

Pacific International Insurance Pty Limited

Annual Financial Statements

30 June 2017

Pacific International Insurance Pty Limited
For the year ended 30 June 2017
Directors' Report

The Directors of Pacific International Insurance Pty Limited submit herewith the annual report of the company for the financial year ended 30 June 2017. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors in office for the company during or since the end of the financial year are:

Mr Stephen John Stuart Garrett
Mr Murray David Healey
Mr Graham John Hellier
Mrs Marilyn Clare Hellier
Mr Roger Walter Robert Shoesmith
Mr Guy Nicholas Hurst Smith
Mr Robert William Urry

The above named directors held office during the whole of the financial year and since the end of the financial year except for:

Mr Murray David Healey (resigned 30th June 2017)

Review of operations

The Directors are pleased to report that the company has made a profit before taxation of \$1,044,477 (2016: \$404,312). The profit after taxation is \$659,953 (2016: \$211,624).

Changes in state of affairs

There has been no material change to the business of the company.

Principal Activities

The principal activities during the year were the sale of liability and professional indemnity insurance to the pest control industry in Australia and New Zealand. The company is continuing with training courses to the New Zealand pest control industry.

No significant change in the nature of these activities occurred during the year.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operation of the company, the results of the company, or the operations of the company in future years.

Likely developments and expected results of operations

Likely developments in the company's operations and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the company.

Environmental Regulation

The company's operations are not regulated by any significant regulation under a law of the Commonwealth or of a state or territory.

Pacific International Insurance Pty Limited
For the year ended 30 June 2017
Directors' Report (continued)

Dividends

During the year the directors approved the payment of dividends totalling \$666,795.

The Directors are not proposing any further and final dividends with respect to the year ended 30 June 2017.

Shares under option or issued on exercise of options

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

No shares or interests in the company have been issued during or since the end of the year as a result of the exercise of an option over unissued shares or interests.

Indemnification of officers and auditors

The company paid a premium in respect of a contract insuring the directors of the company (as named above) against a liability incurred as such a director to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Proceedings on behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Company for all or any of those proceedings.

The company was not party to any such proceedings during the year.

Auditors Independence Declaration

A copy of the auditors independence declaration as required under s. 307C of the *Corporations Act 2001* is attached to these accounts.

The directors' report is signed in accordance with a resolution of the Board of Directors made pursuant to s. 298(2) of the *Corporations Act 2001*:

On behalf of the Directors,



Mr S J S Garrett
Director



Mr G J Hellier
Director

Newcastle, 26 October 2017

Pacific International Insurance Pty Limited
For the year ended 30 June 2017
Annual Declaration


The Directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (b) in the directors' opinion, the attached financial statements are in compliance with Australian Accounting Standards as noted in note 1.1 to the financial statements.
- (c) in the directors' opinion the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company.

Signed in accordance with a resolution of the directors made in pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors,



Mrs J S Garrett
Director

Mr G J Hellier
Director

Newcastle, 26 October 2017

Pacific International Insurance Pty Limited
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2017

	Note	2017	2016
Revenue			
Gross earned premium	5	6,228,930	6,270,469
Less: Outwards reinsurance expense		(581,760)	(604,454)
Net earned premium		5,647,170	5,666,015
Expenses			
Claims expense	7	979,241	2,361,945
Net claims expense		979,241	2,361,945
Policy acquisition expenses	14	1,917,093	1,919,851
Other operating expenses	6	2,632,525	1,724,636
Total expenses		5,528,859	6,006,432
Net Underwriting Profit / (Loss)		118,311	(340,417)
Interest income	8	455,847	446,001
Other income	13	492,710	280,247
Investment income		948,557	726,248
Profit before tax		1,066,868	385,831
Income taxation expense	9	384,524	192,688
Profit after tax			
Other Comprehensive Income / (Expense)			
Net Foreign exchange loss/(gain)		22,391	(18,481)
Profit before income taxation		1,044,477	404,312
Total comprehensive income for the year, net of tax		659,953	211,624

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Pacific International Insurance Pty Limited
Statement of Financial Position
As At 30 June 2017

	Note	2017	2016
Assets			
Cash and cash equivalents	16	1,166,523	600,829
Investments	17	14,921,995	16,852,501
Accrued interest on investments		136,707	84,379
Trade and other assets	15	347,994	796,453
Related party receivables	27	1,425,353	1,074,324
Loans due from related parties	27	1,038,330	-
Deferred acquisition costs	14	931,653	999,280
Property, plant and equipment	11	17,582	53,816
Intangible assets	12	10,200	13,600
Deferred tax assets	10	11,040	54,936
Total assets		20,007,377	20,530,118
Liabilities			
Trade and other payables	19	560,056	212,147
Related party payables	27	404,357	156,414
Income tax payables	9	22,729	123,749
Unearned premium reserve	22	3,177,188	3,402,846
Outstanding claims liabilities	21	3,013,484	3,798,557
Total liabilities		7,177,814	7,693,713
Net assets		12,829,563	12,836,405
Equity			
Share capital	18	11,917,220	11,917,220
Retained earnings		912,343	919,185
Total equity		12,829,563	12,836,405

The above statement of financial position should be read in conjunction with the accompanying notes.

Pacific International Insurance Pty Limited
Statement of Changes in Equity
For the year ended 30 June 2017

	Share Capital	Retained Earnings	Total Equity
Balance at 1 July 2015	11,917,220	1,321,239	13,238,459
Profit for the year	-	211,624	211,624
Dividend payments	-	(613,678)	(613,678)
Balance at 30 June 2016	<u>11,917,220</u>	<u>919,185</u>	<u>12,836,405</u>
Balance at 1 July 2016	11,917,220	919,185	12,836,405
Profit for the year	-	659,953	659,953
Dividend payments	-	(666,795)	(666,795)
Balance at 30 June 2017	<u>11,917,220</u>	<u>912,343</u>	<u>12,829,563</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Pacific International Insurance Pty Limited
Statement of Cash Flows
For the year ended 30 June 2017

	Note	2017	2016
Cash flows from Operating Activities			
Premiums received		6,708,254	5,578,779
Interest received		403,518	405,538
Claims payments		(1,780,914)	(1,805,947)
Reinsurance expenses		(581,760)	(604,454)
Commissions paid		(1,984,719)	(1,891,155)
Payments to suppliers and employees		(1,987,533)	(1,400,999)
Taxation Recovered/(Paid)		(410,338)	(374,049)
Net cash generated by / (used in) operating activities	29	366,508	(92,287)
Cash flows from investing activities			
Purchase of investments - Term deposits		1,930,507	(1,884,849)
Purchase of property plant and equipment and intangible assets		(3,804)	(50,137)
Net cash generated by / (used in) investing activities		1,926,703	(1,934,986)
Cash flows to financing activities			
Loans to related parties		(1,038,330)	-
Dividend payments to shareholders		(666,795)	(613,678)
Net cash used in financing activities		(1,705,125)	(613,678)
Net increase / (decrease) in cash and cash equivalents		588,085	(2,640,951)
Cash and cash equivalents at the beginning of the year		600,829	3,223,299
Impact of foreign exchange movements on cash and cash equivalents held in foreign currency		(22,391)	18,481
Cash and cash equivalents at the end of the year		1,166,523	600,829

The above statement of cash flows should be read in conjunction with the accompanying notes.

Pacific International Insurance Pty Limited
Notes to the financial statements
For the year ended 30 June 2017

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1. General Information

Pacific International Insurance Pty Limited is a company incorporated and domiciled in Australia.

The principal activities during the year were the sale of liability and professional indemnity insurance to the pest control industry in Australia and New Zealand. The company is continuing with training courses to the New Zealand pest control industry. During the year, the company's registered office in Australia was Suite 1/5 Paviliom Place, Cardiff NSW 2285. In September 2017, the registered office was moved to 55 Broadmeadow Road, Broadmeadow NSW 2292.

The financial statements of the Company are For the year ended 30 June 2017 and include the activities of the New Zealand Branch. The financial statements were authorised for issue by the Directors on 26 October 2017

1.1 Basis of preparation

This general purpose Financial Report has been prepared in accordance with Australian Accounting Standards, interpretations of the Australian Accounting Standards Board (AASB), the Corporations Act 2001 and International Financial Reporting Standards as issued by the International Accounting Standards Board. Pacific International Insurance Pty Limited is a for-profit entity.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2017 and comparative information presented for the year ended 30 June 2016.

1.2 Basis of measurement

The financial statements have been prepared on the basis of historical cost, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

1.3 Presentation currency

These financial statements are presented in Australian dollars. The company's functional currency is Australian dollars as the primary economic environment in which the company operates is Australia.

2. Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

2.1 Foreign currency transactions

Transactions in foreign currency that are settled in the accounting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the balance sheet date, are translated to Australian Dollars at the foreign exchange rate ruling at that date. These foreign exchange differences arise from a foreign operation in New Zealand, when settled subsequent to balance date, are recognised in other comprehensive income.

2. Significant Accounting Policies, continued

2.2 Goods and Services Tax

All balances are presented net of goods and services tax (GST), except for receivables and payable which are presented inclusive of GST.

2.3 Revenue

Revenue is measured at the fair value of the consideration received or receivable. The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company and specific criteria have been met for each of the company's activities as described below.

Premium Revenue

Direct premium revenue comprises amounts charged to policyholders. The earned portion of premiums, including unclosed business, is recognised as income. Premium is earned from the date of attachment of the risk, over the contract period based on the pattern of the risks underwritten.

Interest Income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Management / Recharge fee income

Management fee income is recognised in the Income Statement over the period in which the service is provided, net of any fees rebated.

2.4 Reinsurance

Amounts paid to reinsurers are recorded as a reinsurance expense and are recognised in the statement profit or loss and other comprehensive income.

2.5 Expenses

Claims Expense

Claims expense represents payments made on claims and the movement in the outstanding claims liability as described in note 2.14.

Operating lease payments

Payments made under operating leases, including any lease incentives, are recognised in the statement of profit or loss and other comprehensive income on a straight line basis over the term of the lease.

Acquisition costs

Acquisition costs (which include commission expense) are the costs associated with obtaining and recording insurance contracts. Acquisition costs are capitalised when they relate to the acquisition of new business or the renewal of existing business and are amortised on the same basis as the earning pattern of the premium, over the period of the insurance contract to which they relate.

2. Significant Accounting Policies, continued

2.6 Income tax and Deferred tax

The income tax expense or benefit for the year is the taxation payable on the current year's taxable income adjusted for any non-deductible items on assessable taxable income. The income tax expense or benefit also includes changes in deferred tax assets or liabilities.

Deferred income tax is provided in full and is recognised on temporary differences between the tax bases of assets and liabilities and their carrying values in the financial statements.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Current and deferred income tax expense is charged or credited outside Statement of Profit or Loss and Other Comprehensive Income when the tax relates to items that are recognised outside Statement of Profit or Loss and Other Comprehensive Income.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable Statement of Profit or Loss and Other Comprehensive Income.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by reporting date, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

2.7 Cash and cash equivalents

Cash comprises cash in bank, on hand and term deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

2.8 Property, plant and equipment

Owned assets

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment losses.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent additions

Additions to property, plant and equipment are capitalised if it is probable that the future economic benefits will flow to the Company and the cost of these can be measured reliably. All other costs are recognised as an expense in the statement of profit or loss and other comprehensive income in the period the cost has been incurred.

Depreciation

Depreciation is charged over the estimated useful lives of the plant, property and equipment in the statement of profit or loss and other comprehensive income. The residual value of assets is reassessed annually. The following rates have been used

-	Fixtures, fittings and furnishings	New Zealand	11% - 60% diminishing value basis
-	Computers	New Zealand	48% - 60% on a diminishing value basis
		Australia	25% - 33% of cost.
-	Motor Vehicles	New Zealand	30% - 36% diminishing value basis
		Australia	25% of cost.

2. Significant Accounting Policies, continued

2.9 Non derivative financial instruments

Non derivative financial instruments comprise investments, trade and other receivables, related party receivables, loans to other related parties, cash and cash equivalents and related party payables. Non-derivative financial assets except for investments are classified as loans and receivables.

Investments are initially recognised at fair value with the transaction costs being expensed in the statement of profit or loss and other comprehensive income. Subsequent to initial recognition investments are valued at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income. Interest income is recognised in the statement of profit or loss and other comprehensive income as earned.

Other non derivative financial instruments are recognised initially at fair value plus any attributable transactions costs. Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised costs using the effective interest method, less any impairment losses.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Asset-backed securities are instruments whose cash flow is based on the cashflows of the pool of underlying assets managed separately.

2.10 Premium Receivables

Premium receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, insurance receivables are measured at cost less any impairment.

2.11 Impairment

The carrying amounts of the Company's assets, property, plant and equipment, intangible assets and financial assets are reviewed at each balance date to determine if there is any indication of impairment. If any such impairment exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds the recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the statement of profit or loss and other comprehensive income.

2.12 Payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

2.13 Outstanding claims liability

Outstanding claims liabilities are recognised when contracts are entered into and loss events have occurred and are based on the estimated ultimate cost of the claims incurred but not settled at the year-end date, together with related claims handling costs and reduction for the expected value of salvage and reinsurance recoveries. The Company's insurance products provide cover on a 'claims made' basis rather than on an 'occurrence' basis and therefore a claim must be notified to the Company before it is incurred.

A central estimate is made of the present value of claims reported but not paid and incurred but not enough reported. A risk margin is added to this central estimate to allow for the inherent uncertainty in the central estimate.

Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these claims cannot be known with certainty at the balance date. The liability is calculated at the reporting date using projection techniques based on historical data, trends and current assumptions. The liability is discounted for the time value of money, where material using the risk free government stock rate. Changes in claims that have occurred, but which have not been settled, are reflected by adjusting the liability. The liability is derecognised when the claim is discharged or withdrawn.

2. Significant Accounting Policies, continued

2.14 Deferred acquisition costs

Acquisition costs incurred in obtaining and recording insurance contracts are deferred in recognition that they represent future benefits. Deferred acquisition costs are only recognised if they can be reliably measured and are expected to give rise to future benefits. Deferred acquisition costs are amortised over the expected pattern of the incidence of risk under the insurance contract.

2.15 Unearned premium reserve and liability adequacy testing

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

A liability adequacy test is performed to assess whether there are any deficiencies in the unearned premium reserve due to expected future claims. The amount of these expected future claims is estimated using the present value of future claims and expenses plus an additional risk margin to reflect the inherent uncertainty in those cash flows. This is compared to the unearned premium reserve and deferred acquisition costs. Any deficiency is recognised in the statement of profit or loss and other comprehensive income by writing down any deferred acquisition costs first with the remaining amount recognised in the statement of financial position as an unexpired risk liability.

The liability adequacy test is performed at the level of portfolio contracts that are subject to broadly similar risks and are managed together as a single portfolio. No deficiency was recognised in 2017 or 2016.

2.16 Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to the balance date. Employee benefits that are expected to be settled within one year together with benefits arising from wages and salaries, annual leave and sick leave which will be settled in one year, have been measured reliably at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Contributions are made by the company to an employee superannuation fund and are charged as expenses when employees have rendered service entitling them to the contributions.

2.17 Insurance risk and sensitivity

The Company has insurance contracts which transfer insurance risk from the policyholder to the Company. The insurance risk taken on by the Company is the possibility that an insured event occurs, when that event will occur and the uncertainty surrounding the amount of any resulting claim. These risks are unpredictable. The Company has estimated in these financial statements the likely amounts which are expected to be paid out both with respect to claims incurred and expected future claims. The Company takes a conservative approach to this estimation process. The Company is however still at risk that the carrying amounts of insurance liabilities and assets recognised in the financial statements will be exceeded by the amount of the actual claim. This could occur when there are more claims than expected or where a claim is greater than the severity expected.

The Company's objective is to minimise this insurance risk to within acceptable levels through the policies which manage its insurance risk. The Company's policies to manage this risk include the diversification of risk and a reinsurance programme. The Company has developed an underwriting strategy which diversifies the types of insurance contracts written. Within each type of insurance written the Company's policy is to ensure that there is a sufficient volume of contracts to reduce the variability in the expected outcome. The Company also cedes reinsurance. The reinsurance programme is an excess of loss arrangement whereby cover is provided on the basis of claims notified on policies issued or renewed during the period of cover.

The profit or loss is sensitive to changes in any variables. The key assumption in determining the Incurred But Not Enough Reported (IBNER) claims is the future loss ratio and the profit and loss is sensitive to this variable.

2.18 Asset backing of policy liabilities

The assets backing general reinsurance and direct insurance liabilities are those assets required to cover the technical insurance liabilities (outstanding claims and unearned premium) plus an allowance for solvency.

Investments

The Group values financial assets and any assets backing insurance activities at fair value with any resultant unrealised profits and losses recognised in the statement of comprehensive income.

The valuation methodology of assets valued at fair value are summarised below:

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn
- Fixed interest securities are initially recognised at cost on the date the Group commits to purchase the investment. The subsequent fair value is taken as the quoted price of the investment

The fair value of financial instruments classified as fair value through profit and loss is their quoted bid price at the reporting date. Purchases and sales are accounted for on the date of settlement, and any realised net gains or losses upon sale are recognised in the statement of comprehensive income excluding any interest or dividend income.

2. Significant Accounting Policies, continued

2.19 Use of estimates and judgements

The preparation of the financial statements in conformity with AASB requires management to make judgements and estimates with respect to assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(a) Outstanding claims liability

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Claims reported to the Company at balance date are estimated with due regard to the claim circumstance as reported by the insured, legal representative, assessor, loss adjuster and/or other third party and then combined, where appropriate, with historical evidence on the cost of settling similar claims. Estimates of the cost of claims reported are reviewed regularly and are updated as and when new information arises.

Long-tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNER reserves. Short-tail claims are typically reported soon after the claim event, and hence, estimates are more certain.

In calculating the estimated cost of unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analysis of historical and industry experience that assumes that the development pattern of the current claims will be consistent with past experience and/or general industry benchmarks as appropriate. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. The ultimate net outstanding claims provision also includes an additional risk margin to allow for the uncertainty within the estimation process.

2.20 Application of new and revised Accounting Standards

In the current year the company has applied a number of amendments to AASBs in preparing these accounts.

A. ISSUED AND EFFECTIVE

The Australian Accounting Standards and Interpretations applicable for the current reporting year are given below. The adoption of these standards did not have a material financial impact:

Standard

AASB 1057 Application of Australian Accounting Standards

AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations

AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation

AASB 2014-9 Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements

AASB 2015-1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101

AASB 2015-9 Amendments to Australian Accounting Standards - Scope and Application Paragraphs

2. Significant Accounting Policies, continued

2.20 Application of new and revised Accounting Standards, continued

B. ISSUED BUT NOT YET EFFECTIVE

As at the date of this financial report, there are a number of new and revised accounting standards published by the Australian Accounting Standards Board for which the mandatory application dates fall after the end of this current reporting year.

None of these standards have been early adopted and applied in the current reporting year.

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial instruments (Final)	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers	1 January 2018	30 June 2019
AASB 16 Leases	1 January 2019	30 June 2020
AASB 17 Insurance Contracts	1 January 2021	30 June 2022
AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2014-1 Amendments to Australian Accounting Standards [Part E – Financial Instruments], AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	1 January 2018	30 June 2019
AASB 2014-1 Amendments to Australian Accounting Standards – Financial Instruments (Part E)	1 January 2018	30 June 2019
AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	1 January 2018	30 June 2019
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2018	30 June 2019
AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15	1 January 2018	30 June 2019
AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128	1 January 2018	30 June 2019
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017	30 June 2018
AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018	30 June 2019
AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2018	30 June 2019
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	30 June 2019

The standards, amendments and interpretations to existing standards which are listed above are not mandatory for the company until the financial year when they are expected to be applied.

The new or revised accounting standards listed above have been published and are mandatory for the Company in accounting periods beginning after 1 July 2017 and the Company has decided not to early adopt. When adopted in future periods the company does not expect there to be a material impact on the financial statements of the company.

3. Risk management policies and procedures

The Company's operations are exposed to a number of key risks including financial and insurance risk. The Company's policies and procedures in managing these risks are set out below.

The Company's financial condition and operating activities are affected by the following core risks - strategic, balance sheet and market, interest, credit, liquidity, solvency, counterparty, insurance, concentration, operational and governance risk.

3. Risk management policies and procedures, continued

(i) Risk Management roles and responsibilities

The Board has the responsibility for setting and maintaining an appropriate risk management framework, which is included in the "Group Risk Management Strategy" and risk appetite for the Company. Management has implemented risk management policies, procedures and controls to manage the risk and regularly reports to the Board Audit Committee and the Board on the current status of the risk management framework.

The key risks addressed by the risk management framework include:

Strategic risk - the risk of internal or external events impacting on the Company leading to failed business, policyholder or shareholder objectives.

Balance sheet and Market risk - the risk arises from adverse movements in; interest rates, foreign exchange rates and general market volatilities and its impact on the market value of the company's assets and liabilities.

Interest rate risk - The risk of loss of current and future earnings and unfavourable movements in the value of interest bearing assets and liabilities from changes in interest rates.

Liquidity risk - the risk that the Company will not be able to meet its cash flow requirements in the future. Liquidity risk arises from the requirement to settle claim payments and other financial obligations in the timely manner.

Solvency risk - the risk that the Company has insufficient capital to meet its regulatory requirement or to maintain its ongoing business operations.

Counterparty risk - the risk that one party to a financial instrument will cause a financial loss to the Company.

Credit risk - rises from receivables due from policy owners, the placement of reinsurance and investments in financial instruments.

Insurance risk - The risk associated with inadequate underwriting guidelines or claims processes including the risks that arises through the groups reinsurance arrangements.

Asset/Counterparty Concentration Risk - risk of loss to the Group from large exposures to one or a few counterparties that a significant holding or commitment to the company.

Insurance Concentration risk - The amalgamation of insurance risks held by the Group to a particular insured, industry or potential event or events.

Concentration risk - the amalgamation of risks held by the Company to a particular counterparty, geographic region or industry.

Operational risk - the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.

Governance risks - the risk of loss to the Company from ineffective control or oversight of its operations at management and board level leading to inadequate decision making processes.

Contagion risk - The risk arising from the failure or inability of a related party to provide services as required by the Company.

(ii) The objectives for managing insurance risk

The Company's policies and procedures, processes and controls are designed to manage risk. These systems address all material risks, financial and non-financial likely to be faced by the Company. The Board, aided by the Board Risk Committee and the Board Audit Committee, directs and monitors implementation, practice and performance throughout the organisation. The company has adopted the AS/NZS ISO 31000:2009 Standard Approach to Risk Management.

The process involves establishing the context of the risk and risk assessment through:

- Risk identification
- Risk analysis
- Risk evaluation
- Risk treatment
- Monitoring and review
- Communication and consultation

Key processes and controls used to mitigate any identified risks are:

- Established policies, procedures and controls around the acceptance, underwriting and pricing of insurance risks;

3. Risk management policies and procedures, continued

(ii) The objectives for managing insurance risk, continued

- Maintenance and use of computer systems to provide up to date and reliable information on the risks that the Company is exposed to;
- Use of reinsurance to preserve the Company's capital by reducing the Company's exposure to the costs of large claims;
- Processes around the development and approval of new product proposal with approval required from the Board of Directors;
- Investment that ensures that the Company's funds are invested with secure financial institutions;
- Use of an independent internal auditor, reporting to the Board Audit Committee to review compliance with Board approved policies; and
- Board appointed external actuary involved on both the pricing of new products and the establishment of claims reserves.

Terms and conditions of insurance policies

The terms and conditions attaching to insurance policies affect the level of risk accepted by the company. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

Concentration of risk

The Company's exposure to concentrations of insurance risk is mitigated by diverse geographical locations of the risks underwritten. The reinsurance policies purchased minimise the exposure of the Company to large claims losses.

(ii) Credit Risk

Credit risk is the risk that one party to a financial instrument or contract will cause financial loss to the other party by failing to discharge an obligation.

The key sources of credit risk are premiums receivables and investments in financial instruments. There has been no change to the credit risk faced by the Company during the financial year.

4. Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.

Fair value is also an exit price regardless of whether that process is directly observable or estimated using another valuation technique.

This note provides information about how the Company determines fair value of various financial assets and financial liabilities.

Some of the Company's financial assets and liabilities are measured at fair value at the end of each reporting period.

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

Pacific International Insurance Pty Limited
Notes to the financial statements
For the year ended 30 June 2017

5. Premium	2017	2016
Comprises:		
Gross written premium	6,003,272	6,381,512
Change in unearned premium reserve	225,658	(111,043)
Earned Premium	6,228,930	6,270,469

6. Other Operating expenses	2017	2016
Included in other operating expenses are:		
Rapid Administration recharge	972,151	734,088
Salaries & wages	598,010	348,623
Actuarial Services costs	505,535	158,779
Audit Fees (External and Internal)	227,995	112,667
Accounting Services costs	61,390	74,758
Travel and Entertainment costs	13,702	41,403
Depreciation & software amortisation	18,746	23,495
Occupancy costs	17,624	32,082
Rating Fee	40,962	39,999
Loss on sale of property (plant and equipment)	24,384	10,528
Other costs	152,026	148,214
Total other operating expenses	2,632,525	1,724,636

7. Claims Expense	2017	2016
Claims expense	979,241	2,361,945

Current year claims relate to risks borne in the current reporting period and relating to a reassessment of risks borne in all previous reporting periods. There are no reinsurance reimbursements in the current or prior years.

8. Interest Income	2017	2016
Interest Income on Other investments	455,847	446,001
	455,847	446,001

Pacific International Insurance Pty Limited
Notes to the financial statements
For the year ended 30 June 2017

9. Taxation	2017	2016
9.1 Reconciliation of income taxation to prima facie tax payable		
Profit before taxation	1,044,477	404,312
Comprehensive income	-	-
Profit and comprehensive income before income taxation	1,044,477	404,312
Permanent differences:		
Non deductible expenses	35,301	194,550
Other	(22,506)	(12,632)
Profit subject to taxation	1,057,272	586,230
Taxation	317,182	174,218
Deferred Taxation	43,896	18,470
Prior year adjustments	23,446	-
Income taxation recognised in Statement of Comprehensive Income	384,524	192,688
9.2 Income taxation expense/benefit	2017	2016
Comprising:		
Estimation of current year tax assessment	317,182	174,218
Deferred Taxation	43,896	18,470
Under provision for prior year	23,446	-
	384,524	192,688
9.3 Imputation Credits	2017	2016
Australia - Franking credits	235,612	374,049
	235,612	374,049
9.4 Taxation Payable	2017	2016
Balance at the beginning of the year	123,749	375,123
Income tax paid	(440,805)	(402,421)
Current year tax on operating profit	317,182	174,218
Adjustment for prior years	22,603	(23,171)
Balance at the end of the year	22,729	123,749
10. Deferred taxation	2017	2016
10.1 Deferred taxation assets		
Deferred taxation assets are attributable to:		
Employee benefits	10,211	14,036
Deferred acquisition costs	829	40,900
Deferred taxation assets	11,040	54,936
Movements during the year		
Deferred taxation assets		
Balance at the beginning of the year	54,936	73,407
Profit or Loss	(43,896)	(18,471)
Balance at the end of the year	11,040	54,936
Net deferred taxation asset/(liability) at year end	11,040	54,936

Pacific International Insurance Pty Limited
Notes to the financial statements
For the year ended 30 June 2017

11. Property, Plant and Equipment

	2017	2016
Computer Equipment		
Opening Net Book Value	12,750	17,358
Depreciation charge for year	(3,330)	(4,608)
Closing Net Book Value	<u>9,420</u>	<u>12,750</u>
Furniture and Fittings		
Opening Net Book Value	6,030	4,034
Additions	3,804	4,475
Depreciation charge for year	(1,716)	(2,479)
Closing Net Book Value	<u>8,118</u>	<u>6,030</u>
Motor Vehicles		
Opening Net Book Value	35,036	11,777
Additions	-	45,662
Scrapped Motor Vehicles	(24,384)	(10,528)
Depreciation charge for year	(10,608)	(11,875)
Closing Net Book Value	<u>44</u>	<u>35,036</u>
Total Property, plant and equipment	<u>17,582</u>	<u>53,816</u>

12. Intangible Assets

	2017	2016
Software		
Opening net book value	13,600	18,133
Amortisation charge for the year	(3,400)	(4,533)
Closing net book value	<u>10,200</u>	<u>13,600</u>

13. Other income

	2017	2016
Recharge from New Zealand Branch to Rapid Administration	381,798	201,125
Training Income - New Zealand Branch	64,670	79,122
Miscellaneous Income	46,242	-
	<u>492,710</u>	<u>280,247</u>

14. Deferred acquisition costs

	2017	2016
Deferred acquisition costs at 1 July	999,280	970,582
Acquisition costs deferred	1,849,466	1,948,549
Amortisation charged to income	(1,917,093)	(1,919,851)
Deferred acquisition costs at 30 June	<u>931,653</u>	<u>999,280</u>

15. Trade and other assets

	2017	2016
Trade and other receivables	312,965	769,094
Prepayments	35,029	27,359
	<u>347,994</u>	<u>796,453</u>

There is no impairment charge against trade and other receivables in 2017 or 2016. It is expected that all receivables will be recovered inside the next twelve months.

16. Cash and cash equivalents

	2017	2016
Bank Balances	1,166,523	600,829
	<u>1,166,523</u>	<u>600,829</u>

Pacific International Insurance Pty Limited
Notes to the financial statements
For the year ended 30 June 2017

17. Investments

	2017	2016
Term deposits at banks	14,921,995	16,852,501
	<u>14,921,995</u>	<u>16,852,501</u>

The term deposits at banks bear interest rates that range between 2.35% p.a. and 3.0% p.a and have terms from 3 months to 12 months.

	2017 No of shares	2017 \$	2016 No of shares	2016 \$
18. Share capital				
Ordinary shares	2,304,376	11,916,319	2,304,376	11,916,319
E class discretionary shares (preference shares)	901	901	901	901
Total		<u>11,917,220</u>		<u>11,917,220</u>

All shares issued are fully paid and have no par value.

Fully paid ordinary shares carry one vote per share and carry a right to dividends

	2017	2016
19. Trade and Other Payables		
Trade payables	275,186	88,698
Accruals	209,698	49,970
Staff annual leave	34,036	57,903
Other creditors	41,136	15,576
Total trade and other payables	<u>560,056</u>	<u>212,147</u>

It is expected that all payables will be settled in the next twelve months.

20. Financial Instruments

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The analysis of financial assets into their categories and classes is set out in the following table:

Financial Assets

	Carrying Value	
	2017	2016
At fair value through profit or loss:		
Cash and cash equivalents	1,166,523	600,829
Investments	15,058,702	16,936,880
	<u>16,225,225</u>	<u>17,537,709</u>
Loans and receivables:		
Trade and other assets	347,994	796,453
Related party receivables	1,425,353	1,074,324
	<u>1,773,347</u>	<u>1,870,777</u>
Total financial assets	<u>17,998,572</u>	<u>19,408,486</u>

Credit Risk

The Company's credit risk arises predominantly from investment activities, reinsurance activities, premium debtors and dealings with other intermediaries. The significant concentrations of credit risk are outlined below.

Financial Assets

	Carrying Value	
	2017	2016
At fair value through profit or loss:		
Cash and cash equivalents	1,166,523	600,829
Investments	15,058,702	16,936,880
	<u>16,225,225</u>	<u>17,537,709</u>
Loans and receivables:		
Trade and other assets	347,994	796,453
Related party receivables	1,425,353	1,074,324
	<u>1,773,347</u>	<u>1,870,777</u>
Total financial assets	<u>17,998,572</u>	<u>19,408,486</u>

20. Financial Instruments, continued

Financial liabilities	2017	2016
Loans and payables:		
Trade and other payables	560,056	212,147
Related party payables	404,357	156,414
Total financial liabilities	964,413	368,561

(i) Credit quality of financial assets that are neither past due nor impaired.

Pacific International Insurance Pty Limited has received a financial strength rating of B++ (Good) with Stable outlook from AM Best on 31 March 2017. The credit rating is an indication of the Company's current and future claims paying ability.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

	Carrying Value	
Credit exposure by credit rating	2017	2016
AAA to AA+	16,088,518	17,453,330
AA+ to A-	-	-
BBB+ to BBB-	1,773,347	1,870,777
Unrated	-	-

Liquidity Risk

The maturity table, based on the expected cash flows is presented below for the purposes of disclosing the cash flows that are actually expected to occur over the life of the Company's financial assets and liabilities.

2017	At call	1 year or less	more than 1 year	Total
Financial Assets				
At fair value through profit or loss:				
Cash and cash equivalents	1,166,523	14,921,995	-	16,088,518
Loan and receivables				
Trade and other assets	-	347,994	-	347,994
Related party receivable	-	1,425,353	-	1,425,353
Loans due from related parties	-	1,038,330	-	1,038,330
Total financial assets	1,166,523	17,733,672	-	18,900,195
Financial liabilities				
Trade and other payables	-	560,056	-	560,056
Related party payable	-	404,357	-	404,357
Total financial liabilities	-	964,413	-	964,413
2016	At call	1 year or less	more than 1 year	Total
Financial Assets				
At fair value through profit or loss:				
Cash and cash equivalents	600,829	16,852,501	-	17,453,330
Loans and receivables				
Trade and other assets	-	796,453	-	796,453
Related party receivable	-	1,074,324	-	1,074,324
Loans due from related parties	-	-	-	-
Total financial assets	600,829	18,723,278	-	19,324,107
Financial liabilities				
Trade and other payables	-	212,147	-	212,147
Related party payable	-	156,414	-	156,414
Total financial liabilities	-	368,561	-	368,561

20. Financial Instruments, continued

Fair value hierarchy

The investments carried at fair value have been classified under the three levels of the fair value hierarchy as follows:

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

	2017	2016
	AUD	AUD
There have been no movements between levels during the year.		
Trade receivables	84,663	91,024
Related party receivables	34,669	53,009
	793,041	426,270

Interest rate risk and sensitivity analysis on foreign exchange and interest

Cash, related party loans and interest bearing liabilities are held at amortised cost and subject to fixed interest rates. Related party receivables and payables are non-interest bearing. Other trade receivables and payables are also non-interest bearing.

	2017	2016
21. Outstanding claims liabilities		
Central estimate of outstanding claims liability	2,457,799	3,074,966
Claims handling costs	234,625	298,027
Discount	(111,545)	(94,686)
Risk margin	432,605	520,250
Total outstanding claims liability	<u>3,013,484</u>	<u>3,798,557</u>
	2017	2016
Outstanding claims at 1 July	3,798,557	3,249,926
Claims paid, net	(1,780,914)	(1,805,947)
Movement in discount	(24,673)	11,054
Increase/(Decrease) in claims liabilities	(262,360)	669
Prior Years		
Current Year	1,282,874	2,342,854
Total outstanding claims liability - 30 June	<u>3,013,484</u>	<u>3,798,557</u>

The outstanding claims liability is based on best available information at the time the financial statements are signed. Subsequent information or actions can affect the amount ultimately settled on a claim.

Assumptions adopted in calculation of general insurance liabilities.

The actuarial report was prepared by Tim Andrews, who is a Fellow of the Institute of Actuaries of Australia, and is employed by Finity Consulting Pty Limited. The Actuary is satisfied as to the accuracy of the data upon which the calculation of insurance liabilities has been made and is satisfied that the accounting provisions held in respect of the insurance liabilities are adequate.

The key assumptions which have the greatest effect on the net outstanding claims liabilities are:

	2017	2016
Inflation rate	Implicit	Implicit
Discount rate	2.0%	1.7%
Claims handling expense rate	10.0%	10.0%
Future loss ratios	26%-40%	25%-42%
Risk margin	19.2%	19.2%
Weighted average expected term to settlement	1.9 years	1.9 years

Sensitivity Analysis

The impact of changes in key variables on the outstanding claims provision is summarised in the table below:

	Movement in variable	Profit before taxation	Profit after taxation	Equity
Claims handling expense	5%	974,164	681,915	13,079,952
	-5%	997,626	698,338	13,096,376
Discount rate	1%	1,043,588	730,511	13,128,549
	-1%	928,202	649,742	13,047,779
Risk margin	1%	981,569	687,098	13,085,136
	-1%	990,221	693,155	13,091,192

21. Outstanding claims liabilities, continued

Process for determining the risk margin

The risk margin was determined by allowing for uncertainty taking into account the following:

- (i) Independent risks, comprising variation in future claims costs due to the randomness inherent in the insurance process and random variation in the historical claims costs affecting the parameters selected for use in the actuarial models.
- (ii) External systemic risk, comprising variation in future claims costs due to risks external to the modelling process, for example, catastrophic events or changes in the legislative environment
- (iii) Internal systemic risk which represents variation in future claims costs due to the models not being fully representative of the underlying insurance process and due to errors in the data on which the models are based.

The risk margin is intended to achieve a provision which will have 75% probability of sufficiency.

Claims development

The following table shows the development of outstanding claims relative to the ultimate claims costs for the eight most recent years:

Central estimate of ultimate incurred claims	Lodged year (ended 30 June)								Total (\$000s)
	Prior (\$000s)	2011 (\$000s)	2012 (\$000s)	2013 (\$000s)	2014 (\$000s)	2015 (\$000s)	2016 (\$000s)	2017 (\$000s)	
At end of accident year		3,029	3,559	2,312	2,867	1,819	2,319	1,650	
one year later	16,111	2,514	2,910	1,669	2,564	2,330	1,932		
two years later	15,335	2,659	2,513	2,001	2,610	2,085			
three years later	14,735	2,509	2,482	1,420	2,699				
four years later	13,969	2,524	2,432	1,515					
five years later	13,902	2,488	2,386						
Central estimate of ultimate incurred claims at 30 June 2017	13,862	2,464	2,386	1,515	2,699	2,085	1,932	1,650	28,593
Payments to 30 June 2017	13,862	2,464	2,360	1,492	2,318	1,852	1,182	606	26,135

22. Unearned Premium liabilities

Net movement in unearned premiums during the year

	2017	2016
	3,177,188	3,402,846
	<u>3,177,188</u>	<u>3,402,846</u>

Liability adequacy test

A liability adequacy test was performed on 30 June 2017 and 30 June 2016. Both tests identified a surplus. The tests were based on the following assumptions:

	2017	2016
Central estimate of the present value of expected future cash flows (\$)	1,431,415	1,717,085
Component of the present value of expected future cash flows related to the risk margin (\$)	274,336	328,961
The percentage risk margin adopted in determining the present value of expected future cash flows (%)	19.2%	19.2%
The probability of adequacy intended to be achieved through the adoption the risk margin (%)	75%	75%

23. Operating Leases

Non cancellable operating lease rentals are payable as follows:

	2017	2016
Less than one year	1,668	10,008
Between one and five years	-	1,668
	<u>1,668</u>	<u>11,676</u>

24. Commitments

There are no capital commitments as at 30 June 2017 (2016 \$Nil).

25. Contingencies

Contingent liabilities as at 30 June 2017 were \$Nil (2016 \$Nil).

26. Credit Rating

Pacific International Insurance Pty Limited has received a financial strength rating of B++ (Good) with Stable outlook from AM Best on 31 March 2017. The credit rating is an indication of the Company's current and future claims paying ability.

27. Related Parties

a) Identity of related parties

Rapid Solutions Holding Pty Limited

Rapid Solutions Holdings Pty Limited is the majority shareholder in the Company, and apart from dividends paid and transactions relating to the shares issued by the Company there have been no other transactions during the financial year.

Rapid Administration Pty Limited

Rapid Administration Pty Limited is the service company for the group and charges the company general operating expenses of a group nature. The New Zealand Branch charges Rapid Administration Pty Limited costs relating to the office of the Chief Financial Officer.

Rapid Solutions Pty Limited

The Company has a related party relationship with its Australian agent, Rapid Solutions Pty Ltd, and its key management personnel, which are its shareholders, directors and executive officers. Transactions with the Australian agent include a loan, commissions on securing insurance business and sundry payables and receivables. Transactions with its key management personnel are loans to Shareholders. Settlement is made under commercial terms of trade.

Rapid Training Pty Limited

The Company has a related party relationship with Rapid Training Pty Ltd and its key management personnel, which are its shareholders, directors and executive officers. A management fee is paid to Rapid Training Pty Ltd.

b) Transactions and balances

Transactions during the year:

	2017	2016
Transactions included in income:		
Rapid Solutions Pty Ltd	-	-
Rapid Administration Pty Ltd	381,798	200,805
	<u>381,798</u>	<u>200,805</u>
Transactions included in expenses:		
Rapid Solutions Pty Ltd	(1,901,454)	(2,032,092)
Rapid Administration Pty Ltd	(972,151)	(861,014)
Rapid Training Pty Ltd	(145,268)	(60,067)
	<u>(3,018,873)</u>	<u>(2,953,173)</u>

Pacific International Insurance Pty Limited
Notes to the financial statements

c) Outstanding balances; Assets/(Liabilities)

	2017	2016
Rapid Solutions Pty Ltd		
Related party receivables	630,763	659,839
Related party payables	(158,350)	(156,414)
Rapid Administration Pty Ltd		
Related party receivables	794,582	409,343
Related party payables	(242,946)	-
Rapid Brokers Pty Ltd		
Related party receivables	-	-
Rapid Training Pty Ltd		
Related party receivables	8	5,142
Related party payables	(3,061)	-
Total related party balances		
Related party receivables	1,425,353	1,074,324
Related party payables	(404,357)	(156,414)

d) Outstanding balances; Loans

	2017	2016
Loans due from related parties		
Loan to Rapid Solution Pty Ltd	1,021,205	-
Loan to Rapid Training Pty Ltd	17,125	-
	1,038,330	-

28. Remuneration of Auditors

	2017	2016
Audit Services		
including the audit of regulatory returns	227,995	112,667
Other payments		
Taxation fees	61,390	74,758

29. Reconciliation of profit after income taxation to net cash flows from operating activities

	2017	2016
Profit after income taxation	659,953	211,624
Add/(less) non-cash items		
Depreciation of property plant and equipment includes amortisation of intangibles	18,746	23,496
Revaluation of property plant and equipment including foreign exchange	-	-
Loss (Gain) on foreign exchange movements	22,391	(18,481)
Loss on sale of property, plant and equipment	24,384	10,528
	725,474	227,167
Add/(less) movements in assets and liabilities		
Decrease/(increase) in receivables	448,458	(662,539)
Decrease/(increase) in accrued interest on investments	(52,328)	40,463
Decrease/(increase) in tax assets	(43,898)	18,471
Decrease/(increase) in deferred acquisition costs	67,627	(28,698)
(Decrease)/increase in taxation payable	(101,020)	(251,374)
(Decrease)/increase in payables	332,926	(94,483)
(Decrease)/increase in unearned premium reserve	(225,658)	110,077
(Decrease)/increase in outstanding claims liabilities	(785,073)	548,629
	(358,966)	(319,454)
Net cash (used in) operating activities	366,508	(92,287)

30. Events occurring after balance date

There are no events after 30 June 2017 requiring disclosure in the annual accounts.

31. Capital management and solvency

The Company considers share capital, retained earnings and reserves to be capital. The Company aims to retain a sufficient level of capital to achieve a 2:1 solvency coverage ratio to maintain its claims paying ability. The minimum capital requirement imposed by the Australian Prudential Regulatory Authority (APRA) is \$5.000m. As at 30 June 2017 the Company had surplus capital of \$8.125m above the APRA requirement.

Post migration the Minimum Solvency Capital requirement for the Company is outlined below.

As at 30 June 2017 the Company solvency margin is.

	2017 (000's)	2016 (000's)
Actual Solvency Capital	13,185	13,018
Minimum Solvency Capital	5,000	5,000
Solvency Margin	<u>8,185</u>	<u>8,018</u>

The methodology for determining the Solvency Margin is in accordance with the requirements of the Prudential Standards for a General Insurance business as published by the Australian Prudential Regulation Authority.

Pacific International Insurance Pty Ltd
New Zealand Branch

Annual Financial Statements

30 June 2017

Directors Report

The Directors are pleased to present the financial statements of Pacific International Insurance Pty Ltd - NZ Branch ("Branch") for the year ended 30 June 2017.

The Directors are responsible for the preparation, in accordance with the Branch's constitution and generally accepted accounting practice, of financial statements which fairly present the financial position of the Branch as at 30 June 2017 and the results of the operations for the year ended 30 June 2017.

The Directors consider that the financial statements of the Branch have been prepared using accounting policies appropriate to the Branch, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable International Financial Reporting Standards and NZ IFRS have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and enable them to ensure that the financial statements comply with the relevant accounting standards.


The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the Branch and to prevent and detect fraud and other irregularities.

The financial statements are dated and signed in accordance with a resolution of the directors.

For and on behalf of the Directors



S.J. Garrett
Director
Date 26.10.17



G.J. Hellier
Director
Date 26.10.17

Pacific International Insurance Pty Ltd - New Zealand Branch
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2017

	Note	2017	2016
Revenue			
Gross earned premium	5	143,214	117,463
Net earned premium revenue		<u>143,214</u>	<u>117,463</u>
Underwriting Expenses			
Expenses			
Claims expense	7	24,359	34,041
Net claims expense		<u>24,359</u>	<u>34,041</u>
Policy acquisition expenses		4,935	7,369
Other operating expenses	6	231,218	246,975
Total expenses		<u>236,153</u>	<u>254,344</u>
Net Underwriting Loss		(117,298)	(170,922)
Interest income	8	-	1,564
Other income	9	64,670	89,091
Investment income		<u>64,670</u>	<u>90,655</u>
Loss before tax		(52,628)	(80,267)
Income taxation benefit	10	(34,865)	(398)
Loss		(17,763)	(79,869)
Other comprehensive Income / (Loss)			
Items that may be reclassified subsequently to profit or loss			
Foreign exchange (loss)/gain		(22,391)	18,481
Total comprehensive income/(loss) for the year, net of tax		<u>(40,154)</u>	<u>(61,388)</u>

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Pacific International Insurance Pty Ltd - New Zealand Branch
Statement of Financial Position
As at 30 June 2017

	Note	2017	2016
Assets			
Cash and cash equivalents	15	84,663	87,165
Trade and other assets	14	34,669	53,009
Related party receivables	25	793,041	426,270
Deferred acquisition costs	13	4,656	2,547
Deferred tax assets	11	45,719	10,141
Property, plant and equipment	12	8,622	41,539
Total assets		971,370	620,671
Liabilities			
Trade and other payables	16	120,260	64,970
Related party payables	25	5,907	5,015
Unearned premium liabilities	19	83,018	64,959
Outstanding claims liability	18	33,587	22,266
Head office account	21	962,595	657,718
Total liabilities		1,205,366	814,928
Net assets		(233,996)	(194,257)
Retained Earnings		(233,996)	(193,842)
Total equity		(233,996)	(193,842)

The above statement of financial position should be read in conjunction with the accompanying notes.

Pacific International Insurance Pty Ltd - New Zealand Branch
Statement of Changes in Equity
For the year ended 30 June 2017

	2017	2016
Retained Earnings		
As at 1 July 2016	(193,842)	(132,454)
Loss for the year	(17,763)	(79,869)
Other comprehensive Income/ (Loss):		
Foreign exchange (loss)/gain	(22,391)	18,481
As at 30 June 2017	(233,996)	(193,842)

The above statement of changes in equity and other comprehensive income should be read in conjunction with the accompanying notes.

Pacific International Insurance Pty Ltd - New Zealand Branch
Statement of Cash Flows
For the year ended 30 June 2016

	Note	2017	2016
Cash flows from Operating Activities			
Premiums received		161,554	179,980
Interest received		-	1,564
Claims payments		(29,264)	(12,243)
Commissions Paid		(7,044)	-
Payments to suppliers and employees		(406,430)	(214,944)
Net cash used in operating activities	27	(281,184)	(45,643)
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,804)	(50,548)
Disposals of property, plant and equipment		-	10,939
Net cash used in investing activities		(3,804)	(50,548)
Cash flows to financing activities			
Payments from / (to) head office	21	304,877	-
Payments made on behalf of related parties		-	(186,745)
Net cash generated by / (used) in financing activities		304,877	(186,745)
Net increase / (decrease) in cash and cash equivalents		19,889	(282,936)
Cash and cash equivalents at beginning of year		87,165	387,689
Impact of foreign exchange movements		(22,391)	(17,588)
Cash and cash equivalents at the end of the year	15	84,663	87,165

The above statement of cash flow should be read in conjunction with the accompanying notes.

Pacific International Insurance Pty Ltd - New Zealand Branch
Notes to the financial statements
For the year ended 30 June 2017

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1. General Information

Pacific International Insurance Limited was a company incorporated and domiciled in New Zealand. On 1 August 2014 the New Zealand business of Pacific International Insurance Limited migrated to the New Zealand Branch of Pacific International Insurance Pty Ltd (the Company) an Australian entity.

The ultimate parent of the Company is Gramar Family Holdings Pty Ltd.

The New Zealand Branch was issued with an insurance license by the Reserve Bank of New Zealand that it has an insurance licence with effect from 1 August 2014. The Branch provides indemnity and liability insurance to the pest, weed and carpet cleaning industries in New Zealand. Additionally, the branch provides New Zealand Qualifications Authority accredited training courses to these particular industries.

Assets and liabilities were transferred to the Branch, at their carrying value in the New Zealand corporate entity, at 1 Aug 2014, as a common control transaction.

The financial statements have been prepared on a going concern basis, the validity of which depends on the continued support of Pacific International Insurance Pty Ltd. The Branch is part of Pacific International Insurance Pty Ltd, which is incorporated in Australia. The assets of the Branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying statement of financial position and its debts may result in claims against assets not appearing thereon. This entity has confirmed that its policy is to ensure that the Branch is in a position to meet its obligations as and when those obligations fall due.

The financial statements of the New Zealand branch are for the year ended 30 June 2017 and were authorised for issue by the Directors' on 26 October 2017

1.1 Basis of preparation

These financial statements have been prepared in accordance with and comply with Generally Accepted Accounting Practice in New Zealand and for the purpose of complying with GAAP, the company is a "for-profit-entity". They comply with International Financial Reporting Standards and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards appropriate for profit orientated entities. The NZ Branch has prepared its financial statements for the year ended 30 June 2017 on the basis of full disclosure under NZ IFRS. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Markets Conduct Act 2013 and the Insurance (Prudential Supervision) Act 2010.

1.2 Basis of measurement

The financial statements have been prepared on the historical costs basis, except as stated below.

1.3 Presentation currency

These financial statements are presented in Australian dollars rounded to the nearest dollar. The branch functional currency is Australian Dollars as the branch is financed and managed in Australia even though the primary economic environment it operates in is New Zealand.

2. Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

2.1 Foreign currency transactions

Transactions in foreign currency that are settled in the accounting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the balance date, are translated to Australian Dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation, when settled subsequent to balance date, are recognised in the statement of profit or loss and other comprehensive income.

2.2 Goods and Services Tax

All balances are presented net of goods and services tax (GST), stamp duty and fire service levies, except for receivables and payables which are presented inclusive of GST.

2.3 Revenue

Premium Revenue

Direct premium revenue comprises amounts charged to policyholders. The earned portion of premiums receivable, including unclosed business, is recognised as income. Premium is earned from the date of attachment of the risk, over the contract period based on the pattern of the risks underwritten.

Other Income

Other income consists of revenue generated through the training division of Pacific International Insurance Pty Ltd - New Zealand Branch.

2.4 Reinsurance

The Branch is covered by the Reinsurance policies taken out by the Australian corporate entity. There has been no apportionment of the reinsurance expense taken out by the Australian corporate entity because of the expected immateriality of the charge.

2.5 Expenses

Claims Expense

Claims expense represents payments made on claims and the movement in the outstanding claims liability as described below under outstanding claims liability.

Operating lease payments

Payments made under operating leases, including any lease incentives, are recognised in the profit or loss on a straight line basis over the term of the lease.

Finance income and expenses

Finance income comprises interest income. Interest income is recognised as it's accrued, using the effective interest rate method. Finance expenses comprise interest income on bank borrowings, unwinding of the discount on provisions.

2.6 Income taxation

The income tax expense or credit for the year is the taxation payable on the current year's taxable income adjusted for changes in deferred taxation assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and the carrying amounts in the financial statements and changes in any unused taxation

Deferred income tax is provided in full and is recognised on temporary differences between the tax bases of assets and liabilities and their carrying values in the financial statements.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Where an item, which gives rise to a temporary difference, is recognised in or against equity, the deferred income tax is also recognised against equity.

2.7 Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value.

2.8 Property, plant and equipment

Owned assets

Plant and equipment is stated at cost, less accumulated depreciation and impaired losses.

Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent Costs

Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised as an expense in the statement of profit or loss and other comprehensive income in the period the cost has been incurred.

Depreciation

Depreciation is charged over the estimated useful life to the profit or loss. The residual value of assets is reassessed annually. The following rates have been used

- Furniture and Fittings	11-67% diminishing value basis
- Computer Equipment	26-50% diminishing value basis
- Motor Vehicles	30-36% diminishing value basis

2.9 Non derivative financial instruments

Non derivative financial instruments comprise investments, trade and other receivables, related party receivables, loans to shareholders, loans to other related parties, cash and cash equivalents, term loans and related party payables, including head office account payable.

Non-derivative financial assets except for investments are classified as loans and receivables.

Investments are initially recognised at fair value with the transaction costs being expensed in profit or loss. Subsequent to initial recognition investments are valued at fair value with changes in fair value recognised in profit or loss. Fair value of government stock is established by reference to quoted bid prices. Interest income is recognised in profit or loss as earned.

Other non-derivative financial instruments are recognised initially at fair value plus any attributable transactions costs. Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

A financial instrument is recognised if the Branch becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Branch's contractual rights to the cash flows from the financial assets expire or if the Branch transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Branch's obligations specified in the contract expire or are discharged or cancelled.

2.10 Trade Receivables

Trade receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, trade receivables are measured at amortised cost less any impairment.

2.11 Impairment

Assets that have an indefinite useful life are not subject to amortisation and are reviewed at each balance date to determine if there is any indication of impairment. If any such impairment exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds the recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

2.12 Payables

Trade payables and other accounts payable are recognised when the Branch becomes obliged to make future payments resulting from the purchase of goods and services.

2.13 Outstanding claims liability

Outstanding claims liabilities are recognised when contracts are entered into or acquired and loss events have occurred and are based on the estimated ultimate cost of the claims incurred but not settled at the year-end date, together with related claims handling costs.

The Company's insurance products provide cover on a 'claims made' basis rather than on an 'occurrence' basis and therefore a claim must be notified to the Company before it is incurred.

A central estimate is made of the present value of claims reported but not paid and incurred but not enough reported. A risk margin is added to this central estimate to allow for the inherent uncertainty in the central estimate.

Delays can be experienced between the notification and settlement of certain types of claims, therefore the ultimate cost of these claims cannot be known with certainty at the balance date. The liability is calculated at the reporting date using projection techniques based on historical data, trends and current assumptions. The liability is discounted for the time value of money, where material using the risk free government stock rate. Changes in claims that have been notified, but which have not been settled, are reflected by adjusting the liability. The liability is derecognised when the claim is discharged or withdrawn.

2.14 Acquisition costs

Acquisition costs incurred in obtaining and recording insurance contracts are deferred in recognition that they represent future benefits. Deferred acquisition costs are only recognised if they can be reliably measured and are expected to give rise to future benefits. Deferred acquisition costs are amortised over the expected pattern of the incidence of risk under the insurance contract.

2.15 Unearned premium reserve and liability adequacy testing

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

A liability adequacy test is performed to assess whether there are any deficiencies in the unearned premium reserve due to expected future claims. The amount of these expected future claims is estimated using the present value of future claims and expenses plus an additional risk margin to reflect the inherent uncertainty in those cash flows. This is compared to the unearned premium reserve and deferred acquisition costs. Any deficiency is recognised in the statement of profit or loss and other comprehensive income after first writing down any deferred acquisition costs. Any additional amount is recognised in the balance sheet as an unexpired risk liability.

The liability adequacy test is performed at the level of portfolio contracts that are subject to broadly similar risks and are managed together as a single portfolio. No deficiency was recognised in 2017.

2.16 Employee Benefits

The Company only provides short term benefits to its employees. The short term benefit obligations are measured on an undiscounted basis and are expensed as the relative service is provided.

2.17 Insurance risk and sensitivity

The Branch has insurance contracts which transfer insurance risk from the policyholder to the Branch. The insurance risk taken on by the Branch is the possibility that an insured event occurs when that event will occur and the uncertainty surrounding the amount of any resulting claim. The Branch has estimated in these financial statements the likely amounts which are expected to be paid out both with respect of claims incurred and expected future claims. The Branch is however still at risk that the carrying amounts of insurance liabilities and assets recognised in the financial statements will be exceeded by the amount of the actual claim. This could occur when there are more claims than expected or where a claim is greater than the severity expected.

The Branch's objective is to minimise this insurance risk to within acceptable levels through the policies which manage its insurance risk. The Branch's policies to manage this risk include the diversification of risk. The Branch has developed an underwriting strategy which diversifies the types of insurance contracts written. Within each type of insurance written the Branch's policy is to ensure that there is a sufficient volume of contracts to reduce the variability in the expected outcome. The Company also cedes reinsurance which includes the Branch's insured risks. The reinsurance programme is an excess of loss arrangement whereby cover is provided on the basis of claims notified on policies issued or renewed during the period of cover.

2.18 Use of estimates and judgements

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements and estimates with respect to assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(a) Outstanding claims liability

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Claims reported to the Company at balance date are estimated with due regard to the claim circumstance as reported by the insured, legal representative, assessor, loss adjuster and/or other third party and then combined, where appropriate, with historical evidence on the cost of settling similar claims. Estimates of the cost of claims reported are reviewed regularly and are updated as and when new information arises.

Long-tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNER reserves. Short-tail claims are typically reported soon after the claim event, and hence, estimates are more certain.

In calculating the estimated cost of unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analysis of historical and industry experience that assumes that the development pattern of the current claims will be consistent with past experience and/or general industry benchmarks as appropriate. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. The ultimate net outstanding claims provision also includes an additional risk margin to allow for the uncertainty within the estimation process.

2.19 Application of new and revised Accounting Standards

In the current year the company has applied a number of amendments to NZ IFRS in preparing these accounts.

A. ISSUED AND EFFECTIVE

The New Zealand International Financial Reporting Standards and Interpretations applicable for the current reporting year are given below. The adoption of these standards did not have a material financial impact:

Standard

XRB A1 Application of the Accounting Standards Framework.

B. ISSUED BUT NOT YET EFFECTIVE

As at the date of this financial report, there are a number of new and revised accounting standards published by the Australian Accounting Standards Board for which the mandatory application dates fall after the end of this current reporting year.

None of these standards have been early adopted and applied in the current reporting year.

Standard	Effective for annual reporting	Expected to be initially applied in
NZ IFRS 9 Financial instruments (Final)	1 January 2018	30 June 2019
NZ IFRS 15 Revenue from Contracts with Customers	1 January 2018	30 June 2019
NZ IFRS 16 Leases	1 January 2019	30 June 2020
NZ IFRS 17 Insurance Contracts	1 January 2021	30 June 2022
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	30 June 2019

The standards, amendments and interpretations to existing standards which are listed above are not mandatory for the company until the financial year when they are expected to be applied.

The new or revised accounting standards listed above have been published and are mandatory for the Branch in accounting periods beginning after 1 July 2017 and the Branch has decided not to early adopt. The Branch is in the process of assessing the impact on the financial statements once adopted in future periods.

3. Risk management policies and procedures

The Branch's operations are exposed to a number of key risks including financial and insurance risk. The Branch's policies and procedures in managing these risks are set out below.

The Branch's financial condition and operating activities are affected by the following core risks - strategic, balance sheet and market, liquidity, solvency, counterparty, insurance, concentration, operational, contagion and governance risk.

(i) Risk Management roles and responsibilities

The Company's Board has the responsibility for setting and maintaining an appropriate risk management framework and risk appetite for the New Zealand Branch. Management has implemented risk management policies, procedures and controls to manage the risk and regularly reports to the Board Audit Committee and the Board on the current status of the risk management framework.

The key risks addressed by the risk management framework include:

- Strategic risk - the risk of internal or external events impacting on the Branch leading to failed business, policyholder or shareholder objectives.
- Balance sheet and Market risk - the risk arises from adverse movements in; interest rates in New Zealand and Australia, foreign exchange rates and general market volatilities and its impact on the market value of the company's assets and liabilities.
- Liquidity risk - the risk that the Branch will not be able to meet its cash flow requirements in the future. Liquidity risk arises from the requirement to settle claim payments and other financial obligations in the timely manner.
- Solvency risk - the risk that the Branch has insufficient assets to meet its regulatory requirements or to maintain its ongoing business operations.
- Counterparty risk - the risk that one party to a financial instrument will cause a financial loss to the Branch. Credit risk rises from receivables due from policy owners and investments in financial instruments.
- Insurance risk - The risk associated with inadequate underwriting guidelines or claims processes including the risks that arise through the group's reinsurance arrangements.
- Concentration risk - the amalgamation of risks held by the Branch to a particular counterparty, geographic region or industry.
- Operational risk - the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.
- Governance risks - the risk of loss to the Branch from ineffective control or oversight of its operations at management and board level leading to inadequate decision making processes.
- Contagion risk - The risk arising from the failure or inability of a related party to provide services as required by the Branch.

(ii) The objectives for managing risk

The Branch's policies and procedures, processes and controls are designed to manage risk. These systems address all material risks, financial and non-financial likely to be faced by the Branch. The Board, aided by the Board Risk Committee and the Board Audit Committee, directs and monitors implementation, practice and performance throughout the organisation. The Branch has adopted the AS/NZS ISO 31000:2009 Standard Approach to Risk Management.

The process involves establishing the context of the risk and risk assessment through:

- Identification of the risk;
- Analysing and evaluating the risk;
- Implementing controls to mitigate or reduce the risk to within Board risk appetite;
- The monitoring of risk performance against set target measures;
- And to communicate and obtain advice from internal and external stakeholders at each stage of the risk management process.

Key processes and controls used to mitigate any identified risks are:

- Well established policies, procedures and controls around the acceptance, underwriting and pricing of insurance risks;
- Maintenance and use of computer systems to provide up to date and reliable information on the risks that the Branch is exposed to;
- Use of reinsurance to preserve the Branch's capital by reducing the Branch's exposure to the costs of large claims;
- Strong processes around the development and approval of new product proposal with approval required from the Board of Directors;
- Investment that ensures that the Branch's funds are invested with secure financial institutions;
- Use of an external internal auditor, reporting to the Board Audit Committee to review compliance with Board approved policies; and
- Board appointed external actuary involved on both the pricing of new products and the establishment of claims reserves.

Terms and conditions of insurance policies

The terms and conditions attaching to insurance policies affect the level of risk accepted by the Branch. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

Concentration of risk

The Branch's exposure to concentrations of insurance risk is mitigated by diverse geographical location of the risks underwritten. The reinsurance policies purchased minimise the exposure of the Branch to large claims losses.

(iii) Credit Risk

Credit risk is the risk that one party to a financial instrument or contract will cause financial loss to the other party by failing to discharge an obligation.

Pacific International Insurance Pty Ltd - New Zealand Branch
Notes to the financial statements
For the year ended 30 June 2017

4. Fair Value

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

5. Premium	2017	2016
Comprises:		
Gross written premium	125,155	108,781
Change in unearned premium reserve	18,059	8,682
Earned Premium	143,214	117,463

6. Other operating expenses	2017	2016
Included in other underwriting expenses are:		
Salaries & wages	81,955	69,649
Defined contribution expense	10,546	8,758
Training expenses	30,693	77,111
Office rent	10,806	10,900
Other occupancy costs	21,661	28,138
Travel costs	13,578	31,243
Depreciation	12,030	14,523
Accounting fees	11,862	-
Corporate Subscriptions & Rating Fee	2,220	4,755
Loss on sale of property, plant and equipment	23,972	-
Other costs	11,895	1,898
Total other operating expenses	231,218	246,975

The branch is only in existence for the purpose of supporting the underwriting activity in New Zealand. As such as expenses incurred with the operating of the Branch are considered to be underwriting by nature excluding costs of providing training.

7. Claims Expense	2017	2016
Claims expense	24,359	34,041

Current year claims relate to risks borne in the current reporting period and relating to a reassessment of risks borne in all previous reporting periods. There are no reinsurance reimbursements in the current or prior years.

8. Interest Income	2017	2016
Interest Income on Other investments	-	1,564
	-	1,564

9. Other Income	2017	2016
Training division income	64,670	89,091
	64,670	89,091

10. Taxation	2017	2016
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10.1 Income taxation expense/(benefit)

Current tax	-	-
Deferred Taxation : Current year loss	(14,747)	(398)
: Prior year losses	(20,118)	-
	(34,865)	(398)

10.1 Reconciliation of income taxation to prima facie tax payable

Loss before taxation	(52,628)	(80,267)
Other comprehensive(expense)/ income	(22,391)	18,481
Profit and comprehensive income before income/(loss) taxation	(75,019)	(61,786)

Permanent differences:

Non deductible expenses	292	-
Foreign Exchange impact on financial assets	22,391	(18,481)
Other	150	-
Loss subject to taxation	(52,186)	(80,267)

Taxation at 28%

Current Year: Deferred Tax Expense	(14,747)	(398)
Prior year: Deferred Tax Adjustment	(20,118)	-

Taxation benefit recognised in statement of profit or loss and other comprehensive Income	(34,865)	(398)
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Pacific International Insurance Pty Ltd - New Zealand Branch
Notes to the financial statements
For the year ended 30 June 2017

11. Deferred taxation	2017	2016
Deferred taxation assets are attributable to:		
Employee benefits	2,696	10,854
Deferred taxation on losses	44,327	-
Deferred tax assets	47,023	10,854
Deferred taxation liabilities are attributable to:		
Deferred Acquisition costs	1,304	713
Deferred taxation liabilities	1,304	713
Net deferred taxation asset	45,719	10,141
Movements during the year		
Deferred taxation assets		
Balance at beginning of year	10,854	11,002
Profit or Loss	36,169	(148)
Balance at the end of the year	47,023	10,854
Deferred taxation liability		
Balance at the beginning of year	713	1,259
Profit or Loss	591	(546)
Balance at the end of the year	1,304	713
Net deferred taxation asset at year end	45,719	10,141

12. Property, Plant and Equipment

Computer Equipment	2017	2016
Opening balance	538	1,026
Depreciation charge for year	(251)	(488)
Closing Net Book Value	287	538
Furniture and Fittings	2017	2016
Opening balance	6,444	4,037
Additions	3,804	4,886
Depreciation charge for year	(2,126)	(2,479)
Closing Net Book Value	8,122	6,444
Motor Vehicles	2017	2016
Opening balance	34,557	11,391
Additions	-	45,662
Disposals	(23,973)	(10,939)
Depreciation charge for year	(10,371)	(11,556)
Closing Net Book Value	213	34,557
Total Property, plant and equipment	8,622	41,539

13. Deferred acquisition costs	2017	2016
Deferred acquisition costs as at 1 July 2016	2,548	2,829
Acquisition costs deferred	7,043	5,995
Amortisation charged to income	(4,935)	(6,277)
Deferred acquisition costs at 30 June 2017	4,656	2,547

14. Trade and other assets	2017	2016
Trade and other receivables	18,876	43,817
Prepayments	15,793	9,192
	34,669	53,009

There is no impairment charge against trade and other receivables in 2017. It is expected that all receivables will be recovered inside the next twelve months.

14. Cash and cash equivalents	2017	2016
Bank Balances	74,950	39,120
Call deposits at banks	9,713	48,045
	84,663	87,165

The deposits at banks bear interest rates that range between 2.35% and 3.00% and are available on demand.

16. Trade and other payables	2017	2016
Trade payables	109,887	29,259
Staff annual leave	9,626	35,711
Other creditors	747	-
Total trade and other payables	120,260	64,970

It is expected that all payables will be settled in the next twelve months.

17. Financial Instruments

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The analysis of financial assets and liabilities into their categories and classes is set out in the following table:

	Carrying Value 2017	2016
Financial Assets		
Cash and cash equivalents	84,663	87,165
Trade and other assets	18,876	34,625
Related party receivables	793,041	426,270
Financial Liabilities		
Trade and other payables	120,260	64,555
Related party payables	5,907	5,015
Head office account	962,595	657,718

Credit Risk

The concentrations of credit risk are outlined by counterparty type below

	Carrying Value 2017	2016
Bank	84,663	87,165
Related party receivable	793,041	426,270
Trade receivables	18,876	43,817

(i) Credit quality of financial assets that are neither past due nor impaired.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

Credit exposure by credit rating

Cash Holdings:	Carrying Value 2017	2016
AA+ to A-	84,663	87,165

Liquidity Risk

The maturity table, based on the contractual arrangements is presented below for the purposes of disclosing the cash flows that are expected to occur over the life of the Branch's financial assets and liabilities.

2017	Carrying value	Less than one year	One to two years	Three Years and greater than three years
Financial assets				
Banks	84,663	84,663	-	-
Related party receivable	793,041	793,041	-	-
Trade receivables	18,876	18,876	-	-
Total financial assets	896,580	896,580	-	-
Financial liabilities				
Trade and other payables	120,260	120,260	-	-
Related party payable	5,907	5,907	-	-
Head office account	962,595	962,595	-	-
Total financial liabilities	1,088,761	1,088,761	-	-

Market Risk

The Branch's exposure to foreign currency risk was as follows:

	2017 NZD	2016 NZD
Bank	88,651	91,024

Sensitivity Analysis

Cash is interest bearing. Other related parties and the head office account are interest free. A movement in the market interest is expected to have little or no impact on profit.

The branch has an exposure to foreign exchange movements but it is not expected to have a material impact on profits as transactions are completed at the current exchange rates in the month the transaction occurs.

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18. Outstanding claims liabilities	2017	2016
Central estimate of outstanding claims liability	27,856	17,443
Claims handling costs	2,665	1,692
Discount	(1,208)	(527)
Risk margin	4,275	3,658
Total outstanding claims liability	33,587	22,266
Outstanding claims at 1 July	22,266	-
Claims paid - prior	(5,228)	-
Movement in discount	(275)	-
Other movements	(12,476)	22,266
<div> <div>Prior Years</div> <div>Current Year</div> </div>	29,300	-
Total outstanding claims liability - 30 June	33,587	22,266

The outstanding claims liability is based on best available information at the time the financial statements are signed. Subsequent information or actions can affect the amount ultimately settled on a claim.

Assumptions adopted in calculation of general insurance liabilities.

The actuarial report was prepared by Tim Andrews, who is a Fellow of the Institute of Actuaries of Australia, and is employed by Finity Consulting Pty Limited. The Actuary is satisfied as to the accuracy of the data upon which the calculation of insurance liabilities has been made and is satisfied that the accounting provisions held in respect of the insurance liabilities are adequate.

The key assumptions which have the greatest effect on the net outstanding claims liabilities are:

	2017	2016
Inflation rate	Implicit	Implicit
Discount rate	2.0%	1.7%
Claims handling expense rate	10.0%	10.0%
Future loss ratios	26% - 40%	25%-42%
Risk margin	16.8%	15.9%
Weighted average expected term to settlement	1.9 years	1.9 years

Process for determining the risk margin

The risk margin is determined by allowing for uncertainty taking into account the following:

- (i) Independent risks, comprising variation in future claims costs due to the randomness inherent in the insurance process and random variation in the historical claims costs affecting the parameters selected for use in the actuarial models.
- (ii) External systemic risk, comprising variation in future claims costs due to risks external to the modelling process, for example, catastrophic events or changes in the legislative environment
- (iii) Internal systemic risk which represents variation in future claims costs due to the models not being fully representative of the underlying insurance process and due to errors in the data on which the models are based.

The risk margin is intended to achieve a provision which will have 75% probability of sufficiency.

Claims development

The following table shows the development of outstanding claims relative to the ultimate claims costs for the eight most recent years

Central estimate of									
ultimate incurred claims	Prior	2011	2012	2013	2014	2015	2016	2017	Total
At end of accident year						18,235	23,110	35,533	
one year later					-	19,566	15,087		
two years later				17,613	1,255	19,728			
three years later			16,048	18,504	510				
four years later		8,953	16,684	17,659					
five years later	70,012	9,487	16,048						
six years later	70,012	8,953							
seven years later	70,012								
Central estimate of ultimate incurred claims at 30 June 2016	70,012	8,953	16,048	17,659	510	19,728	15,087	35,533	183,530
Payments to '30 June 2017	70,012	8,953	16,048	17,613	-	18,235	13,558	11,255	155,675

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19. Unearned Premium liabilities

	2017	2016
Unearned premium liability transferred	64,959	56,277
Deferral of premium on contracts written during the year	(125,155)	(108,781)
Transferred premiums earned	143,214	117,463
Unearned premium liability June 30	<u>83,018</u>	<u>64,959</u>

Liability adequacy test

A liability adequacy test was performed on 30 June 2017. Test identified a surplus. The test were based on the following assumptions:

	2017	2016
Central estimate of the present value of expected future cash flows (\$)	36,273	24,449
Component of the present value of expected future cash flows related to the risk margin (\$)	6,285	4,262
The percentage risk margin adopted in determining the present value of expected future cash flows (%)	19.2%	19.2%
The probability of adequacy intended to be achieved through the adoption the risk margin (%) (Note 18)	75.0%	75.0%

20. Operating Leases

	2017	2016
Leases as lessee		
Non cancellable operating lease rentals are payable as follows:		
Less than one year	1,900	10,917
Between one and five years	-	1,819
	<u>1,900</u>	<u>12,736</u>

21. Head Office Account

	2017	2016
Balance as at 1 July 2016	657,718	657,718
Cash transferred from/(to) Head office	304,877	-
Head office account balance as at 30 June 2017	<u>962,595</u>	<u>657,718</u>

The Head office account is used to provide Head Office funding to support the financial soundness of the Branch. The Head office account is repayable on demand. No interest is charged by the Company to the Branch on any outstanding balance.

22. Commitments

There are no capital commitments as at 30 June 2017.

23. Contingencies

There are no contingent liabilities as at 30 June 2017.

24. Credit Rating

Pacific International Insurance Pty Limited has received a financial strength rating of B++ (Good) with Stable outlook from AM Best on 28 March 2017. The credit rating is an indication of the Company's current and future claims paying ability.

25. Related Parties

a) Identity of related parties

Rapid Solutions Holdings Pty Ltd, Rapid Group Companies

The Branch has a related party relationship with its Australian counterparts, Rapid Admin Pty Ltd, Rapid Solutions Pty Ltd, Rapid Training Pty Ltd and its ultimate parent company Rapid Solutions Holdings Pty Ltd through their key management personnel, which are its shareholders, directors and executive officers.

Key Management Personnel

The key management personnel (KMP) of the Branch are those persons who have authority and responsibility for planning directing and controlling activities of the Branch, directly and indirectly. KMP includes some directors of the Company (executive and non executive) as well as executives of the Company whose roles have responsibilities that include the activities of the Branch. No key management personnel expense was charged to the Branch during the current and prior year.

b) Transactions and balances

Transactions during the year:

	2017	2016
Rapid Training Pty Ltd - Management Fee	15,000	55,000

Outstanding balances; Assets/(Liabilities)

	2017	2016
Rapid Admin Pty Ltd		
Related party receivables	793,041	421,215

Rapid Solutions Pty Ltd

Related party receivables	-	5,055
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Total related party receivables

793,041	426,270
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The total receivable balance relates to recharge of expenses incurred by the New Zealand Branch. There is no interest receivable and no fixed collection date.

Rapid Training Pty Ltd

Related party payables	(3,061)	(5,015)
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Rapid Admin Pty Ltd

Related party payables	(2,846)	-
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Total related party payables

(5,907)	(5,015)
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The total payable balance relates to recharge of expenses incurred by the above mentioned related parties. There is no interest payable and no fixed repayment date.

26. Remuneration of Auditors

The auditors of the company are Deloitte Touche Tohmatsu, Sydney
The branch does not pay audit fees as they are paid by the Head Office.

27. Reconciliation of profit after income taxation to net cash flows from operating activities

	2017	2016
Loss after income taxation	(40,154)	(61,388)
Add/(less) non-cash items		
Depreciation of property plant and equipment	12,030	14,523
Loss / (Gain) on foreign exchange movements	22,391	-
Loss on sale of property, plant and equipment (Note 6)	23,972	
Amortisation of Deferred Acquisition costs	4,935	7,369
	23,174	(39,496)
Add/(less) movements in assets and liabilities		
Decrease/(increase) in receivables	(351,515)	(17,892)
Increase in deferred acquisition costs	(2,826)	(7,087)
Decrease/(increase) in deferred taxation	(35,578)	(398)
(Decrease)/increase in payables	56,181	(40,246)
(Decrease)/increase in unearned premium reserve	18,059	8,682
(Decrease)/increase in outstanding claims	11,321	22,266
	(304,358)	(34,675)
Unrealised Foreign Exchange Gain on Cash and Cash Equivalents	-	28,528
Net cash inflows/(outflows) from operating activities	(281,184)	(45,643)

28. Events occurring after balance date

There are no events after 30 June 2017 requiring disclosure in the accounts.

29. Capital management and solvency

The capital/solvency of the branch from a regulatory standpoint is included within that of the company in Australia. The company aims to retain a sufficient level of capital to achieve a 2:1 solvency coverage ratio to maintain its claims paying ability. The minimum capital requirement imposed by the Australian Prudential Regulatory Authority (APRA) is \$5,000,000. As at 30 June 2017 the Company had surplus capital of \$8.125m above the APRA requirement.

Post migration the Minimum Solvency Capital requirement for the Company is outlined below.

As at 30 June 2017 the Company solvency margin is.

	2017 (000's)	2016 (000's)
Actual Solvency Capital	13,185	13,018
Minimum Solvency Capital	5,000	5,000
Solvency Margin	<u>8,185</u>	<u>8,018</u>

The methodology for determining the Solvency Margin is in accordance with the requirements of the Prudential Standards for a General Insurance business as published by the Australian Prudential Regulation Authority.