Pacific International Insurance Pty Limited

Annual Financial Statements
for the year ended 30 June 2020

Prepared by: Lizzy Smit CA(SA)

Pacific International Insurance Pty Limited
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Directors' Report

The Directors present their report, together with the financial statements of the Company, being the Australian Company including its New Zealand branch, for the financial year ended 30 June 2020.

1. Directors

The names of each person who has been a director during the year and to the date of this report are:
Mr Robert William Urry (Independent Director - Chairman)
Mr Roland Covac Lange (Executive Director - CEO)
Mr Brad Howard Hogan (Director)
Mr Louis Fivas (Independent - Chairman Risk Committee) (Appointed 26 March 2020)
Mr Jonathon Michael Broome (Independent - Chairman of the Audit and Remuneration Committee (Appointed 1 July 2020)
Mr Stephen John Stuart Garrett (Resigned 30 June 2020)
Mr Roger Walter Robert Shoesmith (Resigned 4 March 2020)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

2. Principal activities

The principal activities of the Company during the financial year were the sale of multiple classes of insurance including Motor, Liability and Professional Indemnity insurance products in Australia and New Zealand.

The Company commenced underwriting of Comprehensive Motor (including Mobility Equipment) and Motor-related insurance in Australia with Gross Premiums written during the year of $45,665,794. The Branch commenced underwriting of Pet insurance in New Zealand.

The Company entered into five insurance underwriting agreements with partners (Binders). The insurance activities of these partners include Householders, Industrial Special Risks, Liability, Professional Indemnity and Motor-Related.

The Company is continuing with training courses to the New Zealand pest control industry.

3. Operating results

The loss of the company amounted to $(3,726,768) (2019: profit of $67,348).

In addition, the COVID-19 pandemic had a range of effects on the Company’s business and financial performance in the current year. The most significant impact was to the frequency of claims. Due to less traveling especially during March & April the claims frequency reduced significantly.

4. Significant changes in state of affairs

The following significant changes in the state of affairs of the Company occurred during the financial year:

Pacific International Insurance Pty Limited commenced underwriting of Comprehensive Motor (including Mobility Equipment) and Motor-related insurance in Australia and had Quota Share & Catastrophe Reinsurance for these product lines.

5. Future developments and results

Likely developments in the operations of the Company 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.

Directors' Report

In a COVID-19 context, the Company notes the recent developments in Victoria, including the declaration of a State of Disaster with effect from 2 August 2020, where the related business effects remain highly uncertain.

6. Environmental matters

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

7. Dividends paid or recommended

No dividends were paid or declared in the financial year (2019: $0). No recommendation for payment of dividends has been made, subsequent to period end.

8. Indemnification and insurance 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 Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor. During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts as such disclosure is prohibited under the terms of the contract.

9. Auditor's independence declaration

The lead auditor's independence declaration in accordance with section 307C of the Corporations Act 2001, for the year ended 30 June 2020 has been received and can be found on page 4 of the financial report.

Signed in accordance with a resolution of the Board of Directors:

Director: ______________________

Mr Robert William Urry
(Independent Non-Executive
Director - Chairman)

Director: ______________________

Mr Roland Covac Lange
(Executive Director - CEO)

Dated: 29 September 2020

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Pacific International Insurance Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Pacific International Insurance Pty Limited for the financial year ended 30 June 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Andrew Reeves
Partner

Sydney
29 September 2020

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2020 $	2019 $
Gross written premium	**7**	45 665 794	8 027 456
Less: Reinsurance premiums ceded and reinsurance paid		(30 321 106)	(842 976)
Net written premiums		**15 344 688**	**7 184 480**
Change in provision for unearned premiums		**(5 345 760)**	**(1 837 470)**
Gross amount	**24**	(21 298 189)	(1 837 470)
Reinsurer's share		15 952 429	-
Net earned premiums		**9 998 928**	**5 347 010**
Commission income from reinsurers		4 155 800	-
Interest income		413 231	337 947
Other income	**8**	2 601 090	432 612
Net income		**17 169 049**	**6 117 569**
Net claims incurred		**(5 371 911)**	**(623 517)**
Gross amount	**9**	(12 447 830)	(702 544)
Reinsurers' share		7 075 919	79 027
Acquisition costs	**10**	(3 912 361)	(1 694 841)
Administration expenses	**11**	(13 097 396)	(4 441 062)
Finance costs		(41 502)	(59 793)
Loss before tax		**(5 254 121)**	**(701 644)**
Income tax			
Income tax credit	**13**	1 572 185	747 887
(Loss) / profit for the year		**(3 681 936)**	**46 243**
Other Comprehensive Income			
Unrealised foreign currency translation difference		(44 832)	21 105
Total Comprehensive (Loss) / Profit		**(3 726 768)**	**67 348**

Statement of Financial Position

	Notes	2020 $	2019 $
Assets			
Cash and cash equivalents	14	9 688 604	5 952 692
Trade and other receivables	15	14 184 278	3 066 571
Inventories		-	28 014
Investments	16	13 224 932	12 563 852
Loans to group companies	17	4 553 705	39 164
Current tax receivable	13	22 207	131 145
Reinsurers' share of insurance liabilities	24	10 786 959	359 939
Deferred acquisition cost	18	5 940 591	1 425 033
Investment in associates	19	-	4 500 000
Equipment and leasehold improvements	20	2 844 667	660 361
Intangible assets	21	1 515 393	1 611 692
Deferred tax assets	22	2 488 127	909 454
Total Assets		**65 249 463**	**31 247 917**
Equity and Liabilities			
Liabilities			
Trade and other payables	23	5 825 302	946 701
Related party loans and payables		-	2 846 910
Insurance liabilities	24	32 129 261	7 499 004
Loan payable	25	-	3 009 863
Deferred reinsurance income		5 009 487	-
Deferred income		124 702	424 251
Employee benefits		1 429 594	54 999
Total Liabilities		**44 518 346**	**14 781 728**
Equity			
Share Capital	26	25 436 944	17 436 944
Accumulated loss		(4 685 450)	(1 003 514)
Reserves		(20 377)	32 759
Total equity		**20 731 117**	**16 466 189**
Total Equity and Liabilities		**65 249 463**	**31 247 917**

Statement of Changes in Equity

	Issued capital	Foreign currency translation reserve	Accumulated loss	Total
	$	$	$	$
Balance at 1 July 2018 as previously reported	11 917 220	-	677 050	12 594 270
Intercompany recharge transfer	-	-	(1 726 807)	(1 726 807)
Balance at 1 July 2018 as restated	11 917 220	-	(1 049 757)	10 846 359
Changes in equity				
Profit for the year	-	-	46 243	46 243
Issue of equity	5 519 724	-	-	5 519 724
Transfer to reserve	-	11 679	-	11 679
Foreign translation movement	-	20 934		20 934
Foreign exchange gain	-	146		146
Balance at 30 June 2019	**17 436 944**	**32 759**	**(1 003 514)**	**16 466 189**
Balance at 1 July 2019	17 436 944	32 759	(1 003 514)	16 466 189
Changes in equity				
Loss for the year	-	-	(3 681 936)	(3 681 936)
Other comprehensive income	-	(44 832)	-	(44 832)
Issue of equity	8 000 000	-	-	8 000 000
Opening balance adjustment	-	(8 304)	-	(8 304)
Balance at 30 June 2020	**25 436 944**	**(20 377)**	**(4 685 450)**	**20 731 117**
Notes	**26**			

Statement of Cash Flows

	Notes	2020 $	2019 $
Cash flows (used in) / from operations			
Cash receipts from customers		**37 209 567**	**8 261 548**
Claims payments and related expenses		(9 021 120)	(2 213 325)
Reinsurance expenses		(8 525 184)	(712 397)
Acquisition cost paid		(3 912 361)	(1 694 841)
Payments to suppliers and employees		(10 893 506)	(6 072 507)
Net cash flows from / (used in) operating activities	**34**	**4 857 396**	**(2 431 522)**
Interest received		392 169	426 418
Taxation paid / (refunded)		(108 938)	42 452
Net cash flows from / (used in) operating activities		**5 140 627**	**(1 962 652)**
Cash flows used in investing activities			
Proceeds / (purchase of investments - Term deposits		(661 080)	1 855 942
Purchase of PPE & intangible assets		(2 819 656)	(767 040)
Proceeds on disposal of PPE		471	-
Decrease / (Increase) in Investment in Subsidiary		4 500 000	(3 000 000)
Loans to related parties		(4 514 541)	-
Cash flows used in investing activities		**(3 494 806)**	**(1 911 098)**
Cash flows from financing activities			
Proceeds from issuing shares		8 000 000	5 519 724
Repayment of loans from related parties		(2 846 910)	3 434 315
Cash flows from financing activities		**2 143 227**	**8 954 039**
Net increase / (decrease) in cash and cash equivalents before effect of exchange rate changes		**3 789 048**	**5 080 289**
Effect of exchange rate changes on cash and cash equivalents		**(53 136)**	**42 622**
		3 735 912	**5 122 911**
Cash and cash equivalents at beginning of the year		5 952 692	829 781
Cash and cash equivalents at end of the year	**14**	**9 688 604**	**5 952 692**

Accounting Policies

The financial report covers Pacific International Insurance Pty Limited as an individual entity. Pacific International Insurance Pty Limited is a for-profit proprietary Company, incorporated and domiciled in Australia.

The report was authorised for issue by the Directors on 24 September 2020.

1. Basis of preparation

The financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

The balance sheet is prepared with the assets and liabilities presented broadly in order of liquidity. The assets and liabilities comprise both current amounts (expected to be recovered or settled within 12 months after the reporting date) and non-current amounts (expected to be recovered or settled more than 12 months after the reporting date).

The presentation currency used for the preparation of this financial report is Australian dollars, which is the functional currency of the Company. Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated into Australian dollars using the reporting date exchange rates. Resulting exchange differences are recognised in profit and loss.

2. Changes in Accounting Policies

New and amended standards adopted by the Company

The new Australian Accounting Standards and Interpretations applicable for the current reporting year are given below.

Title	New Standards, amendments and interpretations
AASB 16	Leases
AASB 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement
AASB Interpretation 23	Uncertainty over Income Tax Treatments, and relevant amending standards

Adoption of the new and amended accounting standards had no material financial impact on the Company. Information on the impact of AASB 16 is provided below for clarity.

AASB 16 Leases

AASB 16, which was issued in 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaced the previous accounting requirements for leases, under AASB 117, effective from 1 July 2019 for the Company.

AASB 16 requires lessees to recognise most leases on the balance sheet in the form of a right-of-use asset (ROUA) and a corresponding lease liability. The standard allows exemptions for short-term leases (less than 12 months) and for leases on low value assets. For the Company, the new standard did not have any major impact as the company did not have any leases that had to be capitalised.

3. Summary of Significant Accounting Policies

(a) Basis of measurement

The financial statements have been prepared on the basis of historical cost, except for certain 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.

(b) Revenue and other income

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.

Gross earned premium

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.

Other income

Other income arises from revenue generated through the training division in the New Zealand Branch. Training is provided to students over a three year period and quarterly assessments are performed by an external assessor for competency appraisal. Revenue is recognised as the performance obligation is fulfilled, which is over the contract period on a monthly straight line basis.

(c) Reinsurance

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

Reinsurance and other recoveries on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are recognised as revenue.

(d) Expenses

Claims expense

Claims expense represents payments made on claims and the movement in the outstanding claims liability as described in note 3(l). Current year claims relate to loss events that occurred during the current financial year. Prior year claims represent the movement on estimates held for claims that occurred in all previous financial periods.

Policy acquisition expenses

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.

Other operating expenses

Other operating expenses are all other expenses incurred in the operation of the Company.

(e) 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 recognised for all taxable temporary differences.

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.

(f) Goods and services tax (GST)

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

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

(g) Cash and cash equivalents

Cash comprises cash in bank and on hand. 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.

Accounting Policies

(h) Property, plant and equipment

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 depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class	Measurement base	Depreciation rate
Furniture, Fixtures and Fittings		
Australia	Diminishing value basis	11% - 60%
New Zealand	Diminishing value basis	11% - 60%
Leasehold improvements		
Australia	Cost basis	10%
Motor vehicles		
Australia	Cost basis	25%
New Zealand	Diminishing value basis	30% - 36%
Computers		
Australia	Cost basis	25% - 33%
New Zealand	Diminishing value basis	48% - 60%
Buildings		
Australia	Cost basis	2.50%

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

(i) 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.

Accounting Policies

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.

(j) 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.

(k) 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.

(l) 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.

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.

The Company’s insurance portfolio has experienced several impacts as a result of COVID-19. There is a risk that the associated economic factors could be more severe than estimated and, as a result, the development of the claims over time could result in the ultimate cost of those claims being higher than the current outstanding claims liability established. The impact of COVID-19 on claims experience is expected to materially differ between classes of business and, for certain classes, potentially impact across more than one accident year.

Accounting Policies

The motor portfolio has been impacted through favourable claim frequency as a result of mobility restrictions introduced in March 2020 to slow the spread of COVID-19. In respect of other classes of business, where the effect of COVID-19 on insurance liabilities is quantifiable and reflected in the data, the impact has been appropriately captured within the outstanding claims liability.

(m) Deferred acquisition costs

Acquisition costs incurred in obtaining and recording insurance contracts are deferred in recognition when 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.

(n) 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 2020 or 2019.

(o) 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.

(p) 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.

Accounting Policies

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 and quota share 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 Statement of Profit or Loss and Other Comprehensive Income is sensitive to this variable.

(q) 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.

(r) Investments

The Company values financial assets and any assets backing insurance activities at fair value with any resultant unrealised profits and losses recognised in the Statement of Profit or Loss and Other 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 Company 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 or 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 Profit or Loss and Other Comprehensive Income excluding any interest or dividend income.

The Company’s investments are designated at fair value through profit and loss, and for the vast majority of the investments, the fair value is determined based on observable market data. This measurement basis has not changed as a result of COVID-19.

(s) 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.

(t) Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The Company has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events that the Directors believe are reasonable in the circumstances.

Accounting Policies

There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements. The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of the outstanding claims liability, recoverable amount assessments of non-financial assets, fair value measurement of investments and expected credit losses for both non insurance and insurance-related receivables.

The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

(u) New Accounting Standards and Interpretations for application in future periods

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.

Title	Description	Operative Date	Note
AASB 17	Insurance Contracts	1 January 2023	B
AASB 2014-10	Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2022	A
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business	01 January 2020	A
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	01 January 2020	A
AASB 2019-1	Amendments to Australian Accounting Standards – References to the Conceptual Framework	1 January 2020	A
AASB 2020-1	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non current	01 January 2022	A
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments	01 January 2022	A
AASB 2020-4	Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions	01 June 2020	A
AASB 1060	General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for profit Tier 2 Entities	01 July 2021	A

TABLE NOTE

A These changes are not expected to have a significant, if any, financial and disclosure impact.

B The changes may have financial impact, however the assessment has not been completed yet. This standard is subject to change based on revisions issued by the IASB, including the effective date which has been proposed to be changed to 1 January 2023.

The Australian Accounting Standards and amendments detailed in the table above are not mandatory for the Company until the operative dates stated, however, early adoption is permitted. The Company currently plans to apply the standards and amendments detailed above for the reporting periods beginning on or after the operative dates set out above.

Accounting Policies

AASB 17 Insurance Contracts

AASB 17, the new accounting standard for insurance contracts, was adopted by the Australian Accounting Standards Board on 19 July 2017 subsequent to being issued by the IASB on 18 May 2017. Since the standard was issued, various implementation matters have been raised by stakeholders and the IASB has considered these concerns and suggested targeted amendments to the standard. The proposed amendments have been considered by the IASB and industry constituents with a finalised standard issued on 10 July 2020. One of the changes to the standard, in addition to several others, is an agreed effective date for periods beginning 1 January 2023, with early adoption permitted.

The first applicable reporting period for the Company is expected to be the year ending 30 June 2024, with the comparative period for the year ending 30 June 2023. The standard introduces a new general measurement model for accounting for insurance contracts, with the application of a simplified approach (similar to AASB 1023) permitted in certain circumstances.

The Company has completed an impact assessment of the new standard and has determined that the Company is expected to be eligible to apply the simplified approach to the insurance contracts issued by the Company (based on the current portfolio mix). It is expected that there will be substantial changes in presentation of the financial statements and disclosures.

Given the complexity and differing interpretations around key requirements of the standard, the final impact of certain requirements may not be determined until global interpretations and regulatory responses to the new standard are finalised.

AASB 9 Financial Instruments

AASB 9 Financial Instruments (AASB 9) applies to annual reporting periods beginning on or after 1 January 2018. The Company is allowed to apply the temporary exemption from AASB 9 as it has not previously adopted any version of AASB 9 and its activities are predominantly connected with insurance, as prescribed by AASB 4 Insurance Contracts (i.e. at 31 December 2015, the carrying amount of the Company's insurance liabilities was significant compared to the total carrying amount of all its liabilities and the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was greater than 90 per cent). The Company, having met the relevant criteria, has deferred the adoption of AASB 9. The Company's investments consist of term deposits and are currently held at amortised cost as they are investments that are considered to be held-to-maturity. The adoption of AASB 9 is unlikely to result in any change to classification of the investments as they will continue to meet the classification criteria for amortised cost.

The following additional disclosure, required by AASB 9 for eligible insurers, presents the fair value and the change in the fair value of the Company's financial assets as at 30 June 2020, showing separately the fair value of financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) and the fair value of financial assets that do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (Non-SPPI):

	Fair Value	Changes in fair value
Short-term investments	33 700 495	-
	33 700 495	-

Trade and other receivables are financial assets which are in the scope of AASB 9 and are SPPI assets. These assets amounted to $18,378,044 at 30 June 2020. These assets are measured at their present value less any impairment loss for any doubtful debts (no doubtful debt provision at 30 June 2019) which approximates fair value.

Accounting Policies

The following additional disclosure, required by AASB 9 for eligible insurers, presents the credit risk ratings of SPPI financial assets at 30 June 2020:

	Credit risk	Fair Value	Changes in fair value
Financial assets			
AA to A-	Low	33 700 495	-
Unrated	Low	18 737 983	-
		52 438 478	-

Reinsurance receivables at 30 June 2020 have the following credit risk rating: AA to A- with low credit risk ($10,768,159).

4. Critical Accounting Estimates and Judgements

The preparation of the financial statements in conformity with Australian Accounting Standards 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.

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.

5. Financial 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.

Accounting Policies

(a) 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 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 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 Company 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 Company 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.

Accounting Policies

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;
- 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 actuarial 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.

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.

Accounting Policies

6. Financial Instruments

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

- credit risk
- liquidity risk
- market risk

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.

	2020	2019
Financial Assets		
Cash and cash equivalents	9 688 604	5 952 692
Investments	13 224 932	12 563 852
	22 913 536	**18 516 544**
Loans and receivables:		
Trade and other receivables	14 184 278	3 066 571
Related party receivables	4 553 705	39 164
Reinsurance and other recoveries	10 786 959	359 939
	29 524 942	**3 465 674**
Total financial assets	**52 438 478**	**21 982 218**
Financial liabilities		
Trade and other payables	5 825 302	946 701
Related party payables	-	2 846 910
Loan payable	-	3 009 863
Total financial liabilities	**5 825 302**	**6 803 474**

Pacific International Insurance Pty Limited received a financial strength rating of B++ (Good) with a stable outlook from AM Best on 20 January 2020. The credit rating is an indication of the Company's current and future claims paying ability (Refer to Note 24 - Liability Adequacy Test).

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:

	2020	2019
Credit exposure by credit rating		
AA to A-	33 700 495	18 876 483
Unrated	18 737 983	3 105 735
Total	**52 438 478**	**21 982 218**

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.

Accounting Policies

	At call		1 year or less		Total	
	2020	2019	2020	2019	2020	2019
	$	$	$	$	$	$
At fair value through profit or loss:						
Cash and cash equivalents	9 688 604	5 952 692	-	-	9 688 604	5 952 692
Investments	-	-	13 224 932	12 563 852	13 224 932	12 563 852
	9 688 604	**5 952 692**	**13 224 932**	**12 563 852**	**22 913 536**	**18 516 544**
Loans and receivables						
Trade and other assets	-	-	14 184 278	3 066 571	14 184 278	3 066 571
Related party receivable	-	-	4 553 705	39 164	4 553 705	39 164
Reinsurance recovery	-	-	10 786 959	359 939	10 786 959	359 939
	-	**-**	**29 524 942**	**3 465 674**	**29 524 942**	**3 465 674**
	9 688 604	**5 952 692**	**42 749 874**	**16 029 526**	**52 438 478**	**21 982 218**

	At call		1 year or less		Total	
	2020	2019	2020	2019	2020	2019
	$	$	$	$	$	$
Financial liabilities						
Trade and other payables	-	-	5 825 302	946 701	5 825 302	946 701
Related party payable	-	-	-	2 846 910	-	2 846 910
Loan payable	-	-	-	3 009 863	-	3 009 863
	-	**-**	**5 825 302**	**6 803 474**	**5 825 302**	**6 803 474**

Interest rate risk and sensitivity analysis on foreign exchange and interest

Cash, related party loans and interest bearing liabilities are held at fair value through profit or loss 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.

Notes to the Financial Statements

	2020	2019
7. Gross written premium		
Motor	35 337 637	1 977 345
Professional Indemnity	5 537 389	4 104 717
Liability and Warranty	1 586 092	1 945 394
Industrial Specialised Risk	3 147 339	-
Content	48 713	-
Pet Insurance	8 624	-
	45 665 794	**8 027 456**
8. Other income		
Admin fee - Related parties	1 207 209	-
Insurance licence fee	715 028	240 501
Reinsurance rebate	100 686	23 874
Report writer and other income	396 365	25 222
Training income - New Zealand Branch	181 802	143 015
	2 601 090	**432 612**
9. Claims expense		
Claims Paid	9 021 120	2 213 326
Claims estimate (decrease)/increase	2 356 622	(1 106 389)
IBNER movement	691 349	(404 392)
	12 069 091	**702 545**
10. Acquisition costs (*)		
Commission	2 369 139	1 694 841
Referral fees	1 543 222	-
	3 912 361	**1 694 841**

(*) The prior year figures have been reclassified in line with the current year disclosure.

Notes to the Financial Statements

	2020	2019
11. Administration expenses (*)		
Administration fees - Related parties	1 233 684	1 307 540
Assets Impaired	8 318	-
Auditors remuneration	175 000	145 044
Bank charges	303 493	36 954
Reinsurance broker fees	253 695	7 892
Consulting and legal fees	449 884	345 773
Depreciation	633 936	16 849
Donations	6 444	-
Employee cost (including directors)	4 933 363	605 398
Insurance regulator levies	26 691	27 008
Insurance	53 825	2 940
Marketing	3 250 006	428 670
Other expenses	1 258 143	226 923
Printing and stationery	7 812	3 926
Profit Share	78 431	-
Rental of premises	165 860	35 713
Repairs and maintenance	4 766	520
Restructure expense	-	157 644
Risk mitigation fee	-	1 003 500
Staff training	28 261	1 791
Telephone and internet	13 879	6 655
Training fees	44 828	44 428
Travel costs	167 077	35 894
	13 097 396	**4 441 062**

(*) The prior year figures have been reclassified in line with the current year disclosure.

	2020	2019
12. Auditors' Remuneration		
Audit services - KPMG	175 000	146 069

Notes to the Financial Statements

		2020	2019
13.	**Income Tax (Benefit) / Expense**		
(a)	**The major components of tax expense (income) comprise:**		
	Deferred tax	(1 572 226)	(188 155)
	Prior year expense not accounted via profit or loss	-	(474 872)
	Under provision in respect of prior years	41	(84 860)
		(1 572 185)	**(747 887)**
(b)	**Reconciliation of income tax to accounting profit:**		
	Prima facie (tax benefit)/tax on profit/(loss) from ordinary activities before income tax at 30% AU, 28% NZ (2019: 27.5% AU, 28% NZ)	**(1 523 325)**	**(193 539)**
	Add:		
	Tax effect of:		
	• Entertainment (non-deductible)	2 094	-
	• Bad debts (non-deductible)	22 642	-
	• prior year adjustments	-	(79 476)
	• prior year expense not accounted via profit or loss	41	(474 872)
	Less:		
	• Change in tax rate	(73 637)	-
	Income tax expense	**(1 572 185)**	**(747 887)**
(c)	**Tax (receivable)/payable:**		
	Balance at the beginning of the year	(131 145)	(173 597)
	Income tax paid	-	(131 145)
	Tax refund received	108 938	173 597
	Balance at the end of the year	**(22 207)**	**(131 145)**
14.	**Cash and cash equivalents**		
	Cash at bank	9 688 604	5 952 692
15.	**Trade and other receivables**		
	Trade receivables	13 458 421	2 008 680
	GST adjustments receivable	-	199 712
	Interest accrual	32 825	57 781
	Prepayments	693 032	800 398
		14 184 278	**3 066 571**
16.	**Investments**		
	Term deposits at banks	13 224 932	12 563 852

The term deposits at banks bear interest rates that range between 1.00% p.a. and 1.20% p.a and have terms from 3 months to 12 months. Included in the above amount is a $2.6m guarantee that is given as security to the bank in respect of the merchant facility.

Notes to the Financial Statements

	2020	2019
17. Loans to group companies		
AI Insurance Holdings Pty Ltd	13 705	39 164
Badger Australia Holdings Pty Ltd	4 500 000	-
Rapid Training Pty Limited	40 000	-
	4 553 705	**39 164**

The loans to Rapid Training and AI Insurance are interest free and are payable on demand.

The loan to Badger Australia Holdings carries interest at 5% per annum. The loan is payable on demand however Pacific will not call on this loan within 12 months subsequent to the signing of the Company's 30 June 2020 financials.

	2020	2019
18. Deferred acquisition costs		
Deferred acquisition costs at 1 July	1 425 033	927 784
Acquisition costs deferred (*)	8 427 919	2 192 090
Amortisation charged to income	(3 912 361)	(1 694 841)
	5 940 591	**1 425 033**

(*) Included in the balance is $3.2m related to reinsurance commission.

	2020	2019
19. Investment in associates		
Investment - PD Insurance Agency Pty Ltd	-	4 500 000

The investment was sold to Badger Australia Holdings as part of simplifying the group structure (refer to Note 17).

	2020	2019

20. Equipment and leasehold improvements

Balances at year end and movements for the year

	Cost	Accumulated depreciation	2020 Carrying value	Cost	Accumulated depreciation	2019 Carrying value
Buildings	2 234 706	(32 589)	2 202 117		-	-
Leasehold improvements	277 310	(28 013)	249 297	243 381	(2 028)	241 353
Motor vehicles	68 195	(34 142)	34 053	87 111	(44 258)	42 853
Fixtures and fittings	199 970	(19 566)	180 404	151 077	(1 259)	149 818
Office equipment	75 260	(33 269)	41 991	82 083	(27 383)	54 700
Computer equipment	237 221	(100 416)	136 805	212 255	(40 618)	171 637
Net book value	**3 092 662**	**(247 995)**	**2 844 667**	**775 907**	**(115 546)**	**660 361**

The carrying amounts of property, plant and equipment can be reconciled as follows:

2020	Carrying value at beginning of year	Additions	Disposals	Depreciation	Carrying value at end of year
Buildings	-	2 234 706	-	(32 589)	2 202 117
Leasehold improvements	241 353	33 929	-	(25 985)	249 297
Motor vehicles	42 853	-	(106)	(8 694)	34 053
Fixtures and fittings	149 818	50 029	-	(19 443)	180 404
Office equipment	54 700	6 190	(6 115)	(12 784)	41 991
Computer equipment	171 637	25 191	-	(60 023)	136 805
	660 361	**2 350 045**	**(6 221)**	**(159 518)**	**2 844 667**

Notes to the Financial Statements

	2020	2019

21. Intangible assets

	Underwriting rights	Computer software	Total
Reconciliation for the year ended 30 June 2020			
Balance at 1 July 2019			
At cost	1 500 000	179 578	**1 679 578**
Accumulated amortisation	-	(67 886)	**(67 886)**
Net book value	**1 500 000**	**111 692**	**1 611 692**
Movements for the year ended 30 June 2020			
Other acquisitions	-	378 100	**378 100**
Amortisation	(375 000)	(99 399)	**(474 399)**
Intangible assets at the end of the year	**1 125 000**	**390 393**	**1 515 393**
Closing balance at 30 June 2020			
At cost	1 500 000	557 678	**2 057 678**
Accumulated amortisation	(375 000)	(167 285)	**(542 285)**
Net book value	**1 125 000**	**390 393**	**1 515 393**

22. Deferred tax assets

	2020	2019
Deferred taxation assets are attributable to:		
Employee benefits	241 219	15 170
Losses carried forward	2 184 393	836 979
Claims liabilities	62 515	57 305
Deferred taxation assets	**2 488 127**	**909 454**

23. Trade and other payables

Trade payables	4 726 165	731 812
GST payable	297 793	13 946
Accrued expenses	801 344	200 943
	5 825 302	**946 701**

Notes to the Financial Statements

	2020	2019

24. Insurance liabilities

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Unearned Premium (UPR)	26 221 404	(8 546 445)	17 674 959	5 016 544		5 016 544
Outstanding claims	4 635 482	(2 121 393)	2 514 089	1 688 794	(359 939)	1 328 855
IBNR	2 819 822	(1 357 106)	1 462 716	793 666		793 666
Outstanding Claims Provision	7 455 304	(3 478 499)	3 976 805	2 482 460	(359 939)	2 122 521
Non RI Recoveries	(1 547 447)	1 237 989	(309 464)	-	-	-
Total Claims Estimates	**5 907 857**	**(2 240 510)**	**3 667 341**	**2 482 460**	**(359 939)**	**2 122 521**
Total Insurance Liabilities	**32 129 261**	**(10 786 956)**	**21 342 305**	**7 499 004**	**(359 939)**	**7 139 065**

Outstanding claims	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Opening balance	1 688 794	(359 939)	1 328 855	2 918 213	-	2 918 213
Opening balance - FX Translation	44 408	-	44 408	-	-	-
Previous year claims paid	(2 213 325)	359 939	(2 213 325)	(1 743 786)	-	(1 743 786)
Change in previous year estimates	349 380	(49 273)	300 107	(705 912)	79 027	(626 885)
Current year claims incurred	13 988 492	(8 051 723)	5 936 769	3 433 604	(438 966)	2 994 638
Current year claims paid	(9 222 267)	5 860 485	(3 361 782)	(2 213 325)	-	(2 213 325)
Closing balance	**4 635 482**	**(2 240 511)**	**2 035 032**	**1 688 794**	**(359 939)**	**1 328 855**

IBNR	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Opening balance	793 666	-	793 666	1 198 060	-	1 198 060
FX Translation	(45 922)	-	(45 922)	-	-	-
Movement for the year	2 072 078	(1 357 106)	714 972	(404 392)	-	(404 392)
Closing balance	**2 819 822**	**(1 357 106)**	**1 462 716**	**793 668**	- -	**793 668**

Unearned premium(UPR)	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Opening balance	5 016 544	-	5 016 544	-	-	-
Opening balance - FX transslation	(93 328)	-	(93 328)	-	-	-
Movement per IS for the year	21 298 188	(8 546 445)	12 751 743	-	-	-
Closing balance	**26 221 404**	**(8 546 445)**	**17 674 959**	-	-	-

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 Aaron Cutter, who is a Fellow of the Institute of Actuaries of Australia and the New Zealand Society of Actuaries, 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:

	2020	2019
Inflation rate implicit	Implicit	Implicit
Discount rate	0.22%	1.00%
Claims handling expense rate	10%	9.97%
Future loss ratios	33% - 75%	26% - 38%
Risk margin	11.69%	17.0%
Weighted average expected term to settlement	0.6 years	1.07 years

Sensitivity Analysis

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

	Movement in Outstanding Claims	Loss before taxation	Loss after taxation	Equity
	$	$	$	$
5% Increase in overall loss ratio	37 425	5 291 546	3 708 133	21 708 434
10% additional IBNR development for March 20 and June 20	291 824	5 545 945	3 886 213	21 530 354
2% reduction in motor recovery rates	61 635	5 315 756	3 725 081	21 691 486

Note: The table highlights what the result would be in the event that the variable movement is realised.

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.

Notes to the financial statements

Claims development

The following table shows the development of outstanding claims for both short and long tail classes relative to the ultimate claims costs for the eight most recent years

Central estimate of ultimate incurred claims	Lodged year (ended 30 June) Prior ($000s)	2014 ($000s)	2015 ($000s)	2016 ($000s)	2017 ($000s)	2018 ($000s)	2019 ($000s)	2020 ($000s)	Total ($000s)
At end of accident year	0	2,867	1,819	2,319	1,650	2,118	1,398	3,681	
one year later	23,203	2,564	2,330	1,932	1,530	2,044	1,512		
two years later	22,507	2,610	2,085	1,953	1,411	2,379			
three years later	21,146	2,699	1,939	1,975	1,285				
four years later	20,440	2,742	1,966	1,903					
five years later	20,124	2,742	1,898						
six years later	20,034	2,742							
seven years later	20,015								
Central estimate of ultimate incurred claims at 30 June 2020	20,015	2,742	1,898	1,903	1,285	2,379	1,512	3,681	35,415
Payments to 30 June 2020	20,015	2,742	1,898	1,881	1,271	1,576	1,061	2,280	32,724

	2020	2019

Liability adequacy test

A liability adequacy test was performed for 30 June 2020 which indicates a surplus of $2,060,958 (2019: $596,432). The tests were based on the following assumptions:

	2020	2019
Central estimate of the present value of expected future cash flows ($)	6 478 202	2 580 312
Component of the present value of expected future cash flows related to risk margin ($)	798 714	414 767
The percentage risk margin adopted in determining the present value of expected future cash flows (%)	12.3%	16%
The probability of adequacy intended to be achieved through the adoption the risk margin (%)	75%	75%

25. Loan payable

Hollard Insurance Company Pty Ltd	-	3 009 863

This loan is repayable in two equal instalments on the 31 December 2019 and the 31 December 2020. The loan bears interest at 4% per annum.
The loan was repayed in full during December 2019.

26. Issued capital

15,823,199 (2019: 7,823,199) fully paid ordinary shares	15 823 199	7 823 199
901 (2019: 901) Class E shares at $1	901	901
Share Premium Class E shares	9 612 844	9 612 844
	25 436 944	**17 436 944**

	2020	2019

27. 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 financials assets and financial liabilities.

Fair value hierarchy

The Company's financial assets and liabilities are carried at fair value on the Statement of Financial Position in accordance with AASB 13. AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

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

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

- Cash and cash equivalents and term deposit investments are carried at face value of the amounts deposited or drawn.

As at 30 June 2020 and 30 June 2019 all cash and cash equivalents and term deposit investments were categorised as Level 1.

The interest-bearing liabilities are initially measured at fair value (net of transaction costs) and subsequently measured at amortised cost. Based on market conditions at any point in time, the carrying value of the liabilities may not be representative of the fair value of the liabilities.

The valuation methodology of liabilities at fair value is summarised below:

- The fair value of all interest bearing liabilities is calculated using their quoted market price in active markets (fair value hierarchy level 1), except for the AUD convertible
- Trade and other payables are stated at the fair value of the consideration to be paid in the future for goods and services received, inclusive of GST. The amounts are discounted where the time value of money effect is material.

	2020	2019

28. Related parties

(a) Identity of related parties

Badger International NZ LP
Badger International NZ LP is a New Zealand registered limited liability partnership and the ultimate holding company for the Group. The entity does not have any trading activities and is an investment holding company.

Badger Australia Holdings Pty Ltd
Badger Australia Holdings Pty Ltd (Badger) became the 100% shareholder of Pacific International Insurance Pty Ltd as part of the group restructure. Badger is an investment holding company with almost no trading activities. Badger has injected additional share capital into Pacific International Insurance Pty Ltd to stimulate growth.

AI Insurance Holdings Pty Ltd
AI Insurance Holdings Pty Ltd (AI) is an underwriting agency that traditionally only placed business with the Hollard Insurance Company Pty Ltd. As part of the restructure AI took over the business of Rapid Solutions Pty Ltd.

PD Insurance Agency Pty Ltd
PD Insurance Agency Pty Ltd is an underwriting agency that owned the Progressive Direct (PD) brand. As part of the restructure Pacific International Insurance Pty Ltd bought 30% of the shares in the agency as well as all the underwriting rights from the Hollard Insurance Company Pty Ltd. All PD policies are transferring to Pacific International Insurance Pty Ltd from 1 July 2019 and this process will be completed by 31 July 2020.

Blue Badge Insurance Australia Pty Ltd
Blue Badge Insurance Australia Pty Ltd is an underwriting agency providing insurance for people with disability. These policies were previously underwritten by the Hollard Insurance Company Pty Ltd. From 1 July 2019 these policies started transferring to Pacific International Insurance Pty Ltd and this process will be completed by 31 July 2020.

Badger Software Pty Ltd
Badger Software Pty Ltd is the development company of the proprietary policy administration and claims system for the Badger Group. Badger Software Pty Ltd provide the full end-to-end development for all products and services that the group offer and the platform that Pacific International Insurance Pty Ltd uses for it's policy administration and claims management.

Rapid Solutions Holding Pty Limited
Due to the restructure we performed in 2019 these entities were dormant for the year.

Rapid Admin Pty Limited
Due to the restructure we performed in 2019 these entities were dormant for the year.

Rapid Solutions Pty Limited
Due to the restructure we performed in 2019 these entities were dormant for the year.

Rapid Training Pty Limited
Rapid Training Pty Ltd offers accredited training to the pest control industry. Rapid Training charged Pacific International Insurance Pty Limited a risk mitigation fee for training provided in the past to its insured clients.

Notes to the Financial Statements

	2020	2019
(b) Transactions with related parties		
Transactions during the year:		
Transactions included in income:		
AI Insurance Holdings Pty Ltd	1 079 000	-
Badger Australia Holdings Pty Ltd	171 303	-
Rapid Solutions Pty Ltd	-	240 501
	1 250 303	**240 501**
Transactions included in expenses:		
AI Insurance Holdings Pty Ltd	211 930	253 033
Badger Software Pty Ltd	569 683	60 000
Badger Australia Holdings Pty Ltd	-	-
Badger International Pty Ltd (SA)	452 071	-
Blue Badge Insurance Agency Pty Ltd	-	81 655
Rapid Admin Pty Ltd	-	978 508
Rapid Solutions Pty Ltd	-	1 747 020
Rapid Training Pty Ltd	-	1 003 500
	1 233 684	**4 123 716**
(c) Outstanding balances: assets/liabilities		
Related party receivables		
AI Insurance Holdings Pty Ltd	715 000	39 164
Badger International NZ LP	166	-
Blue Badge Insurance Australia Pty Ltd	39 385	-
Rapid Training Pty Ltd	322	-
	754 873	**39 164**
Related party payables		
AI Insurance Holdings Pty Ltd	-	1 047 677
PD Insurance Agency	-	8 322
Badger Software Pty Ltd	6 875	37 400
Badger International Pty Ltd (SA)	95 433	-
Rapid Training Pty Ltd	-	(1 445)
Blue Badge Insurance Australia Pty Ltd	124 720	29 940
Badger Australia Holding Pty Ltd	-	26 031
	227 028	**1 147 925**
(d) Outstanding balances: loans		
Loans due from related parties		
AI Insurance Holdings Pty Ltd *	13 705	-
Badger Australia Holding Pty Ltd	4 500 000	-
Rapid Training Pty Ltd *	40 000	-
Loans due to related parties		
AI Insurance Holdings Pty Ltd	-	790 427
PD Insurance Agency Pty Ltd	-	908 558
	4 553 705	**1 698 985**

*These loans are interest free and payable on demand.

The loan to Badger Australia Holdings carries interest at 5% per annum. The loan is payable on demand however Pacific will not call on this loan within 12 months subsequent to the signing of the Company's 30 June 2020 financials.

29. 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 a minimum of $7,498,000. As at 30 June 2020 the Company had surplus capital of $8,043,000 above the APRA requirement.

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

As at 30 June 2020 the Company solvency margin is.

	2020	**2019**
	000'	000'
	$	$
Actual Solvency Capital	15 541	10 376
Prudential / minimum capital requirement	(7 498)	(5 446)
Solvency margin	8 043	4 931
Solvency ratio	**207.27%**	**190.54%**

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.

30. Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 30 June 2020 (30 June 2019: None).

Notes to the Financial Statements

31. Cash Flow Information

(a) Reconciliation of result for the year to cashflows from operating activities

	2020	2019
Reconciliation of net income to net cash provided by operating activities:		
Profit/(Loss) for the year	(3 681 936)	46 243
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	633 917	16 849
- bad debt	75 421	-
Restructure expense through retained earnings	-	(1 726 807)
Changes in assets and liabilities:		
- increase/(decrease) in trade and other receivables	(10 757 768)	(1 337 492)
- increase/(decrease) in trade and sundry receivables	(43 515)	-
- (increase)/decrease in inventories	28 014	(28 014)
- (decrease) in provisions	1 374 595	46 575
- (increase) in reinsurance recoveries	(10 408 220)	(79 027)
- (increase) in tax asset	(1 578 673)	(750 598)
- increase/(decrease) in deferred income	(299 549)	424 251
- increase/(decrease) in deferred acquisition costs	(4 515 558)	(497 249)
- increase/(decrease) in outstanding claims liabilities	3 046 658	(1 229 419)
- increase/(decrease) in unearned premium reserve	21 204 860	1 834 473
- (decrease)/increase in payables	4 878 601	1 275 111
- increase / (decrease) in deferred reinsurance income	5 009 487	-
- increase/(decrease) in tax payable	(108 938)	42 452
Cashflows from operations	**4 857 396**	**(1 962 652)**

32. Events Occurring After the Reporting Date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

33. Statutory Information

The registered address of the company is:

Pacific International Insurance Pty Ltd
Suite 21, 10 Bradford Close
Kotara NSW 2289

Directors' Declaration

The Directors of the Company declare that:

1. the financial statements and notes for the year ended 30 June 2020 are in accordance with the Corporations Act 2001 and:

(a) comply with Accounting Standards, which, as stated in basis of preparation Note 1 to the financial statements, constitutes explicit and unreserved compliance with Australian Accounting Standards (AASBs); and

(b) give a true and fair view of the financial position and performance of the consolidated company;

2. 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.

This declaration is made in accordance with a resolution of the Board of Directors.

Director ______________________

Mr Robert William Urry
(Independent Non-Executive Director - Chairman)

Director: ______________________

Mr Roland Covac Lange
(Executive Director - CEO)

Dated: 29 September 2020

Independent Auditor's Report

To the Shareholder of Pacific International Insurance Pty Limited

Opinion

We have audited the ***Financial Report*** of Pacific International Insurance Pty Limited (the Company).

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

- giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2020
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

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

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

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

Other Information

Other Information is financial and non-financial information in Pacific International Insurance Pty Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

KPMG

KPMG

Andrew Reeves
Partner

Sydney
29 September 2020