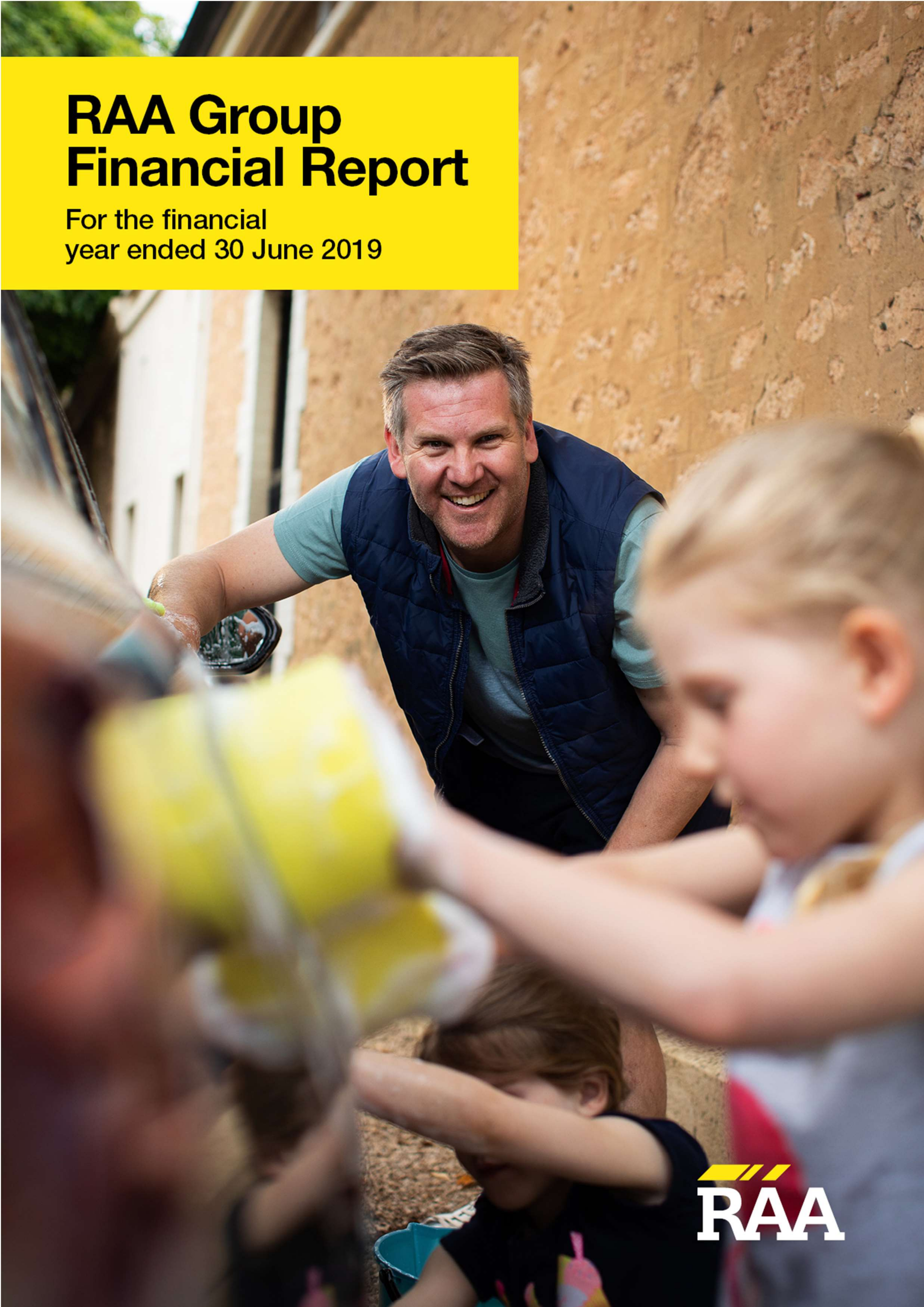
RAA Group Financial Report

For the financial year ended 30 June 2019



STATEMENT OF PROFIT OR LOSS
For the year ended 30 June 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Revenue from contracts with customers	3(a)	**113,284**	107,374
Other revenue	3(b)	**325,331**	294,988
Revenue		**438,615**	402,362
Other Income	3(c)	**10,290**	6,683
Share of net profit of associates and joint ventures	12, 13	**717**	67
Total Income		**449,622**	409,112
Expenses			
Employee benefits	4(a)	**(81,177)**	(80,858)
Payments to contractors for roadside assistance		**(20,714)**	(16,958)
Cost of sales		**(11,678)**	(11,766)
Depreciation and amortisation	4(b)	**(8,917)**	(8,491)
Finance costs	4(c)	**(529)**	(551)
Insurance claims expense	23(a)	**(213,755)**	(197,236)
Outwards reinsurance premium expense	23(a)	**(37,169)**	(32,207)
Other expenses	4(d)	**(50,226)**	(45,540)
Total Expenses		**(424,165)**	(393,607)
Operating profit before income tax from continuing operations		**25,457**	15,505
Income tax(expense)/benefit	5(a)	**(7,205)**	(4,783)
Profit after tax for the year		**18,252**	10,722

The Statement of Profit or Loss is to be read in conjunction with the accompanying Notes to the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Profit after tax for the year		**18,252**	**10,722**
Other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods			
Net fair value gain / (loss) on financial assets and derivatives		**-**	(659)
Income tax on items of other comprehensive income	5(d)	**-**	198
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**-**	(461)
Items not to be reclassified subsequently to profit or loss			
Actuarial gain / (loss) on defined benefit plan		**(33)**	120
Income tax on items of other comprehensive income	5(d)	**10**	(36)
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**(23)**	84
Other comprehensive loss for the year net of tax		**(23)**	(377)
Total comprehensive income for the year net of tax		**18,229**	10,345

The Statement of Comprehensive Income is to be read in conjunction with the accompanying Notes to the Financial Statements.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Current Assets			
Cash and cash equivalents	6	**28,211**	40,550
Trade and other receivables	7	**171,318**	154,638
Inventories	8	**1,801**	1,988
Deposits in trust account	9	**1,276**	2,336
Other current assets	10	**2,533**	2,934
Financial assets	11	**208,177**	170,823
Deferred acquisition costs	23(c)	**6,064**	5,511
Total Current Assets		**419,380**	378,780
Non-Current Assets			
Trade and other receivables	7	**4,312**	2,484
Pension asset	26	**1,146**	1,261
Financial assets	11	**7,011**	10,351
Investments in joint ventures	12	**3,082**	3,077
Investments in associates	13	**4,062**	3,735
Property, plant and equipment	14(a)	**57,860**	54,998
Intangible assets	15(a)	**36,706**	39,034
Goodwill	16	**61,199**	61,199
Deferred tax asset	5(d)	**9,070**	8,605
Total Non-Current Assets		**184,448**	184,744
Total Assets		**603,828**	563,524
Current Liabilities			
Trade and other payables	17	**45,237**	36,325
Unearned income	18	**191,028**	169,025
Deposits in trust account	9	**1,276**	2,336
Provisions	20	**15,816**	14,468
Current tax liability	5(c)	**7,646**	4,191
Outstanding claims liability	23(d)	**66,769**	61,657
Total Current Liabilities		**327,772**	288,002
Non-Current Liabilities			
Interest bearing loans and borrowings	19	**-**	20,000
Provisions	20	**1,723**	2,141
Deferred tax liability	5(d)	**17,831**	17,394
Outstanding claims liability	23(d)	**3,561**	2,064
Total Non-Current Liabilities		**23,115**	41,599
Total Liabilities		**350,887**	329,601
Net Assets		**252,941**	233,923
Equity			
Retained earnings	21	**205,445**	182,513
Reserves	22	**47,496**	51,410
Total Equity		**252,941**	233,923

The Statement of Financial Position is to be read in conjunction with the accompanying Notes to the Financial Statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2019

	Consolidated				
	Asset Revaluation Reserve (Note 22) $'000	Net Unrealised Gains Reserve (Note 22) $'000	Unrealised Capital Reserve on RAAI Acquisition (Note 22) $'000	Retained Earnings (Note 21) $'000	Total $'000
At 1 July 2017	13,023	4,375	34,473	171,707	223,578
Loss for the period	-	-	-	10,722	10,722
Other comprehensive income/(loss)	-	(461)	-	84	(377)
Total comprehensive income / (loss)	-	(461)	-	10,806	10,345
At 30 June 2018	13,023	3,914	34,473	182,513	233,923
Adjustment on initial application of AASB 9	-	(3,914)	-	4,703	789
At 1 July 2018	13,023	-	34,473	187,216	234,712
Profit for the period	-	-	-	18,252	18,252
Other comprehensive income / (loss)	-	-	-	(23)	(23)
Total comprehensive income / (loss)	-	-	-	18,229	18,229
At 30 June 2019	13,023	-	34,473	205,445	252,941

The Statement of Changes in Equity is to be read in conjunction with the accompanying Notes to the Financial Statements.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Cash flows from operating activities			
Receipts from members and customers (inclusive of GST)		**481,931**	491,243
Payments to suppliers and employees (inclusive of GST)		**(437,941)**	(449,101)
Interest paid		**(529)**	(551)
Interest received		**800**	526
Rental income received		**53**	42
Income tax (paid)/recevied		**(4,109)**	158
Net cash from operating activities	6	**40,205**	**42,317**
Cash flows from investing activities			
Proceeds from sale of fixed assets and intangibles		**607**	725
Proceeds from the sale of financial assets		**6,339**	497
Distributions received		**3,773**	6,715
Dividends received		**383**	153
Purchase of fixed assets and intangibles		**(10,004)**	(11,557)
Purchase of financial assets		**(36,915)**	(25,881)
Net cash used in investing activities		**(35,817)**	**(29,348)**
Cash flows from financing activities			
Loans to related parties		**3,273**	(1,332)
Proceeds from borrowings		**-**	10,000
Repayment of borrowings		**(20,000)**	-
Net cash (used in) / from financing activities		**(16,727)**	**8,668**
Net (decrease) / increase in cash		**(12,339)**	**21,637**
Cash and cash equivalents at beginning of the year		**40,550**	18,913
Cash and cash equivalents at the end of the year	6	**28,211**	**40,550**

The Statement of Cash Flows is to be read in conjunction with the accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of the Royal Automobile Association of South Australia Inc. (the Association) for the year ended 30 June 2019 was authorised for issue in accordance with a resolution by the directors on 26 August 2019.

The Association is an incorporated association domiciled in Australia. The address of the Association's registered office is 101 Richmond Road, Mile End, South Australia, 5031.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the *Associations Incorporation Act South Australia 1985,* Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on the basis that the entity is for-profit.

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report has been prepared on the basis of historical cost, except for land and buildings and financial instruments that have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars [$'000], unless otherwise stated. Where appropriate, amounts shown for prior periods have been reclassified to facilitate comparison.

The significant accounting policies adopted are stated in order to assist in a general understanding of the financial report. These policies have been consistently applied, unless otherwise stated.

Accounting policies are applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Association (the Parent) and its subsidiaries (the Group) as at 30 June 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiary. Specifically, the Group controls a subsidiary if and only if the Group has:

- Power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary)
- Exposure, or rights, to variable returns from its involvement with the subsidiary, and
- The ability to use its power over the subsidiary to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over a subsidiary including:

- The contractual arrangement with the other vote holders of the subsidiary
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains or ceases control.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the Parent of the Group. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretation

(i) *Changes in significant accounting policies.*

The Group has initially applied AASB 15 and AASB 9 from 1 July 2018.

Due to the transition methods chosen by the Group in applying these standards, comparative information through these financial statements has not been restated to reflect the requirements of the new standards.

The application of these standards has not had a material effect on the Group's financial statements.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue from contracts with its customers is recognised. It supersedes AASB 18 Revenue, AASB 111 Construction Contracts and related interpretations.

AASB 15 establishes a five step model to account for revenue arising from contracts and requires that revenue is recognised at the amount that reflects the consideration which an entity expects to be entitled when a customer obtains control of the goods or services.

Determining the timing of the transfer of control – at a point in time or over time – requires judgement taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. Where consideration has been received prior to the transfer of goods or services, the amount shall be reported as a contract liability until the obligation has been performed.

AASB 15 does not have an impact on the measurement of the Group's revenue with respect to its current revenue streams. However, the classification of the Group's different revenue streams has changed and is now reported as either Revenue from contracts with customers or Other revenue.

Set out below, are the amounts by which each financial statement line item is affected for the year ended 30 June 2019 as a result of the adoption of AASB 15. The adoption of AASB 15 did not have a material impact on the Group's Expenses, OCI, Statement of Financial Position or Cash Flows. The first column shows amounts prepared under AASB 15 and the second column shows what the amounts would have been had AASB 15 not been adopted:

Consolidated statement of profit or loss for the year ended 30 June 2019		**Amounts prepared under**		
	Reference	**AASB 15**	**Previous AASB**	**Increase/ (decrease)**
		$'000	**$'000**	**$'000**
Revenue from contracts with customers	(a)	113,284	-	113,284
Other revenue	(b)	325,331	-	325,331
Revenue		**438,615**	**439,415**	**(800)**
Other Income	(c)	10,290	9,490	800
Share of net profits of associates and joint ventures		717	717	-
Total Income		**449,622**	**449,622**	**-**

The nature of the adjustments at 1 July 2018 and the reasons for the changes in the statement of profit or loss for the year ended 30 June 2019 are described below:

(a) *Revenue from contracts with customers* – all revenue streams previously reported as revenue in prior periods, other than Interest, Insurance premium revenue and Reinsurance and other recoveries revenue, fall within the scope of AASB 15 and are now classified as Revenue from contracts with customers.

(b) *Other revenue* – other revenue comprises those revenue streams not within the scope of AASB 15 and is predominately made up of Insurance premium revenue and Reinsurance recoveries.

(c) *Other income* – interest income does not fall within the scope of AASB 15 and has been reclassified as Other Income in line with Investment income.

Further detail on the classification of revenue can be seen in note 1(f) and note 3.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 9 Financial Instruments

AASB 9 was issued in December 2014 and supersedes AASB 139 Financial Instruments: Recognition and Measurement. It addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce a forward-looking expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risk.

The Group applied AASB 9 retrospectively, with an initial application date of 1 July 2018. The Group has elected not to restate the comparative information, which continues to be reported under AASB 139. Differences arising from the adoption of AASB 9 have been recognised directly in retained earnings and other components of equity.

The effect of adopting AASB 9 as at 1 July 2018 was, as follows:

	Adjustments	1 July 2018
		$'000
Assets		
Shares - Australian unlisted	(a)	1,125
Total assets		1,125
Liabilities		
Deferred Tax Liability		(336)
Total Liabilities		(336)
Total adjustment on equity:		
Retained Earnings	(a)	(4,703)
Net Unrealised Gains Reserve	(a)	3,914
		(789)

The nature of these adjustments are described below:

(a) Classification and measurement

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. AASB 9 eliminates the previous AASB 139 categories of held to maturity, loans and receivables and available for sale. Under AASB 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities.

The Group continued measuring at fair value all financial assets previously held at fair value under AASB 139. The following are the changes in the classification and measurement of the Group's financial assets:

- Funds under management, classified as *Available for Sale Financial Assets* and measured at fair value through reserves as at 30 June 2018, are classified and measured as *Financial assets mandatorily at fair value through profit or loss* beginning 1 July 2018;

- Shares – Australian unlisted, classified as *Available for Sale Financial Assets* and measured at cost as at 30 June 2018, are classified and measured as *Financial assets at fair value through profit or loss* beginning 1 July 2018.

As a result of the change in classification of the Group's Financial Assets, the total Net Unrealised Gains Reserve of $3,914,000 relating to those investments that were previously presented under accumulated OCI, was reclassified to *Retained Earnings* as at 1 July 2018.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In summary, upon the adoption of AASB 9, the Group had the following required or elected reclassifications as at 1 July 2018.

		AASB 9 measurement category			
		Mandatorily at Fair value through profit or loss	Designated at Fair value through profit or loss	Amortised Cost	Fair value through OCI
AASB 139 measurement category	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets at fair value through profit or loss					
Funds under management	106,569	72,971	33,598	-	-
Available for Sale					
Funds under management - fair value through reserves	51,283	51,283	-	-	-
Shares - Australian unlisted - at cost	175	1,300	-	-	-
Short-term deposits held for reinvestment	9,781	-	-	9,781	-
Loans and receivables					
Loan to Related Parties	13,366	-	-	13,366	-
		125,554	33,598	23,147	-

(b) Impairment

AASB 9 contains new impairment requirements for financial assets based on a forward looking ‘expected credit loss’ (ECL) model rather than the current ‘incurred loss’ model under AASB 139. AASB 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

The Group has determined that the application of AASB 9’s impairment requirements at 1 July 2018 does not have a material impact.

(ii) *Accounting standards and interpretations issued but not yet effective*

Australian Accounting Standards and Interpretations that are issued, but are not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

AASB 16 *Leases*

AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of ’low-value’ assets and short-term leases. Lessor accounting is substantially unchanged from today’s accounting under AASB 117.

AASB 16 is effective for annual periods beginning on or after 1 January 2019 with the application date for the Group being 1 July 2019.

Upon adoption of AASB 16, the Group will recognise new assets and liabilities for its operating leases of commercial property and printing hardware. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for the right-of-use asset and interest expense on lease liabilities.

During 2019, the Group has performed an impact assessment of AASB 16. In summary, for those leases in place at 30 June 2019 which are not deemed ‘low-value’ or short-term, the following asset and liability balances will be recognised at 1 July 2019:

	$'000
Assets	
Property, plant and equipment (right-of-use assets)	958
Liabilities	
Lease liabilities	(958)
Net impact on equity	-

As at 30 June 2019, several of the Group’s commercial property leases were either holding over, or under negotiation for renewal, and so are not included in the above.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 17 *Insurance Contracts*

In May 2017, the AASB released its new accounting standard, AASB 17 replacing AASB 4, AASB 1023 and AASB 1028. All insurers are expected to be impacted, with changes to profit recognition and extensive new disclosure requirements.

AASB 17 is effective for annual periods beginning on or after 1 January 2021 with the application date for the Group being 1 July 2021.

The Group is currently in the process of assessing the impact on its financial statements resulting from AASB 17. It does not intend to adopt the new standard before its application date.

(d) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in other expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 9 Financial Instruments, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of AASB 9, it is measured in accordance with the appropriate AASB. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses (refer Note 1(o), Goodwill).

(e) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the associate, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in its associates and joint ventures are accounted for using the equity method of accounting in the consolidated financial statements and at cost in the Parent.

Under the equity method, investments in the associates or joint ventures are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Statement of Profit or Loss reflects the Group's share of the profits or losses of the associate or joint venture. Any change in OCI of those associates is presented as part of the Group's OCI. When there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.
The reporting dates of the associates or joint ventures are the same as the Group. The accounting policies of associates or joint ventures conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is evidence that the investment in the associate or joint venture is impaired. If such evidence exists, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss in the Statement of Profit or Loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the Statement of Profit or Loss.

(f) Revenue recognition

The effect of initially applying AASB 15 on the Group's financial instruments is described in Note 1 (c).

Revenue Streams

The Group generates revenue primarily from Road Service Subscriptions and Insurance Premiums. Other sources of revenue include sales of goods (retail sales) and rendering of services (security installation and monitoring).

Revenue from contracts with customers

Roadside subscription, Sales of goods, Rendering of services, Distribution fees, Commission, Sundry Income and Advertising revenue is measured under AASB 15 and classified as revenue from contracts with customers. Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

Road Service Subscriptions

The performance obligations related to Road Service Subscriptions are deemed to be the provision of Road Service and any discounts received on other Group retail sales or services.

There is no change in revenue recognition in relation to Road Service Subscriptions under AASB 15. Revenue is recognised when the Road Service performance obligation is satisfied, on a straight line basis over the subscription period. Discounts received in conjunction with holding a Road Service Subscription are not material.

The proportion of revenue not recognised at the reporting date is recognised as a contract liability in the statement of financial position.

Sale of goods

The performance obligation relating to retail sales is the over the counter sale of the product. Revenue from the sale of goods is recognised when the customers obtain control of the product, usually on delivery of the goods. Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of customer discounts.

Revenue outside the scope of AASB 15

Insurance premiums and Reinsurance recoveries

Revenue streams from Insurance are not applicable to AASB 15 as they fall within the scope of AASB 1023 General Insurance Contracts.

As can be seen in Note 23(a) the results of "total net earned premium" and "total net incurred claims" are captured to recognise the insurance contribution at a gross level, the two revenue levels of "total premium revenue" and "reinsurance and other recoveries revenue", and the two expense levels of "outwards reinsurance premium expense" and "claims expense" are now captured separately.

Gross earned premium comprises amounts charged to the policyholders, including fire service levies but excluding taxes collected on behalf of third parties. Gross earned premium is recognised as revenue in profit or loss when it has been earned. Gross earned premium revenue is treated as beginning to be earned from the date of attachment of risk. The pattern of recognition over the policy or indemnity periods is based on time, which is considered to closely approximate the pattern of risks underwritten using the 365ths method.

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is the portion of gross written premium that has not yet been earned and a measure of unexpired risk liability.

Interest revenue

Revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Revenue is recognised when the Group's right to receive the dividend is established.

Rental revenue

Rental revenue is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

(g) Income tax and other taxes

Income tax on the Statement of Profit or Loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred Income tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

The Association and its wholly-owned Australian controlled entities elected to be taxed as a single entity under the tax consolidation regime with effect from 1 July 2003.

The measurement and disclosure of deferred tax assets and liabilities is performed in accordance with the principles in AASB 112 "Income taxes" and on a standalone basis under Interpretation 1052 "Tax consolidation accounting."

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The head entity, the Association, and the wholly owned tax consolidated entities account for their own current and deferred tax amounts. The Association recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of each entity in respect of tax amounts. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Details of the tax funding agreement are disclosed in Note 5.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the revenue or the expense item as applicable
- Receivables and payables, which are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of payables in the Statement of Financial Position. Commitments and contingencies are disclosed net of the amount of GST recoverable, or payable to, the taxation authority.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

(h) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and on hand and short term deposits generally with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(i) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. Collectability of trade receivables is reviewed on an on-going basis at an operating level. Individual debts that are known to be uncollectible are written off when identified.

AASB 9 replaces the ‘incurred loss’ model in AASB 139 with an ‘expected credit loss’ (ECL) model in relation to impairment. An allowance loss based on lifetime ECLs is recognised at each reporting date.

(j) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to make the sale. Inventories are accounted for on a first in, first out basis.

(k) Prepayments

Prepayments are recognised as an asset at reporting date as they represent rights to receive services in the future. Common prepayments include software maintenance agreements and subscriptions.

(l) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Land and buildings are measured at fair value, less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation. Depreciation is calculated on a straight line basis over the estimated useful life of the specific assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The depreciation rates used for each class of assets are as follows:

- Land - not depreciated
- Buildings - 2%
- Plant and equipment - 2.5-50%
- Motor vehicles - 15%
- Furniture and fittings - 2.5-50%
- Leasehold improvements - 10-50%

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Revaluations of land and buildings

Land and buildings are measured on the fair value basis. Fair value is determined on the basis of an independent valuation prepared by external valuation experts, and determined on market based evidence by appraisal, and does not take capital gains tax into account. Valuations are undertaken every three years. The fair values are recognised in the financial statements of the Group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increment is credited to the asset revaluation reserve included in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss. Any revaluation decrement is recognised in profit or loss, except to the extent that is offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amount of the assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Statement of Profit or Loss. Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(m) Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation of an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of non-financial assets other than goodwill and indefinite life intangibles

Non-financial assets other than goodwill and indefinite life intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual review of asset values to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

(o) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units), to which the goodwill relates. The Group performs its impairment testing as at 30 June each year using discounted cash flows under the value in use methodology. Further details on the methodology and assumptions used are outlined in Note 16, Goodwill.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Impairment recognised for goodwill is not subsequently reversed.

(p) Financial instruments

The effect of initially applying AASB 9 on the Group's financial instruments is described in Note 2 (c).

Initial Recognition and measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition of issue. A trade receivable without a significant financing component is initially measures at the transaction price.

Classification and Subsequent measurement

(i) Financial assets – Policy applicable from 1 July 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. All financial assets backing insurance liabilities have been designated as FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

(ii) Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

(i) Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

(ii) Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(q) Deferred acquisition costs

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to earned premium revenue that will be recognised in the Statement of Profit or Loss in subsequent reporting periods.

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

(r) Pensions and other post-employment benefits

The defined benefit pension plan requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in the Statement of Profit of Loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under employee benefits expense in the profit or loss:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the inception of the lease at the lower of fair value of the leased asset or the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the Statement of Profit or Loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(t) Trade and other payables

Trade payables and other payables are carried at amortised cost and due to their short term nature are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(u) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Group does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

(v) Provisions and employee benefits

As at 30 June 2019, the Group had 888 (2018:849) full time equivalent employees.

Provisions are recognised when the Group has 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.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Profit of Loss net of any reimbursement.

Provisions are measured at the present value of management'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 time value of money and the risks specific to the liability.

Employee leave benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Workers' compensation

The Group is a self-insurer for workers' compensation claims. A claims incurred expense and a provision for outstanding claims has been recognised in the financial statements. The provision for outstanding claims has been actuarially assessed by reviewing individual claim files and estimating unnotified claims using statistics based on past experience and trends.

Outstanding claims have been discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the timing of claim payments. Refer to Note 28 for contingent liability relating to bank guarantee provided as security for outstanding claims.

(w) Outstanding Claims Liability

The liability for outstanding claims is measured as the central estimate of the present value of the expected future payments for claims incurred at the reporting date under general insurance contracts, with an additional risk margin to allow for the inherent uncertainty in the central estimate. The liability is measured based on advice / valuation of the appointed actuary, Finity. Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgements

Insurance liabilities

The adequacy of the unearned premium liability for the portfolio is assessed by considering current estimates of the present value of the expected future cash flows relating to future claims arising from current insurance contracts. If the present value, plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, less related intangible assets and related deferred acquisition costs, the unearned premium liability is deemed deficient. If deficient, the entire deficiency is recognised in the statement of profit or loss and other comprehensive income. First the related intangible assets are written down and then related deferred acquisition costs, with any excess being recognised in the statement of financial position as an unexpired risk liability.

Impairment of non-financial assets other than goodwill and indefinite life intangibles

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Profit or Loss.

The Group has a Board approved Tax Governance Framework and has adopted the Board of Taxation's Voluntary Taxation Transparency Code. The Tax Governance Framework reflects the Group's low risk appetite. The Group make decisions for commercial reasons and do not enter transactions for the primary purpose of obtaining a tax benefit. The Group takes advantage of available deductions, tax rebates, offsets and credits to achieve the best tax outcomes for the Group.

The Group is committed to complying with all relevant tax legislation, rulings and regulations and to maintaining a transparent and proactive relationship with tax authorities. The Group has controls in place to ensure the right amount of tax is paid.

RAA conducted a review of its tax mutuality status with external advisors and concluded RAA remains a mutual association for accounting purposes but is no longer a mutual for tax purposes from 1 July 2014.

(ii) Significant accounting estimates and assumptions

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. No impairment has been recognised for the 2019 financial year (2018: nil).

3. INCOME

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
(a) Revenue from contracts with customers			
Subscriptions (i)		**67,451**	64,452
Sales of goods		**15,497**	15,276
Rendering of services		**15,887**	14,536
Distribution fee		**415**	418
Commission		**6,115**	5,696
Sundry income		**7,221**	6,267
Advertising revenue from SA Motor		**698**	729
		113,284	107,374
(b) Other Revenue			
Insurance premium revenue	23a)	**278,101**	236,703
Reinsurance and other recoveries revenue	23a)	**47,181**	58,247
Rental income		**49**	38
		325,331	294,988
Total Revenue		**438,615**	402,362
(c) Other Income			
Interest		**800**	526
Investment income		**4,156**	6,868
Net gain on available for sale financial assets			
Reclassified from OCI		**-**	1,497
Net gain / (loss) on financial assets at fair value through profit or loss			
Investments held at end of financial year		**2,139**	680
Investments sold during the financial year		**3,142**	(3,000)
Net gain / (loss) on disposal of non-current assets		**53**	112
		10,290	6,683

(i) Subscriptions
Subscription revenue, relating to Road Service, is recognised over time. All other revenue from contracts with customers is recognised at a point in time.

(d) Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

	Note	2019	2018
Receivables, which are included in 'trade and other receivables'	7	**17,428**	14,361
Contract liabilites - Road Service Subscriptions	18	**(35,118)**	(33,497)

The contract liabilities relate to the advance consideration received from customers in relation to Road Service, for which revenue is recognised over the 12 month period of the Subscription.

4. EXPENSES

	Consolidated 2019 $'000	Consolidated 2018 $'000
(a) Employee Benefits		
Salaries, wages and allowances	**74,568**	74,728
Superannuation Guarantee	**6,609**	6,130
	81,177	80,858
(b) Depreciation, Impairment and Amortisation		
Depreciation of property, plant and equipment	**3,634**	3,666
Amortisation of intangibles	**5,283**	4,825
	8,917	8,491
(c) Finance costs		
Bank loans	**529**	551
	529	551
(d) Other expenses		
Bad debts written off, net of recoveries	**83**	25
Banking and credit card charges	**2,113**	1,927
Building maintenance	**645**	658
Commission paid to agents	**2,133**	2,077
Consultants	**3,649**	3,468
Legal fees	**114**	116
Fleet expenses	**1,135**	1,102
Investment fund expenses	**498**	434
System expenses	**9,640**	7,419
Other expenditure	**1,522**	1,604
Postages and freight	**1,813**	2,059
Marketing and public issues	**13,800**	11,682
Rates, insurance and utility expenses	**2,071**	1,978
Rent paid on operating leases	**1,401**	1,336
SA Motor magazine production costs	**952**	1,039
Staff related costs	**7,239**	7,255
Telephone charges	**1,418**	1,361
	50,226	45,540

5. INCOME TAX

(a) Income tax expense / (benefit)

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current income tax	**7,644**	5,362
Current tax expense - Prior year under/over	**(82)**	(247)
Deferred income tax	**(279)**	(658)
Deferred tax expense - Prior year under/over	**(78)**	325
	7,205	4,783
Deferred income tax benefit included in income tax expense comprises:		
Decrease in deferred tax charged directly to equity	**(328)**	162
Increase in deferred tax assets	**(465)**	(344)
Increase in deferred tax liabilities	**437**	(150)
	(356)	(332)

(b) Numerical reconciliation between aggregate tax expense recognised in the statement of profit or loss and the tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	Consolidated 2019 $'000	Consolidated 2018 $'000
Accounting profit / (loss) before income tax	**25,457**	15,505
Income tax expense / (benefit) at 30% (2018: 30%)	**7,637**	4,652
Income not assessable for income tax purposes	**-**	(3)
Expenditure not allowable for income tax purposes	**68**	157
Rebates	**(343)**	(116)
Franking credits	**102**	35
Assessable income not included		
Equity share of associate's profits	**(98)**	(20)
Prior year over provision	**(161)**	78
Aggregate income tax expense/(benefit)	**7,205**	4,783
Accounting effective tax rate:	28.30%	30.85%

5. INCOME TAX (continued)

(c) Numerical reconciliation of tax expense to current tax liability

	Consolidated 2019 $'000	Consolidated 2018 $'000
Aggregated income tax expense	**7,205**	4,783
Less prior year under/over provision	**161**	(78)
Timing difference recognised in deferred tax asset		
Doubtful debts	**17**	(20)
Audit fee payable	**(14)**	1
Employee benefits	**367**	424
Unearned income	**166**	125
Outstanding claims	**67**	164
Intangible assets	**(109)**	78
Tax only assets	**(145)**	259
Accruals	**-**	(2)
Timing difference recognised in deferred tax liability		
Other Items	**25**	273
Deferred acquisition costs	**(166)**	(125)
Financial assets at fair value	**(617)**	(334)
Intangible assets at fair value	**45**	54
Property, plant and equipment	**644**	191
Tax losses utilised	**-**	(429)
Current year instalments paid this year	**-**	(1,172)
Current tax liability/(asset)	**7,646**	4,191

(d) Recognised deferred tax assets and liabilities

(i) Amounts recognised directly in equity

Aggregate deferred tax arising in the reporting period and not recognised in net profit but directly debited to equity:

	Consolidated 2019 $'000	Consolidated 2018 $'000
(Loss)/Gain on Managed Funds	**-**	(198)
Revaluation on investments in equity instruments	**338**	-
Actuarial (loss)/gain on defined benefit superannuation fund	**(10)**	36
	328	(162)

5. INCOME TAX (continued)

(d) Recognised deferred tax assets and liabilities (continued)

(ii) Non-current assets - Deferred tax assets
The balance comprises temporary differences attributable to:

	Consolidated 2019 $'000	Consolidated 2018 $'000
Amounts recognised in profit or loss		
Doubtful debts	**49**	33
Audit fee payable	**-**	14
Employee benefits	**4,978**	4,611
Unearned income	**1,819**	1,653
Outstanding claims	**1,086**	1,018
Intangible assets	**-**	44
Tax only assets	**1,074**	1,232
Accruals	**-**	-
Tax losses	**64**	-
Net deferred tax assets	**9,070**	8,605
Movements		
Opening balance	**8,605**	8,261
Reclassification of deferred tax balance	**(130)**	
Recognised in income	**595**	344
Closing balance	**9,070**	8,605

(iii) Non-current liabilities - Deferred tax liabilities
The balance comprises temporary differences attributable to:

	Consolidated 2019 $'000	Consolidated 2018 $'000
Amounts recognised in profit or loss		
Other Items	**81**	116
Deferred acquisition costs	**1,819**	1,599
Financial assets at fair value	**3,082**	2,219
Intangible assets at fair value	**4,776**	4,745
Property, plant and equipment	**8,073**	8,715
Net deferred tax liabilities	**17,831**	17,394
Movements		
Opening balance	**17,394**	17,544
Reclassification of deferred tax balance	**130**	-
Recognised in income	**(21)**	12
Recognised in goodwill	**-**	-
Recognised in equity	**328**	(162)
Closing balance	**17,831**	17,394

5. INCOME TAX (continued)

(e) Tax consolidation

Members of the tax consolidated group and the tax sharing arrangement

The Parent and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. The Association is the head entity of the tax consolidated group. Members of the tax consolidated group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Members of the tax consolidated group and the tax funding arrangement

Under the tax funding agreement, income tax is recognised on a standalone taxpayer basis under which current and deferred tax amounts for the tax consolidated group are allocated among each entity in the tax consolidated group. Assets or liabilities arising under the tax funding agreements with tax consolidated entities are recognised as amounts receivable or payable to other entities in the tax consolidated group.

	Consolidated 2019 $'000	Consolidated 2018 $'000
6. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	**28,211**	40,550
Reconciliation of net profit after tax to net cash flows from operations		
Net profit / (loss) after tax	**18,252**	10,722
Adjustments for:		
Depreciation and impairment	**3,634**	3,666
Amortisation	**5,283**	4,825
Defined benefit fund expense	**82**	111
Bad Debts Written off	**83**	-
Net (profit) / loss on disposal of property, plant and equipment	**(53)**	(112)
Net loss on investments recognised through profit and loss	**(5,281)**	823
Share of Associates profit	**(717)**	(67)
Dividend from associates	**(383)**	(153)
Distributions received	**(3,773)**	(6,715)
Income tax received / (paid)	**(4,109)**	158
Income tax expense / (benefit)	**7,205**	4,783
Changes in assets and liabilities:		
Decrease in inventories	**187**	387
Decrease/(Increase) in trade and other receivables	**(17,447)**	19,927
Decrease/(Increase) in prepayments	**402**	156
Increase in deferred acquisition costs	**(553)**	(417)
Increase in trade and other payables	**7,849**	19,959
Increase in provisions	**930**	1,412
Increase in unearned income	**22,004**	23,068
(Decrease) / increase in outstanding claims	**6,610**	(40,216)
Net cash from / (used in) operating activities	**40,205**	**42,317**

	Consolidated 2019 $'000	Consolidated 2018 $'000
7. TRADE AND OTHER RECEIVABLES		
Current		
Trade receivables	**17,428**	14,361
Allowance for impairment loss (a)	**(162)**	(106)
Insurance premiums receivable	**126,447**	106,162
Reinsurance and other recoveries	**27,605**	34,221
	171,318	154,638
Non-Current		
Reinsurance and other recoveries	**4,312**	2,484

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. As at 30 June 2019, trade receivables of an initial value of $83,000 (2018: $25,000) were impaired and fully provided for. These amounts have been included in the other expenses item.

Movements in the provision for impairment loss were as follows:

	2019	2018
Balance at the beginning of the financial year	**106**	175
Bad debts recognised through Profit and Loss	**83**	25
Bad debts written off	**(27)**	(94)
Balance at the end of the financial year	**162**	106

The ageing analysis of trade receivables is as follows:

	Neither past due nor impaired	Past due but not impaired					
		0-3 mths	3-6 mths	6-12 mths	> 12 mths	Impaired	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2019							
Consolidated	17,250	63	(47)	-	-	162	17,428
2018							
Consolidated	14,183	63	9	-	-	106	14,361

See Note 29 on credit risk of trade receivables, which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

	Consolidated 2019 $'000	Consolidated 2018 $'000

8. INVENTORIES

Finished goods at cost	**1,801**	1,988

During 2019, $7,242,000 was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

9. DEPOSITS IN TRUST ACCOUNT

Current Assets		
RAA Travel trust bank balance	**1,270**	1,056
Solar Battery Deposits in Trust	**6**	-
Reinsurance guarantee asset	**-**	1,280
	1,276	2,336
Current Liabilities		
RAA Travel trust liabilities	**1,270**	1,056
Solar Battery Deposits in Trust	**6**	-
Reinsurance guarantee liability	**-**	1,280
	1,276	2,336

Cash balances held in trust accounts are not available for use by the Group. Cash in the RAA Travel trust account represents funds held on behalf of travel clients and payable to travel service providers.

10. OTHER CURRENT ASSETS

Prepayments	**2,533**	2,934

	Consolidated 2019 $'000	Consolidated 2018 $'000
11. FINANCIAL ASSETS		
Current		
Financial assets mandatorily at fair value through profit and loss		
Unit Trusts and Interest Bearing Securities (i)	**135,718**	106,569
Shares - Australian unlisted (ii)	**1,580**	-
	137,298	106,569
Financial assets designated at fair value through profit and loss		
Unit Trusts and Interest Bearing Securities (i)	**53,557**	-
Available for sale financial assets		
Unit Trusts and Interest Bearing Securities (i)	**-**	51,283
Shares - Australian unlisted (ii)	**-**	175
Short-term deposits held for reinvestment	**-**	9,781
	-	61,239
Amortised Cost		
Short-term deposits held for reinvestment	**14,240**	-
Loan to Related Parties (iii)	**3,082**	-
	17,322	-
Loans and Receivables (iii)		
Loan to Related Parties	-	3,015
Total Current	**208,177**	170,823
Non-current		
Amortised Cost		
Loan to Related Parties (iii)	**7,011**	-
Loans and Receivables (iii)		
Loan to Related Parties	-	10,351
	7,011	10,351

Upon adoption of AASB 9 all Available for sale investments and Loans and Receivables reported at 30 June 2018 were reclassified as Financial assets at fair value through profit or loss or Amortised Cost.

(i) *Unit Trusts and Interest Bearing Securities*

The fair value of investments has been determined directly by reference to published price quotations. There are no individually material investments.

(ii) *Unlisted shares*

Australian unlisted shares are carried at fair value which is calculated on the net asset value of the underlying entity.

(iii) *Loans and Receivables*

a. The loan to ACC CAD Pty Ltd for $7,968,929 is expected to be repaid over 10 years, with loan repayments of both interest and principal made every 6 months. The loan is carried at cost and not fair valued and will have interest calculated at the agreed interest rate of BBSW90 + 2% fixed at each date of repayment.

b. The loan to Motoring Club Finance Pty Ltd for $2,000,000 is expected to be fully repaid within the next 12 months and has interest calculated on the daily outstanding balance at the RAA Finance six month rate at the date of maturity.

c. The loan to RAA Auto Glass Pty Ltd of $124,000 is expected to be repaid within the next 12 months.

12. INVESTMENT IN JOINT VENTURES

Entity	Equity Interest 2019	Equity Interest 2018	Consolidated 2019 $'000	Consolidated 2018 $'000
Motoring Club Finance Pty Ltd (i)	50.00%	50.00%	**3,059**	3,013
RAA Auto Glass Pty Ltd (ii)	50.00%	50.00%	**23**	64
Total Investment in Joint Ventures			**3,082**	3,077

(i) Motoring Club Finance Pty Ltd

The Group has a 50% share in Motoring Club Finance Pty Ltd, a jointly controlled entity involved in the issuing of personal and car loans, and investment notes. The principal place of business of the entitiy is Mile End, South Australia. From 1st April 2017 new loans ceased to be offered and the entity was placed into run off.

Summarised financial information	Consolidated 2019 $'000	Consolidated 2018 $'000
Current assets	**2,407**	3,040
Non-current assets	**8,726**	14,466
Current liabilities	**(66)**	(139)
Non-current liabilities	**(4,950)**	(11,341)
Net assets	**6,117**	6,026
Carrying amount of Group's investment in Joint Venture	**3,059**	3,013
Total revenue	**900**	1,422
Total expenses	**(607)**	(1,172)
Net profit before income tax	**293**	250
Income tax	**(202)**	170
Net profit after income tax	**91**	420
Share of net profit of joint ventures accounted for using the equity method	**46**	210

12. INVESTMENT IN JOINT VENTURES (continued)

(ii) RAA Auto Glass Pty Ltd

The Group has a 50% share in RAA Auto Glass Pty Ltd, a jointly controlled entity involved in the provision and replacement vehicle windscreens in South Australia. The principle place of business of the entity is Mile End, South Australia.
The Joint Venture ceased trading on 30 April 2019 and is in the process of being wound up.

Summarised financial information		
Current assets	**275**	409
Non-current assets	**38**	148
Current liabilities	**(267)**	(127)
Non-current liabilities	**-**	(303)
Net assets	**46**	127
The Group's share of Net assets	**23**	64
Carrying amount of Group's investment in Joint Venture	**23**	64
Total revenue	**1,149**	1,125
Total expenses	**(1,215)**	(1,027)
Net (loss) / profit before income tax	**(66)**	98
Income tax	**(15)**	(29)
Net (loss) / profit after income tax	**(81)**	69
Share of net profit / (loss) of joint ventures accounted for using the equity method	**(41)**	35

13. INVESTMENTS IN ASSOCIATES

Associate	Equity Interest 2019	Equity Interest 2018	Consolidated 2019 $'000	Consolidated 2018 $'000
Australian Club Consortium (i)	33.33%	33.33%	**204**	197
Club Consortium Pty Ltd (ii)	25.56%	25.56%	**3,858**	3,538
			4,062	3,735

(i) Australian Club Consortium Pty Ltd

The Group has a 33.33% share in Australian Club Consortium Pty Ltd which holds 100% shareholding in ACC CAD Pty Ltd.

	Consolidated 2019 $'000	Consolidated 2018 $'000
Summarised financial information		
Current assets	**4,446**	4,473
Non-current assets	**21,016**	23,130
Current liabilities	**(4,061)**	(4,058)
Non-current liabilities	**(20,788)**	(22,955)
Net assets	**613**	590
Carrying amount of Group's investment in Associate	**204**	197
Total revenue	**9,842**	6,479
Total expenses	**(9,809)**	(7,171)
Net profit/(loss) before income tax	**33**	(692)
Income Tax	**(11)**	161
Net profit/(loss) after income tax	**22**	(531)
Share of net profit/(loss) of Associate accounted for using the equity method	**7**	(178)

	Consolidated 2019 $'000	Consolidated 2018 $'000

13. INVESTMENTS IN ASSOCIATES (continued)

(ii) Club Consortium Pty Ltd

The Group has a 25.56% share in Club Consortium which holds a 20% shareholding in Club Assist Corporation Pty Ltd.

	Consolidated 2019 $'000	Consolidated 2018 $'000
Summarised financial information		
Current assets	**1,294**	39
Non-current assets	**13,800**	13,801
Current liabilities	**(1)**	(1)
Non-current liabilities	**-**	-
Net assets	**15,093**	13,839
Carrying amount of Group's investment in Associate	**3,858**	3,538
Total revenue	**2,758**	-
Total expenses	**(2)**	(2)
Net profit/(loss) before income tax	**2,756**	(2)
Income Tax	**(2)**	1
Net profit/(loss) after income tax	**2,754**	(1)
Share of net profit / (loss) of Associate accounted for using the equity method	**705**	-
Share of Dividends Paid	**383**	-

14. PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Land and Buildings	Plant, Equipment and Motor Vehicles	Furniture, Fittings and Leasehold	Total
	$'000	$'000	$'000	$'000
At 30 June 2017				
Cost or fair value	34,848	36,922	21,487	93,257
Accumulated depreciation	(397)	(20,172)	(18,166)	(38,735)
Net book amount	34,451	16,750	3,321	54,522
Year ended 30 June 2018				
Opening net book amount	34,451	16,750	3,321	54,522
Additions	142	3,719	837	4,698
Net disposals	-	(553)	(3)	(556)
Depreciation	(439)	(2,625)	(602)	(3,666)
Closing net book amount	34,154	17,291	3,553	54,998
At 30 June 2018				
Cost or fair value	34,990	36,020	22,242	93,252
Accumulated depreciation	(836)	(18,729)	(18,689)	(38,254)
Net book amount	34,154	17,291	3,553	54,998
Year ended 30 June 2019				
Opening net book amount	34,154	17,291	3,553	54,998
Additions	23	6,744	285	7,052
Net disposals	-	(555)	-	(555)
Transfer out to intangibles	-	-	-	-
Depreciation	(433)	(2,575)	(627)	(3,635)
Closing net book amount	33,744	20,905	3,211	57,860
At 30 June 2019				
Cost or fair value	35,013	40,684	22,494	98,191
Accumulated depreciation	(1,269)	(19,779)	(19,283)	(40,331)
Net book amount	33,744	20,905	3,211	57,860

(b) Revaluation of freehold land and freehold buildings

The Group engages an accredited independent valuer that uses the International Valuation Standards as a reference, to determine the fair value of its freehold land and buildings. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group, and to market based yields for comparable properties. The effective date of the latest revaluation was 30 June 2017 and confirmed the carrying value. The valuation technique used in valuing the freehold land and buildings consists of Discounted Cash Flow Approach, Capitalisation Approach and Direct Comparison. Observable inputs include:

- Price per square meter $2,810/sqm

(c) Carrying amounts if land and buildings were measured at cost less accumulated depreciation and impairment

	2019		2018	
	Freehold Land	Freehold Buildings	Freehold Land	Freehold Buildings
	$'000	$'000	$'000	$'000
Cost value	**5,835**	**15,496**	5,835	15,355
Accumulated depreciation	**-**	**(5,920)**	-	(5,529)
Net carrying amount	**5,835**	**9,576**	5,835	9,826

15. INTANGIBLE ASSETS

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Monitored Security Lines	Computer Software	Customer Relationships #	Brand #	Total
	$'000	$'000	$'000	$'000	$'000
At 30 June 2017					
Cost or fair value	8,215	32,977	5,000	15,400	61,592
Accum. amortisation / impairment	(2,815)	(17,133)	(4,585)	-	(24,533)
Net book amount	5,400	15,844	415	15,400	37,059
Year ended 30 June 2018					
Opening net book amount	5,400	15,844	415	15,400	37,059
Additions	-	6,857	-	-	6,857
Net disposals	-	(57)	-	-	(57)
Amortisation / impairment	(832)	(3,813)	(180)	-	(4,825)
Closing net book amount	4,568	18,831	235	15,400	39,034
At 30 June 2018					
Cost or fair value	8,215	37,312	5,000	15,400	65,927
Accum. amortisation / impairment	(3,647)	(18,481)	(4,765)	-	(26,893)
Net book amount	4,568	18,831	235	15,400	39,034
Year ended 30 June 2019					
Opening net book amount	4,568	18,831	235	15,400	39,034
Additions	20	2,934	-	-	2,954
Net disposals	-	-	-	-	-
Amortisation / impairment	(518)	(4,614)	(150)	-	(5,282)
Closing net book amount	4,070	17,151	85	15,400	36,706
At 30 June 2019					
Cost or fair value	8,234	40,189	5,000	15,400	68,823
Accum. amortisation / impairment	(4,164)	(23,038)	(4,915)	-	(32,117)
Net book amount	4,070	17,151	85	15,400	36,706

purchased as part of business combinations

15. INTANGIBLE ASSETS (continued)

(b) Description of the Group's intangible assets

(i) Monitored security lines

Monitored security lines are carried at cost less accumulated amortisation and accumulated impairment losses. As of 1 July 2015 these intangible assets have been assessed as having a finite life of 12 years and are amortised using the straight line method over their useful life. The amortisation has been recognised in the Statement of Profit or Loss in the line item "Depreciation and amortisation expense". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(ii) Computer software

Computer software is carried at cost less accumulated amortisation and accumulated impairment losses. These intangible assets have been assessed as having a finite life between 3 to 5 years and are amortised using the straight line method over their useful life. The amortisation has been recognised in the Statement of Profit or Loss in the line item "Depreciation and amortisation expense". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(iii) Customer relationships

Customer relationships represent the expected retention of current customers in RAA Insurance Holdings Limited. These intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the diminishing value method over a period of 10 years. The amortisation has been recognised in the Statement of Profit or Loss in the line item "Depreciation and amortisation expense". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(iv) Brand

Brand represents the RAA Insurance brand name and is carried at cost less accumulated impairment losses. This intangible asset has been determined to be an indefinite life asset as it is expected to continue to generate value for the Group. For the purpose of assessing impairment, the RAA Insurance brand is allocated to the cash-generating unit (CGU) of RAA Insurance Limited.

The impairment test for brand is performed by comparing the CGU's carrying amount with its recoverable amount. The recoverable amount has been determined based on a value in use calculation using profit projections as at 30 June 2019 from financial budgets covering a five year period. The Gordon Growth Model has been used to project the cash flows beyond this period. The pre-tax discount rate used is 8.5% (2018: 8.5%) which has been determined using a weighted average cost of capital calculation.

The key assumption used in calculating the RAA Insurance Limited profit projections over the five year period is that insurance policy growth will continue at an average of 8% per year, based on the past performance and future expectations of RAA Insurance Limited.

(c) Impairment recognised

At 30 June 2019, no impairment has been recognised for the year (2018: nil)

16. GOODWILL

	Consolidated 2019 $'000	Consolidated 2018 $'000
Opening net book amount	**61,199**	61,199
Closing net book amount	**61,199**	61,199

(a) Description of the Group's goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

(b) Impairment losses recognised

At 30 June 2019, no impairment has been recognised for the year (2018: nil).

(c) Impairment tests for cash generating units containing goodwill

For the purpose of assessing impairment, goodwill is allocated to the RAA Insurance CGU. The impairment test for goodwill is performed by comparing the CGU's carrying amount with its recoverable amount. The recoverable amount has been determined based on a value in use calculation using profit projections as at 30 June 2019 covering a five year period. The Gordon Growth Model has been used to project the cash flows beyond this period.

The closing goodwill balance relates to the RAA Insurance CGU and uses the key assumption that insurance policy growth will continue at an average of 8% per year, based on the past performance and future expectations of RAA Insurance Limited. The discount rate used is 8.5% (2018: 8.5%) which has been determined using a weighted average cost of capital calculation. For the year ended 30 June 2019 no impairment loss has been recognised for the RAA Insurance CGU (2018: nil). Sensitivity analysis has been performed around the key assumptions, this analysis indicated that no reasonably possible change in key assumption would cause the CGU's carrying amount to exceed its recoverable amount.

17. TRADE AND OTHER PAYABLES

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current		
Trade payables	**3,678**	3,017
Security deposit (i)	**700**	841
GST and Stamp Duty	**26,086**	21,797
Other payables and accruals	**14,773**	10,670
	45,237	36,325

Liabilities are recognised for goods and services received but not yet paid and then subsequently measured based on amortised cost.

(i) Security Deposit

The Group provides roadside assistance services to Assist Australia Pty Ltd under a Services Agreement. A security deposit received from Assist Australia Pty Ltd secures the performance of the services to be provided under the Services Agreement and Assist Australia Pty Ltd's obligation to pay for those services.

18. UNEARNED INCOME

Contract liability - road service premiums	**35,118**	33,497
Unearned insurance premiums	**155,910**	135,528
	191,028	169,025

19. INTEREST BEARING LOANS AND BORROWINGS

Non-Current		
Bank Loan	**-**	20,000
	-	20,000

20. PROVISIONS

	Consolidated 2019 $'000	Consolidated 2018 $'000
Current		
Employee benefits (i)	**15,546**	14,118
Workers' compensation (ii)	**270**	350
	15,816	14,468
Non-current		
Employee benefits (i)	**1,046**	1,252
Workers' compensation (ii)	**677**	889
	1,723	2,141

(a) Movement in provisions

Movement in the workers' compensation provision during the financial year is set out below:

	Consolidated 2019 $'000	Consolidated 2018 $'000
Balance at beginning of financial year	**1,239**	1,239
Re-measurement of the estimated future liability	**(292)**	-
Balance at end of financial year	**947**	1,239

(b) Nature and timing of provisions

(i) Employee Benefits

Refer to Note 1 for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of employee benefits.

(ii) Workers' Compensation

The provision for workers' compensation represents the present value of a reasonable estimate of the liabilities for claims incurred up to and including 30 June 2019, net of recoveries.

21. RETAINED EARNINGS

	Consolidated 2019 $'000	Consolidated 2018 $'000
Balance at beginning of the financial year	**182,513**	171,707
Adjustment on initial application of AASB 9	**4,703**	-
Net profit / (loss) after tax	**18,252**	10,722
Actuarial gains / (loss) from defined benefit superannuation scheme	**(23)**	84
Balance at end of financial year	**205,445**	182,513

22. RESERVES

	Consolidated 2019 $'000	Consolidated 2018 $'000
Asset Revaluation Reserve	**13,023**	13,023
Net Unrealised Gains Reserve	**-**	3,914
Unrealised Capital Reserve on RAA Insurance Acquisitions	**34,473**	34,473
Balance at end of financial year	**47,496**	51,410

Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another and the land and buildings value at 30 June 2019 supports this value.

Net unrealised gains reserve

The net unrealised gains reserve records movements in the fair value of available-for-sale financial assets. Upon adoption of AASB 9, all available-for-sale financial assets were reclassified as financial assets at fair value through profit and loss and the value of the unrealised gains reserve reclassified to retained earnings.

Unrealised capital reserve on RAA Insurance Holdings Limited Acquisition

The unrealised capital reserve on RAA Insurance Holdings Limited acquisition is used to recognise the uplift to fair value of the pre-existing investment of the Association on the gaining of control of RAA Insurance Holdings Limited.

23. INSURANCE DISCLOSURES

The information in Note 23 relates to the results of RAA Insurance Limited (RAAI Insurance) in isolation from the Group and may not tie exactly to the results of the Group due to intercompany eliminations and classification on consolidation.

(a) Contribution to profit from General Insurance activities

	RAA Insurance 2019 $'000	RAA Insurance 2018 $'000
Net earned premium		
Direct premium revenue *	**278,101**	236,718
Outwards reinsurance premium expense	**(37,169)**	(32,207)
Total net earned premium	**240,932**	204,511
Net incurred claims		
Claims expense (i)	**(223,120)**	(205,358)
Reinsurance recoveries revenue	**13,802**	31,956
Other recoveries revenue	**33,379**	26,291
Total net incurred claims	**(175,939)**	(147,111)
Underwriting expenses		
Commissions	**(26,212)**	(22,321)
Acquisition costs	**(11,049)**	(10,100)
Other underwriting expenses	**(6,517)**	(5,942)
Total underwriting expenses	**(43,778)**	(38,363)
Underwriting result	**21,215**	19,037
Net investment income on technical reserves	**1,687**	1,273
Insurance trading result	**22,902**	20,310
Net investment income on shareholders' funds	**5,042**	1,898
Contribution to profit before tax	**27,944**	22,208

(i) Insurance claims expense reconciliation

	2019	2018
Claims expense	**(223,120)**	(205,358)
Transfer to:		
- Employee benefits	**3,460**	2,991
- Other expenditure	**5,905**	5,116
Insurance claims expense*	**(213,755)**	(197,251)

* This amount may differ from the Insurance premium revenue (refer Note 3) due to elimination of transactions within the Group.

23. INSURANCE DISCLOSURES (continued)

(b) **Net incurred claims**

Details of net incurred claims are as follows:

	2019			2018		
Direct Business	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Gross claims incurred and related expenses						
Undiscounted	223,213	(115)	223,098	184,534	20,906	205,440
Discount and discount movement	(31,185)	(2,130)	(33,315)	(31)	(51)	(82)
	192,028	(2,245)	189,782	184,503	20,855	205,358
Reinsurance and other recoveries						
Undiscounted	(13,160)	(642)	(13,802)	(37,661)	(20,832)	(58,493)
Discount and discount movement	26	(67)	(41)	63	183	246
	(13,134)	(709)	(13,843)	(37,598)	(20,649)	(58,247)
Total net claims incurred	178,894	(2,955)	175,939	146,905	206	147,111

Current period claims relate to risks borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial years. The release of claims reserves in prior years is due to favourable experience compared to previously assumed loss ratios, along with revisions of actuarial assumptions.

(c) **Deferred Acquisition Costs**

Treatment of deferred acquisition costs incurred in obtaining general insurance contracts is detailed in Note 1(q).

	Consolidated 2019 $'000	**Consolidated 2018 $'000**
Balance at beginning of the financial year	**5,511**	5,094
Acquisition costs deferred	**11,749**	10,531
Amortisation charged to income	**(11,196)**	(10,114)
Balance at end of financial year	**6,064**	5,511

(d) **Outstanding Claims Liability**

Measurement of outstanding claims liability is detailed in Note 1(w) and part (f) of this note.

Current	**66,769**	61,657
Non-Current	**3,561**	2,064
	70,330	63,721

(e) **Critical Accounting Judgements and Estimates**

The Company makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually reviewed and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period they are revised and future periods affected. The key areas in which critical estimates and judgements are applied are described below.

23. INSURANCE DISCLOSURES (continued)

(f) Estimation of outstanding claims liability

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance date, including the cost of claims incurred but not yet reported (IBNR).

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected reinsurance and other recoveries. RAA Insurance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability recorded.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to RAA Insurance, where more information about the claim is generally available. Personal insurance claims are generally reported within a short time frame following the claim event and therefore tend to display low levels of volatility.

In calculating the estimated cost of unpaid claims RAA Insurance uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Where historical experience is not sufficient a combination of actual and industry experience is utilised. A prudential margin is added for changes in uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including;

- changes in processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- the impact of large losses
- movements in industry benchmarks

Provisions are calculated gross of any reinsurance and other recoveries.

Details of specific actuarial assumptions used in deriving the outstanding claims liability at year end are detailed at section (i) of this note.

(i) Assets arising from reinsurance contracts

An estimate of the amounts recoverable from reinsurers is made based upon the gross provisions, taking into account the current reinsurance arrangements. An estimate of other recoveries is made based on past patterns of other recoveries. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty risk, credit risk and the time value of money. Both reinsurance and other recoveries are stated at present value.

(ii) Premium revenue

Premium revenue comprises premiums earned from direct business. Direct premium revenue comprises amounts charged to the policyholders, including fire service levies but excluding amounts collected on behalf of third parties, principally stamp duties and GST. Premium revenue is recognised in the Statement of Profit or Loss when it has been earned. The proportion of premium received or receivable but not earned in the Statement of Profit or Loss at the reporting date is recognised in the Statement of Financial Position as an unearned premium liability. Premium revenue is treated as beginning to be earned from the date of attachment of risk. The pattern of recognition over the policy or indemnity periods is based on time, which is considered to closely approximate the pattern of risks underwritten using the 365ths method.

23. INSURANCE DISCLOSURES (continued)

(g) Liability adequacy test

The Liability Adequacy Test (LAT) assesses whether the net earned premium liability less any related intangible assets and deferred acquisition costs is sufficient to cover future claims cost for in-force policies. Future claims costs are calculated as the present value of the expected cash flows relating to future claims, and includes a risk margin to reflect inherent 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 estimates.

For the purposes of the LAT there is one portfolio being Personal Insurance. The test has identified a surplus for this portfolio of $7,890,000 (2018: surplus of $8,023,000).

RAA Insurance entered into a Quota Share reinsurance arrangement from 1 July 2014. This resulted in a reduction in the gross unearned premium and estimated cost of future claims for LAT purposes, this arrangement remained in place for the 2019 financial year.

The probability of adequacy (POA) adopted in performing the liability adequacy test is set at the 75th percentile compared to the 90th percentile adopted in determining the outstanding claims liabilities.

The POA for outstanding claims liabilities is set at a level that is appropriate and sustainable to cover the RAA Insurance's claims obligations after having regard to the prevailing market environment and prudent industry practice. Being a test of adequacy, the POA for the liability adequacy test is set to highlight deficiencies in product pricing following an analysis of the Company's profit margins after having regard to regulatory minimum requirements of APRA – 75%.

The overall risk margin has been determined allowing for diversification between the different classes of business and the relative uncertainty of the outstanding claims estimate for each class. Uncertainty was analysed for each class taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the general insurance environment, and the impact of legislative reform. The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision which is intended to have a 90% POA. The risk margin applied to personal insurance (at 90% POA) is 11.8% (2018: 11.7%).

	Consolidated 2019 $'000	Consolidated 2018 $'000
Liability adequacy test		
Gross Unearned premium	**155,910**	135,527
Less: Allowance for Quota Share reinsurance arrangement	**(9,947)**	(9,352)
Less: Related deferred acquisition costs	**(20,763)**	(18,282)
Less: Future costs of reinsurance	**(9,680)**	(9,349)
Total provision available	**115,520**	98,544
Central estimate of PV of expected future cash flows arising from future claims	**102,598**	86,319
Risk margin (at 75% POA)	**5,032**	4,202
Total actuarial estimate of future liabilities	**107,630**	90,521
Net Surplus	**7,890**	8,023
Deficiency recognised in the Statement of Profit or Loss	Nil	Nil
Write down of deferred acquisition costs	Nil	Nil
Risk margin applied		
Personal Insurance (at 90% POA)	**11.8%**	11.7%

23. INSURANCE DISCLOSURES (continued)

(h) General Insurance Risk Management

Objectives in managing risks and policies for mitigating those risks

In accordance with Prudential Standard CPS 220 Risk Management and GPS 230 Reinsurance Management issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management have developed a risk management framework that is designed to ensure that risks that may affect the Company's abilities to meet obligations to policyholders are identified, assessed, mitigated and monitored. The Company's objective is not to eliminate all risk, but to ensure that risk is recognised and maintained at an acceptable level and at an acceptable cost. RAA Insurance has established a conservative risk appetite with a view to maintaining the value of the RAA brand and ensuring growth and profitable operations in a niche market (personal lines) in South Australia and Broken Hill. The Board of RAA Insurance reviews the Risk Appetite Statement on an annual basis.

The Risk Management Framework (RMF) is made up of a series of components which, in total, comprise the overall approach the Company has to managing risk. The main components are the Risk Management Framework & Strategy (RMS), Risk Appetite Statement, Reinsurance Management Strategy (ReMS), Investment Management Strategy and the Internal Capital Adequacy Assessment Process (ICAAP).

The RMF's aim is to ensure that the Company has in place policies, procedures, processes and controls that effectively identify, assess, mitigate and monitor the key risks that the Company faces during the course of its operations.

The Board and senior management are responsible for ensuring the assets of the Company are managed in accordance with risk appetite, provide shareholders with comfort that their investment is protected from material claims losses and that the Company is able to meet obligations to policyholders when they fall due.

The Board is responsible for reviewing the Risk Management Framework & Strategy annually to ensure adequate frameworks exist to monitor and evaluate circumstances that may impact the Company's risk profile. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor the risks and that systems are in place to ensure compliance with legislative and prudential requirements. The Board also certifies to APRA that it is satisfied as to the adequacy and compliance with the RMS.

An integral part of the Company's overall RMS is the governance and management of the risks that impact the amount, timing and uncertainty of cash flows from insurance contracts. The Company has established internal controls to manage risk in the areas of exposure relevant to its business. The risk categories discussed below are:

- strategic and tactical risk
- operational risk
- reinsurance risk
- insurance risk

RAA Insurance’s RMS also recognises the volatility of financial markets and aims to minimise adverse effects on its financial performance. This is considered in Financial Risk (Note 29).

Strategic and tactical risk

RAA Insurance considers risk and opportunity simultaneously, with the identification of both internal and external environments leading to actions and projects that form company and departmental business plans. Risk is therefore identified as part of the business planning process, during periodic risk workshops, six monthly Chief Executive attestation and as an ongoing part of each department's execution of its business plan.

Business planning and risk management are linked to ensure risks arising out of business planning and strategy development are included into, and considered by, the RMF, or that significant risks or risks not within tolerance are addressed as part of the business planning and strategy development process of RAA Insurance. Initiatives identified during the business planning and strategy process are considered within the Risk Profiles. Project management includes a process for the identification and management of risks, noting the risks involved with the project and the benefits the project will deliver.

RAA Insurance has determined that its core business will continue to be personal lines insurance offered to South Australian and Broken Hill risks.

Reinsurance risk

The management of reinsurance risk is addressed in the REMS. The REMS is reviewed annually and is approved by the Board of RAA Insurance. The REMS methodology was approved by APRA in April 2017

Reinsurance management refers to the selection, monitoring, review and control of reinsurance arrangements – that is where some part of individual or aggregate insurance risks are ceded to other insurers.

Weaknesses in the controls and management of reinsurance arrangements could result in the inability to meet policyholder liabilities as they fall due and may impair the capital, profitability or liquidity position of RAA Insurance.

23. INSURANCE DISCLOSURES (continued)

The REMS has been developed to ensure that RAA Insurance has in place prudent reinsurance arrangements to provide the necessary security and liquidity to meet its obligations to policyholders and hence provide protection to the assets of RAA Insurance.

Key aspects of RAA Insurance's REMS include:

- The use of reinsurance structures that facilitate the timely recovery of reinsurance claims;
- The selection of adequate reinsurance programs for each product line to limit exposure to large single claims and catastrophes. In relation to catastrophic losses, actuarial modelling is used to calculate the Probable Maximum Loss (PML);
- The use and selection of varying types of reinsurance cover including Excess of Loss, Facultative, Aggregate, Quota Share and Joint cover depending on the circumstances prevailing at the time;
- Spreading the reinsurance program across major reinsurance markets to avoid over dependency on any one market;
- Evaluating reinsurers based upon creditworthiness, the basis of coverage, security, price and a genuine willingness to pay claims;
- Matching the skills, knowledge and experience of each reinsurance counterparty to the type of business ceded;
- Fostering long term relationships with reinsurers to encourage active assistance in establishing the correct price of risk transfer over a period of time; and
- The continuous evaluation of the benefit of multi-year contracts to achieve long term stability to pricing, leading to reduced underwriting expenses.

Operational risk

Operational risk is the risk of loss resulting from system weaknesses or failure, human error or external events that does not relate to insurance or financial risks.

RAA Insurance manages operational risk by recruiting and retaining high quality employees who have the requisite skills and experience for their positions. Each employee is also given an authority level based on their expertise and position description, with compliance to their authorities actively monitored. Other methods to manage operational risk include segregation of duties, reconciliation procedures and access controls which are regularly reviewed.

Insurance risk

Insurance risk refers to the inherent risk in any insurance contract that the insured event may occur and the uncertainty of the amount of the resulting claim. RAA Insurance manages this risk through the RMS, REMS (as discussed in Reinsurance risk) and the terms and conditions of its insurance contracts. RAA Insurance addresses the concentration of insurance risk by maintaining a balanced diversified portfolio of two main classes of business; discussed below.

Key aspects of the RMS that aim to mitigate risk include:

- Underwriting operations are managed in accordance with documented underwriting guidelines, with management oversight, regular quality assessments and monitoring of operations conducted;
- Claims operations are managed in accordance with documented claims guidelines, with management oversight, regular assessment and monitoring of operations conducted;
- Treatment plans and business improvements are implemented where required; and
- Actuarial models utilise information from the management information system to calculate premiums and monitor claims patterns. Past experience and statistical methods form part of this process.

Terms and conditions of insurance contracts

RAA Insurance has adopted a standard insurance contract for each class of insurance policy. The terms and conditions of these insurance contracts are in accordance with legislative requirements as stipulated in the Insurance Contracts Act. These standard contracts are used for all insurance policies entered into between RAA Insurance and its policyholders. No special terms are entered into with any policyholder that has a material impact on the financial statements.

23. INSURANCE DISCLOSURES (continued)

Concentration risk

RAA Insurance is a domestic insurer that only operates in South Australia and Broken Hill. As a result, a concentration risk potentially exists due to the nature and location of the business. As part of the Risk Profiles, RAA Insurance considers and reviews these risks to ensure they are adequately addressed and managed.

This risk is considered and noted in RAA Insurance's risk appetite. RAA Insurance has identified a potential asset concentration risk, related to geographic location, which could impact RAA Insurance should there be a catastrophe and have mitigated this risk through its reinsurance arrangements.

RAA Insurance's exposure to concentration of insurance risk is mitigated by maintaining a diversified portfolio of two main classes of business (Motor - comprehensive and third party, and Home - building and contents, damage and liability). Specific provisions for monitoring identified key concentrations are set out below.

Risk	Source of concentration	Risk management measures
Natural catastrophes: - Earthquake - Bushfire - Flood - Storms	Risk's concentrated in the following regions: - South Australia - Broken Hill	Underwriting strategies requires individual risk premiums to be differentiated in order to identify the higher loss value. The Company has modelled aggregated risk by postcode using commercially available catastrophe models. Based on the PML per the models, the Company purchases catastrophe reinsurance cover to limit exposure to any single event. The Company has a Quota share Reinsurance Arrangement, whereby 25% of the Home - Building and Contents Premium is ceded to reinsurers. This limits the Company's exposure.

The largest potential loss faced by the Company is earthquake.

(i) Actuarial assumptions and methods

Actuarial Assumptions

The following assumptions have been made in determining the outstanding claims liabilities:

	2019	2018
Average weighted term to settlement from reporting date	< 1 yr	< 1 yr
Average claim frequency (claims per policy)	2.6% - 15.8%	2.6% - 15.7%
Claims handling expense rate	4.0% - 5.7%	4.0% - 6.0%
Discount rate	1.06%-1.21%	2.17%-2.37%
Inflation and superimposed inflation	n/a	n/a

Process to Determine Assumptions

A description of the processes used to determine these assumptions is provided below:

Claims handling expense rate

The allowance for claims handling expenses is based on the historical relationship between claims handling expenses and gross claim costs.

Discount rate (where applicable)

The selected discount rate is based on an empirical analysis of the current yield curve for government bonds comparing the yield and the profile of the underlying payments.

Inflation and superimposed inflation

No explicit allowance for normal and superimposed inflation has been made however it is implicit in the development assumptions.

23. INSURANCE DISCLOSURES (continued)

Reinsurance and non-reinsurance recoveries

Estimates of reinsurance recoveries are based on assessment of individual large claims, whereas estimates of non-reinsurance recoveries (for Motor Comprehensive) are based on analysis of historical recovery patterns split between salvage, third party and other recoveries.

Summary

RAA Insurance conducts sensitivity analyses to quantify the exposure to risk changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of RAA Insurance. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit / (loss) and equity to changes in these assumptions both gross and net of reinsurance.

Variable	*Impact of movement in variable*
Average claim size	Historical claim size information is used in determining the outstanding claims liability. An increase or decrease in the average claim size would have a corresponding increase or decrease on claims expense respectively.
Average claim frequency	Claims frequencies are used in determining the level of claims incurred but not reported (IBNR). An increase or decrease in the assumed average frequency levels would have a corresponding impact on claims expense.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense.

Impact of changes in key variables		**Net Profit / (Loss)**		
	Movement in Variable	Gross of Reinsurance	Net of Reinsurance	Equity
		$'000	$'000	$'000
Average claim size	+10%	(3,008)	(2,976)	(2,976)
	-10%	3,008	2,976	2,976
Claim frequency - most recent accident quarter	+10%	(3,008)	(2,976)	(2,976)
	-10%	3,008	2,976	2,976
Expense rate	+1%	(283)	(283)	(283)
	-1%	283	283	283

24. RELATED PARTY DISCLOSURE

(a) Ultimate parent

Royal Automobile Association of SA Inc. is the ultimate parent entity of the Group.

(b) Subsidiaries

The consolidated financial statements include the financial statements of the Royal Automotive Association of SA Inc. and the listed subsidiaries below;

		Equity interest		Investment	
Name		**2019**	**2018**	**2019**	**2018**
		%	%	$	$
RAA Insurance Holdings Limited	Subsidiary	**100%**	100%	**103,497,581**	103,497,581
				103,497,581	103,497,581

(c) Related Parties

Where the Association has transacted with a entity with which an Association Board member also holds position, the details are provided below;

RAA Insurance Holdings Limited	Subsidiary	Adelaide Football Club Ltd (i)	Related Entity
Motoring Club Finance Pty Ltd	Joint Venture	Bedford Phoenix Incorporated (ii)	Related Entity
RAA Auto Glass Pty Ltd	Joint Venture	Business SA (iii)	Related Entity
Australian Club Consortium Pty Ltd	Associate	Chamonix IT Management Consulting (SA) (iv)	Related Entity
Club Consortium Pty Ltd	Associate	Fisher Jeffries (v)	Related Entity
		Flinders University Council (vi)	Related Entity
		University of Adelaide (vii)	Related Entity
		University of South Australia (viii)	Related Entity
		Australian Institute of Company Directors (ix)	Related Entity

(i) Adelaide Football Club Ltd is a South Australian football team which the Association has a marketing agreement with. This entity ceased being a related party on 31 August 2018.

(ii) Bedford Phoenix Incorporated is an Australian Disability Enterprise that provides external catering and café services. This entity ceased being a related party on 3 June 2019.

(iii) Business SA as the Chamber of Commerce and Industry in South Australia provides support services to the Association through membership and training programs. This entity ceased being a related party on 29 June 2018.

(iv) Chamonix IT Management Consulting (SA) Pty Ltd provides IT consulting services across the Association's systems integration projects. This entity ceased being a related party on 29 June 2018.

(v) Fisher Jeffries is a commercial law practice and provides legal advice to the business.

(vi) Flinders University is a tertiary institution providing education and research services to the Association.

(vii) University of Adelaide is a tertiary institution providing education and research services to the Association. This entity ceased being a related party on 31 December 2018.

(viii) University of South Australia is a tertiary institution providing education and research services to the Association. This entity ceased being a related party on 31 August 2018.

(ix) Australian Institute of Company Directors is a not-for-profit membership organisation for Directors.

24. RELATED PARTY DISCLOSURE (continued)

(d) Transactions with related parties

The following tables provide the total amount of transactions of the Parent that were entered into with related parties for the relevant financial year. This section has been broken up into three categories, Media Agreements, Service Contracts, and Subsidiaries, Joint Ventures and Associates.

Media Agreements:

Related party	Transaction Type	RAA of SA 2019 $	RAA of SA 2018 $
Adelaide Football Club Ltd	Media Contract	**(526,512)**	(219,450)

Media agreements with related parties are made on normal commercial terms and equivalent to those that prevail in arm's length transactions. No directors were involved in negotiations relating to any such transactions.

The Association has an ongoing sponsorship agreement with both the Adelaide Football Club and the Port Adelaide Football Club as part of its commitment to the SA Community.

Service Contracts:

Bedford Phoenix Incorporated	Service Contracts	**(1,500)**	(13,820)
Business SA	Service Contracts	**-**	(4,714)
Chamonix IT Management Consulting (SA) Pty Ltd	Service Contracts	**-**	(740,786)
Fisher Jeffries	Service Contracts	**-**	(3,300)
Australian Institute of Company Directors	Service Contracts	**(10,325)**	-
University of Adelaide	Service Contracts	**(5,369)**	(7,700)
University of South Australia	Service Contracts	**(54,100)**	(67,150)

Service Contracts with related parties are made on normal commercial terms and equivalent to those that prevail in arm's length transactions. No directors were involved in negotiations relating to any such transactions.

24. RELATED PARTY DISCLOSURE (continued)

(d) Transactions with related parties (continued)

Subsidiaries, Joint Ventures and Associates:

Related party	Transaction Type	RAA of SA 2019 $	RAA of SA 2018 $
RAA Insurance Holdings Limited	Dividend revenue	**12,000,000**	4,000,000
	Distribution services	**28,140,379**	24,341,021
	Rent and administration	**10,236,663**	8,905,791
	Insurance Premiums	**13,424**	18,410
		50,390,466	37,265,222
Motoring Club Finance Pty Ltd	Distribution services	**415,099**	418,430
Club Consortium Pty Ltd	Dividend revenue	**383,400**	-

The terms and conditions of the transactions with RAA Insurance Holdings Limited are largely fixed under distribution and cost sharing agreements with RAA Insurance Limited.

(e) Outstanding balances with related parties

The following table provides the total outstanding balances of the Parent with related parties at the end of the relevant financial year.

Related party	Balance Type	2019 $	2018 $
RAA Insurance Holdings Limited	Income tax related	**352,432**	2,503,799
	Related party receivable	**4,329,955**	3,824,554
		4,682,387	6,328,353
Motoring Club Finance Pty Ltd	Loan receivable	**2,000,000**	4,500,000
RAA Auto Glass Pty Ltd	Loan receivable	**124,000**	124,000
Australian Club Consortium Pty Ltd	Loan receivable	**7,968,929**	8,741,935
		14,775,316	19,694,288

No transactions have been entered into with specified Directors or Executives. During the financial year, specified Directors and Executives purchased goods and services, which were domestic or minor in nature, from the Association on the same terms and conditions available to customers and Members.

Outstanding balances at year end are unsecured and settlement occurs in cash. No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense recognised for bad or doubtful debts due from related parties.

25. KEY MANAGEMENT PERSONNEL

(a) Directors

The Constitution of the Association provides for the payment of Directors' fees. The remuneration committee reviews the remuneration packages of all Directors and Executives on an annual basis and makes recommendations to the Board. Employees involved in the management of the Association are remunerated on basis determined by relevant industrial awards or commensurate with the duties, responsibilities and performance required of the individual positions as recommended by independent remuneration consultants.

The specified Directors of the Association during the financial year were:

- ED Perry (President)
- PR Siebels (Vice President)
- IH Stone (Association Managing Director)
- VM Angove
- DA Cross
- GIW Freney (appointed 1 July 2018)
- RG Grigg
- KJ Gramp
- J McDowell (resigned 31 August 2018)
- JE Sarah
- SR Starick
- KN Thomas

The aggregate compensation made to the specified Directors during the financial year is set out below; these amounts exclude IH Stone, who is included in the specified Executive table:

	Consolidated 2019 $	**Consolidated 2018 $**
Short-term employee benefits	**528,204**	478,282
Post-employment benefits	**44,945**	90,225
	573,149	568,507

Some Directors of the Association are also Directors of related organisations. Remuneration paid to these Directors is paid by those organisations and not by the Association. Remuneration paid by related organisations to the Associations' Directors during the year total $165,904 (2018: $174,629).

(b) Specified Executives

The following executives also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year;

- IH Stone — Group Managing Director
- TB Griffiths — Group Chief Financial, Membership and Brand Officer
- PJ Gale — General Manager Engagement and Innovation (resigned 6 July 2018)
- J Flaherty — General Manager Government and Public Policy (appointed 12 June 2018)
- DA Jacob — General Manager Automotive Services
- GM Norman — General Manger Travel (appointed 20 August 2018)
- D Parr — General Manager Product, Marketing & Distribution
- B Vivian — General Manager People and Environment
- MA Walters — General Manager Information Services
- DA Russell — Insurance Chief Executive

25. KEY MANAGEMENT PERSONNEL (continued)

The aggregate compensation made to the specified Executives during the financial year is set out below:

	Consolidated 2019 $	Consolidated 2018 $
Short-term employee benefits (i)	**3,863,031**	3,025,016
Long-term employee benefits	**72,512**	88,158
Post-employment benefits	**194,381**	174,971
	4,129,924	3,288,145

(i) Short-term employee benefits include termination payments made throughout the year

No transactions have been entered into with specified Directors or Executives. During the financial year, specified Directors and Executives purchased goods and services, which were domestic or minor in nature, from the Group on the same terms and conditions available to customers and Members.

26. DEFINED BENEFIT PENSION PLAN

The Group contributes to a number of superannuation schemes, which provide benefits on retirement, resignation, disablement or death of members of those schemes. Superannuation guarantee contributions are expensed as they are incurred. The members of the schemes and the Group make contributions as specified in the rules of the respective schemes.

Schemes providing accumulation benefits do not require actuarial assessments. In the event of termination of the schemes, or voluntary or compulsory termination of each employee, the assets of each scheme are sufficient to satisfy all vested benefits.

The last actuarial assessment of the defined benefit scheme in the Group was made at 30 June 2019 by Mercer Investments Nominees Limited. Actuarial assessments are carried out annually. The conclusion of the actuarial review was that the funds within the scheme were considered adequate to satisfy all benefits payable in the event of termination of the scheme and voluntary or compulsory termination of employment of each employee.

Disclosures in accordance with AASB 119 Employee Benefits and in relation to the defined benefit section of the RAA Staff Superannuation Scheme.

Accounting policy

Actuarial gains and losses are recognised immediately through retained earnings in the year in which they occur.

Scheme information

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. The defined benefit section of the Scheme is closed to new members. All new members receive accumulation only benefits.

Reconciliation of the present value of the defined benefit obligation

	Consolidated 2019 $'000	Consolidated 2018 $'000
Opening defined benefit obligation	**2,719**	2,477
Service cost	**119**	148
Net Interest	**99**	93
Contributions by scheme participants	**27**	32
Actuarial losses	**134**	55
Benefits paid	**-**	-
Contributions to accumulation section	**(10)**	(9)
Taxes, premiums and expenses paid	**(57)**	(77)
Closing defined benefit obligation	**3,031**	2,719

Reconciliation of the fair value of scheme assets

	Consolidated 2019 $'000	Consolidated 2018 $'000
Opening fair value of fund assets	**3,980**	3,729
Interest income	**136**	130
Actual return on fund assets less interest income	**101**	175
Contributions by scheme participants	**27**	32
Benefits paid	**-**	-
Contributions to accumulation section	**(10)**	(9)
Taxes, premiums and expenses paid	**(57)**	(77)
Closing fair value of fund assets	**4,177**	3,980

26. DEFINED BENEFIT PENSION PLAN (continued)

Reconciliation of the assets and liabilities recognised in the Statement of Financial Position

	Consolidated 2019 $'000	Consolidated 2018 $'000
Defined benefit obligation *	**(3,031)**	(2,719)
Fair value of scheme assets	**4,177**	3,980
Net superannuation asset	**1,146**	1,261
** includes contributions tax provision*		

Amounts recognised in the Statement of Comprehensive Income

Actuarial (gains) / losses - liability experience	**48**	48
Actuarial (gains) / losses - change in demographic assumptions	**-**	-
Actuarial (gains) / losses - change in financial assumptions*	**86**	7
Total actuarial (gains) / losses	**134**	55
** includes contributions tax provision*		

Expense recognised in the Statement of Profit or Loss

Service cost **	**119**	148
Interest cost	**99**	93
Interest income	**(136)**	(130)
Superannuation expense	**82**	111

*** No allowance has been made above for employer contributions for accumulation members or additional employer contributions for defined benefit members.*

Maturity profile of defined benefit obligation

Expected benefit payments for the financial year ending;		
30 June 2020	**308**	279
30 June 2021	**778**	680
30 June 2022	**205**	199
30 June 2023	**242**	236
30 June 2024	**485**	-
Following 5 years	**1,185**	1,604
The weighted average duration of the defined benefit obligation was	5 years	7 years

26. DEFINED BENEFIT PENSION PLAN (continued)

Fair value of Fund Assets

Asset Category	Total $'000	Total $'000	Quoted prices Level 1 $'000	Observable inputs Level 2 $'000
Equity	**-**	**-**	**-**	**-**
Debt	**-**	**-**	**-**	**-**
Investment Funds - Balanced	3,980	3,980	-	3,980
Real Estate	-	-	-	-
Total	3,980	3,980	-	3,980

Scheme assets

The percentage invested in each asset class at the reporting date:

	Consolidated 2019	**Consolidated 2018**
Australian Equity	**22%**	25%
International Equity	**32%**	33%
Fixed Income	**18%**	16%
Property	**11%**	9%
Alternatives / Other	**13%**	8%
Cash	**4%**	9%

Actual return on scheme assets

Actual return on scheme assets	**237**	305

Principal actuarial assumptions at the reporting date

Discount Rate	**3.5% pa**	3.6% pa
Expected salary increase rate	**2.75% pa**	2.75% pa

Fair value of scheme assets

The fair value of Scheme assets includes no amounts relating to:

- any of the Employer's own financial instruments
- any property occupied by, or other assets used by, the Employer.

Expected rate of return on scheme assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees.

26. DEFINED BENEFIT PENSION PLAN (continued)

Sensitivity Analysis

	Base		Discount Rate Sensitivity		Salary Rate Sensitivity	
Discount rate	3.50%	3.00%	3.00%	4.00%	3.50%	3.50%
Salary increase rate	2.75%	2.75%	2.75%	2.75%	2.25%	3.25%
Defined Benefit obligation	2,719	2,766	2,766	2,704	2,705	2,760

Expected contributions

	2019 $'000	2018 $'000
Expected employer contributions	-	-

Nature of asset / liability

The Group has recognised an asset in the Statement of Financial Position in respect of its defined benefit superannuation arrangements. If a surplus exists in the Scheme, the Group may be able to take advantage of it in the form of a reduction in the required contribution rate for both defined benefit (and potentially for defined contribution members), depending on the advice of the Scheme's actuary.

The Employer may at any time by notice to the Trustee terminate its contributions. The Employer has a liability to pay the contributions due prior to the effective date of the notice, but there is no requirement for the Employer to pay any further contributions, irrespective of the financial condition of the Scheme.

27. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Group has entered into commercial property leases. These leases have an average life of between one to five years. They generally provide the Group with a right of renewal at which time all terms are renegotiated. There are no restrictions placed upon the Group by entering into these leases.

Commercial property commitments	**Consolidated 2019 $'000**	**Consolidated 2018 $'000**
Future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**1,393**	1,311
After one year but not more than five years	**6,012**	4,101
More than five years	**1,433**	-
Total minimum lease payments	**8,838**	5,412

28. CONTINGENT LIABILITY

The Group has provided the following guarantees:

	Consolidated 2019 $'000	**Consolidated 2018 $'000**
Bank guarantees provided as security for :		
- outstanding workers' compensation claims	**870**	1,683
- leasing of retail property at Elizabeth Shopping Centre, Elizabeth	**11**	11
- leasing of retail property at Colonnades Shopping Centre, Noarlunga	**46**	46
	927	1,740

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital Management

For the purpose of the Group's capital management, capital includes retained earnings, available debt facilities and all other equity reserves attributable to the Group. A capital management strategy is in place to ensure that all approved capital expenditures are adequately funded over the life of the expenditures and that any risks related to funding are mitigated in accordance with the Group Capital Management Policy and associated risk frameworks such that Member value is maximised.

Capital management is reviewed annually at the time that the coming financial year's budget is finalised. Capital expenditures are monitored monthly as part of the cash flow monitoring process and, where required, liquidity is adjusted to meet RAA's commitments.

The Group's capital management aims to meet all financial covenants attached to any borrowings that are defined as part of its capital structure. Any breach of covenants may result in the lender to call in any outstanding loans. No changes were made to the objectives, policies or processes for managing the Group's capital during the financial year or any period prior.

Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group uses different measures to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risk and assessments of market forecasts for interest rates. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risk rests with the Investment Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below.

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: Interest rate risk and equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available for sale investments and derivative financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to market interest rates relates primarily to the Group's investment in debt securities and long-term borrowings with floating interest rates. The balance of loans is disclosed in Note 19.

The Group's approach to minimising interest rate risk associated with debt securities is to invest in high quality (minimum of S&P A- or APRA Grade 3), liquid Australian fixed interest and cash and to actively manage the duration and mix of the fixed and variable interest portfolio. Interest rate risk associated with long-term borrowings is mitigated with 50% of the interest exposure being fixed.

The Group's sensitivity to movements in interest rates in relation to the value of cash, interest bearing debt securities, derivatives and other financial liabilities is shown on the following page on table 1:

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

Table 1 - Sensitivity to movements in interest rates

		Net Profit / (Loss)		Equity	
	Exposure at 30 June $'000	100 bp increase $'000	100 bp decrease $'000	100 bp increase $'000	100 bp decrease $'000
2019					
Cash	28,211	197	(197)	197	(197)
Deposits in trust account	1,276	9	(9)	9	(9)
Short-term deposits	-	-	-	-	-
Loans	-	-	-	-	-
Deposits in trust account	(1,276)	(9)	9	(9)	9
	28,211	**197**	**(197)**	**197**	**(197)**
2018					
Cash	40,550	284	(284)	284	(284)
Deposits in trust account	2,336	16	(16)	16	(16)
Short-term deposits	9,781	68	(68)	68	(68)
Loans	(20,000)	(140)	140	(140)	140
Deposits in trust account	(2,336)	(16)	16	(16)	16
	30,331	**211**	**(211)**	**211**	**(211)**

Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group manages the equity price risk through diversification of equity instruments.

The portfolio of equity securities are exposed to price risk. A downturn in the equities market could have had a negative impact on the Group's future financial performance. The impact of any significant movement is managed by ensuring that the investment portfolio consists of high-quality holdings of Australian and International companies diversified over a wide range of industries.

The Group's sensitivity to movements in equity prices is highlighted in table 2

Table 2 - Sensitivity to movements in equity prices

		Net Profit / (Loss)		Equity	
	Exposure at 30 June $'000	10% increase $'000	10% decrease $'000	10% increase $'000	10% decrease $'000
2019					
Equities	1	0	(0)	0	(0)
Unit Trusts	99,308	6,952	(6,952)	6,952	(6,952)
Bonds / Notes	89,967	6,298	(6,298)	6,298	(6,298)
	189,275	**13,250**	**(13,250)**	**13,250**	**(13,250)**
2018					
Equities	1,697	119	(119)	119	(119)
Unit Trusts	22,444	1,571	(1,571)	1,571	(1,571)
Bonds / Notes	133,711	9,360	(9,360)	9,360	(9,360)
	157,852	**11,050**	**(11,050)**	**11,050**	**(11,050)**

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk is the risk that one party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group's is exposed to credit risk from its operating activities, including trade and other receivables and recoveries, and from its financing activities and investments.

Receivables and Recoveries

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. Receivable balances are monitored on an on-going basis with the result that the Group's experience of bad debts has not been significant.

For Insurance, outstanding premiums on policies arise on those which are generally paid on a monthly instalment basis. Payment default will result in the termination of the insurance contract with the policy owner, as provided by law, eliminating both the credit risk and insurance risk for the unpaid balance.

Other claim recoveries are a collection of relatively small amounts against which a substantial impairment provision has been made. The allowance for impairment is assessed by Management in conjunction with actuaries at least annually. Reinsurance recoveries are regularly reviewed by management.

Financial Assets and Cash deposits

Credit risk relating to investments is reduced through active management by both the Group Investments Manager and Western Asset Management. For the Investment Mandate, Western Asset Management will apply default credit limits. Changes to these default credit limits are subject to approval by the Investment Committee.

The carrying amount of financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk relating to receivables, cash and cash equivalents and investments is shown in Table 3 and 4 respectively.

The credit quality is assessed and monitored as follows:

	AAA $'000	AA $'000	A $'000	Below A $'000	Not rated $'000	Total $'000
2019						
Current						
Cash and cash equivalents	-	28,211	-	-	-	28,211
Deposits in trust account	-	1,276	-	-	-	1,276
Trade and other receivables	-	5,015	5,649	-	160,654	171,318
Financial Assets	73,116	41,518	27,362	8,871	57,310	208,177
	73,116	**76,020**	**33,011**	**8,871**	**217,964**	**408,982**
Non Current						
Trade and other receivables	-	-	-	-	4,312	4,312
Financial Assets	-	-	-	-	7,011	7,011
	-	-	-	-	**11,323**	**11,323**
2018						
Current						
Cash and cash equivalents	-	40,550	-	-	-	40,550
Deposits in trust account	-	2,336	-	-	-	2,336
Trade and other receivables	-	7,342	10,416	-	136,880	154,638
Financial Assets	56,109	26,935	19,352	8,577	59,850	170,823
	56,109	**77,163**	**29,768**	**8,577**	**196,730**	**368,347**
Non Current						
Trade and other receivables	-	-	-	-	2,484	2,484
Financial Assets	-	-	-	-	10,351	10,351
	-	-	-	-	**12,835**	**12,835**

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's ability to meet their obligations to repay their financial liabilities as and when they fall due. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and committed available credit lines.

The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. The Group has established comprehensive risk reporting covering its operations that reflect expectations of management of the expected settlement of financial assets and liabilities.

The following liquidity risk disclosures reflect all contractually fixed pay-off repayments and interest resulting from recognised financial liabilities as at 30 June 2019. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of non-derivative financial instruments. Trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's on-going operation. Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

	1 year or less $'000	1 to 5 yrs $'000	Over 5 yrs $'000	Total $'000
2019				
Liquid Financial Assets				
Cash and cash equivalents	28,211	-	-	28,211
Trade and other receivables	167,006	4,312	-	171,318
Deposits in trust account	1,276	-	-	1,276
	196,493	**4,312**	**-**	**200,805**
Financial liabilities				
Trade and other payables	45,237	-	-	45,237
Outstanding claims liability	70,330	-	-	70,330
Loan and borrowings	-	-	-	-
Deposits in trust account	1,276	-	-	1,276
	116,843	**-**	**-**	**116,843**
Net inflow / (outflow)	**79,650**	**4,312**	**-**	**83,962**
2018				
Liquid Financial Assets				
Cash and cash equivalents	40,550	-	-	40,550
Trade and other receivables	152,154	2,484	-	145,531
Deposits in trust account	2,336	-	-	2,336
	195,040	**2,484**	**-**	**188,417**
Financial liabilities				
Trade and other payables	36,325	-	-	27,218
Outstanding claims liability	63,721	-	-	63,721
Loan and borrowings	-	21,385	-	21,385
Deposits in trust account	2,336	-	-	2,336
	102,382	**21,385**	**-**	**114,660**
Net inflow / (outflow)	**92,658**	**(18,901)**	**-**	**73,757**

The disclosure above for Loans and borrowings with a contract over 12 months reflects all contractually fixed repayments and interest.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both assets and liabilities. There are three primary methods of determining fair value according to the following hierarchy;

Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 – using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3 – using inputs that have a significant effect on the recorded fair value of the asset or liability that are not based on observable market data

The table below summarises the basis for the determination of the fair value of the Group's financial instruments at 30 June 2018 that are measured at fair value after initial recognition, other than those where the carrying value is a reasonable approximation of fair value.

The following table shows the valuation techniques used in measuring fair values.

Classification	Fair Value Hierarchy	Pricing Inputs and Valuation Techniques
Financial assets	2	Valued at redemption price as established by the Responsible Entity of the funds based on market value of underlying securities held by the fund managers at 30 June 2019.
Property, plant and equipment	2	Valued at market value based on third party property valuation conducted 30 June 2017 using discounted cashflow model in a 10 year lease back scenario.
Loans receivables and payable	3	The fair value is calculated by utilising discounted cash flow models, based on the maturity of the loans. The discount rates used represent the rate the market is willing to offer at arms-length for customers of similar credit quality. The net fair value of impaired loans is calculated by discounting expected cash flows using these rates.

2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000	Total carrying value $'000
Assets					
Financial assets at fair value through profit or loss	1	137,298	-	137,299	137,299
Property, Plant and Equipment revalued	-	33,744	-	33,744	15,411
Loans and receivables	-	-	9,842	9,842	10,093
Liabilities					
Loans and Borrowings	-	-	-	-	-
	1	**171,042**	**9,842**	**180,885**	**162,803**
2018					
Assets					
Financial assets held for trading	-	106,569	-	106,569	106,569
Available for sale financial assets	1,697	49,586	-	51,283	51,283
Property, Plant and Equipment revalued	-	34,154	-	34,154	15,411
Loans and receivables	-	-	13,696	13,696	13,366
Liabilities					
Loans and Borrowings	-	-	(19,572)	(19,572)	(20,000)
	1,697	**190,309**	**(5,876)**	**186,130**	**166,629**

30. AUDITORS REMUNERATION

The auditor of the Parent is Ernst & Young (Australia)	RAA of SA 2019	RAA of SA 2018
Amounts received or due and receivable by Ernst & Young (Australia) for:	$	$
• An audit or review of the financial report of the entity and any other entity in the consolidated group	**105,536**	98,077
• Other services in relation to the entity and any other entity in the consolidated group		
- Income tax compliance	**26,265**	25,436
- Other tax consulting	**21,325**	46,920
	153,126	170,433

The auditor of RAA Insurance is KPMG	RAA Insurance 2019	RAA Insurance 2018
Amounts received or due and receivable by KPMG for:	$	$
• An audit or review of the financial report of the entity	**99,786**	96,600
• Other services in relation to the entity		
- Auditing the APRA Returns	**35,431**	34,300
- Other services	**24,463**	61,578
	159,680	192,478

31. EVENTS AFTER THE REPORTING DATE

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

ROYAL AUTOMOBILE ASSOCIATION OF SOUTH AUSTRALIA INC.

Directors' Declaration

In accordance with a resolution of the directors of the Royal Automobile Association of South Australia Incorporated, we state that:

1. In the opinion of the Directors:

   a) The financial statements and notes of the Association and of the consolidated entity are in accordance with the Associations Incorporation Act 1985, including:

      (i) Giving a true and fair view of the Association's and consolidated entity's financial position as at 30 June 2019 and of their performance for the year ended on that date.

      (ii) Complying with Accounting Standards and Constitution of the Association.

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

   c) In accordance with Section 35(5) of the Associations Act 1985, the Directors hereby state that during the financial year ended 30 June 2019;

      (i) a. No Director of the Association
      b. No firm of which a Director is a member; and
      c. No body corporate in which a Director has a substantial financial interest, has received or become entitled to receive a benefit as a result of a contract between the Director, firm, or body corporate and the Association except for the following;

      i. *Mr RG Grigg, Director of the Association, is the Chairman of Bedford Phoenix (resigned in June 2019), which has provided goods and services to the Association during the year.*

      ii. *Ms KJ Gramp, Director of the Association is a Director of the Australian Institute of Company Directors which provided services to the Association during the year.*

      iii. *Mr JW McDowell, Director of the Association (resigned in August 2018) is the Chancellor of the University of South Australia which provides education, training and research services and is a Director of the Adelaide Football Club which the Group has a marketing agreement with.*

      iv. *Mr PR Siebels, Director of the Association, is a council member for the University of Adelaide (resigned in December 2018), which provides education and research services to the Association.*

(ii) No Director of the Association has received directly or indirectly from the Association any payment or other benefit of a pecuniary value except for the following;

i. *All Directors have received Director Fees paid in conjunction with their role as Directors as set out in Note 25 of the preceding Financial Report.*

ii. *Some Directors of the Association are also Directors of RAA Insurance. This remuneration has been disclosed in Note 25 of the preceding Financial Report.*

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with the Associations Incorporation Act 1985 for the financial year ended 30 June 2019.

On behalf of the board

....

E D Perry
President

....

P R Siebels
Vice President

Adelaide, 26 August 2019

Ernst & Young
121 King William Street
Adelaide SA 5000 Australia
GPO Box 1271 Adelaide SA 5001

Tel: +61 8 8417 1600
Fax: +61 8 8417 1775
ey.com/au

Independent Auditor's Report to the Members of Royal Automobile Association of South Australia Incorporated

Opinion

We have audited the financial report of Royal Automobile Association of South Australia Incorporated (the Association) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity 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 presents fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Australian Accounting Standards and the Associations Incorporation Act 1985 (South Australia).

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 ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have 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 Group are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

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

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

Ernst & Young
Adelaide
26 August 2019