RAA Group Financial Report

For the financial year ended 30 June 2022

RAA

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 30 June 2022

	Note	Consolidated 2022 $'000	Consolidated 2021 $'000
Revenue from contracts with customers	3(a)	**120,009**	110,752
Insurance revenue	3(b)	**609,895**	405,529
Other revenue	3(b)	**56**	44
Revenue		**729,960**	516,325
Share of net profit of associates	12	**1,832**	1,526
Total Income		**731,792**	517,851
Expenses			
Employee benefits	4(a)	**(108,417)**	(91,274)
Payments to contractors for roadside assistance		**(21,692)**	(19,821)
Cost of sales		**(18,051)**	(15,288)
Depreciation, impairment and amortisation	4(b)	**(8,961)**	(12,255)
Finance costs	4(c)	**(310)**	(242)
Insurance claims expense	22(a)	**(461,600)**	(265,279)
Outwards reinsurance premium expense	22(a)	**(58,873)**	(44,487)
Other expenses	4(d)	**(66,549)**	(57,992)
Total Expenses		**(744,453)**	(506,638)
Net finance (cost)/income	3(c)	**(2,051)**	6,306
Operating (loss)/profit before income tax		**(14,712)**	17,519
Income tax benefit/(expense)	5(a)	**5,115**	(4,599)
(Loss)/Profit after tax for the year		**(9,597)**	12,920

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2022

	Note	Consolidated 2022 $'000	Consolidated 2021 $'000
(Loss)/Profit after tax for the year		**(9,597)**	**12,920**
Other comprehensive income			
Items not to be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on defined benefit plan		**(78)**	443
Fair value adjustments relating to land and buildings		**-**	7,088
Income tax on items of other comprehensive income	5(d)	**23**	(2,259)
Net other comprehensive (loss)/income not to be reclassified to profit or loss in subsequent periods		**(55)**	5,272
Other comprehensive (loss)/income for the year net of tax		**(55)**	5,272
Total comprehensive (loss)/income for the year net of tax		**(9,652)**	18,192

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2022

	Note	Consolidated 2022 $'000	Consolidated 2021 $'000
Current Assets			
Cash and cash equivalents	6	**24,546**	26,849
Trade and other receivables	7	**308,768**	216,603
Inventories	8	**1,851**	1,437
Deposits in trust account	9	**5,941**	1,136
Current tax asset	5(c)	**7,050**	1,209
Other current assets	10	**4,453**	3,418
Financial assets	11	**289,743**	285,919
Deferred acquisition costs	22(c)	**7,337**	7,159
Total Current Assets		**649,689**	543,730
Non-Current Assets			
Trade and other receivables	7	**7,399**	5,653
Pension asset	25	**927**	1,125
Financial assets	11	**4,664**	5,819
Investments in associates	12	**5,802**	3,970
Property, plant and equipment	13(a)	**55,241**	53,576
Right-of-use assets	26	**9,460**	7,428
Intangible assets	14(a)	**22,809**	25,436
Goodwill	15	**67,651**	61,199
Deferred tax asset	5(d)	**11,734**	10,785
Total Non-Current Assets		**185,687**	174,991
Total Assets		**835,376**	718,721
Current Liabilities			
Trade and other payables	16	**55,456**	54,424
Unearned income	17	**253,892**	228,764
Interest bearing liabilities	18	**1,569**	1,114
Deposits in trust account	9	**5,941**	1,136
Provisions	19	**16,932**	15,598
Outstanding claims liability	22(e)	**203,027**	108,433
Total Current Liabilities		**536,817**	409,469
Non-Current Liabilities			
Interest bearing liabilities	18	**9,085**	7,189
Provisions	19	**2,052**	1,910
Deferred tax liability	5(d)	**13,695**	15,667
Outstanding claims liability	22(e)	**5,777**	6,884
Total Non-Current Liabilities		**30,609**	31,650
Total Liabilities		**567,426**	441,119
Net Assets		**267,950**	277,602
Equity			
Retained earnings	20	**215,492**	225,144
Reserves	21	**52,458**	52,458
Total Equity		**267,950**	277,602

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2022

	Asset Revaluation Reserve (Note 21) $'000	Unrealised Capital Reserve on RAAI Acquisition (Note 21) $'000	Retained Earnings (Note 20) $'000	Total $'000
At 1 July 2020	13,023	34,473	211,914	259,410
Profit for the period	-	-	12,920	12,920
Other comprehensive income	4,962	-	310	5,272
Total comprehensive income	4,962	-	13,230	18,192
At 30 June 2021	17,985	34,473	225,144	277,602
At 1 July 2021	17,985	34,473	225,144	277,602
Loss for the period	-	-	(9,597)	(9,597)
Other comprehensive loss	-	-	(55)	(55)
Total comprehensive loss	-	-	(9,652)	(9,652)
At 30 June 2022	17,985	34,473	215,492	267,950

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2022

	Note	Consolidated 2022 $'000	Consolidated 2021 $'000
Cash flows from operating activities			
Receipts from members and customers (inclusive of GST)		**722,670**	557,472
Payments to suppliers and employees (inclusive of GST)		**(702,220)**	(509,392)
Interest received		**155**	157
Rental income received		**61**	47
Income tax paid		**(3,624)**	(9,370)
Net cash from operating activities	6	**17,042**	**38,914**
Cash flows from investing activities			
Proceeds from sale of fixed assets and intangibles		**1,099**	1,960
Proceeds from the sale of financial assets		**17,418**	1,913
Distributions received		**6,918**	3,787
Dividends received		**-**	1,438
Purchase of fixed assets and intangibles		**(6,343)**	(5,554)
Purchase of financial assets		**(30,611)**	(41,770)
Proceeds from disposal of joint venture		**-**	3,031
Purchase of business combination assets		**(7,200)**	-
Net cash used in investing activities		**(18,719)**	**(35,195)**
Cash flows from financing activities			
Repayment of loans to related parties		**990**	854
Payment of principal portion of lease liabilities		**(1,616)**	(1,627)
Net cash used in financing activities		**(626)**	**(773)**
Net (decrease) / increase in cash		**(2,303)**	**2,946**
Cash and cash equivalents at beginning of the year		**26,849**	23,903
Cash and cash equivalents at the end of the year	6	**24,546**	**26,849**

The Consolidated 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 2022

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 2022 was authorised for issue in accordance with a resolution by the directors on 22 August 2022.

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 (AASB) 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 2022. 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) *Standards issued but not yet effective*

AASB 17 *Insurance Contracts*

AASB 17, a new accounting standard for insurance contracts, was adopted by the AASB in July 2017. In June 2020, the IASB issued Amendments to IFRS 17 which deferred the effective date from 1 January 2021 to 1 January 2023 and made significant amendments to the standard in response to feedback from, and implementation issues raised by, stakeholders. These amendments were adopted by the AASB in July 2020. The first applicable annual reporting period for the Group will be the year ending 30 June 2024. As AASB 17 is to be applied retrospectively, the comparative period will be the year ending 30 June 2023.

RAA Insurance has assessed and determined relevant accounting policies relating to the presentation of the financial statements and notes the following key areas:

Measurement of insurance contracts

The standard introduces a new 'general model' for the recognition and measurement of insurance contracts. The use of a simplified approach (which is similar to the current basis on which general insurance is brought to account under AASB 1023) is also available, if the liability for remaining coverage under the simplified approach is not expected to materially differ from that under the general model, or if the coverage period of the contracts are one year or less. As all insurance contracts which RAA Insurance issues are for one year or less, RAA Insurance will apply the simplified approach for the measurement of its insurance contracts.

For groups of contracts that apply the simplified approach, AASB 17 provides an option to recognise any insurance acquisition costs as expenses when incurred. RAA Insurance does not plan to apply this option and expects to amortise acquisition costs over the coverage period of the related insurance contracts, consistent with current accounting under AASB 1023.

Onerous contracts

AASB 17 requires the identification of 'groups' of onerous contracts which are expected to be determined at a more granular level of aggregation than the level at which the liability adequacy test is performed under AASB 1023. Contracts that are measured using the simplified approach are assumed not to be onerous unless facts and circumstances indicate otherwise.

If such facts and circumstances that may be indicators of possible onerous contracts exist, the onerous contract losses are measured based on an estimation of fulfilment cash flows and are recognised in profit or loss. Models for measuring fulfilment cash flows are currently being developed and tested. Onerous contract losses must be measured on a gross basis (excluding the effect of reinsurance), with the impact on equity and profit or loss mitigated by the deduction of related income on reinsurance recoveries to the extent that the onerous contracts are covered by reinsurance. The financial impact is still being determined but the application of the onerous contracts requirements could result in a decrease in opening equity on adoption of AASB 17.

Risk adjustment

The measurement of insurance contract liabilities will include a risk adjustment which replaces the risk margin under AASB 1023. The risk margin under AASB 1023 reflects the inherent uncertainty in the net discounted central estimate, whereas the risk adjustment is defined as the compensation required for bearing the uncertainty that arises from non-financial risk. Similar to the risk margin, the risk adjustment includes the benefit of diversification. AASB 17 requires the disclosure of the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities. This application of the AASB 17 requirements is one of substantial judgement and RAA Insurance is currently defining the methodology for determining the risk adjustment and, in doing so, is giving consideration to evolving industry interpretation. Given RAA Insurance's ongoing work on this complex component of the standard, the financial impact cannot be reasonably estimated at the balance date.

Discount rates

AASB 1023 requires the net central estimate of outstanding claims to be discounted using risk-free rates. AASB 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows but does not prescribe a methodology for determining the discount rates used. RAA Insurance expects to apply a 'bottom-up approach' which uses risk-free rates adjusted to reflect the illiquidity characteristics of the insurance contracts. RAA Insurance does not expect a material difference between AASB 1023 and AASB 17 discount rate methodology.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Presentation and disclosure

The standard introduces significant changes to the presentation and disclosure of insurance line items in the financial statements. Existing insurance and reinsurance contract line items on the statement of financial position (including trade debtors arising from general insurance contracts, unearned premium, deferred insurance costs, gross outstanding claims and reinsurance and other recoveries on outstanding claims) will be replaced with insurance contract assets and liabilities, and reinsurance contract assets and liabilities. Insurance contract liabilities under AASB 17 will include all cash flows that directly relate to the fulfillment of insurance contracts (direct and inward reinsurance), including acquisition, claims settlement, policy administration and maintenance costs.

Transition

AASB 17 will be applied retrospectively to RAA Insurance's insurance contracts on transition except to the extent that it is impracticable to do so, in which case either a modified retrospective or fair value approach may be applied.

Financial impact

The requirements of AASB 17 are complex and the expectations noted above are subject to change as the implementation progresses and as RAA Insurance continues to analyse the impacts of the standard and recent amendments.

RAA Insurance expects that AASB 17 will reduce both the assets and liabilities in the balance sheet, with the impact on net assets expected to be relatively modest. AASB 17 does not change the underlying performance of insurers. The timing of when revenue, expenses, and profit are recognised may change under AASB 17, but due to the short-tailed nature of RAA Insurance's liabilities any changes in timing are anticipated to be small. RAA Insurance intends to disclose the potential financial impact of adopting AASB 17 once it is practical to provide a reliable estimate.

Implementation progress

RAA Insurance has performed assessments of the requirements of AASB 17, identification of the key decisions to be made on implementing the new standard, and the expected financial impacts of the new standard. Accounting guidance, application methodologies and changes to financial reporting are being developed and implemented. Market developments also continue to be monitored to assess the impact of evolving interpretations and other changes.

RAA Insurance has participated in an APRA quantitative impact study which required a translation of historical financial accounts to an AASB 17 basis. Accounting policies and accounting systems are being developed, and implementation of the standard is progressing.

(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).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

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

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 (driving lessons and vehicle inspections).

Revenue from contracts with customers

Road Service subscriptions, Sales of goods, Rendering of services, Distribution fees, Commission, Sundry Income and Advertising revenue are 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.

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.

Sales of goods

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 22(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.

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 and reflects the uncertainty related to income taxes, if any.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and reflects any uncertainty related to income tax, if any.

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.”

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

In line with AASB 9, an allowance loss based on lifetime expected credit losses (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.

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 – 15-17%
- 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. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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 15, Goodwill.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 measured at the transaction price.

Classification and subsequent measurement

(i) Financial assets

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, 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 changes in service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements and net interest expense or income in the net defined benefit obligation under employee benefits expense in the profit or loss.

(s) Leases

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

Group as a lessee

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

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets is equal to the lease liabilities recognised. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are also subject to impairment.

Lease Liabilities

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Group's lease liabilities are included in interest bearing liabilities (see Note 18).

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for in a straight-line basis over the lease term and is included in revenue in the Statement of Profit and Loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(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) Provisions and employee benefits

As at 30 June 2022, the Group had 1,134 (2021:971) 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.

(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 27 for contingent liability relating to bank guarantee provided as security for outstanding claims.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Outstanding claims liability

The outstanding claims liability is measured as the present value of the expected future payments. The expected future payments are estimated on the basis of the ultimate cost of settling claims which is affected by factors arising during the period to settlement.

Claims incurred expense and the outstanding claims liability are recognised in respect of direct business. Claims outstanding are assessed by analysing aggregated claims data and estimating claims settlement costs using statistics based on past experience and trends.

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) and the cost of claims incurred but not enough reported (IBNER).

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 recognised.

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 generally assumes that future development patterns will be consistent with past experience.

(w) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue based upon the gross provisions, taking into account the current reinsurance arrangements. An estimate of other recoveries is made based on past patterns of recovery. Recoveries receivable are recognised initially at fair value plus attributable transaction costs, being the present value of the expected future receipts. This measurement is based on the advice and valuation of the Appointed Actuary. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method and reduced for impairment as appropriate.

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. A provision for impairment of receivables is established where there is objective evidence that RAA Insurance will not be able to collect all amounts due according to the original terms of the receivables. Where there is impairment, a charge is recognised in the statement of profit or loss and other comprehensive income.

(x) Liability adequacy test

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.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are applied to the estimation of outstanding claims liability (note 1 (v) and note 22 (e)), assets arising from reinsurance and other recoveries (note 1 (w) and note 22 (b)).

	Note	Consolidated 2022 $'000	Consolidated 2021 $'000
3. INCOME			
(a) Revenue from contracts with customers			
Subscriptions (i)		**78,514**	74,363
Sales of goods		**22,164**	18,092
Rendering of services		**7,341**	7,498
Distribution fee		**299**	233
Commission		**2,885**	1,331
Sundry income		**8,373**	8,813
Advertising revenue		**433**	422
		120,009	110,752
(b) Insurance and Other Revenue			
Insurance premium revenue	22a)	**385,195**	346,006
Reinsurance and other recoveries revenue	22a)	**224,700**	59,523
Rental income		**56**	44
		609,951	405,573
Total Revenue		**729,960**	516,325
(c) Net finance (cost)/income			
Interest		**155**	157
Investment income		**6,918**	5,058
Net gain / (loss) on financial assets at fair value through profit or loss			
Investments held at end of financial year		**(7,657)**	1,540
Investments sold during the financial year		**(1,877)**	754
Net gain / (loss) on disposal of non-current assets		**410**	(1,203)
		(2,051)	6,306

(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	2022	2021
Receivables, which are included in 'trade and other receivables'	7	**20,160**	19,734
Contract liabilities - Road Service Subscriptions	17	**(40,982)**	(39,018)

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 2022 $'000	Consolidated 2021 $'000
(a) Employee Benefits		
Salaries, wages and allowances	**99,082**	83,613
Superannuation Guarantee	**9,335**	7,661
	108,417	91,274
(b) Depreciation, Impairment and Amortisation		
Depreciation of property, plant and equipment	**3,950**	4,889
Depreciation of right-of-use assets	**1,625**	1,691
Impairment of intangibles	**-**	1,861
Amortisation of intangibles	**3,386**	3,814
	8,961	12,255
(c) Finance costs		
Interest on lease liabilities	**310**	242
	310	242
(d) Other expenses		
Bad debts written off, net of recoveries	**99**	27
Banking and credit card charges	**2,198**	2,154
Building maintenance	**890**	796
Commission paid to agents	**1,294**	1,621
Consultants	**11,358**	7,657
Legal fees	**244**	77
Fleet expenses	**948**	843
Investment fund expenses	**598**	631
System expenses	**14,081**	15,095
Other expenditure	**1,442**	2,561
Postages and freight	**1,870**	1,794
Marketing and public issues	**16,431**	12,776
Rates, insurance and utility expenses	**1,831**	1,835
Rent paid on operating leases	**184**	30
SA Motor magazine production costs	**924**	817
Staff related costs	**9,133**	7,557
Telephone charges	**3,024**	1,721
	66,549	57,992

5. INCOME TAX

(a) Income tax (benefit)/expense

	Consolidated 2022 $'000	Consolidated 2021 $'000
Current income tax	**(2,469)**	5,581
Current tax expense - Prior year under/over	**255**	157
Deferred income tax	**(2,447)**	(875)
Deferred tax expense - Prior year under/over	**(454)**	(264)
	(5,115)	4,599
Deferred income tax benefit included in income tax expense comprises:		
Decrease/(Increase) in deferred tax charged directly to equity	**23**	(2,259)
Decrease/(Increase) in deferred tax assets	**(953)**	(397)
(Decrease)/Increase in deferred tax liabilities	**(1,971)**	1,517
	(2,901)	(1,139)

(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 2022 $'000	Consolidated 2021 $'000
Accounting (loss)/profit before income tax	**(14,712)**	17,519
Income tax (benefit)/expense at 30% (2021: 30%)	**(4,414)**	5,256
Expenditure not allowable for income tax purposes	**92**	109
Rebates	**(66)**	(703)
Franking credits	**20**	211
Distributions	**-**	431
Assessable income not included		
Equity share of associate's profits	**(548)**	(598)
Prior year over provision	**(199)**	(107)
Aggregate income tax expense/(benefit)	**(5,115)**	4,599
Accounting effective tax rate:	34.77%	26.25%

	Consolidated 2022 $'000	Consolidated 2021 $'000
5. INCOME TAX (continued)		
(c) Numerical reconciliation of tax expense to current tax liability		
Aggregated income tax expense	**(5,115)**	4,599
Less prior year under/over provision	**(255)**	107
Timing difference recognised in deferred tax asset		
Doubtful debts	**24**	-
Audit fee payable	**(20)**	2
Employee benefits	**475**	(65)
Unearned income	**59**	176
Outstanding claims	**542**	430
Tax only assets	**301**	(362)
Accruals	**(501)**	220
Timing difference recognised in deferred tax liability		
Other Items	**25**	38
Deferred acquisition costs	**(53)**	(23)
Financial assets at fair value	**2,920**	(519)
Property, plant and equipment	**(943)**	978
Deferred Tax Asset recognised on tax losses	**67**	-
Prior year refund not yet received	**(992)**	-
Current year instalments paid this year	**(3,584)**	(6,790)
Current tax asset	**(7,050)**	(1,209)

(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:

Revaluation of Land and Buildings	**-**	2,126
Actuarial (loss)/gain on defined benefit superannuation fund	**(23)**	133
	(23)	2,259

	Consolidated 2022 $'000	Consolidated 2021 $'000
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:		
Amounts recognised in profit or loss		
Doubtful debts	**24**	-
Audit fee payable	**-**	20
Employee benefits	**5,410**	4,935
Unearned income	**2,504**	2,445
Outstanding claims	**2,228**	1,686
Tax only assets	**1,319**	1,018
Accruals	**182**	681
Tax losses	**67**	-
Deferred tax assets	**11,734**	10,785
Movements		
Opening balance	**10,785**	10,387
Reclassification of deferred tax balance	**-**	(568)
Recognised in income	**949**	966
Closing balance	**11,734**	10,785
(iii) Non-current liabilities - Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Other Items	**66**	114
Deferred acquisition costs	**2,201**	2,148
Financial assets at fair value	**516**	3,437
Intangible assets at fair value	**4,620**	4,620
Property, plant and equipment	**6,292**	5,348
Deferred tax liabilities	**13,695**	15,667
Movements		
Opening balance	**15,667**	14,150
Reclassification of deferred tax balance	**-**	(568)
Recognised in income	**(1,949)**	(174)
Recognised in equity	**(23)**	2,259
Closing balance	**13,695**	15,667

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 2022 $'000	**Consolidated 2021 $'000**
6. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	**24,546**	26,849
Reconciliation of net profit after tax to net cash flows from operations		
Net profit / (loss) after tax	**(9,597)**	12,920
Adjustments for:		
Depreciation, impairment and amortisation	**8,961**	12,256
Defined benefit fund expense / actuarial gain	**120**	127
Net (profit) / loss on disposal of property, plant and equipment	**(410)**	1,203
Net loss/(profit) on investments recognised through profit and loss	**9,534**	(2,127)
Share of Associates profit	**(1,832)**	(1,526)
Dividend from associates	**-**	(1,438)
Distributions received	**(6,918)**	(3,787)
Finance Costs	**310**	242
Rental expense	**-**	(1)
Income tax received / (paid)	**(3,625)**	(9,370)
Income tax expense / (benefit)	**(5,115)**	4,599
Changes in assets and liabilities:		
Increase in inventories	**(384)**	(51)
Increase in trade and other receivables	**(98,715)**	(29,323)
Increase in prepayments	**(1,035)**	(542)
Increase in deferred acquisition costs	**(178)**	(75)
Increase in trade and other payables	**5,835**	5,427
Increase in provisions	**1,476**	(132)
Increase in unearned income	**25,128**	22,703
Increase in outstanding claims	**93,487**	27,809
Net cash from / (used in) operating activities	**17,042**	**38,914**

7. TRADE AND OTHER RECEIVABLES

	Consolidated 2022 $'000	Consolidated 2021 $'000
Current		
Trade receivables	**20,160**	19,734
Allowance for impairment loss (a)	**(80)**	-
Insurance premiums receivable	**178,451**	157,013
Reinsurance and other recoveries	**110,237**	39,856
	308,768	216,603
Non-Current		
Reinsurance and other recoveries	**7,399**	5,653
	316,167	222,256

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. As at 30 June 2022, trade receivables of an initial value of $99,000 (2021: $27,000) 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:

	2022	2021
Balance at the beginning of the financial year	**-**	-
Bad debts recognised through Profit and Loss	**99**	27
Bad debts written off	**(19)**	(27)
Balance at the end of the financial year	**80**	-

There are no expected credit losses (ECL's) in relation to trade receivables as lifetime ECL's are considered immaterial.

The ageing analysis of trade receivables is as follows:

	Neither past due nor impaired $'000	Past due but not impaired 0-3 mths $'000	3-6 mths $'000	6-12 mths $'000	> 12 mths $'000	Impaired $'000	Total $'000
2022							
Consolidated	19,852	217	11	-	-	80	20,160
2021							
Consolidated	19,055	698	(19)	-	-	-	19,734

See Note 28 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 2022 $'000	Consolidated 2021 $'000
8. INVENTORIES		
Finished goods at cost	**1,851**	1,437

During 2022, $5,079,000 was recognised as an expense for inventories carried at cost. This is recognised in cost of sales.

9. DEPOSITS IN TRUST ACCOUNT

Current Assets		
RAA Travel trust bank balance	**4,833**	1,124
Keys2Drive trust bank balance	**1,100**	-
Customer deposits - car subscriptions	**2**	6
Solar battery deposits in trust	**6**	6
	5,941	1,136
Current Liabilities		
RAA Travel trust liabilities	**4,833**	1,124
Keys2Drive trust liabilities	**1,100**	-
Customer deposits - car subscriptions	**2**	6
Solar battery deposits in trust	**6**	6
	5,941	1,136

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	**4,453**	3,418

11. FINANCIAL ASSETS

	Consolidated 2022 $'000	Consolidated 2021 $'000
Current		
Financial assets mandatorily at fair value through profit and loss		
Unit Trusts and Interest Bearing Securities (i)	**81,143**	151,614
Shares - Australian unlisted (ii)	**3,051**	1,523
	84,194	153,137
Financial assets designated at fair value through profit and loss		
Unit Trusts and Interest Bearing Securities (i)	**130,197**	109,779
Financial assets at amortised cost		
Short-term deposits held for reinvestment	**71,986**	22,013
Loan to Related Parties (iii)	**1,155**	990
Prepayment for Shares - Australian unlisted (ii)	**2,211**	-
	75,352	23,003
Total Current	**289,743**	285,919
Non-current		
Financial assets at amortised cost		
Loan to Related Parties (iii)	**4,664**	5,819
Total Non-current	**4,664**	5,819

(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. A prepayment for additional shares, subscribed on 1 July 2022, was made on 24 June 2021. The fair value of the existing investment was determined using the price paid for the additional shares.

(iii) *Loans and Receivables*

The loan to ACC CAD Pty Ltd for $5,818,793 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, not fair value, with fixed interest calculated at the agreed interest rate of BBSW90 + 2% at each date of repayment.

12. INVESTMENTS IN ASSOCIATES

Associate	Equity Interest 2022	Equity Interest 2021	Consolidated 2022 $'000	Consolidated 2021 $'000
Australian Club Consortium Pty Ltd (i)	33.33%	33.33%	**449**	432
Club Consortium Pty Ltd (ii)	25.56%	25.56%	**5,353**	3,538
Total Investment in Associates			**5,802**	3,970

(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.

Summarised financial information	Consolidated 2022 $'000	Consolidated 2021 $'000
Current assets	**4,511**	5,202
Non-current assets	**15,438**	18,194
Current liabilities	**(4,054)**	(4,458)
Non-current liabilities	**(14,547)**	(17,643)
Net assets	**1,348**	1,295
Carrying amount of Group's investment in Associate	**449**	432
Total revenue	**10,228**	10,095
Total expenses	**(10,078)**	(9,561)
Net profit/(loss) before income tax	**150**	534
Income tax	**(97)**	(148)
Net profit/(loss) after income tax	**53**	386
Share of net profit/(loss) of Associate accounted for using the equity method	**17**	129

12. INVESTMENTS IN ASSOCIATES (continued)

(ii) Club Consortium Pty Ltd

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

	Consolidated 2022 $'000	Consolidated 2021 $'000
Summarised financial information		
Current assets	**42**	42
Non-current assets	**20,900**	13,801
Current liabilities	**(2)**	(2)
Non-current liabilities	**-**	-
Net assets	**20,940**	13,841
Carrying amount of Group's investment in Associate	**5,353**	3,538
Total revenue	**7,099**	5,625
Total expenses	**-**	(4)
Net profit/(loss) before income tax	**7,099**	5,621
Income tax	**-**	1
Net profit/(loss) after income tax	**7,099**	5,622
Share of net profit / (loss) of Associate accounted for using the equity method	**1,815**	1,438
Share of dividends paid	**-**	1,438

13. 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 1 July 2020				
Cost or fair value	35,022	33,711	25,089	93,822
Accumulated depreciation	(1,705)	(21,620)	(19,940)	(43,265)
Net book amount	33,317	12,091	5,149	50,557
Year ended 30 June 2021				
Opening net book amount	33,317	12,091	5,149	50,557
Additions	42	4,033	662	4,737
Net disposals	-	(1,207)	(208)	(1,415)
Depreciation	(430)	(3,236)	(1,223)	(4,889)
Net revaluation increment	7,088	-	-	7,088
Closing net book amount	40,017	9,179	4,380	53,576
At 1 July 2021				
Cost or fair value	42,152	29,195	24,827	96,174
Accumulated depreciation	(2,135)	(20,016)	(20,447)	(42,598)
Net book amount	40,017	9,179	4,380	53,576
Year ended 30 June 2022				
Opening net book amount	40,017	9,179	4,380	53,576
Additions	97	5,293	913	6,303
Net disposals	-	(687)	(1)	(688)
Depreciation	(432)	(2,501)	(1,017)	(3,950)
Closing net book amount	39,682	11,284	4,275	55,241
At 30 June 2022				
Cost or fair value	42,249	31,696	25,360	99,306
Accumulated depreciation	(2,567)	(20,413)	(21,085)	(44,065)
Net book amount	39,682	11,283	4,275	55,241

(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 2021. The valuation technique used in valuing the freehold land and buildings consists of Discounted Cash Flow Approach, Capitalisation Approach and Direct Comparison. Management obtained updated comparable Adelaide rent market information at 30 June 2022 to calculate a revised property fair value and concluded that the fair value does not differ materially from the carrying value.

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

	2022		2021	
	Freehold Land	Freehold Buildings	Freehold Land	Freehold Buildings
	$'000	$'000	$'000	$'000
Cost value	5,835	15,680	5,835	15,583
Accumulated depreciation	-	(7,566)	-	(7,134)
Net carrying amount	5,835	8,114	5,835	8,449

14. INTANGIBLE ASSETS

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

	Computer Software	Brand #	Total
	$'000	$'000	$'000
At 1 July 2020			
Cost or fair value	51,145	15,400	71,545
Accum. amortisation / impairment	(37,005)	-	(42,005)
Net book amount	14,140	15,400	29,540
Year ended 30 June 2021			
Opening net book amount	14,140	15,400	29,540
Additions	817	-	817
Transfer in from plant & equipment	2,502	-	2,502
Net disposals	(1,748)	-	(1,748)
Amortisation / impairment	(5,675)	-	(5,675)
Closing net book amount	10,036	15,400	25,436
At 1 July 2021			
Cost or fair value	54,372	15,400	69,772
Accum. amortisation / impairment	(44,336)	-	(44,336)
Net book amount	10,036	15,400	25,436
Year ended 30 June 2022			
Opening net book amount	10,036	15,400	25,436
Additions	759	-	759
Amortisation / impairment	(3,386)	-	(3,386)
Closing net book amount	7,409	15,400	22,809
At 30 June 2022			
Cost or fair value	55,015	15,400	70,415
Accum. amortisation / impairment	(47,606)	-	(47,606)
Net book amount	7,409	15,400	22,809

purchased as part of business combinations

14. INTANGIBLE ASSETS (continued)

(b) Description of the Group's intangible assets

(i) 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 of 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, impairment 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) 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 Holdings 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 2022 from financial budgets covering a three year period. The Gordon Growth Model has been used to project the cash flows beyond this period. The pre-tax discount rate used is 4.95% (2021: 7.65%) which has been determined using a weighted average cost of capital calculation.

(c) Impairment recognised

At 30 June 2022, no impairment in relation to Computer Software has been recognised for the year (2021: $1.86m). The impairment loss in the prior period represented the write-down of prior period Digital Development functionality to the recoverable amount as a result of technological obsolescence.

	Consolidated 2022 $'000	Consolidated 2021 $'000
15. GOODWILL		
Opening net book amount (i)	**61,199**	61,199
Acquisitions: Business combination (ii)	**6,452**	-
Closing net book amount	**67,651**	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.

(i) The opening balance of Goodwill represents that recorded upon purchase of RAA Insurance Holdings Limited.

(ii) On 30 June 2022, the Group purchased the assets of DB Solar Pty Ltd T/A Living Energy Solutions and Lovell Electrical Pty Ltd, the Group's Solar installation partners. The following table summarises the recognised amounts of assets acquired at the date of acquisition.

	$'000
Property, plant and equipment	718
Inventory	30
Total identifiable net assets acquired	**748**

Goodwill arising from the acquisition has been provisionally recognised as follows.

	$'000
Consideration transferred	7,200
Fair value of assets acquired	(748)
Goodwill	**6,452**

(b) Impairment losses recognised

At 30 June 2022, no impairment has been recognised for the year (2021: nil).

(c) Impairment tests for cash generating units containing goodwill

(i) For the purpose of assessing impairment, opening 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 2022 covering a three year period. The Gordon Growth Model has been used to project the cash flows beyond this period.

The opening goodwill balance relates to the RAA Insurance CGU and uses the key assumption that insurance policy growth will continue at an average of 3% per year, based on the past performance and future expectations of RAA Insurance Holdings Limited. The discount rate used is 7.65% (2021:7.65%) which has been determined using a weighted average cost of capital calculation. For the year ended 30 June 2022 no impairment loss has been recognised for the RAA Insurance CGU (2021: 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.

16. TRADE AND OTHER PAYABLES

	Consolidated 2022 $'000	Consolidated 2021 $'000
Current		
Trade payables	**6,220**	3,183
Security deposit (i)	**(168)**	924
GST and Stamp Duty	**35,733**	32,654
Other payables and accruals	**13,671**	17,663
	55,456	54,424

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.

17. UNEARNED INCOME

	Consolidated 2022 $'000	Consolidated 2021 $'000
Contract liability - road service premiums	**40,982**	39,018
Unearned insurance premiums	**212,910**	189,746
	253,892	228,764

18. INTEREST BEARING LIABILITIES

	Consolidated 2022 $'000	Consolidated 2021 $'000
Current		
Lease liabilities	**1,569**	1,114
	1,569	1,114
Non-Current		
Lease liabilities	**9,085**	7,189
	9,085	7,189

19. PROVISIONS

	Consolidated 2022 $'000	Consolidated 2021 $'000
Current		
Employee benefits (i)	**16,602**	15,368
Workers' compensation (ii)	**330**	230
	16,932	15,598
Non-current		
Employee benefits (i)	**1,433**	1,083
Workers' compensation (ii)	**619**	827
	2,052	1,910

(a) Movement in provisions

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

	Consolidated 2022 $'000	Consolidated 2021 $'000
Balance at beginning of financial year	**1,061**	973
Re-measurement of the estimated future liability	**(112)**	88
Balance at end of financial year	**949**	1,061

(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 2022, net of recoveries.

	Consolidated 2022 $'000	Consolidated 2021 $'000
20. RETAINED EARNINGS		
Balance at beginning of the financial year	**225,144**	211,914
Net profit / (loss) after tax	**(9,597)**	12,920
Actuarial gains / (loss) from defined benefit superannuation scheme	**(55)**	310
Balance at end of financial year	**215,492**	225,144

21. RESERVES

Asset Revaluation Reserve	**17,985**	17,985
Unrealised Capital Reserve on RAA Insurance Acquisitions	**34,473**	34,473
Balance at end of financial year	**52,458**	52,458

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.

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.

22. INSURANCE DISCLOSURES

The information in Note 22 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 2022 $'000	RAA Insurance 2021 $'000
Net earned premium		
Direct premium revenue *	**385,195**	346,006
Outwards reinsurance premium expense	**(58,873)**	(44,487)
Total net earned premium	**326,322**	301,519
Net incurred claims		
Claims expense (i)	**(477,198)**	(278,345)
Reinsurance recoveries revenue	**169,309**	20,473
Other recoveries revenue	**55,391**	39,050
Total net incurred claims	**(252,498)**	(218,822)
Underwriting expenses		
Commissions	**(36,322)**	(32,620)
Acquisition costs	**(13,942)**	(13,762)
Other underwriting expenses	**(10,375)**	(8,680)
Total underwriting expenses	**(60,639)**	(55,062)
Underwriting result	**13,185**	27,635
Net investment (loss)/income on technical reserves	**(2,218)**	670
Insurance trading result	**10,967**	28,305
Net investment (loss)/income on shareholders' funds	**(1,691)**	1,283
Contribution to profit before tax	**9,276**	29,588

(i) Insurance claims expense reconciliation

Claims expense	**(477,198)**	(278,345)
Transfer to:		
- Employee benefits	**7,519**	5,493
- Other expenditure	**8,079**	7,573
Insurance claims expense	**(461,600)**	(265,279)

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

22. INSURANCE DISCLOSURES (continued)

(b) Net incurred claims

Details of net incurred claims are as follows:

	2022			2021		
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	484,250	(6,595)	477,655	283,044	(4,563)	278,481
Discount and discount movement	(172)	(285)	(457)	(65)	(71)	(136)
	484,078	(6,880)	477,198	282,979	(4,634)	278,345
Reinsurance and other recoveries						
Undiscounted	(221,921)	(3,401)	(225,322)	(60,121)	550	(59,571)
Discount and discount movement	256	366	622	47	1	48
	(221,665)	(3,035)	(224,700)	(60,074)	551	(59,523)
Total net claims incurred	262,414	(9,916)	252,498	222,905	(4,083)	218,823

Claims expense represents claim payments plus the movement in the outstanding claims liability. Reinsurance and other recoveries are recognised as revenue for claims incurred.

The quota share (QS) arrangement provides that reinsurers are required to reimburse 25% of all home (excluding liability) claims expenses.

(c) 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 and other comprehensive income in subsequent reporting periods.

	Consolidated 2022 $'000	**Consolidated 2021 $'000**
Balance at beginning of the financial year	**7,159**	7,084
Acquisition costs deferred	**13,528**	13,425
Amortisation charged to income	**(13,350)**	(13,350)
Balance at end of financial year	**7,337**	7,159

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.

22. INSURANCE DISCLOSURES (continued)

(d) Liability adequacy test

At each reporting date RAA Insurance assesses the unearned premium liability to determine whether the amount provided is sufficient to pay future claims.

	Consolidated 2022 $'000	Consolidated 2021 $'000
Liability adequacy test		
Gross Unearned premium	**212,910**	189,747
Less: Allowance for Quota Share reinsurance arrangement	**(14,911)**	(13,503)
Less: Related deferred acquisition costs	**(27,415)**	(25,049)
Less: Future costs of reinsurance	**(19,733)**	(11,818)
Total provision available	**150,851**	139,377
Central estimate of PV of expected future cash flows arising from future claims	**141,187**	128,133
Risk margin (at 75% POA)	**7,646**	5,985
Total actuarial estimate of future liabilities	**148,833**	134,118
Net Surplus	**2,019**	5,259
Deficiency recognised in the Statement of Profit or Loss	Nil	Nil
Write down of deferred acquisition costs	Nil	Nil

The probability of adequacy (POA) for outstanding claims liabilities is set at a level that is appropriate and sustainable to cover 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 RAA Insurance's profit margins after having regard to regulatory minimum requirements of APRA - 75%. The risk margin is determined in the same manner described in note (e).

Risk margin applied	**2022**	**2021**
At 75% POA	**5.7%**	5.6%

(e) Outstanding Claims Liability

The outstanding claims liability comprises the elements described below.

- The central estimate of the present value of the expected future payments for claims incurred at the reporting date but not yet paid, claims incurred which have not yet been reported (IBNR) and claims incurred but not enough reported (IBNER) has been prepared in accordance with the fair value basis of accounting with certain exceptions as described in accounting policies in the following notes;
- Less an amount to reflect the discount to present value for home and pleasurecraft personal liability claims and time payer recoveries;
- Plus a risk margin added to reflect the inherent uncertainty in the central estimate; and
- Plus claim handling costs that can be associated directly and indirectly with the outstanding claims.

22. INSURANCE DISCLOSURES (continued)

(e) **Outstanding Claims Liability (continued)**

	Consolidated 2022 $'000	Consolidated 2021 $'000
Central estimate	**192,091**	102,145
Discount to present value	**(639)**	(181)
Risk margin	**9,926**	7,734
Claims handling costs	**7,426**	5,619
Gross outstanding claims liability	**208,803**	115,317
Classified as follows:		
Current	**203,027**	108,433
Non-Current	**5,777**	6,884
	208,804	115,317

Reconciliation of movements in discounted outstanding claims liability

	2022 Gross $'000	2022 Reinsurance and other recoveries $'000	2022 Net $'000	2021 Gross $'000	2021 Reinsurance and other recoveries $'000	2021 Net $'000
Balance at the beginning of the financial year	115,317	45,509	69,808	87,506	39,603	47,903
Movement of Prior Period Claims						
Unwind of discount on claims	181	134	47	45	86	(41)
Payments/recoveries on claims	(81,353)	(35,430)	(45,923)	(60,057)	(28,737)	(31,319)
Release of risk margin on claims	(5,584)	-	(5,584)	(4,645)	-	(4,645)
Change in actuarial estimate of claims	(1,011)	3,402	(4,413)	82	(550)	632
Discount claims to present value	(466)	(500)	34	(116)	(87)	(29)
Current Period Claims						-
Incurred cost/recoveries (undiscounted)	476,474	221,920	254,553	277,386	60,121	217,266
Payments/recoveries on claims	(302,358)	(117,144)	(185,214)	(190,478)	(24,880)	(165,598)
Risk margin on net central estimate	7,776	-	7,776	5,657	-	5,657
Discount claims to present value	(172)	(256)	85	(63)	(47)	(16)
Balance at the end of the financial year	208,804	117,635	91,169	115,319	45,509	69,810

22. INSURANCE DISCLOSURES (continued)

(e) **Outstanding Claims Liability (continued)**

A risk margin is determined to reflect the inherent uncertainty in the central estimate.

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% probability of adequacy (POA).

Risk margin applied	**2022**	**2021**
At 90% POA	**12.2%**	12.5%

Actuarial assumptions

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

	2022	**2021**
Average weighted term to settlement from reporting date	< 1 yr	< 1 yr
Average claim frequency (claims per policy)	1.9%-19.5%	2.1%-16.0%
Average claim size (cost per claim)	$1,607-$5,874	$1,329-$4,127
Claims handling expense rate	4.40%-4.80%	4.50%-4.75%
Discount rate	3.26%-3.35%	0.78%-0.80%
Inflation and superimposed inflation	Implicit	Implicit

Process to Determine Assumptions

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

Average weighted term to settlement from reporting date

The estimated average weighted term to settlement is based on historical settlement patterns.

Average claim frequency (claims per policy)

Estimate future number of claim reports are based on historical patterns of claim reporting.

Average claim size (cost per claim)

Estimated average claim sizes are based on historical patterns of development of claims costs, by type of claim.

Claims handling expense rate

The allowance for claims handling expenses is based on the expected 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.

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.

22. INSURANCE DISCLOSURES (continued)

(e) Outstanding Claims Liability (continued)

Sensitivity analysis

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.
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.
Claims handling 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%	(4,986)	(4,746)	(4,746)
	-10%	4,986	4,746	4,746
Claim frequency - most recent accident quarter	+10%	(4,986)	(4,746)	(4,746)
	-10%	4,986	4,746	4,746
Expense rate	+10%	(583)	(583)	(583)
	-10%	583	583	583

Due to the short tail nature of claims, movement in the discount rate is not considered a significant sensitivity.

22. INSURANCE DISCLOSURES (continued)

(f) General Insurance Risk Management

The RAA Insurance Board has overall responsibility for the establishment and oversight of the Governance and Risk Management Framework (GRMF).

Insurance risk refers to the inherent risk in any insurance contract that an insured event may occur and the uncertainty of the amount of the resulting claim. The Company manages this risk through the GRMF, and the terms and conditions of its insurance contracts.

Key aspects of the GRMF that aim to mitigate insurance 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 performance 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.

Concentration risk

The Company is a domestic insurer that only operates in South Australia and Broken Hill. As a result, a concentration risk exists due to the nature and location of the business. The Company has identified a potential insurance concentration risk related to geographic location which could impact the Company should there be a catastrophe. This risk is noted in the Company's risk appetite and has been mitigated through the Company's reinsurance arrangements.

The Company'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).

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 utilises risk address level natural perils models. Based on the probable maximum loss (PML) per the models, the Company purchases catastrophe reinsurance cover to limit exposure to any single 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.

23. 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;

Name		Equity interest 2022	Equity interest 2021	Investment 2022	Investment 2021
		%	%	$	$
RAA Insurance Holdings Limited	Subsidiary	**100%**	100%	**103,497,581**	103,497,581
RAA Innovation Pty Ltd	Subsidiary	**100%**	N/A	**100,000**	-
				103,597,581	103,497,581

RAA Innovation Pty Ltd was registered on 11 November 2021.

(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	
RAA Innovation Pty Ltd	Subsidiary	
Motoring Club Finance Pty Ltd	Joint Venture	*- deregistered in May 2021*
RAA Auto Glass Pty Ltd	Joint Venture	*- wound up in December 2020*
Australian Club Consortium Pty Ltd	Associate	
Club Consortium Pty Ltd	Associate	

(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.

Subsidiaries, Joint Ventures and Associates

Related party	Transaction Type	RAA of SA 2022 $	RAA of SA 2021 $
RAA Insurance Holdings Limited	Dividend revenue	**10,000,000**	4,500,000
	Distribution services	**38,510,650**	34,554,211
	Rent and administration	**11,212,085**	11,543,217
	Insurance Premiums	**50,453**	4,295
		59,773,188	50,601,723
Motoring Club Finance Pty Ltd	Distribution services	**-**	232,646
Australian Club Consortium Pty Ltd	Administration	**99,024**	97,080
	User charges	**2,698,404**	2,671,008
		2,797,428	2,768,088
Club Consortium Pty Ltd	Dividend revenue	**-**	1,437,750

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. All transactions with related parties are made on normal commercial terms unless indicated.

23. RELATED PARTY DISCLOSURE (continued)

(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.

Outstanding balances with related parties

Related party	Balance Type	RAA of SA 2022 $	RAA of SA 2021 $
RAA Insurance Holdings Limited	Income tax related	**(1,150,542)**	1,357,680
	Related party receivable	**4,838,112**	7,258,059
		3,687,570	8,615,739
RAA Innovation Pty Ltd	Loan receivable	**8,500,000**	-
Australian Club Consortium Pty Ltd	Loan receivable	**5,818,793**	6,808,294
		18,006,363	15,424,033

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.

24. 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:

- PR Siebels (President)
- KJ Gramp (Vice President)
- IH Stone (Association Managing Director, resigned 1 August 2022)
- VM Angove
- ED Perry
- SR Starick
- M Small
- J McGill
- S Holmes
- D Osborn

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 2022 $	**Consolidated 2021 $**
Short-term employee benefits	**521,435**	444,444
Post-employment benefits	**52,144**	41,650
	573,579	486,094

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 $326,128 (2021: $161,124).

(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 — Chief Executive, Insurance
- DA Jacob — General Manager, Automotive Services (resigned 10 September 2021)
- GM Norman — General Manager, Travel and Distribution
- D Parr — General Manager, Marketing, Digital and Business Development
- B Vivian — General Manager, People and Environment
- MA Walters — General Manager, Information Services (resigned 17 December 2021)
- E Perry — General Manager, Community and Corporate Affairs
- S Pafumi — Group Chief Financial Officer
- D Nycz — General Manager, Automotive Services (appointed 17 January 2022)
- J Dhondee — General Manager, Information Services (appointed 17 January 2022)

24. KEY MANAGEMENT PERSONNEL (continued)

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

	Consolidated 2022 $	Consolidated 2021 $
Short-term employee benefits (i)	**3,663,855**	3,845,887
Long-term employee benefits	**50,524**	46,707
Post-employment benefits	**228,057**	259,090
	3,942,437	4,151,684

(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.

25. 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 2022 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 2022 $'000	Consolidated 2021 $'000
Opening defined benefit obligation	**2,874**	2,753
Service cost	**133**	135
Net Interest	**41**	32
Contributions by scheme participants	**26**	29
Actuarial losses	**(162)**	254
Benefits paid	**(404)**	(239)
Contributions to accumulation section	**(12)**	(12)
Taxes, premiums and expenses paid	**(54)**	(78)
Closing defined benefit obligation	**2,442**	2,874

Reconciliation of the fair value of scheme assets

	Consolidated 2022 $'000	Consolidated 2021 $'000
Opening fair value of fund assets	**3,999**	3,562
Interest income	**54**	40
Actual return on fund assets less interest income	**(240)**	697
Contributions by scheme participants	**26**	29
Benefits paid	**(404)**	(239)
Contributions to accumulation section	**(12)**	(12)
Taxes, premiums and expenses paid	**(54)**	(78)
Closing fair value of fund assets	**3,369**	3,999

25. DEFINED BENEFIT PENSION PLAN (continued)

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

	Consolidated 2022 $'000	Consolidated 2021 $'000
Defined benefit obligation *	**(2,442)**	(2,874)
Fair value of scheme assets	**3,369**	3,999
Net superannuation asset	**927**	1,125

Amounts recognised in the Statement of Comprehensive Income

Actuarial (gains) / losses - liability experience	**(84)**	259
Actuarial (gains) / losses - change in financial assumptions*	**(78)**	(5)
Total actuarial (gains) / losses	**(162)**	254

** includes contributions tax provision*

Expense recognised in the Statement of Profit or Loss

Service cost **	**133**	135
Interest cost	**41**	32
Interest income	**(54)**	(40)
Superannuation expense	**120**	127

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

Expected benefit payments for the financial year ending;		
30 June 2023	**292**	335
30 June 2024	**785**	727
30 June 2025	**525**	492
30 June 2026	**246**	247
30 June 2027	**182**	-
Following 5 years	**957**	1,042
The weighted average duration of the defined benefit obligation was	4 years	5 years

25. DEFINED BENEFIT PENSION PLAN (continued)

Fair value of fund assets

Asset Category	Total $'000	Quoted prices Level 1 $'000	Observable inputs Level 2 $'000	Unobservable inputs Level 3 $'000
Investment Funds - Balanced	3,369	-	3,369	-
Total	3,369	-	3,369	-

Scheme assets

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

	2022	**2021**
Australian Equity	**24%**	24%
International Equity	**31%**	32%
Fixed Income	**17%**	16%
Property	**13%**	11%
Alternatives / Other	**12%**	12%
Cash	**3%**	5%

Actual return on scheme assets

Actual return on scheme assets	**(186)**	737

Principal actuarial assumptions at the reporting date relating to Defined Benefit obligation

Expected salary increase rate	**2.75% pa**	2.5% 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.

25. DEFINED BENEFIT PENSION PLAN (continued)

Sensitivity Analysis

	Base	Discount Rate Sensitivity		Salary Rate Sensitivity	
Discount rate	4.70%	4.20%	5.20%	4.70%	4.70%
Salary increase rate	2.75%	2.75%	2.75%	2.25%	3.25%
Defined Benefit obligation	2,442	2,447	2,437	2,438	2,445

Expected contributions

	2022 $'000	2021 $'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.

26. LEASES

Group as a lessee

The Group has lease contracts for commercial properties used in its operations. These leases have lease terms between 2 to 7 years. There are several lease contracts that include extension and termination options and variable lease payments. The Group also has leases of office equipment.

The Group has applied the low value and short term leases exemptions where available.

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

	Commercial Property $'000	Office Equipment $'000	Total $'000
At 1 July 2021	**7,166**	**262**	**7,428**
Additions	3,657	-	3,657
Depreciation expense	(1,537)	(88)	(1,625)
At 30 June 2022	**9,286**	**174**	**9,460**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing liabilities) and the movements during the period:

26. LEASES (continued)

	Consolidated 2022 $'000	Consolidated 2021 $'000
As at 1 July	8,304	8,130
Additions	3,656	1,562
Accretion of interest	310	242
Payments	(1,616)	(1,630)
As at 30 June	**10,654**	8,304
Current	1,569	1,114
Non-current	9,085	7,189

The following are the amounts recognised in profit or loss:

	Consolidated 2022 $'000	Consolidated 2021 $'000
Depreciation expense of right-of-use assets	1,625	1,691
Interest expense on lease liabilities	310	242
Total amount recognised in profit or loss	**1,935**	1,933

The Group had total cash outflows for leases of $1.6m in 2022 (2021: $1.3m).

27. CONTINGENT LIABILITY

The Group has provided the following guarantees:

	Consolidated 2022 $'000	Consolidated 2021 $'000
Bank guarantees provided as security for :		
- outstanding workers' compensation claims	**1,124**	900
- leasing of retail property at Elizabeth Shopping Centre, Elizabeth	**11**	11
- leasing of retail property at Colonnades Shopping Centre, Noarlunga	**46**	46
- provision of small passenger vehicle inspections	**50**	-
	1,231	957

28. 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 the Group'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 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:

28. 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
2022					
Cash	24,546	172	(172)	172	(172)
Deposits in trust account	5,941	42	(42)	42	(42)
Deposits in trust account	(5,941)	(42)	42	(42)	42
	24,546	**172**	**(172)**	**172**	**(172)**
2021					
Cash	26,849	188	(188)	188	(188)
Deposits in trust account	1,136	8	(8)	8	(8)
Deposits in trust account	(1,136)	(8)	8	(8)	8
	26,849	**188**	**(188)**	**188**	**(188)**

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
2022					
Unit Trusts	137,315	9,612	(9,612)	9,612	(9,612)
Bonds / Notes	74,026	5,182	(5,182)	5,182	(5,182)
	211,340	**14,794**	**(14,794)**	**14,794**	**(14,794)**
2021					
Unit Trusts	94,097	6,587	(6,587)	6,587	(6,587)
Bonds / Notes	167,296	11,711	(11,711)	11,711	(11,711)
	261,393	**18,298**	**(18,298)**	**18,298**	**(18,298)**

28. 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 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 the table below.

The credit quality is assessed and monitored as follows:

Table 3 - Exposure to credit risk: Cash & Receivables

	AAA $'000	AA $'000	A $'000	Below A $'000	Not rated $'000	Total $'000
2022						
Current						
Cash and cash equivalents	-	24,546	-	-	-	24,546
Deposits in trust account	-	5,941	-	-	-	5,941
Trade and other receivables	-	21,068	64,322	1,223	222,155	308,768
Financial Assets	89,040	82,816	34,634	20,190	63,064	289,743
	89,040	**134,371**	**98,956**	**21,413**	**285,219**	**628,998**
Non Current						
Trade and other receivables	-	-	-	-	7,399	7,399
Financial Assets	-	-	-	-	4,664	4,664
	-	-	-	-	**12,063**	**12,063**
2021						
Current						
Cash and cash equivalents	-	26,849	-	-	-	26,849
Deposits in trust account	-	1,136	-	-	-	1,136
Trade and other receivables	-	8,027	12,703	238	195,635	216,603
Financial Assets	77,534	86,988	24,939	18,950	77,508	285,919
	77,534	**123,000**	**37,642**	**19,188**	**273,143**	**530,507**
Non Current						
Trade and other receivables	-	-	-	-	5,653	5,653
Financial Assets	-	-	-	-	5,819	5,819
	-	-	-	-	**11,472**	**11,472**

28. 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 2022. 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.

Table 4 - Maturities (liquidity risk)

	1 year or less $'000	1 to 5 yrs $'000	Over 5 yrs $'000	Total $'000
2022				
Liquid Financial Assets				
Cash and cash equivalents	24,546	-	-	24,546
Trade and other receivables	301,369	7,399	-	308,768
Deposits in trust account	5,941	-	-	5,941
	331,856	**7,399**	**-**	**339,255**
Financial liabilities				
Trade and other payables	55,456	-	-	55,456
Outstanding claims liability	208,804	-	-	208,804
Lease Liabilities	1,837	6,130	3,902	11,869
Deposits in trust account	5,941	-	-	5,941
	272,038	**6,130**	**3,902**	**282,070**
Net inflow / (outflow)	**59,818**	**1,269**	**(3,902)**	**57,185**
2021				
Liquid Financial Assets				
Cash and cash equivalents	26,849	-	-	26,849
Trade and other receivables	210,950	5,653	-	216,603
Deposits in trust account	1,136	-	-	1,136
	238,935	**5,653**	**-**	**244,588**
Financial liabilities				
Trade and other payables	54,424	-	-	54,424
Outstanding claims liability	115,317	-	-	115,317
Lease Liabilities	1,323	4,493	3,413	9,229
Deposits in trust account	1,136	-	-	1,136
	172,200	**4,493**	**3,413**	**180,106**
Net inflow / (outflow)	**66,735**	**1,160**	**(3,413)**	**64,482**

28. 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 2022 that are measured at fair value after initial recognition, other than those where the carrying value is a reasonable approximation of fair value. The carrying value of financial liabilities is considered to approximate fair value.

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

Table 5 - Fair Value

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 2021.
Property, plant and equipment	2	Valued at market value based on third party property valuation conducted 30 June 2021 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.

	Level 1	Level 2	Level 3	Total fair value	Total carrying value
2022	$'000	$'000	$'000	$'000	$'000
Assets					
Financial assets at fair value through profit or loss	-	84,194	-	84,194	84,194
Property, Plant and Equipment revalued	-	39,682	-	39,682	13,949
Loans and receivables	-	-	6,518	6,518	5,819
	-	**123,876**	**6,518**	**130,394**	**103,962**
2021					
Assets					
Financial assets at fair value through profit or loss	-	153,137	-	153,137	153,137
Property, Plant and Equipment revalued	-	40,017	-	40,017	14,978
Loans and receivables	-	-	6,518	6,518	6,809
	-	**193,154**	**6,518**	**199,672**	**174,924**

29. AUDITORS REMUNERATION

The auditor of the Parent is KPMG (2021: Ernst & Young)	RAA of SA 2022	RAA of SA 2021
Amounts received or due and receivable by KPMG (2021: Ernst & Young) for:	$	$
• An audit or review of the financial report of the entity and any other entity in the consolidated group	**66,240**	105,048
• Other services in relation to the entity and any other entity in the consolidated group		
- Income tax compliance	**39,778**	45,907
- Other tax consulting	**3,000**	24,000
- Other services	**104,555**	-
	213,573	174,955

The auditor of RAA Insurance is KPMG	RAA Insurance 2022	RAA Insurance 2021
Amounts received or due and receivable by KPMG for:	$	$
• An audit or review of the financial report of the entity	**95,013**	103,300
• Other services in relation to the entity		
- Auditing the APRA returns	**43,160**	41,765
- Other services	**51,647**	71,310
	189,820	216,375

30. 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 2022 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 2022;

      (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.

      (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 24 of the preceding Financial Report.*

         ii. *Some Directors of the Association are also Directors of RAA Insurance Holdings Ltd. This remuneration has been disclosed in Note 24 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 2022.

On behalf of the board

....	....
P R Siebels President	**K J Gramp** Vice President

Adelaide, 22 August 2022

Independent Auditor's Report

To the members of Royal Automobile Association of South Australia Incorporated

Opinion

We have audited the consolidated ***Financial Report***, of Royal Automobile Association of South Australia Incorporated (the Association).

In our opinion, the accompanying Financial Report presents fairly, in all material respects, the financial position of the Association as at 30 June 2022 and its financial performance for the year ended on that date in accordance with *Australian Accounting Standards* and the *Associations Incorporation Act (South Australia) 1985.*

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

i. Consolidated Statement of Financial Position as at 30 June 2022;

ii. Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended;

iii. Notes including a summary of significant accounting policies; and

iv. Directors' Declaration.

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

Basis for opinion

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

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

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

Other information

Other Information is financial and non-financial information in Royal Automobile Association of South Australia Incorporated's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- the preparation and fair presentation of the Financial Report in accordance with *Australian Accounting Standards* and the *Associations Incorporation Act (South Australia) 1985;*
- implementing necessary internal control to enable the preparation of a Financial Report that are free from material misstatement, whether due to fraud or error; and
- assessing the Association's and Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Association or 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 objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar3.pdf This description forms part of our Auditor's Report.

KPMG

KPMG

Paul Cenko
Partner

Adelaide

22 August 2022