,754
Trade and other receivables	4.4.2	264,596	259,961
Current tax receivable		1,479	9,010
Deferred acquisition costs	2.5	39,284	31,974
Loans and advances	3.2	1,973,884	1,746,951
Financial assets	4.2	2,317,990	2,193,619
Reinsurance and other recoveries receivable	2.4	200,334	197,166
Other assets		28,053	26,043
Right of use assets	6.5	10,152	-
Property, plant and equipment	5.1	157,960	152,509
Deferred tax assets	5.5.3	53,384	38,676
Intangible assets	5.2	309,643	316,479
Total assets		**5,485,656**	**5,022,142**
Liabilities			
Trade and other payables		93,711	73,625
Restructure provision		5,000	-
Financial planning remediation provision		644	5,037
Deposits	3.4	2,099,124	1,791,379
Unearned insurance premium	2.7	500,212	457,631
Contract liability	6.1.2	85,779	83,653
Lease liability	6.5	10,259	-
Borrowings	3.5	150,166	156,481
Outstanding claims liability	2.3	1,045,209	966,315
Employee benefits	5.3.2	46,194	46,065
Total liabilities		**4,036,298**	**3,580,186**
Net assets		**1,449,358**	**1,441,956**
Accumulated funds			
Retained surplus		1,420,583	1,407,198
Reserves		29,346	34,851
Total accumulated funds attributable to members		**1,449,929**	**1,442,049**
Non-controlling interest		(571)	(93)
Total accumulated funds		**1,449,358**	**1,441,956**

** Refer to Note 1 for details of restatement*

The Consolidated Balance Sheet is to be read in conjunction with the Notes to the Financial Statements set out on pages 19 to 77.

Consolidated Statement of Changes in Accumulated Funds for the year ended 30 June 2020

2020	Retained surplus	Reserve for credit losses	Investment revaluation reserve	Merger reserve	Accumulated funds attributable to members	Non-controlling interest	Total accumulated funds
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at beginning of year as originally presented	**1,407,198**	**3,000**	**13,222**	**18,629**	**1,442,049**	**(93)**	**1,441,956**
Effect of adoption of AASB16 *Leases* (note 6.9.1)	(354)	-	-	-	(354)	-	(354)
Balance at beginning of year restated	**1,406,844**	**3,000**	**13,222**	**18,629**	**1,441,695**	**(93)**	**1,441,602**
Surplus for the year	13,415	-	-	-	13,415	(478)	12,937
Other comprehensive income/(loss) for the year	724	-	(5,905)	-	(5,181)	-	(5,181)
Total comprehensive income/(loss) for the year	**14,139**	**-**	**(5,905)**	**-**	**8,234**	**(478)**	**7,756**
Transfers							
Transfers to general reserve for credit losses	(400)	400	-	-	-	-	-
Total transfers	**(400)**	**400**	**-**	**-**	**-**	**-**	**-**
Balance at end of year	**1,420,583**	**3,400**	**7,317**	**18,629**	**1,449,929**	**(571)**	**1,449,358**

2019	Retained surplus	Reserve for credit losses	Investment revaluation reserve	Merger reserve	Accumulated funds attributable to members	Non-controlling interest	Total accumulated funds
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at beginning of year	**1,366,056**	**2,500**	**17,688**	**18,629**	**1,404,873**	**-**	**1,404,873**
Effect of adoption of AASB9 *Financial Instruments*	5,071		(6,080)	-	(1,009)	-	(1,009)
Surplus for the year	33,562	-	-	-	33,562	(96)	33,466
Other comprehensive income for the year	3,009	-	1,614	-	4,623	-	4,623
Total comprehensive income for the year	**41,642**	**-**	**(4,466)**	**-**	**37,176**	**(96)**	**37,080**
Transfers							
Transfers to general reserve for credit losses	(500)	500	-	-	-	-	-
Total transfers	**(500)**	**500**	**-**	**-**	**-**	**-**	**-**
Transactions with owners in their capacity as owners							
Purchase of controlling interest	-	-	-	-	-	3	3
Total Transactions with owners in their capacity as owners	**-**	**-**	**-**	**-**	**-**	**3**	**3**
Balance at end of year	**1,407,198**	**3,000**	**13,222**	**18,629**	**1,442,049**	**(93)**	**1,441,956**

The Consolidated Statement of Changes in Accumulated funds is to be read in conjunction with the Notes to the Financial Statements set out on pages 19 to 77.

Consolidated Statement of Cash Flows for the year ended 30 June 2020

		RACQ Group	
		2020	2019
	Note	$'000	$'000
Cash flows from operating activities			
Insurance premiums received		1,098,937	982,829
Revenue from contracts with customers		248,365	257,010
Interest received from loans and advances		67,821	72,155
Reinsurance and other recoveries received		168,301	124,715
Insurance claims paid		(867,359)	(805,638)
Outwards reinsurance premiums paid		(80,947)	(76,572)
Banking Interest paid		(29,605)	(33,021)
Payments to suppliers and employees		(438,905)	(459,141)
Net movement in loans and advances		(226,933)	(270,581)
Net movement in deposits		307,745	318,813
Income taxes paid		(16,512)	(31,804)
Net cash provided by operating activities	**6.4.1**	**230,908**	**78,765**
Cash flows from investing activities			
Investment income received		57,875	56,798
Dividend income received		4,393	6,250
Rental income received		3,025	3,181
Proceeds from sale of investments		1,824,885	1,856,704
Payments for financial assets		(1,977,117)	(2,014,005)
Payments for intangible assets		(28,629)	(26,847)
Payments for property, plant and equipment		(17,719)	(15,487)
Proceeds from sale of property, plant and equipment		1,250	2,270
Acquisition of subsidiary, net of cash acquired		-	344
Acquisition of assets through a business combination		(9,089)	-
Net cash flows from investing activities		**(141,126)**	**(130,792)**
Cash flows from financing activities			
Payments for redeemed preference shares		(11)	(16)
Payments of principal lease payments		(4,689)	-
Proceeds from borrowings	3.5	90,000	60,000
Repayments of borrowings	3.5	(95,939)	618
Net cash flows from financing activities		**(10,639)**	**60,602**
Net increase in cash and cash equivalents		79,143	8,575
Cash and cash equivalents at the beginning of the year		49,754	41,179
Cash and cash equivalents at the end of the year		**128,897**	**49,754**

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 19 to 77.

1. Basis of Preparation

Reporting entity

The Royal Automobile Club of Queensland Limited (the Company) is a company limited by guarantee domiciled and incorporated in Australia. The Company's registered office is 2649 Logan Road, Eight Mile Plains, Queensland, 4113. The consolidated financial statements of the Company as at and for the year ended 30 June 2020 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Company is a 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 2020.

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. Certain comparative amounts have been restated to conform to the current year's presentation including reclassification of $10,306,175 from employee benefits expense, $11,621,857 from other expenses and $20,019,921 from communication and information technology expenses totalling $41,947,953 reclassified to insurance claims expense. $5,037,000 has also been reclassified from trade and other payables to financial planning remediation provision in the comparative amounts. In the banking result, $1,716,000 has been reclassified to depreciation and amortisation and $5,000,000 reclassified to financial planning and remediation expense totalling $6,716,000 from other expenses.

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) issued by the International Accounting Standards Board.

Significant estimates, judgements and assumptions

In preparing these consolidated financial statements as indicated in these notes management has in some instances 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 COVID-19 outbreak was declared a pandemic by the World Health Organisation in March 2020. The outbreak and the varied responses of the Governments in dealing with this pandemic, is impacting general activity levels within the community, the economy and to an extent the operations of our business. For the period to 30 June 2020 there has been no significant impact on operations, cash flow and financial condition. Refer to Note 2.3 and 3.2 for further details of COVID-19 impacts.

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

The ongoing COVID-19 pandemic has increased the uncertainty in estimates used in the preparation of the Group's financial statements. Given the unique nature of the COVID-19 environment, the usual approach of employing historical patterns to estimate future cashflows may not be appropriate. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

- Outstanding claims liability (Note 2.3)
- Reinsurance and other recoveries receivable (Note 2.4)
- Liability adequacy test (Note 2.6)
- Expected credit loss (ECL) on loans and advances (Note 3.3)
- Fair value of financial instruments (Note 4.3)
- Impairment of goodwill and other intangible assets (Note 5.2.1)
- Provisions and contingent liabilities (Note 6.3)
- Income tax (Note 5.5)
- Leases (Note 6.5)

Basis of measurement

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

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

The Company is of a kind referred to in ASIC Corporations 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 Income Statement, Consolidated Statement of 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.

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 17	Insurance Contracts	AASB 17 was issued in July 2017. The standard replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. On initial recognition, a group of insurance contracts will be measured based on the fulfilment cashflows (present value of estimated future cash flows with a provision for risk) and the contract service margin ("CSM", the unearned profit that will be recognised over the cover period). Subsequent to initial recognition, the liability for the group of insurance contracts comprises the liability for the remaining coverage (fulfilment cash flows and CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses already incurred but not yet paid). This new standard is currently effective for annual reporting periods beginning on or after 1 January 2023.	The potential impact of this standard on the Group has not yet been determined. The Group does not intend to early adopt this standard.	1 January 2023	1 July 2023

2. Insurance Activities

2.1 INSURANCE RESULT

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

		RACQ Group	
		2020	2019 (*Restated)
	Note	$'000	$'000
Insurance premium revenue		968,692	890,071
Outwards reinsurance premium expense		(80,616)	(74,514)
Net premium revenue		**888,076**	**815,557**
Insurance claims expense	2.2	(863,589)	(847,706)
Reinsurance and other recoveries revenue	2.2	156,218	178,115
Net claims incurred	**2.2**	**(707,371)**	**(669,591)**
Acquisition costs		(73,087)	(84,082)
Other underwriting expenses		(42,362)	(37,421)
Underwriting expenses		**(115,449)**	**(121,503)**
Underwriting result		**65,256**	**24,463**
Investment income on technical reserves		25,838	43,065
Investment expenses on technical reserves		(1,266)	(1,468)
Insurance result		**89,828**	**66,060**

Accounting policies

(i) Insurance premium revenue

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

(ii) Outwards reinsurance premium expense

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of gross written premium received.

(iii) Insurance claims expense

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

(iv) Reinsurance and other recoveries revenue

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

(iv) Underwriting expenses

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

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:

	2020			2019		
	Current year	Prior years	Total	Current year (*Restated)	Prior years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross claims expense						
Gross claims incurred – undiscounted	925,154	(71,177)	**853,977**	920,155	(92,831)	**827,324**
Discount movement	(2,463)	12,075	**9,612**	(7,050)	27,432	**20,382**
	922,691	**(59,102)**	**863,589**	**913,105**	**(65,399)**	**847,706**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	(155,507)	583	**(154,924)**	(162,863)	(13,545)	**(176,408)**
Discount movement	184	(1,478)	**(1,294)**	1,393	(3,100)	**(1,707)**
	(155,323)	**(895)**	**(156,218)**	**(161,470)**	**(16,645)**	**(178,115)**
Total net claims incurred	**767,368**	**(59,997)**	**707,371**	**751,635**	**(82,044)**	**669,591**

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. Adverse movements in discount rates led to unfavourable discounting movements for prior years.

2.3 OUTSTANDING CLAIMS LIABILITY

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

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

COVID-19 impacts have been experienced in, and are expected to continue to impact on the reporting pattern of claims and inflationary pressures on claim settlement costs. These include additional costs arising from managing claim repairs and replacements with isolation measures in place and greater volatility in claim volumes and hardship considerations affecting excess recoveries from claimants and recoveries from uninsured third parties at fault in motor accidents involving the Company's insured members. The impact of COVID-19 on claims experience is expected to materially differ between classes of business and, for certain classes, potentially impact across more than one accident year. The motor portfolio has been impacted through favourable claim frequency as a result of mobility restrictions introduced in March 2020 to slow the spread of COVID-19. In respect of other classes of business, where the effect of COVID-19 on insurance liabilities is quantifiable and reflected in the data, the impact has been appropriately captured within the outstanding claims liability.

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

	RACQ Group	
	2020	2019
	$'000	$'000
Gross outstanding claims liability		
Gross central estimate - undiscounted	838,527	784,348
Claims handling expense	54,975	50,662
	893,502	835,010
Discount to present value	(5,903)	(15,905)
Risk margin	157,610	147,210
Gross outstanding claims liability	**1,045,209**	**966,315**
Current	466,055	419,469
Non-current	579,154	546,846
Gross outstanding claims liability	**1,045,209**	**966,315**
	%	%
Risk margin	**22.5**	**22.9**
Probability of sufficiency	**92.5**	**92.5**

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

	RACQ Group	
	2020	2019
Net outstanding claims liability at the beginning of the year	769,149	746,481
Prior periods		
Claim payments	(226,449)	(218,620)
Discount unwind	5,647	10,795
Margin release on prior periods	(45,391)	(43,071)
Incurred claims due to changes in assumptions and experience	(52,369)	(60,313)
Current period		
Net central estimate for current period	319,081	291,541
Net change in reinsurance on paid claims	8,667	(20,138)
Risk margin on current period net outstanding claims	66,540	62,474
Net outstanding claims liability at the end of the year	**844,875**	**769,149**
Reinsurance and other recoveries receivable	200,334	197,166
Gross outstanding claims liability	**1,045,209**	**966,315**

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

	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000
2020	1,045,209	466,055	504,099	75,055	**1,045,209**
2019	966,315	419,469	471,223	75,623	**966,315**

2.3.1 CLAIMS DEVELOPMENT TABLE

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

Accident year	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Total $'000
Estimate of net ultimate CTP claims cost:											
At end of accident year	142,357	151,096	155,581	169,902	155,377	171,782	181,531	187,866	198,160	206,124	206,124
One year later	128,012	126,160	139,449	147,050	146,065	160,153	171,963	166,018	173,163	-	173,163
Two years later	110,494	109,153	118,280	140,057	133,714	140,977	148,477	151,702	-	-	151,702
Three years later	99,573	102,062	98,069	124,223	116,999	121,339	144,195	-	-	-	144,195
Four years later	91,412	96,824	93,543	115,717	107,205	110,319	-	-	-	-	110,319
Five years later	89,111	93,601	92,855	102,421	107,060	-	-	-	-	-	107,060
Six years later	88,520	95,287	85,459	100,067	-	-	-	-	-	-	100,067
Seven years later	86,977	79,899	85,265	-	-	-	-	-	-	-	85,265
Eight years later	79,153	78,883	-	-	-	-	-	-	-	-	78,883
Nine years later	78,981	-	-	-	-	-	-	-	-	-	78,981
Current estimate of net ultimate claims cost	78,981	78,883	85,265	100,067	107,060	110,319	144,195	151,702	173,163	206,124	1,235,759
Cumulative payments	(77,767)	(76,060)	(80,690)	(93,878)	(90,927)	(88,868)	(80,469)	(71,509)	(34,385)	(3,094)	(697,647)
Net outstanding claims - undiscounted	**1,214**	**2,823**	**4,575**	**6,189**	**16,133**	**21,451**	**63,726**	**80,193**	**138,778**	**203,030**	**538,112**
Discount to present value											(4,246)
Claims handling expenses											44,952
2010 and prior											8,412
Outstanding claims - CTP											**587,230**
Outstanding claims - Personal Insurance											100,035
Risk margin											157,610
Total net outstanding claims											**844,875**

2.3.2. ACTUARIAL ASSUMPTIONS AND METHODS

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

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

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

Actuarial assumptions

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

	2020		2019	
	Personal Insurance	CTP Insurance	Personal Insurance	CTP Insurance
Discount rate	0.3%	0.4%	1.1%	1.0%
Economic inflation rate	-	1.5%	-	3.0%
Superimposed inflation rate	-	2.0%	-	2.5%
Claims handling expense ratio	4.5%	7.4%	4.8%	7.4%
Risk margin	15.3%-16.3%	24.2%	14.3%-15.3%	24.2%
Duration in years	0.57	2.19	0.63	2.44

Discount rate

Discount rates are derived from market yields on Commonwealth Government securities at the reporting date. These have fallen across all terms during the current year.

Economic inflation and superimposed inflation rate

Economic inflation is based on economic indicators such as growth in average weekly earnings. As a result of the economic recession caused by the COVID-19 environment, the prospective view of the economic inflation rate has been reduced. Superimposed inflation reflects the tendency of claims costs to increase above the rate of economic inflation, due to economic, social and political forces. For CTP Insurance, superimposed inflation was decreased to 2.0% in 2020 (2019: 2.5%) following recognition of past experience and a future expectation of reduced inflation.

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

Claims handling expense ratio

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

Risk margin

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

Risk margin reserves are set to allow for diversification across products to arrive at an overall provision which is intended to have a probability of sufficiency of 92.5% (2019: 92.5%).

Duration

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

Sensitivity analysis – insurance contracts

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

Impact of changes in key variables	Movement in Variable		Financial Impact on Surplus/(Loss) after tax	
	2020	2019	2020 $'000	2019 $'000
Assumption				
Discount rate	+1%	+1%	11,216	11,267
	-1%	-1%	(11,779)	(11,817)
Inflation rate	+1%	+1%	(10,092)	(9,896)
	-1%	-1%	9,836	9,640
Claims handling expense rate	+1%	+1%	(6,362)	(5,761)
	-1%	-1%	6,362	5,761
Risk margin	+1%	+1%	(6,647)	(6,242)
	-1%	-1%	5,997	5,630

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.

The impact of COVID-19 on the recoverability of receivables from reinsurance and non-reinsurance contracts have been considered. While the methodologies and assumptions applied in the base expected credit loss (ECL) calculations remained unchanged from those applied in the prior financial year, the Group has incorporated estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic. Whilst no material recoverability issues have been identified, there is a risk that the economic impacts of COVID-19 could be deeper or more prolonged than anticipated, which could result in higher credit losses than those modelled under the base case.

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

	RACQ Group	
	2020	2019
	$'000	$'000
Reinsurance recoveries		
Expected undiscounted outstanding reinsurance recoveries		
On paid claims	13,467	22,105
On outstanding claims	80,813	70,743
	94,280	**92,848**
Discount to present value	(307)	(801)
	93,973	**92,047**
Other recoveries		
Expected undiscounted outstanding other recoveries		
On paid claims	67,879	68,735
On outstanding claims	39,022	38,366
	106,901	**107,101**
Discount to present value	(540)	(1,982)
	106,361	**105,119**
Total reinsurance and other recoveries receivable	**200,334**	**197,166**
Current	150,035	162,715
Non-current	50,299	34,451
Total reinsurance and other recoveries receivable	**200,334**	**197,166**

2.5 DEFERRED ACQUISITION COSTS

Acquisition costs incurred in obtaining and recording general insurance contracts are deferred and recognised as assets when they can be reliably measured and where it is probable that they will give rise to premium revenue in subsequent reporting periods. Deferred acquisition costs are recognised as assets to the extent that the related unearned premiums exceed the sum of the deferred acquisition cost and the present value of expected future claims, including an appropriate risk margin. Refer note 2.6 regarding Liability Adequacy Test.

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

An impairment review is performed as part of the liability adequacy test for each reporting period. Deferred acquisition costs are derecognised when the related contracts are either settled or disposed of.

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

The following is a reconciliation of the deferred acquisition costs:

	RACQ Group	
	2020	2019
	$'000	$'000
Deferred acquisition costs at beginning of the year	31,974	38,806
Acquisition costs incurred in the period	82,244	78,844
Amortisation expense	(73,087)	(77,374)
Write down for premium deficiency (refer to Note 2.6)	(1,847)	(8,302)
Deferred acquisition costs at end of the financial year	**39,284**	**31,974**

2.6 LIABILITY ADEQUACY TEST

The LAT is completed at each reporting date and assesses the adequacy of the carrying amount of the net unearned premium liability to settle future claims. To determine if any deficiency exists, estimates of future claim costs (premium liabilities net of reinsurance) are compared to the unearned premium liability net of reinsurance and related deferred acquisition costs. If the future claim costs exceed the net premium liabilities, then a deficiency exists. Any deficiency is recognised immediately in the Consolidated Income Statement, with the corresponding impact on the balance sheet recognised first through the write-down of deferred acquisition costs for the relevant portfolio of contracts and then through the establishment of a provision (unexpired risk liability). The LAT is required to be conducted at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. The number of portfolio of contracts on which the LAT was performed increased for the year ended 30 June 2020 to reflect the increased complexity of the Group's insurance business.

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

	RACQ Group	
	2020	2019
	$'000	$'000
Central estimate present value of expected future cash flows arising from future claims	472,436	425,354
Central estimate present value of expected future cash inflows arising from reinsurance and other recoveries on future claims	(32,593)	(27,592)
Risk margin	9,320	27,805
Expected present value of future cash flows for future claims including risk margin	**449,163**	**425,567**

The risk margin used in the LAT for individual portfolios is calculated by using a probability of sufficiency (POS) methodology including diversification benefit, which is consistent with that used for the determination of the risk margin for the outstanding claims liability, based on assessments of the levels of risk in each portfolio. Applying this to the LAT results in a risk margin adopted in 2020 of 2.1% (2019: 7.0%), which is intended to achieve a 60% probability of sufficiency (2019: 75%). The POS was adjusted to 60% as the result of a review of the underpinning assumptions to reflect changes in market conditions, particularly in CTP. The POS represented in the LAT differs from the 92.5% POS represented by the outstanding claims liability (see Note 2.3) as the former is in effect an impairment test used only to test the sufficiency of net unearned premium liabilities, whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability. Refer note 2.3.2.

As at 30 June 2020 the LAT resulted in a deficiency of $2.4 million (2019: $8.3 million) which has subsequently been recognised in the Consolidated Income Statement in Other Underwriting and Acquisition costs $2.4 million (2019: $8.3 million) and in the Consolidated Balance Sheet in Deferred Acquisition costs $1.8 million (2019: $8.3 million) and Unexpired Risk Liability $0.6 million (2019: nil).

2.7 UNEARNED INSURANCE PREMIUM

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

	RACQ Group	
	2020 $'000	2019 $'000
Unearned premiums		
Opening balance	457,631	426,522
Insurance premiums written during the year	1,011,273	921,180
Insurance premiums earned during the year	(968,692)	(890,071)
Unearned insurance premiums balance	**500,212**	**457,631**

Accounting policies

(i) Unearned insurance premium liability

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

2.8 INSURANCE RISK MANAGEMENT

2.8.1 RISK MANAGEMENT OBJECTIVES AND POLICIES FOR MITIGATING INSURANCE RISK

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

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

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

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

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

2.8.2 TERMS AND CONDITIONS OF INSURANCE CONTRACTS

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

2.8.3 CONCENTRATION OF INSURANCE RISK

The Group aims to limit its exposure to concentration of insurance risk by maintaining a balanced diversified portfolio across both short tail (Personal Insurance) and long tail (Compulsory Third Party) classes of business and by having a broad geographical spread within Queensland, with some exposure across other states.

Concentration within the property classes is monitored to ensure excessive levels of exposure to certain perils and/or geographical regions are within desired levels. Risks are modelled using their location with commercial catastrophe modelling tools to evaluate the single largest risk, or probable maximum loss.

The largest risks faced relates to both natural catastrophes in areas with large numbers of insured risks and unexpected CTP claims inflation impacting outstanding claims.

The largest reinsurer concentration risk as at 30 June 2020 is 16.7% (2019: 15.0%) which equates to $15.7 million (2019: $13.7 million).

2.9 INSURANCE CAPITAL MANAGEMENT

All insurers that conduct general insurance business in Australia are regulated by APRA and are required to maintain internal capital targets. The Insurance Group, comprising Club Insurance Holdings Pty Ltd and RACQ Insurance Limited, has retained its capital target of 1.85 times the Prescribed Capital Amount (PCA) in the period and has a trading minimum of 1.62 times the PCA, which is the capital injection trigger point, in accordance with its Internal Capital Adequacy Assessment Process (ICAAP). After each valuation period management will assess its ability to pay a dividend ensuring that capital levels do not fall below 1.76 times the PCA (95% of the target) in the subsequent 12-month period.

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

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

	2020 $'000	2019 $'000
Common Equity Tier 1 capital		
Paid-up ordinary shares	470,890	470,890
Retained earnings brought forward	156,899	165,444
Current year earnings	46,573	34,456
Dividends declared or paid	(9,400)	(43,000)
Excess technical provisions (net of tax)	58,712	64,926
	723,674	**692,716**
Less: Deductions		
Goodwill and other intangible assets	239,597	240,561
Deferred tax asset	9,138	10,283
Common Equity Tier 1 capital	**474,939**	**441,872**
Tier 2 capital		
Subordinated debt	60,000	60,000
Total Tier 2 capital	**60,000**	**60,000**
APRA capital base	**534,939**	**501,872**
Prescribed capital amount (PCA)		
Insurance risk charge	178,271	164,373
Insurance concentration risk charge	35,000	35,000
Asset risk charge	76,403	64,114
Asset concentration risk charge	-	-
Operational risk charge	36,335	33,277
Aggregation benefit	(49,175)	(42,188)
Prescribed capital amount (PCA)	**276,834**	**254,576**
PCA multiple	**1.93**	**1.97**

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

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

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

3. Banking Activities

3.1 BANKING RESULT

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

	RACQ Group	
	2020	2019
		*Restated
	$'000	$'000
Interest income	69,732	72,338
Interest expense	(29,229)	(33,122)
Net interest income	**40,503**	**39,216**
Revenue from contracts with customers	7,897	8,129
Employee benefits expense	(27,500)	(20,361)
Communication and information technology expenses	(9,092)	(12,639)
Property and related costs	(2,380)	(4,194)
Depreciation and amortisation expense	(672)	(1,716)
Financial planning remediation expense	(5,500)	(5,000)
Other expenses	(15,318)	(20,190)
Banking result	**(12,062)**	**(16,755)**

*Refer to Note 1 for details of restatement.

Accounting policies

(i) Interest income and expense

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

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

3.2 LOANS AND ADVANCES

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

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

	RACQ Group	
	2020	2019
	$'000	$'000
Housing loans	1,917,841	1,693,674
Revolving credit	7,645	10,118
Personal loans	45,993	37,733
Commercial loans	5,446	6,943
Gross loans and advances	**1,976,925**	**1,748,468**
Current gross loans and advances	431,625	374,340
Non-current gross loans and advances	1,545,300	1,374,128
Gross loans and advances	**1,976,925**	**1,748,468**
Unamortised loan fees	456	148
Provision for impairment	(3,497)	(1,665)
Net loans and advances	**1,973,884**	**1,746,951**
Current net loans and advances	431,625	374,340
Non-current net loans and advances	1,542,259	1,372,611
Net loans and advances	**1,973,884**	**1,746,951**

3.3 IMPAIRMENT OF LOANS AND ADVANCES

Recognition and measurement

Impact of COVID-19

The onset of the COVID-19 pandemic directly impacted the ability for some of the Bank's members to meet their contractual loan obligations in full. The Bank established COVID-19 support packages that provided eligible members a temporary reduction or deferral loan repayments. These support packages were provided to members who experienced a temporary reduction of income as a result of COVID-19. Subsequent to the relief period, providing the customer can return to full repayments, the outstanding interest will be capitalised into the loan balance and repaid over the remaining term of the loan.

As at 30 June 2020, the Bank had 210 loans (balance of $52,860,052 or 2.6% of gross loans and advances) that were subject to ongoing COVID-19 related repayment deferrals. These support packages are a short-term measure to assist the Bank's members with their financial commitments while COVID-19 lockdowns and restrictions are in place. It is the Bank's expectation that most impacted members will return to full loan repayments in due course.

Given the risk that some of the Bank's impacted members may not return to full loan repayments (for example, due to permanent loss of employment) and this information has not yet been made known to the Group, Management has included a COVID-19 overlay of $250,000 in addition to the modelled ECL provision as at 30 June 2020.

Furthermore, given the uncertain evolution of the COVID-19 pandemic, the short-term severity of the economic impact and the fluctuating nature of the associated economic variables, there has been a significant increase in the forecasting risk associated with the macro-economic scenarios used within the ECL model. To mitigate this risk, management has included an economic overlay of $236,000 in addition to the modelled ECL provision as at 30 June 2020.

Loan modifications

Loans subject to COVID-19 related repayment deferrals are not deemed to represent substantial loan modifications and therefore did not result in derecognition. Interest on these loans continued to accrue using the effective interest rate method. The modification loss recognised within net interest income as a result of the changes in the expected cash flows discounted at the original effective interest rate was not material.

Overview of the ECL principles

On 1 July 2018, the Group adopted AASB 9 *Financial Instruments* (AASB 9) which introduced an expected credit loss (ECL) methodology for determining impairment provisions for all loans and advances and other debt financial assets not held at fair value.

The ECL methodology is forward-looking and does not require evidence of an actual loss event for impairment provisions to be recognised.

The Group applies a three-stage approach to measuring ECLs

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

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

Significant increase in credit risk

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

For loans and advances, the Group considers contractual payments that are 30 days past due, or an exposure being accepted for financial hardship relief (excluding COVID-19 support packages discussed above) as the primary indicators or SICR.

The Group does not consider the offer or uptake of a COVID-19 related repayment deferrals (in isolation) as a SICR or default event for the purpose of the ECL model. This is on the basis that the SICR assessment is based on changes in lifetime probability of default and the support packages are a short-term measure to assist the Bank's members with their financial commitments while COVID-19 lockdowns and restrictions are in place.

Default and write-offs

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

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

Loans subject to COVID-19 related repayment deferrals do not constitute a default or credit impairment unless the exposure satisfies the default criteria outlined above.

Measuring ECL – Collective provisions

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

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

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

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

Measuring ECL – Specific provisions

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

Forward-looking information

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

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

Scenario	Weight	Explanation	Considerations at 30 June 2020
Baseline	50%	This scenario reflects the base case assumptions used in the Group's business planning and forecasting	Reflected the short term economic and societal impacts of COVID-19 on the loan portfolio, with a subsequent recovery from October 2020. Key economic forecasts adopted: • Unemployment rate peaks at 10%, progressively declines to 7.5% by December 2021 • A short-term contraction in annual GDP of 8% in the June 2020 quarter, progressively improving to growth of 4.8% over 2021 • A peak-to-trough decline of 7% in Brisbane house prices from June 2020 to December 2021
Upside and downside scenarios	20%	These scenarios are constructed using a similar shape of the economic cycle to the baseline scenario, however, assume a certain level of improvement / deterioration	Downside – Reflected a recovery stalling until June 2021, with unemployment rate and annual change in GDP being 1% unfavourable compared to baseline. Peak-to-trough decline of 12% in Brisbane house prices. Upside – Reflected a less severe contraction and faster recovery compared to baseline. Unemployment rate and annual change in GDP being 1% favourable compared to baseline. Brisbane house prices largely flat in FY21.
Severe downturn	10%	This scenario has been included to account for a potentially severe impact of less likely, extremely adverse economic conditions.	Reflects a scenario whereby there is a national-wide lockdown for a 'second-wave' of COVID-19 and resulting slower economic recovery. Recession conditions continue through CY21. High unemployment continues through CY21, averaging 10.3%. Economy commences a slow recovery from CY22. Peak-to-trough decline of 23% in Brisbane house prices.

Lifetime of loans

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

ECL Governance

The Bank's Executive Credit Committee reviews the ECL methodology and model on at least an annual basis, taking into consideration actual loan loss experience and changes in underlying loan portfolios. Where deemed necessary, credit risk parameters may be recalibrated. Management adjustments and overlays may be made to impairment provisions to account for circumstances where known or emerging risks have not been captured in the ECL modelling process. The Bank's Executive Credit Committee is responsible for approving such adjustments. The Bank's Asset and Liability Committee is responsible for reviewing and approving the macro-economic forecast scenarios and associated probability weightings on a quarterly basis.

ECL Sensitivity

The table below illustrates the impact on the Group's ECL provision at 30 June 2020 under scenarios where a 100% weighting is applied to that scenario, with all other modelling assumptions remaining constant.

2020	Total ECL Under each scenario $'000	Impact compared to probability weighted ECL recognised at 30 June 2020 (pre-tax) $'000
Downturn scenario	3,983	487
Upturn scenario	2,567	(930)
Severe downturn scenario	4,769	1,272

It is the Group's policy to regularly review its ECL model in the context of actual loss experience and adjust when necessary.

	Stage 1 Collective Provision 12-month ECL $'000	Stage 2 Collective Provision Lifetime ECL $'000	Stage 3 Collective Provision Lifetime ECL $'000	Stage 3 Specific Provision Lifetime ECL $'000	Total $'000
2020					
Secured lending	2,228	113	151	112	**2,604**
Unsecured lending	560	29	-	304	**893**
Total	**2,788**	**142**	**151**	**416**	**3,497**
2019					
Secured lending	476	277	-	101	**854**
Unsecured lending	467	90	-	254	**811**
Total	**943**	**367**	**-**	**355**	**1,665**

	Stage 1 Collective Provision 12-month ECL $'000	Stage 2 Collective Provision Lifetime ECL $'000	Stage 3 Collective Provision Lifetime ECL $'000	Stage 3 Specific Provision Lifetime ECL $'000	Total $'000
2020					
ECL allowance as at 1 July 2019	**943**	**367**	**-**	**355**	**1,665**
Transferred to 12-months ECL – collective provision	126	(126)	-	-	-
Transferred to Lifetime ECL not credit impaired – collective provision	(8)	8	-	-	-
Transfers to Stage 3	(6)	(113)	73	46	-
New and increased provisions (net of releases)	1,733	6	78	176	**1,993**
Write-offs from specific provisions	-	-	-	(161)	**(161)**
ECL allowance as at 30 June 2020	**2,788**	**142**	**151**	**416**	**3,497**

2019	Stage 1 Collective Provision 12-month ECL $'000	Stage 2 Collective Provision Lifetime ECL $'000	Stage 3 Collective Provision Lifetime ECL $'000	Stage 3 Specific Provision Lifetime ECL $'000	Total $'000
ECL allowance as at 1 July 2018	**-**	**-**	**-**	**267**	**267**
Adoption of AASB 9	1,226	215	-	-	**1,441**
Transferred to 12-months ECL – collective provision	89	(89)	-	-	-
Transferred to Lifetime ECL not credit impaired – collective provision	(10)	10	-	-	-
Transfers to Stage 3	(6)	(10)	-	16	-
New and increased provisions (net of releases)	(356)	241	-	347	**232**
Write-offs from specific provisions	-	-	-	(275)	**(275)**
ECL allowance as at 30 June 2019	**943**	**367**	**-**	**355**	**1,665**

3.4 DEPOSITS

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

The following table presents the deposits in RACQ Bank:

	RACQ Group	
	2020 $'000	2019 $'000
Call deposits	962,582	833,842
Negotiable certificates of deposit	178,307	134,016
Term deposits	958,235	823,521
Total deposits	**2,099,124**	**1,791,379**
Current	2,054,358	1,722,578
Non-Current	44,766	68,801
Total deposits	**2,099,124**	**1,791,379**

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

3.5 BORROWINGS

The following table presents the borrowings in RACQ Bank:

	RACQ Group	
	2020	2019
	$'000	$'000
Overdraft	-	939
Medium term notes		
Opening balance	155,542	95,441
Proceeds	90,000	60,000
Repayments	(95,000)	-
Net movement in interest accrued	(376)	101
Closing balance	**150,166**	**155,542**
Total Borrowings	**150,166**	**156,481**
Current	30,166	96,481
Non-Current	120,000	60,000
Total Borrowings	**150,166**	**156,481**

3.5.1 BORROWING FACILITIES

The following table presents the borrowings in RACQ Bank:

	Approved Facility $'000	Amount Drawn $'000	Net Available $'000
2020			
Overdraft facility	10,000	-	10,000
Medium term notes	500,000	150,166	349,834
Reserve Bank of Australia (internal securitisation)	618,235	-	618,235
Term funding facility	57,175	-	57,175
	1,185,410	**150,166**	**1,035,244**
2019			
Overdraft facility	10,000	939	9,061
Medium term notes	500,000	155,542	344,458
Reserve Bank of Australia (internal securitisation)	459,829	-	459,829
	969,829	**156,481**	**813,348**

Medium Term Notes

The Group has an established $500m Debt Issuance Programme (dated 2 May 2018) under which medium term notes (MTN) and other debt securities may, from time to time, be issued up to the programme limit. During the current financial year, the Group executed two new MTN transactions:

- $60m 3-year floating-rate notes with a maturity date of 24 February 2023;
- $30m 1-year floating-rate notes with a maturity date of 18 May 2021.

Self-securitisation vehicle

During the year, the RACQ Bank increased the size of its self-securitisation vehicle to meet APRA's expectation of having contingent liquidity available of at least 25% of liabilities. This increased the amount of liquidity available to $618,235,000. RACQ Bank did not access any of this contingent liquidity during the current or previous financial year.

Term Funding Facility

On 19 March 2020, the Reserve Bank of Australia (RBA) announced the introduction of the Term Funding Facility (TFF). The Group has an Initial Allowance of $57,175,486 of available funding through the TFF, which will be provided at a fixed interest rate of 25 basis points for a term of three years. The Group had not drawn on the TFF at 30 June 2020, however, subsequently drew down on 18 September 2020.

On 1 September 2020, the RBA announced an extension of the TFF providing the Group with a Supplementary Allowance of $39,430,566 of available funding that can be drawn from 1 October 2020 through to 30 June 2021.

To access the TFF, the Group must pledge eligible collateral, which includes self-securitised residential mortgage-backed securities issued by the Arrow Funding Trust No.1.

Recognition and measurement

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

3.6 BANKING CAPITAL MANAGEMENT

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

The adequacy of the Banking Group's capital is 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) policy which sets out the objectives, processes, responsibilities and reporting requirements for the ICAAP and an annual ICAAP document which sets out the results of the annual assessment process.

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

	Banking Group	
	2020	2019
	$'000	$'000
Common Equity Tier 1 Capital		
Paid-up ordinary share capital	65,500	30,000
General reserves	-	-
Retained earnings	97,942	113,936
Other reserves	20,559	20,582
Common Equity Tier 1 Capital	**184,001**	**164,518**
Less: prescribed deductions	(21,665)	(24,389)
Net Common Equity Tier 1 Capital	**162,336**	**140,129**
Tier 2 Capital		
General reserve for credit losses	3,400	3,000
Less: prescribed deductions	-	-
Net Tier 2 Capital	**3,400**	**3,000**
APRA Capital base	**165,736**	**143,129**
Risk weighted assets	1,048,116	931,673
Risk weighted capital ratios		
Tier 1	15.5%	15.1%
Tier 2	0.3%	0.3%
Total capital ratio	**15.8%**	**15.4%**

4. Financial Instruments

4.1 INVESTMENT INCOME

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

	RACQ Group	
	2020	2019
	$'000	$'000
Interest income		
Financial assets at amortised cost	1,486	2,669
Financial assets mandatorily at fair value through profit or loss	948	865
Financial assets designated at fair value through profit or loss	41,069	47,371
Net gain on disposal of financial assets		
Financial assets at amortised cost	66	8
Financial assets mandatorily at fair value through profit or loss	4,677	832
Net change in fair value of financial assets designated at fair value through profit and loss		
Unrealised gains/(losses)	(2,072)	16,849
Realised losses	(4,501)	(6,898)
Net change in fair value of financial assets mandatorily at fair value through profit and loss		
Trust distribution income and net change in fair value of unit trusts	(7,282)	7,026
Dividend income	4,393	6,250
Total investment income	**38,784**	**74,972**

4.2 FINANCIAL ASSETS

Financial assets are classified as follows:

	RACQ Group	
	2020	2019
	$'000	$'000
Amortised cost		
Deposits and bills	62,118	92,482
Deposits with ADIs	344,355	319,704
Mandatorily at fair value through profit or loss		
Unit trusts	238,396	254,975
Hybrid securities	23,818	24,847
Designated at fair value through profit or loss		
Debt securities	1,502,314	1,359,141
Deposits and bills	65,614	49,063
Designated at fair value through OCI		
Equity securities	68,466	80,631
Shares in unlisted equities	12,909	12,776
Total financial assets	**2,317,990**	**2,193,619**
Current	485,052	493,639
Non-current	1,832,938	1,699,980
Total financial assets	**2,317,990**	**2,193,619**

Accounting policies for financial assets are provided in note 4.6.

4.3 FAIR VALUE HIERARCHY

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

Level 1: quoted closing prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

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

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

4.3.1 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

RACQ Group	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2020				
Financial assets mandatorily at fair value through profit or loss				
Unit trusts	-	238,396	-	**238,396**
Hybrid securities	23,818	-	-	**23,818**
Financial assets designated at fair value through profit or loss				
Australian Commonwealth Government debt securities	-	116,692	-	**116,692**
Australian Semi-Government debt securities	-	618,810	-	**618,810**
Authorised deposit-taking Institution debt securities	-	305,557	-	**305,557**
Other debt securities	-	461,255	-	**461,255**
Deposits and bills	65,614	-	-	**65,614**
Financial assets designated at fair value through OCI				
Equity securities	68,466	-	-	**68,466**
Shares in unlisted entities	-	-	12,909	**12,909**
	157,898	**1,740,710**	**12,909**	**1,911,517**
2019				
Financial assets mandatorily at fair value through profit or loss				
Unit trusts	-	254,975	-	**254,975**
Hybrid securities	24,847	-	-	**24,847**
Financial assets designated at fair value through profit or loss				
Australian Commonwealth Government debt securities	-	246,225	-	**246,225**
Australian Semi-Government debt securities	-	403,601	-	**403,601**
Authorised deposit-taking Institution debt securities	-	330,603	-	**330,603**
Other debt securities	-	378,712	-	**378,712**
Deposits and bills	49,063	-	-	**49,063**
Financial assets designated at fair value through OCI				
Equity securities	80,631	-	-	**80,631**
Shares in unlisted entities	-	-	12,776	**12,776**
	154,541	**1,614,116**	**12,776**	**1,781,433**

There were no transfers between the levels of the fair value hierarchy during the year ended 30 June 2020 (2019: nil).

4.3.2 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

RACQ Group	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total Carrying amount $'000	Total fair value $'000
2020					
Financial Assets					
Financial assets at amortised cost	62,118	344,355	-	**406,473**	412,886
Loans and advances	-	-	1,973,884	**1,973,884**	1,990,383
Financial Liabilities					
Deposits	-	(2,099,124)	-	**(2,099,124)**	(2,117,912)
Borrowings	-	(150,166)	-	**(150,166)**	(152,605)
Redeemable preference shares[1]	-	-	(627)	**(627)**	(627)
	62,118	**(1,904,935)**	**1,973,257**	**130,440**	**132,125**
2019					
Financial Assets					
Financial assets at amortised cost	92,482	319,704	-	**412,186**	424,565
Loans and advances	-	-	1,746,951	**1,746,951**	1,759,975
Financial Liabilities					
Deposits	-	(1,791,379)	-	**(1,791,379)**	(1,805,776)
Borrowings	-	(156,481)	-	**(156,481)**	(157,943)
Redeemable preference shares[1]	-	-	(638)	**(638)**	(638)
	92,482	**(1,628,156)**	**1,746,313**	**210,639**	**220,183**

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

4.3.3 VALUATION APPROACH

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

Fair value through other comprehensive income/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 debt instruments. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining term of each instrument.
Loans and Advances	For variable rate loans, excluding impaired loans, the carrying value is a reasonable estimate of the fair value. The fair value for fixed rate loans was calculated by using discounted cash flow models based on the 30 June benchmark rates on offer for the remaining fixed term of each loan.
Deposits	The net fair value for term deposits was calculated by using discounted cash flow models based upon maturity of the deposits. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining term of each instrument. The fair value of non-interest bearing, at call and variable rate deposits approximates the carrying value as at 30 June.
Borrowings	Borrowings are comprised of an overdraft and medium-term notes. The carrying value of the overdraft approximates its fair value as it is short term in nature. The fair value for medium term notes were calculated by using discounted cash flow models based on the maturity of the notes. The discount rates applied were based on the 30 June benchmark rates on offer for the remaining term of each instrument.

4.4 FINANCIAL RISK MANAGEMENT

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

4.4.1 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The Board of Directors, including the Board for each of the regulated entities, Club Insurance Holdings Pty Ltd, Club Finance Holdings Limited, RACQ Insurance Limited and Members Banking Group Limited, have overall responsibility for the establishment and oversight of the risk management framework, 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, including non-executive challenge to risk management decisions; and
3rd line:	Audit of risk management and framework governance, including non-executive challenge to risk management decisions.

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

Response to COVID-19

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

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

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

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

4.4.2 CREDIT RISK

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

Insurance Operations

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

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

The following table provides information regarding the credit risk exposure of non-RACQ Bank 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
2020								
Cash and cash equivalents	19,328	-	-	-	5,486	-	-	24,814
Trade and other receivables								
Insurance premiums receivable	-	-	-	-	246,961	-	-	246,961
Other current trade and other receivables	-	-	-	-	10,254	-	-	10,254
Total current trade and other receivables	**-**	**-**	**-**	**-**	**257,215**	**-**	**-**	**257,215**
Non-current trade and other receivables	**-**	**-**	**-**	**-**	**7,381**	**-**	**-**	**7,381**
Total Trade and other receivables	-	-	-	-	**264,596**	-	-	**264,596**
Reinsurance recoveries receivable	-	30,729	63,244	-	-	-	-	93,973
Other recoveries receivable	63,247	-	-	-	43,114	-	-	106,361
Debt securities	579,809	566,835	177,855	177,815	-	-	-	1,502,314
Deposits and bills	1	100,145	17,217	10,369	-	-	-	127,732
	662,385	**697,709**	**258,316**	**188,184**	**313,196**	**-**	**-**	**2,119,790**
2019								
Cash and cash equivalents	14,508	-	-	-	5,622	-	-	20,130
Trade and other receivables								
Insurance premiums receivable	-	-	-	-	237,453	-	-	237,453
Other current trade and other receivables	-	-	-	-	14,539	-	-	14,539
Total current trade and other receivables	**-**	**-**	**-**	**-**	**251,992**	**-**	**-**	**251,992**
Non-current trade and other receivables	**-**	**-**	**-**	**-**	**7,969**	**-**	**-**	**7,969**
Total Trade and other receivables	**-**	**-**	**-**	**-**	**259,961**	**-**	**-**	**259,961**
Reinsurance recoveries receivable	-	21,377	70,670	-	-	-	-	92,047
Other recoveries receivable	60,147	-	-	-	44,972	-	-	105,119
Debt securities	436,161	553,971	221,666	147,343	-	-	-	1,359,141
Deposits and bills	-	115,868	1,425	18,561	-	-	-	135,854
	510,816	**691,216**	**293,761**	**165,904**	**310,555**	**-**	**-**	**1,972,252**

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

(i) Investment in interest-bearing securities

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

(ii) Reinsurance and other recoveries

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

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

(iii) Premium receivables

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

Banking Operations

Due to the nature of RACQ Bank's business, credit risk exposure arising from RACQ Bank's financial assets is managed separately to other business areas of the Group. Credit risk arises principally from the loans and advances, other financial assets at amortised cost and cash at bank.

(i) Loans and Advances

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

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

RACQ Bank has established policies over the:

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

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

During the year, the Bank's Credit Committee:

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

Maximum Credit Risk Exposure

RACQ Bank's maximum credit risk exposure on loans and advances is $2,206,134,000 (2019: $1,794,979,000). In adopting those values as the maximum exposures, this does not take into account the value of any collateral or other security held in the event other parties fail to perform their obligations under the financial instruments in question.

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

Credit quality analysis

Loan-to-valuation ratios – Residential mortgage lending

		RACQ Group		
2020	**ECL Stage 1**	**ECL Stage 2**	**ECL Stage 3**	**Total**
Gross carrying amount	**$'000**	**$'000**	**$'000**	**$'000**
LVR 0% - 60%	613,948	1,311	297	615,556
LVR 60.01% - 80%	791,544	1,680	1,350	794,574
LVR 80.01% - 90%	266,994	1,171	1,094	269,259
LVR 90.01% - 100%	234,840	464	2,264	237,568
LVR > 100%	625	-	259	884
	1,907,951	**4,626**	**5,264**	**1,917,841**
2019				
LVR 0% - 60%	560,636	619	-	561,255
LVR 60.01% - 80%	706,844	1,883	831	709,558
LVR 80.01% - 90%	225,719	238	924	226,881
LVR 90.01% - 100%	192,893	2,225	-	195,118
LVR > 100%	604	-	258	862
	1,686,696	**4,965**	**2,013**	**1,693,674**

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

Past due and impaired loans

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

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

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	
	2020	2019
	$'000	$'000
Performing loans	1,941,715	1,705,903
Past due but not impaired	34,228	40,224
Collective provision for impairment	(3,081)	(1,310)
Net performing and past due loans not impaired	**1,972,862**	**1,744,817**
Gross impaired loans	982	2,341
Specific provision for impairment	(416)	(355)
Net impaired loans	**566**	**1,986**
Unamortised loan fees	456	148
Net loans and advances	**1,973,884**	**1,746,951**

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:

	1-29 days $'000	30-89 days $'000	90-179 days $'000	180+ days $'000	Total $'000
2020					
Past due but not impaired	25,563	4,012	4,460	193	**34,228**
2019					
Past due but not impaired	34,727	5,497	-	-	**40,224**

Loans subject to COVID-19 related repayment deferrals are not included in the above table, consistent with APRA's temporary capital concessions available for such loans.

Collateral management

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

96.9% of the Group's loans and advances are residential mortgage loans, secured by residential property in Australia.

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

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

	RACQ Group	
	2020	2019
	$'000	$'000
Loans and advances with collateral	1,959,101	1,730,441
Loans and advances with no collateral	17,824	18,027
Total gross loans and advances	**1,976,925**	**1,748,468**

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

In the event of borrower default, the Group can take possession of security held as collateral against the outstanding principal and accrued interest. Any loan security for residential mortgages is held as mortgagee in possession while the Group seeks to realise its value through the sale of the property. Therefore, the Group does not hold any real estate acquired through the repossession of collateral. No properties were repossessed through mortgagee in possession during the current or prior financial year.

Concentration risk

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

The Bank has a concentration of loans to members employed in the education industry. This concentration has arisen as the Bank was originally formed to service these members.

All loans and advances are within Australia with the major exposure being to home loans in Queensland. These exposures are segmented according to major population centres and regions in Queensland.

(ii) Other financial assets at amortised cost

Concentrations of credit risk

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

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

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

The Bank's ALCO oversees the management of credit risk in the liquidity investment portfolio in accordance with the Liquidity Management Strategy.

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

The carrying values of liquid investments associated with each credit quality category for RACQ Bank are listed below.

	RACQ Group	
	2020	2019
Standard & Poor's long-term rating	$'000	$'000
ADIs – rated AA- and above	223,541	175,425
ADIs – rated A- and above, but below AA-	155,727	125,260
ADIs – rated BBB- and above, but below A-	68,336	52,529
Total	**447,604**	**353,214**

The ECL provisions held against these exposures are not material (2019: not material).

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

RACQ Bank manages liquidity risk by:

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

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

Under APRA Prudential Standards, RACQ Bank is required to maintain at least 9% of total adjusted liabilities in liquid assets.

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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Liabilities														
Deposits	2,099,124	1,791,379	2,113,130	1,805,511	1,174,297	1,037,303	350,709	163,374	539,488	530,515	48,636	74,319	-	-
Lease liabilities	10,259	-	11,069		36	-	638	-	2,709	-	6,640	-	237	-
Borrowings	150,166	156,481	153,285	161,373	134	939	195	40,943	31,184	56,894	121,772	62,597	-	-
Redeemable preference shares[1]	627	638	627	638	-	-	-	-	-	-	627	-	-	638
Total Financial Liabilities	**2,260,176**	**1,948,498**	**2,278,111**	**1,967,522**	**1,174,467**	**1,038,242**	**351,542**	**204,317**	**573,381**	**587,409**	**177,675**	**136,916**	**237**	**638**
Unrecognised Items														
Undrawn commitments	297,282	252,550	297,282	252,550	297,282	252,550	-	-	-	-	-	-	-	-

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

4.4.4 MARKET RISK

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

The Group, through the Group Capital and 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 Capital and Investment Committee and Boards of Directors. The ALCO of RACQ Bank is responsible for capital and balance sheet risk including treasury credit, liquidity and market risk.

(i) Interest rate risk

Insurance Operations

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

If interest rates moved by +/- 1% (2019: +/- 1%) from the year end rates, with all other variables held constant, the surplus after tax for the year would have been $19,500,000 higher/lower (2019: $16,400,000 higher/lower).

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

Banking Operations

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

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

Due to a change in the system used to measure the Bank's market risk, there have been some changes to the way VaR is calculated during the reporting period. Namely, while a variance/covariance approach was used in the previous system, a historical simulation approach is now used to calculate the Bank's VaR. All other underlying assumptions were kept the same.

Value at Risk

VaR measures the theoretical loss in the economic value of the balance sheet based on historical movements in interest rates. The VaR Model uses a historical simulation approach with underlying assumptions of the model including a 20 day (2019: 20 day) holding period at 99% (2019: 99%) confidence level for a 250 day (2019: 250 day) observation period.

RACQ Bank	2020 $'000	2019 $'000
VAR exposure at the end of the financial year	1,307	2,210
Average VAR exposure during the financial year	1,043	N/A

The average VaR is not available for the comparative period due to the change in calculation methodology.

(ii) Price risk

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

Equity risk is reduced by incorporating a diverse holding of liquid equities. Movements in global equity markets including unit trusts of +/- 1% from the 30 June 2020 indexes, with all other variables held constant, would result in equity reserves increased/decreased by $1,832,710 (2019: $2,320,046).

4.5 GROUP CAPITAL MANAGEMENT

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

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

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

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

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

4.6 ACCOUNTING POLICIES FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Non-derivative financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15. Refer to the accounting policies in note 6.1.2 for Revenue from contracts with customers.

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

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

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

Subsequent measurement

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

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

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

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

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

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

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

(ii) Financial assets at fair value through OCI (equity instruments)

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

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

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

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

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

Financial assets mandatorily at fair value through profit or loss are carried in the Consolidated Balance Sheet at fair value with net changes in fair value recognised in the Consolidated Income Statement.

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

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

(v) Cash and cash equivalents

Cash and cash equivalents include restricted balances of $73,635,718 (2019: $12,100,020) relating to the activities of the self-securitisation vehicle (Arrow funding trust) which operates as a contingent liquidity facility and are not available to the Group.

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

(vi) Trade and other receivables

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15. Refer to the accounting policies in note 6.1.2 Revenue from contracts with customers.

(vii) Impairment of non-loans and advances financial assets

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

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

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

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

Non-derivative financial liabilities

(i) Trade and other payables

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

4.7 ACCOUNTING POLICIES FOR RESERVES

(i) General reserve for credit losses

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

(ii) Investment revaluation reserve

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

5. Other assets and liabilities

5.1 PROPERTY, PLANT AND EQUIPMENT

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

	Freehold land	Buildings and leasehold improvements	Plant and equipment	Capital works in progress	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
Balance at 1 July 2018	20,481	83,939	114,369	2,337	**221,126**
Additions	-	21	-	15,501	**15,522**
Disposals	(800)	(52)	(10,231)	-	**(11,083)**
Acquisition through purchase of subsidiary	-	-	1,917	-	**1,917**
Transfer from capital works in progress	-	-	15,678	(15,678)	-
Balance at 30 June 2019	**19,681**	**83,908**	**121,733**	**2,160**	**227,482**
Additions	-	-	-	17,719	**17,719**
Disposals	-	(151)	(28,325)	-	**(28,476)**
Effect of adoption of new accounting standard (Note 6.9.1)	-	-	(2,449)	-	**(2,449)**
Acquisition through a business combination	3,850	3,450	55	-	**7,355**
Transfer from capital works in progress	-	-	17,017	(17,017)	-
Balance at 30 June 2020	**23,531**	**87,207**	**108,031**	**2,862**	**221,631**
Depreciation					
Balance at 1 July 2018	-	(12,197)	(55,226)	-	**(67,423)**
Depreciation	-	(2,128)	(13,635)	-	**(15,763)**
Disposals	-	-	8,213	-	**8,213**
Balance at 30 June 2019	**-**	**(14,325)**	**(60,648)**	**-**	**(74,973)**
Depreciation	-	(2,191)	(13,022)	-	**(15,213)**
Disposals	-	11	25,385	-	**25,397**
Effect of adoption of new accounting standard (Note 6.9.1)	-	-	1,119	-	**1,119**
Balance at 30 June 2020	**-**	**(16,505)**	**(47,166)**	**-**	**(63,671)**
Net book value					
As at 30 June 2019	**19,681**	**69,583**	**61,085**	**2,160**	**152,509**
As at 30 June 2020	**23,531**	**70,702**	**60,865**	**2,862**	**157,960**

Accounting policies

(i) Recognition and measurement

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

(ii) Depreciation

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

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

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.

5.2 INTANGIBLE ASSETS

The composition of intangible assets is as follows:

	Goodwill $'000	Customer relationships $'000	Core deposits $'000	Outstanding claims fair value adjustment $'000	Software and licensing costs $'000	Software Development costs $'000	Total $'000
Cost							
Balance at 1 July 2018	246,644	38,500	4,800	48,962	238,753	2,977	**580,636**
Additions	-	-	-	-	-	26,846	**26,846**
Acquisition through purchase of subsidiary	1,816	160	-	-	260	-	**2,236**
Disposals	-	-	-	-	(7,059)	-	**(7,059)**
Transfer from capital works in progress	-	-	-	-	8,204	(8,204)	-
Balance at 30 June 2019	**248,460**	**38,660**	**4,800**	**48,962**	**240,158**	**21,619**	**602,659**
Additions	-	-	-	-	-	28,629	**28,629**
Acquisition through a business combination	1,733	-	-	-	-	-	**1,733**
Disposals	(643)	(77)	-	-	(4,947)	-	**(5,667)**
Transfer from capital works in progress	-	-	-	-	23,459	(23,459)	-
Balance at 30 June 2020	**249,550**	**38,583**	**4,800**	**48,962**	**258,670**	**26,789**	**627,354**
Amortisation and impairment loss							
Balance at 1 July 2018	-	(32,633)	(944)	(46,625)	(181,881)	-	**(262,083)**
Amortisation	-	(2,813)	(3,659)	(665)	(20,468)	-	**(27,605)**
Disposals	-	-	-	-	6,814	-	**6,814**
Impairment loss	(1,202)	(2,104)	-	-	-	-	**(3,306)**
Balance at 30 June 2019	**(1,202)**	**(37,550)**	**(4,603)**	**(47,290)**	**(195,535)**	**-**	**(286,180)**
Amortisation	-	(681)	(68)	(447)	(26,974)	-	**(28,170)**
Disposals	-	78	-	-	3,153	-	**3,231**
Impairment loss	(6,592)	-	-	-	-	-	**(6,592)**
Balance at 30 June 2020	**(7,794)**	**(38,153)**	**(4,671)**	**(47,737)**	**(219,356)**	**-**	**(317,711)**
Net book value							
As at 30 June 2019	**247,258**	**1,110**	**197**	**1,672**	**44,623**	**21,619**	**316,479**
As at 30 June 2020	**241,756**	**430**	**129**	**1,225**	**39,314**	**26,789**	**309,643**

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	
	2020	2019
	$'000	$'000
RACQ Insurance Limited	238,208	238,208
Members Banking Group Limited	-	6,592
Automotive Assistance Services Pty Ltd	1,816	1,816
Other CGU without significant goodwill	1,732	642
Carrying amount at end of year	**241,756**	**247,258**

RACQ Insurance Limited

The recoverable amount of the Insurance CGU has been determined based on value in use calculations, determined by discounting the future cash flows generated from the continuing use of the CGU 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	
	2020	2019	2020	2019	2020	2019
	%	%	%	%	%	%
RACQ Insurance Limited	9.25	9.00	2.5	2.5	38.3	30.1

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

The calculation of value in use for the RACQ Insurance Limited CGU is most sensitive to changes in the discount rate. The RACQ Insurance Limited CGU would require an increase in the post-tax discount rate to 10.15% in order for the carrying value to equal the recoverable amount. Management do not expect this to be likely.

Members Banking Group Limited

A purchase price allocation exercise on the acquisition of QTMB was completed in late March 2017 and goodwill associated with this acquisition was valued at this time. The net asset valuation methodology was utilised during this process and also in calculating the recoverable amount for impairment testing of the Bank CGU annually. A price to net tangible asset ratio of 1:1.1 was utilised giving consideration to other relevant banks in the environment at the time.

In 2020, Members Banking Group Limited continued to provide a core service offering for the Group, however the price to net tangible asset ratio was reduced to 1:1.0 after giving consideration to other relevant banks in the current environment. As a result, the $6,592,200 of goodwill attributable to Members Banking Group Limited was assessed as being fully impaired and is included in 'other expenses' on the Consolidated Income Statement.

Automotive Assistance Services Pty Ltd

The recoverable amount of the Automotive Assistance Services CGU has been determined based on value in use calculations, determined by discounting the future cash flows generated from the continuing use of the CGU 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
	2020	2020	2020
	%	%	%
Automotive Assistance Services	16.25%	2.5	37.0

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.

The calculation of value in use for the Automotive Assistance Services CGU is most sensitive to changes in the discount rate. The Automotive Assistance Services CGU would require an increase in the post-tax discount rate to 36.5% in order for the carrying value to equal the recoverable amount.

For the comparative financial year, a purchase price allocation exercise on the acquisition of Automotive Assistance Services was completed in late April 2019 and goodwill associated with the acquisition was valued as at this time with no further impairment assessment required.

Accounting policies

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment. 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. 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 surplus as incurred.

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

(i) Amortisation

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

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

Amortisation methods, useful lives and residual values are reassessed at each reporting date. In the current financial year a review of software was undertaken to identify intangible assets with a strong digital component that were likely to be replaced in the near future as a result of the Group's FY21 strategic investment in digital platforms. This review identified digital software assets that required a reduction in their effective useful life from 3 to 10 years to expensed when incurred which resulted in accelerated amortisation of $9,519,323. In the prior year a similar review was undertaken of identifiable intangible assets associated with the banking division which resulted in a reassessment of the useful lives and an accelerated amortisation expense of $4,112,844.

(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.

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

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

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

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

During the financial period the Group fully impaired the goodwill in the RACQ Bank CGU amounting to $6,592,000 (2019: $1,201,500).

5.3 EMPLOYEE BENEFITS

5.3.1 EMPLOYEE BENEFITS EXPENSE

	RACQ Group	
	2020	2019 (*Restated)
	$'000	$'000
Wages and salaries	161,848	160,538
Defined contribution superannuation expenses	18,725	14,807
Expense related to defined benefits superannuation funds	155	167
	180,728	**175,512**

* Refer to Note 1 for details of restatement

5.3.2 EMPLOYEE BENEFITS LIABILITIES

	RACQ Group	
	2020	2019
	$'000	$'000
Wages and salaries accrued	4,022	3,831
Incentive accrual	10,779	10,780
Liability for annual leave	13,533	14,272
Liability for long service leave	17,860	17,182
	46,194	**46,065**
Current	39,326	39,953
Non-current	6,868	6,112
	46,194	**46,065**

Accounting policies

(i) Short term employee benefits

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

(ii) Long term employee benefits

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

(iii) Superannuation

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

5.4 TRANSACTIONS WITH RELATED PARTIES

5.4.1 KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel (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 Members Banking Group Limited, on the same terms and conditions as those obtained by Company employees and are trivial or domestic in nature.

Key management personnel compensation comprises:

	RACQ Group	
	2020	2019
	$	$
Short-term employee benefits	8,132,262	9,734,180
Post-employment benefits	392,388	448,708
Other long-term benefits	1,472,889	1,246,035
Termination benefits	929,866	-
	10,927,405	**11,428,923**

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 July 2019, directors receive $130,073 per annum (1 July 2018: 126,900) with additional fees paid for committee work and chairman responsibilities. Directors of the Royal Automobile Club of Queensland Limited who also sit on the RACQ Insurance Limited Board receive $33,764 per annum and directors who sit on Members Banking Group Limited Board receive an additional $22,970 per annum. Director compensation is included in employee benefits (Note 5.3.1). Fees paid are inclusive of superannuation.

	2020	2019
	$	$
Bronwyn Morris (Chairman)	274,400	285,522
Nigel Alexander (ceased 20 November 2018)	-	14,689
Jayne Arlett (ceased 20 November 2018)	-	54,052
Campbell Charlton (ceased 20 November 2018)	-	54,074
Annabel Dolphin (appointed 1 January 2019)	146,657	72,450
Anthony Gambling	126,748	144,729
Elizabeth Jameson	136,357	137,970
John Minz	97,366	53,510
Andrew Moore (appointed 1 January 2020)	59,150	-
Karl Morris (ceased 19 November 2019)	55,197	160,877
Leona Murphy	138,969	138,207
	1,034,844	**1,116,080**

The remuneration paid by RACQ Insurance Limited to RACQ directors, for their services as an RACQ Insurance Limited director during the year to June 2020, totalled $319,460 (2019: $401,918). Refer note 5.4.2 (ii). The remuneration paid by Members Banking Group Limited to RACQ directors, for their services as a Members Banking Group Limited director during the year to June 2020 was $328,316 (2019: $343,129). Refer note 5.4.2 (iii). All directors of RACQ Insurance Limited are also directors of Club Insurance Holdings Pty Ltd and all directors of Members Banking Group Limited are also directors of Club Finance Holdings Limited. Directors of these and other subsidiary companies within the RACQ Group are not separately remunerated for their services to those subsidiary companies.

Mr Ian A Gillespie who was previously the Group Chief Executive Officer of The Royal Automobile Club of Queensland Limited (ceased 31 December 2019) was a director of RACQ Insurance Limited, Club Insurance Holdings Pty Ltd, Club Finance Holdings Limited and Members Banking Group Limited. Mr Gillespie acted in his role as the nominee for The Royal Automobile Club of Queensland Limited and was not separately remunerated.

(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 $33,764 per annum (2019: 32,940) and directors who do not sit on The Royal Automobile Club of Queensland Limited board receive $112,545 per annum (2019: $109,800). Additional fees are paid for committee work and Chairman responsibilities. Fees paid are inclusive of superannuation.

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

	2020 $	2019 $
Bronwyn Morris (Chairman, appointed 21 November 2018)	63,324	53,112
Nigel Alexander (ceased 20 November 2018)	-	84,865
Jayne Arlett (appointed 1 July 2018, ceased 20 November 2018)	-	12,727
Campbell Charlton (appointed 1 July 2018, ceased 20 November 2018)	-	12,727
Annabel Dolphin (appointed 1 January 2019)	36,458	18,970
Anthony Gambling	48,951	37,963
Elizabeth Jameson	46,068	55,258
Raymond Jones (ceased 20 November 2018)	-	47,445
John Minz (appointed 1 July 2018)	40,892	36,029
Andrew Moore (appointed 1 January 2020)	17,014	-
Karl Morris (appointed 1 July 2018, ceased 19 November 2019)	12,997	32,940
Leona Murphy	53,756	57,327
Vyn Tozer	134,339	143,550
	453,799	**592,913**

There were no other benefits received by directors during the year to June 2020 (2019: nil).

(iii) Director compensation for Members Banking Group Limited

Directors of the Company who are also directors of Members Banking Group Limited are paid fees by Members Banking Group Limited. This remuneration is supplementary to the remuneration paid by the Company. Directors of Members Banking Group Limited who also sit on The Royal Automobile Club of Queensland Limited Board receive $22,970 per annum (2019: $22,410) and directors who do not sit on The Royal Automobile Club of Queensland Limited board receive $76,568 per annum (2019:74,700). Additional fees are paid for committee work and Chairman responsibilities. Fees paid are inclusive of superannuation.

During the year, non-executive directors received the following fees for their service as directors of Members Banking Group Limited.

	2020 $	2019 $
Bronwyn Morris (Chairman, appointed 19 November 2019)	34,273	22,455
Jayne Arlett (appointed 1 January 2018, ceased 20 November 2018)	-	13,681
Janette Bowe (ceased 31 December 2018)	-	56,850
Campbell Charlton (appointed 1 January 2018, ceased 20 November 2018)	-	18,704
Helen Coyer (ceased 31 December 2018)	-	50,350
Annabel Dolphin (appointed 1 January 2019)	26,339	13,705
Anthony Gambling (appointed 1 July 2018)	26,339	27,012
Neville Ide (ceased 31 December 2018)	-	50,350
Elizabeth Jameson (appointed 1 July 2018)	35,949	34,704
John Minz, (ceased Chairman, 18 November 2019)	80,555	161,911
Andrew Moore (appointed 10 April 2019)	74,617	16,694
Karl Morris (ceased 19 November 2019)	19,100	22,410
Leona Murphy (appointed 1 July 2018)	31,144	28,547
	328,316	**517,373**

From 1 July 2019, key management personnel include individuals that meet the definition of accountable persons under the Banking and Executive Accountability Regime (BEAR) and other Executives not captured under BEAR.

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

	2020	2019
	$	$
The aggregate gross carrying amount of loans	2,179,053	7,563,168
The aggregate amount of revolving and other credit facilities (including redraws) available	1,625,307	2,458,625
Provision for impairment	(883)	-
Interest earned on loans and revolving credit facilities during the year	77,521	240,213

All loans and overdrafts to Key Management Personnel (KMP) and their close family members have been undertaken on normal terms and conditions in accordance with RACQ Bank's standard lending policies. There are no loans with KMP and their close family members that are in arrears, subject to a COVID-19 related repayment deferral or impaired as at the end of the financial year. All loans are classified as Stage 1 within the ECL methodology. No loans have been written off during the financial year

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

	2020	2019
	$	$
The aggregate carrying amount of deposits	856,132	1,045,741
Total interest paid on these deposits during the year	15,473	6,506

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

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

5.4.3 TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

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

	Incurred		Owed at Balance date	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
User access fees for utilisation of ACC CAD Pty Ltd CARS software	4,423	4,161	-	-
ACC CAD Pty Ltd shareholder loan	-	-	7,381	7,969
Interest income on ACC CAD Pty Ltd Shareholder loan	230	327	13	23
Automation services from Madrah Pty Ltd	425	950	154	493
Commission on RACQ Travel bookings payable to Members Travel Group Pty Ltd	561	-	-	-
Provision of corporate support services to Members Travel Group Pty Ltd	(1,291)	-	(24)	-

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

RACQ Operations holds a 30% interest in Madrah Pty Ltd (trading as Blackbooks) which is an automation consulting company that specialises in artificial intelligence, RPA and intelligent RPA. RACQ has entered into various commercial contracts for the provision of consulting services focusing on artificial intelligence support. These transactions were all carried out under normal commercial terms.

RACQ Operations has entered into a contract for services agreement with Members Travel Group Pty Ltd in which RACQ Operations will provide corporate support to the joint venture. The corporate support covers IT services, marketing and digital support and is in place for 5 years. The transactions are charged under normal commercial terms.

5.5 INCOME TAX

5.5.1 INCOME TAX EXPENSE

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

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

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

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

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

The components of income tax expense are:

	RACQ Group	
	2020	2019
	$'000	$'000
Recognised in surplus		
Current tax		
Current income tax	23,339	17,216
Adjustments in respect of current income tax of previous year	(642)	(778)
	22,697	**16,438**
Deferred tax		
Origination and reversal of temporary differences	(13,135)	(4,345)
Total income tax expense	**9,562**	**12,093**
Deferred tax recognised directly in equity		
Relating to re-measurement of defined benefit plan	(88)	(82)
Purchase of controlling interest in subsidiary	(13)	104
Relating to investment securities designated at FVOCI	(2,132)	2,693
Effect of adoption of new accounting standards	-	(432)
Total income tax expense recognised directly in accumulated funds	**(2,233)**	**2,283**

5.5.2 RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE

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

	RACQ Group	
	2020	2019
	$'000	$'000
Prima facie tax expense calculated at 30% (2019: 30%) on operating surplus before tax	6,750	13,668
Adjust for tax effect of:		
- Non-deductible expenses	5,315	2,858
- Non-assessable income	(20)	(524)
- Tax offset for franked dividends	(1,369)	(2,023)
- Foreign income tax offsets	(5)	(12)
- Prior year over provision	(1,109)	(1,874)
Income tax expense on operating surplus	**9,562**	**12,093**

5.5.3 RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

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

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

Deferred tax assets and liabilities are attributable to the following:

RACQ Group	Assets		Liabilities		Net	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Property, plant and equipment and Intangibles	8,784	11,865	(858)	(746)	7,926	11,119
Accruals	3,069	3,576	-	-	3,069	3,576
Acquisition adjustment	1,211	2,287	(507)	(2,564)	704	(277)
Financial assets[2]	593	-	(16,385)	(20,030)	(15,792)	(20,030)
Right-of-use assets[1]	-	-	(3,046)	-	(3,046)	-
Claims handling costs on outstanding claims	17,643	16,136	-	-	17,643	16,136
Employee benefits	9,678	9,331	-	-	9,678	9,331
Provisions[3]	3,732	2,881	-	-	3,732	2,881
Lease liability[1]	2,927	-	-	-	2,927	-
Other items	2,751	4,265	(192)	(1,677)	2,559	2,588
Tax offsets carried forward	8,650	6,242	-	-	8,650	6,242
Tax losses recognised	15,334	7,110	-	-	15,334	7,110
Tax assets / (liabilities)	**74,372**	**63,693**	**(20,988)**	**(25,017)**	**53,384**	**38,676**
Set off of tax	(15,335)	(16,841)	15,335	16,841	-	-
Net tax assets / (liabilities)	**59,037**	**46,852**	**(5,653)**	**(8,176)**	**53,384**	**38,676**

[1] The adoption of AASB 16 on 1 July 2019 resulted in an increase in Deferred tax asset of $2,870,478 and an increase in Deferred tax liability of $2,730,717 recognised through Retained Surplus.

[2] The adoption of AASB 9 on 1 July 2018 resulted in an increase in Deferred tax asset of $432,000, recognised through Retained Surplus.

[3] Prior year restated by $423,000.

6. Other notes

6.1 REVENUE FROM CONTRACTS WITH CUSTOMERS

6.1.1 DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	RACQ Group	
	2020	2019
	$'000	$'000
Revenue from sale of goods	39,680	33,839
Revenue from assistance activities	168,386	165,215
Trade towing revenue	7,170	9,287
Rental revenue	4,078	4,183
Advertising revenue	2,723	2,672
Other fee and commission revenue	12,601	19,740
Other revenue	9,611	11,557
Total	**244,249**	**246,493**
Timing of revenue recognition		
At a point in time	74,299	79,748
Over time	169,950	166,745
Total	**244,249**	**246,493**

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

6.1.2 ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS

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

	RACQ Group	
	2020	2019
	$'000	$'000
Trade and other Receivables	7,946	12,145
Expected credit loss	(116)	(43)
Total assets	**7,830**	**12,102**
Trade and other payables	(35,613)	(40,182)
Contract liability	(85,779)	(83,653)
Total liabilities	**(121,392)**	**(123,835)**

Revenue from contracts with customers - assistance activities

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

Revenue recognised in relation to contract liabilities

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

	RACQ Group	
	2020	2019
	$'000	$'000
Revenue recognised in the current period that was included in the contract liability balance at the beginning of the period		
Assistance activities	83,653	82,867

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

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

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

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

6.2 OTHER EXPENSES

		RACQ Group	
		2020	2019 (*Restated)
		$'000	$'000
Advertising and Sponsorship		2,157	4,069
Bank fees		5,120	3,933
Contractor and Consulting		12,410	9,560
Donations		7,548	6,849
Impairment of intangibles	5.2	6,592	3,306
Marketing, research and development		21,214	22,667
Motor vehicle expenses		2,975	2,949
Other fee and commission expense		5,876	4,628
Subscriptions and printing		2,553	3,008
Travel accommodation and entertainment		1,670	2,048
Other expenses		4,823	1,829
Total other expenses		**72,938**	**64,846**

* Refer to Note 1 for details of restatement.

6.3 PROVISIONS AND CONTINGENT LIABILITIES

Accounting policy

RACQ Group recognises provisions when:

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

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

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

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

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

Financial Planning remediation provision

	RACQ Group	
	2020	2019
	$'000	$'000
Balance at the beginning of the financial year	5,000	-
Additions	5,500	5,000
Remediation costs paid	(10,369)	-
GST recovery	512	-
Balance at the end of the financial year	**643**	**5,000**

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

The Group established a member-focused remediation program to identify and compensate Financial Planning clients who were charged an ongoing service fee without the provision of all of the services they were entitled to receive or where RACQ was not able to demonstrate the provision of those services. This involved a review of fee arrangements primarily relating to the period when the Financial Planning business was part of Queensland Teachers Mutual Bank which merged with RACQ in 2016. During the current financial year, the remediation program identified that an additional $5,500,000 (2019: $5,000,000) was required to fully remediate Financial Planning clients for this issue.

For the year ended 30 June 2020, a total of $10,369,355 in remediation payments have been paid. The remediation program for Financial Planning is substantially complete and the closing provision balance represents residual remediation payments ($386,914) and accrued project costs ($256,952).

6.4 NOTES TO THE STATEMENT OF CASH FLOWS

6.4.1. RECONCILIATION OF SURPLUS AFTER INCOME TAX TO CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

	RACQ Group	
	2020 $'000	2019 $'000
Surplus for the year	12,937	33,466
Add/(less) items classified as investing activities		
(Profit)/Loss on disposal of property, plant and equipment	3,647	(70)
Investment income	(3,051)	(15,974)
Investment interest income	(43,503)	(50,905)
Rental income	(3,025)	(3,181)
Add/(less) non-cash items		
Impairment loss on intangibles	6,592	3,305
Impairment loss on loans and advances	1,912	184
Impairment loss on joint venture	2,582	-
Depreciation and amortisation expense	43,363	43,369
Depreciation on right of use assets	4,188	-
Gain on sale of financial assets	4,631	10,220
Change of fair value of financial assets	2,540	(19,813)
Change in value of defined benefit superannuation fund	117	72
Net cash provided by operating activities before change in net assets and liabilities	**32,930**	**673**
Change in assets and liabilities		
Trade and other receivables	(6,498)	(22,888)
Reinsurance and other recoveries receivable	(3,168)	(79,001)
Loans and advances	(226,933)	(270,581)
Other assets	(4,275)	(1,224)
Deferred acquisition costs	(7,310)	6,832
Contract liability	2,125	786
Unearned revenue	42,581	31,109
Trade and other payables	21,725	12,777
Deposits	307,745	318,813
Outstanding claims liability	78,894	101,669
Provision for employee benefits	130	960
Deferred tax balances	(14,568)	(1,707)
Income tax receivable	7,530	(19,453)
Net cash provided by operating activities	**230,908**	**78,765**

6.5 LEASES

Accounting policies from 1 July 2019

Recognition and measurement

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

Group as a lessee

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

(i) Right-of-use assets

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

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

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

(ii) Lease liabilities

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

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

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

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

Group as a lessor

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

Application

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

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

Until 30 June 2019, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019 leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Refer to Note 6.9.1 for details on the AASB 16 transition adjustment.

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

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

	RACQ Group		
	Buildings	Plant and equipment	Total
	$'000	$'000	$'000
As at 1 July 2019 (adoption of new accounting standard refer note 6.9.1)	**9,335**	**831**	**10,166**
Additions	3,840	333	**4,173**
Depreciation expense	(3,863)	(324)	**(4,187)**
As at 30 June 2020	**9,312**	**840**	**10,152**

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

	Buildings	Plant and equipment	Total
	$'000	$'000	$'000
As at 1 July 2019 (adoption of new accounting standard)	**9,984**	**741**	**10,725**
Additions	3,687	333	**4,020**
Accretion of interest	331	24	**355**
Payments	(4,330)	(511)	**(4,841)**
As at 30 June 2020	**9,672**	**587**	**10,259**
Current	3,083	300	**3,383**
Non-current	6,589	287	**6,876**
Total lease liabilities	**9,672**	**587**	**10,259**

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

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

	RACQ Group
	Total
	$'000
Depreciation expense of right-of-use assets	4,187
Interest expense on lease liabilities (included in other expenses)	355
Expense relating to short-term leases (included in other expenses)	443
Expense relating to leases of low-value assets (included in other expenses)	495
Total amount recognised in profit or loss at 30 June 2020	**5,480**

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

	<1 Year $'000	1-5 Years $'000	5+ Years $'000	Total $'000
2020				
Operating lease revenue as lessor	2,010	2,946	1,486	**6,442**
2019				
Operating lease revenue as lessor	3,383	3,640	-	**7,023**

6.6 COMMITMENTS

Capital commitments

Commitments not provided for in the financial statements and payable:				
	<1 Year $'000	1-5 Years $'000	5+ Years $'000	Total $'000
2020				
Capital commitments	8,489	-	-	**8,489**
2019				
Capital commitments	10,474	-	-	**10,474**

As part of the purchase agreement of the identifiable assets of the Mt Cotton Driver Training Centre from the State of Queensland, the Group has committed to spend an additional $14,700,000 of capital investment over five years. The above capital commitments only reflect the value of 3rd party contractual agreements in place as at 30 June 2020.

Credit commitments and Guarantees

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

	2020 $'000	2019 $'000
Loans approved but not funded	49,209	46,510
Undrawn overdraft and line of credit facilities	80,042	79,284
Amounts available for redraw	164,469	126,756
Guarantees	3,562	121
Total	**297,282**	**252,671**

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

During the financial period the Group provided a bank guarantee of $3.52 million to the State of Queensland as support for capital improvements to the completed at the Mt Cotton Driver Training Centre (Refer note 6.8.1).

6.7 AUDITORS' REMUNERATION

The Group's auditor was Ernst and Young. The following services were provided by the Group's auditor:

	RACQ Group	
	2020	2019
	$	$
Audit services:		
Audit of the financial report	745,692	392,000
Other regulatory audit services	251,166	256,595
Total audit services	**996,858**	**648,595**
Audit related services:		
Other assurance services	4,120	4,000
Total audit related services	**4,120**	**4,000**
Other services:		
Taxation compliance services	2,000	-
Other services	232,509	102,400
Total other services	**234,509**	**102,400**
Total auditor's remuneration	**1,235,487**	**754,995**

6.8 GROUP STRUCTURE

6.8.1 BUSINESS COMBINATION

Mt Cotton Driver Training Centre

On 31 October 2019 RACQ-Queensland Driving Excellence Centre Pty Ltd, a wholly owned subsidiary of the Group, acquired 100% of the identifiable assets of the Mt Cotton Driver Training Centre from The State of Queensland, for a total purchase consideration of $8.3 million. The Group has committed to spend an additional $14.7 million of capital investment over five years as part of the sale agreement.

The newly rebranded RACQ Mobility Centre of Excellence (previously Mt Cotton Driver Training Centre) forms an important part of the services offered to RACQ members. The centre will continue to focus on driver training and education and in time will also expand activities within the areas of research, testing, certification and mobility activation.

The net assets recognised in the 30 June 2020 financial statements are based on a final independent valuation of their fair value at acquisition, as follows:

	Fair value at acquisition date
	$'000
Property, plant and equipment	55
Freehold land	3,850
Buildings and leasehold improvements	3,450
Deferred tax liabilities	(787)
Net assets acquired	**6,568**
Goodwill	1,732
Acquisition-date fair value of the total consideration transferred	**8,300**
Representing:	
Cash paid or payable to vendor	8,300
	8,300

The goodwill is attributable to synergies expected to arise after the Company's acquisition. None of the goodwill is expected to be deductible for tax purposes.

(i) Acquisition-related costs

The acquisition costs related to the business combination are $725,777 including stamp duty and other registration costs of $487,240. These were expensed when incurred during the current financial year.

(ii) Revenue and profit contribution

The acquired business contributed revenues of $416,230 and net loss of $907,815 to the group for the period from 31 October 2019 to 30 June 2020. If the acquisition had occurred on 1 July 2019, consolidated revenue and consolidated loss after tax for the year ended 30 June 2020 would have been $624,345 and $1,361,723 respectively.

RACQ Travel

On 1 July 2019, RACQ Group entered into a joint venture agreement with the Hunter Travel Group Tasmania Pty Ltd (HTG group). As part of the agreement, RACQ agreed to transfer the RACQ Travel operations and RACQ Travel assets to the HTG group in exchange for receiving consideration of 50% share equity of the ensuing joint venture.

The fair value of assets and liabilities transferred are as follows:

	Fair value $'000
Cash and cash equivalents	3,065
Goodwill	642
Total Assets	**3,707**
Employee benefits	(296)
Customer deposits	(1,461)
Total liabilities	**(1,757)**
Net assets	**1,950**

A gain on sale was recognised as a result of the transfer of RACQ Travel's assets and liabilities and an investment was recognised on the Group's balance sheet representing the Group's share of the fair value of the identifiable assets of the joint venture.

As a result of the COVID-19 pandemic, the global travel industry has been severely impacted with restricted domestic and international travel. Based on the modelled results of forecast profit projections through to FY25, the $2.582 million carrying value of the investment has been fully impaired at 30 June 2020.

Accounting policy for business combinations

The Group has elected to early adopt the AASB 3 amended definition of a business. The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

6.8.2 PARENT ENTITY DISCLOSURES

The parent entity, The Royal Automobile Club of Queensland Limited, is a company limited by guarantee and has no share capital. In the event of winding up, members are liable to the amount of $2.00 per member at a total contribution of $3,781,656 (2019: $3,728,138).

	The Royal Automobile Club of Queensland Limited	
	2020	2019
	$	$
Surplus for the year	10,550	9,487
Other comprehensive income	-	-
Total comprehensive income/(loss) for the year	**10,550**	**9,487**

	The Royal Automobile Club of Queensland Limited	
	2020	2019
	$	$
Financial position of the Company:		
Current assets	837,538	956,277
Total assets	1,166,930	1,251,937
Current liabilities	472,476	568,035
Total liabilities	472,476	568,035
Total accumulated funds of the Company comprising of:		
Reserves	166,467	166,467
Retained surplus	527,987	517,435
Total accumulated funds	**694,454**	**683,902**

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered a Deed of Cross Guarantee ("the Deed") with the effect that the Company guarantees debts in respect of its subsidiaries. Further details, including the subsidiaries subject to the Deed are disclosed in note 6.8.3 and 6.8.4.

Parent Entity Lease Commitments

	The Royal Automobile Club of Queensland Limited	
	2020	2019
	$	$
Operating lease commitments as lessor		
Within one year	4,583	7,101
Between one but not more than 5 years	13,892	19,627
More than 5 years	16,074	26,242
Total	**34,549**	**52,970**

Parent entity contingent liabilities

There are no parent entity contingent liabilities.

6.8.3 CONTROLLED ENTITIES

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

	Interest held	
	2020	2019
	%	%
RACQ Operations Pty Ltd[1]	100	100
The Road Ahead Publishing Co Pty Ltd[1,2]	100	100
RACQ Investments Pty Ltd[1]	100	100
RACQ-Queensland Driving Excellence Centre Pty Ltd	100	100
Automotive Assistance Services Pty Ltd	100	100
Q Garage Pty Ltd	75	75
Hug Insurance Pty Ltd	75	75
Basecamp Innovations Pty Ltd	75	75
RACQ Investments No.2 Pty Ltd	100	100
Club Insurance Holdings Pty Ltd[3]	100	100
RACQ Insurance Limited	100	100
Club Finance Holdings Limited[4]	100	100
Members Banking Group Limited	100	100
RACQ Financial Planning Pty Ltd	100	100
Arrow Funding Trust	100	100
RACQ Foundation Pty Ltd	100	100
RACQ Foundation Fund	100	100
RACQ Foundation Trust	100	100

[1] Subsidiaries are parties to the Deed of Cross Guarantee, as provided in note 6.8.4.

[2] Company in the process of voluntary liquidation

[3] 50% of the shares in Club Insurance Holdings Pty Ltd are held by RACQ Investments Pty Ltd, and 50% of the shares in Club Insurance Holdings Pty Ltd are held by RACQ Investments No.2 Pty Ltd.

[4] 10% of the redeemable preference shares in Club Finance Holdings are held by 62,716 legacy shareholders in Members Banking Group Limited.

6.8.4 DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations Instrument 2016/785, RACQ Operations Pty Ltd is relieved from the *Corporations Act 2001* requirements for preparation, audit, and lodgment of a financial report, and a directors' report. A condition of the instrument is the Company and each of the subsidiaries noted in note 6.8.3 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 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 2020

	Consolidated parties to the Deed	
	2020	2019
	$'000	$'000
Revenue		
Revenue from contracts with customers	429,418	438,729
Investment income	11,649	43,284
Total Revenue	**441,067**	**482,013**
Expenses		
Employee benefits expense	(240,185)	(227,806)
Payments to contractors for assistance services	(68,067)	(75,573)
Communication and information technology expenses	(8,858)	(17,731)
Depreciation and amortisation expense	(44,970)	(33,949)
Property and related occupancy costs	(7,553)	(11,444)
Other expenses	(84,683)	(79,594)
Total expenses	**(454,316)**	**(446,097)**
Share of profit of equity-accounted investments in associates	285	1,908
Gain on acquisition of controlling interest	775	1,500
Impairment of joint venture	(2,581)	-
Surplus/(loss) before income tax	**(14,770)**	**39,324**
Income tax benefit/(expense)	4,841	(1,721)
Surplus/(Loss) for the year	**(9,929)**	**37,603**

Consolidated Statement of Profit and Loss and Other Comprehensive Income for the year ended 30 June 2020

Surplus for the year	**(9,929)**	**37,603**
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gains	(293)	(274)
Net change in fair value of financial assets designated at fair value through OCI	(8,403)	2,305
Net change in fair value of OCI financial assets sold	1,328	4,572
Income tax benefit/(expense)	2,210	(1,981)
Total items that will not be reclassified to profit or loss	**(5,158)**	**4,622**
Total other comprehensive income/(loss) for the year, net of income tax	**(5,158)**	**4,622**
Total comprehensive income/(loss) for the year	**(15,087)**	**42,225**

Notes to the Financial Statements for the year ended 30 June 2020

Consolidated Balance Sheet as at 30 June 2020

	Consolidated parties to the Deed	
	2020	2019
	$'000	$'000
Assets		
Cash and cash equivalents	15,962	17,034
Trade and other receivables	127,803	241,053
Financial assets	863,647	885,745
Property, plant and equipment	148,386	150,450
Right of use assets	8,420	-
Deferred tax assets	32,247	20,747
Intangible assets	65,877	66,648
Other assets	24,195	22,550
Total assets	**1,286,537**	**1,404,227**
Liabilities		
Trade and other payables	261,677	382,076
Restructure provision	5,000	-
Contract liability	85,779	83,653
Current tax payable	2,357	781
Employee benefits	46,188	45,580
Lease liability	8,634	-
Total liabilities	**409,635**	**512,090**
Net assets	**876,902**	**892,137**
Accumulated funds		
Retained surplus	173,335	712,919
Reserves	703,567	179,218
Total accumulated funds	**876,902**	**892,137**

6.9 APPLICATION OF NEW ACCOUNTING STANDARDS

6.9.1 AASB 16 LEASES

AASB 16 replaces the provisions of AASB 117 *Leases* that relate to the principles of recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. Therefore, AASB 16 did not have an impact for leases where the Group is the lessor.

The Group adopted AASB 16 using the modified retrospective method of adoption, with the initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 July 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying AASB 117 at the date of initial application.

The effect of adoption of AASB 16 as at 1 July 2019 is, as follows:

	RACQ Group $'000
Assets	
Right-of-use assets	10,166
Plant and equipment	(1,060)
Make good assets	(270)
Deferred tax assets	140
Total Assets	**8,976**
Liabilities	
Lease liabilities	(10,725)
Other liabilities	1,395
Total liabilities	**(9,330)**
Total adjustment on equity:	
Retained earnings	354

On adoption of AASB 16, the Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's current indicative borrowing rates for similar loan terms as provided by the Group's banker, Westpac. The weighted average discount rate applied to the lease liabilities from 1 July 2019 was 3.18%.

For leases previously classified as finance leases the entity reclassified the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

The Group also applied the available practical expedients permitted by AASB16 wherein it:

- relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review. There were no onerous lease contracts as at 1 July 2019.
- applied the short-term leases exemption to leases with lease terms that end within 12 months of the date of initial application.
- excluded the initial direct costs from the measurement of the right of use asset at the date of initial application.
- used hindsight in determining the lease terms where the contract contained options to extend or terminate the lease.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	RACQ Group $'000
Assets	
Operating lease commitments disclosed as at 30 June 2019	**13,836**
Weighted average incremental borrowing rate as at 1 July 2019	3.18%
Discounted operating lease commitments as at 1 July 2019	**11,499**
Less:	
Commitments relating to short-term leases	(22)
Commitments relating to leases of low-value assets	(769)
Add:	
Commitments for contracts reassessed as lease liabilities	17
Lease liabilities as at 1 July 2019	**10,725**

6.9.2 AASB INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENT

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of AASB 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately.
- the assumptions an entity makes about the examination of tax treatments by taxation authorities.
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credit and tax rates.
- how an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions and has determined based on its conservative application of income tax treatments in addition to a robust Tax Risk Management framework that it is probable that its positions (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

7. Events subsequent to reporting date

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 14 to 77, 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 2020 and of its performance, for the financial year ended on that date; and

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

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

(c) There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 6.8.3 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 issued by the International Accounting Standards Board.

Signed in accordance with a resolution of the Directors:

BRONWYN MORRIS AM
Chairman
28 September 2020

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

Opinion

We have audited the financial report of The Royal Automobile Club of Queensland Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 30 June 2020, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in accumulated funds and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Responsibilities of the Directors for the Financial Report

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

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

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Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young

Ernst & Young

Alison de Groot
Partner
Brisbane
28 September 2020

Corporate Directory

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

President and Chairman
Bronwyn K Morris AM
BCom, FCA, FAICD

GROUP EXECUTIVE TEAM

Group Chief Executive Officer – David Carter
BCom, FCPA, F FIN, G.Dip Fin Planning, G.Dip App Fin and Inv, GAICD

Group Executive Bank – Michelle Bagnall
BBus, MBA, F FIN, GAICD

Chief Information Officer – Gregory Booker
MBA, MMgmnt, MAICD

Group Company Secretary – Bradley Bowes
Phd, MBA, MCommLaw, BBus (Accty), FGIA, FCIS, MAICD

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

Chief Risk Officer and General Counsel – Darryn Hammond
BSci (Hons), LLB, G.Dip Corp Gov, MQLS, FGIA, FCIS

Group Chief Financial Officer – Michael Lonergan
BBus, FCPA, G.Dip App Fin

Chief People Officer - Heidi Suominen
BBus (HR Mgt), G.Dip Training and Development, GAICD

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

Chief Communication Officer - Paul Turner
GAICD

AUDITORS
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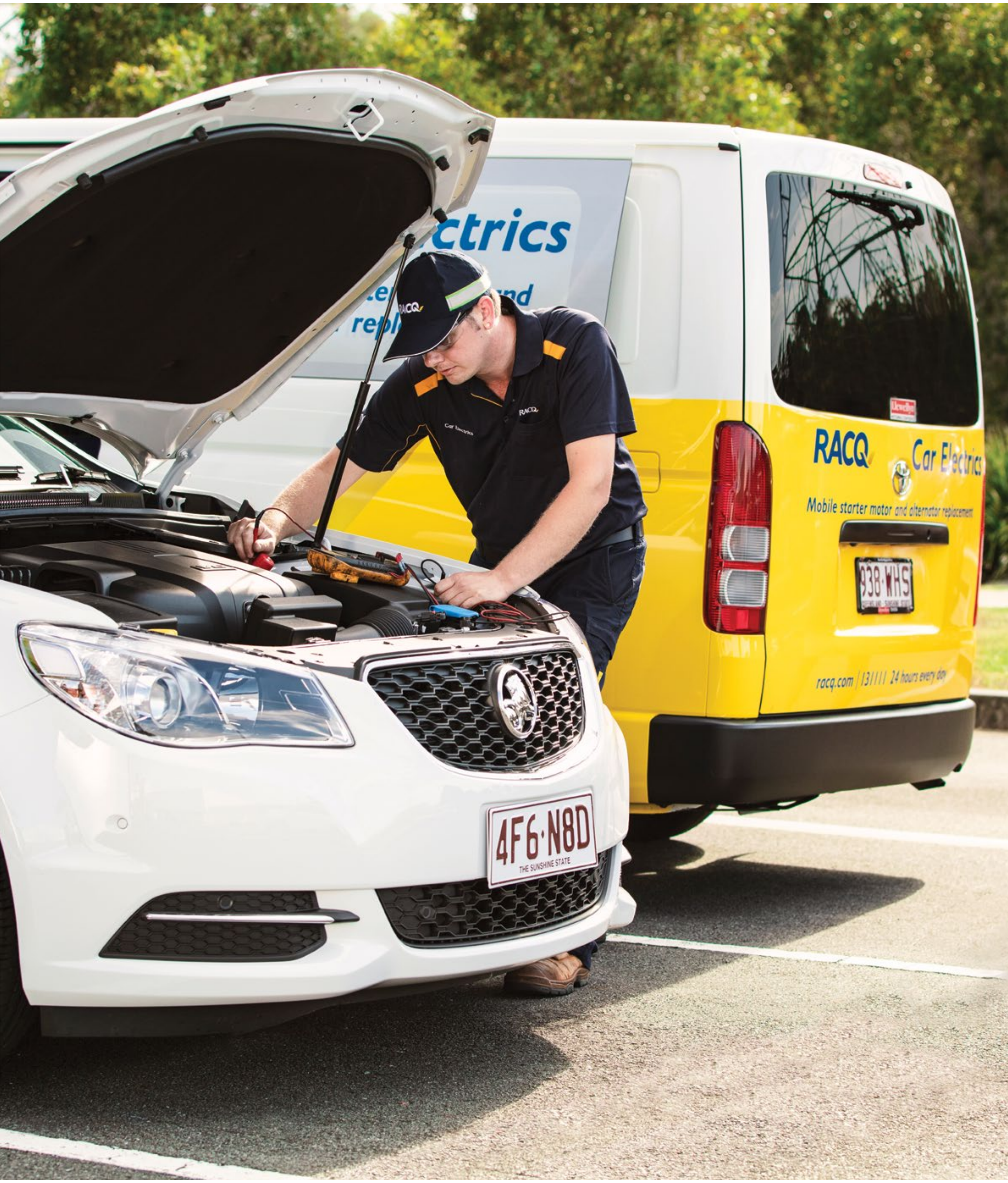
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