PROVIDENT INSURANCE CORPORATION LIMITED

Annual Report - 31 March 2014

Provident Insurance Corporation Limited

CONTENT

Provident Insurance Corporation Limited

STATEMENT OF COMPREHENSIVE INCOME
For Year Ended 31 March 2014

	Note	31/03/2014 $	Period Ended 31/03/2013 $
Gross Written Premium		2,940,713	-
Reinsurance Premiums (Outwards)		(2,269)	-
Unearned Premium	5	(2,575,968)	-
Net Earned Premium		362,476	-
Claims Incurred	6	(222,144)	-
Reinsurance & Other Recoveries		-	-
Net Claims Incurred		(222,144)	-
Salaries		(591,974)	(15,385)
Administration Expenses	7	(1,515,114)	(508,967)
Total Expenses		(2,107,088)	(524,352)
Underwriting Loss		(1,966,756)	(524,352)
Revenue from Commission		137	-
Investment income		273,675	7,367
Other income	8	8,089	29
Operating Loss before Taxation		(1,684,855)	(516,956)
Taxation Credit	13	419,620	-
Net loss after Taxation		(1,265,235)	(516,956)
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE LOSS		(1,265,235)	(516,956)

The above statement of comprehensive income should be read in conjunction with the notes to the financial statements.

Provident Insurance Corporation Limited

STATEMENT OF FINANCIAL POSITION
As at 31 March 2014

	Note	31/03/2014 $	31/03/2013 $
ASSETS			
Cash and Cash Equivalents	9	301,441	110,658
Premiums Outstanding		304,197	-
Receivables	10	82,411	16,051
Investments	11	10,402,229	-
Deferred Acquisition Costs	12	420,159	-
Deferred Tax Assets	13	423,657	-
Property, Plant and Equipment	14	177,344	72,478
Intangibles	15	185,672	211,245
Total Assets		12,297,110	410,432
LIABILITIES			
Payables	16	340,970	9,388
Finance Lease Obligation	17	2,959	-
Other Provisions	18	559,934	-
Provision for Outstanding Claims	6	129,445	-
Provision for Unearned Premium	5	2,625,993	-
Total Liabilities		3,659,301	9,388
Net Assets		8,637,809	401,044
EQUITY			
Share Capital	20	10,420,000	918,000
Retained Earnings		(1,782,191)	(516,956)
Total Equity		8,637,809	401,044

Approved for issue by the Board of Directors on 8 July 2014.

Signed on behalf of the Board of Directors.

Director **Director**

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

Provident Insurance Corporation Limited

STATEMENT OF CHANGES IN EQUITY
For Year Ended 31 March 2014

	Share Capital $	Retained Earnings $	Total Equity $
2014			
Balance at 1 April 2013	918,000	(516,956)	401,044
Increase in Share Capital	9,502,000	-	9,502,000
Total Comprehensive Loss for the year	-	(1,265,235)	(1,265,235)
Balance at 31 March 2014	10,420,000	(1,782,191)	8,637,809
2013			
Balance at 23 May 2012	-	-	-
Increase in Share Capital	918,000	-	918,000
Total Comprehensive Loss for the period	-	(516,956)	(516,956)
Balance at 31 March 2013	918,000	(516,956)	401,044

The above statement of changes in equity should be read in conjunction with the notes to the financial statements.

Provident Insurance Corporation Limited

STATEMENT OF CASH FLOWS
For Year Ended 31 March 2014

	Note	31/03/2014 $	Period Ended 31/03/2013 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		2,757,540	-
Interest received		198,512	7,396
Claims paid		(92,699)	-
Operating expenses paid		(1,584,727)	(527,012)
Net cash flows from operating activities		1,278,626	(519,616)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		34,261	-
Acquisition of property, plant and equipment		(186,527)	(80,331)
Acquisition of Intangibles - Software		(34,458)	(207,395)
Payments under Finance Lease		(890)	-
Cash invested in term deposits		(10,402,229)	-
Net cash flows from investing activities		(10,589,843)	(287,726)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuing share capital	20	9,502,000	918,000
Net cash flows from financing activities		9,502,000	918,000
Net movement in cash held		190,783	110,658
Cash and cash equivalents beginning of period		110,658	-
Cash and cash equivalents end of period	9	301,441	110,658

The above statement of cash flows should be read in conjunction with the notes to the financial statements.

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Provident Insurance Corporation Limited

Notes to the financial statements

1. CORPORATE INFORMATION
REGISTERED OFFICE
Ground Floor, 67 - 73 Hurstmere Road, Takapuna, Auckland

Provident Insurance Corporation Limited (the Company) is a profit-oriented company incorporated on 23 May 2012 under the New Zealand Companies Act 1993 and domiciled in New Zealand.

The Company was granted a licence to carry on Non-Life Insurance Business in New Zealand by Reserve Bank of New Zealand on 31 July 2013 in accordance with Insurance (Prudential Supervision) Act 2010.

2. BASIS OF PREPARATION
(a) BASIS OF MEASUREMENT
These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

They have also been prepared on a historical cost basis except where modified by certain policies relating to assets and liabilities recognised at fair value through the Profit or Loss.

(b) STATEMENT OF COMPLIANCE
These financial statements are the Company's first audited financial statements. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for profit-oriented entities. They also comply with International Financial Reporting Standards (IFRS).

The Company has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Company is a Tier 1 entity and has prepared the current year financial statements accordingly.

The Company has adopted all mandatory new and amended standards and interpretations.

New standards and interpretations not yet adopted
NZ IFRS 9 Financial Instruments. The standard uses a single approach to classify and measure financial assets and financial liabilities to determine whether they should be measured at amortised cost or fair value. The standard is intended to reduce complexity and increase the readers' understanding of the accounting for financial assets and financial liabilities. The standard is effective for reporting periods commencing after 1 January 2017 but may be adopted earlier. The Company has not yet assessed the full impact of NZ IFRS 9 but intends to adopt the standard for the financial year beginning 1 April 2017. A full assess of the impact will be performed prior to the standard becoming effective.

These annual financial statements were approved by the Board of Directors on 8 July 2014.

3. SIGNIFICANT ACCOUNTING POLICIES
(a) PREMIUM REVENUE AND PROVISION FOR UNEARNED PREMIUM

Gross Written Premium comprises amounts charged to policyholders for insurance policies relating to Mechanical Breakdown Insurance (MBI), Credit Contract Indemnity (CCI) and Loan Equity Insurance (Gap). It is expressed net of levies and charges which are collected on behalf of the Fire Service and the Earthquake Commission (if applicable), and net of Goods and Services Tax.

Premium revenue is recognised in the Statement of Comprehensive Income when it has been earned. That is, from the date of attachment of the risk, over the period of the policy.

The proportion of premiums not earned in the Statement of Comprehensive income at the reporting date is recognised in the Statement of Financial Position as a Provision for Unearned Premium.

(b) REINSURANCE
Premiums ceded to reinsurers under reinsurance contracts are recorded as an expense and are recognised over the period of indemnity of the contract. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or in accordance with the reinsurance contract.

Ceded reinsurance does not relieve the Company from its obligations to policyholders.

(c) CLAIMS AND PROVISION FOR OUTSTANDING CLAIMS
Claims expense represents payments for claims and the movement in the Provision for Outstanding Claims. Claims expense represents the benefits paid or payable to the policyholder on the occurrence of an event giving rise to loss or accident according to the terms of the policy. Claims expenses are recognised in the Statement of Comprehensive Income as losses are incurred which is usually the point in time when the event giving rise to the claim occurs.

The liability for any outstanding claims is carried in the Statement of Financial Position as the Provision for Outstanding Claims. It is measured as the central estimate of the present value of the expected future payments against all claims incurred at reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not enough reported ("IBNER"), claims incurred but not reported ('IBNR') and the anticipated direct and indirect claims handling costs.

(d) LIABILITY ADEQUACY TEST
At each reporting date a Liability Adequacy Test is performed to determine whether there is an adequate provision for unearned premiums less related deferred acquisitions to meet the estimated future claims. If the Liability Adequacy Test shows that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency in unexpired risk liability is recognised in the Statement of Comprehensive Income.

The Liability Adequacy Test is calculated separately by the type of policies which are subject to broadly similar risks and managed together as a single product portfolio.

(e) INTEREST INCOME
Interest income is recognised in the Statement of Comprehensive Income on an accrual basis. Interest Income is recognised using the effective interest method.

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

(ii) Deferred Tax
Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted by the reporting date. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that does not affect either the taxable profit or the accounting profit.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(iii) Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST except when the GST incurred on a purchase of goods and services is not recoverable from Inland Revenue, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of Receivables or Payables in the Statement of Financial Position.

(g) PAYABLES
Payables are recognised when the Company becomes obliged to make future payments resulting from the purchases of goods and services.

Payables are carried at amortised cost. They represent liabilities for goods and services provided to the Company prior to the end of the financial year but which are unpaid at reporting date.

(h) LEASED ASSETS
Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at fair value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for under the class of asset in accordance with accounting policies for property, plant and equipment. The finance lease obligation is presented as a liability in the Statement of Financial Position, while the lease interest charge is expensed in the profit and loss.

Other leases are operating leases and payments are recognised as an expense in the periods the services are received over the period of the lease. Benefits received and receivable for entering into an operating lease are recognised on a straight line basis over the term of the lease.

(i) CASH AND CASH EQUIVALENTS
Cash and cash equivalents include cash on hand and deposits held at call with financial institutions. Cash and cash equivalents are measured at fair value, being the principal amount.

(j) RECEIVABLES
Receivables are stated at the amounts to be received in the future, being fair value, less any impairment losses. The recoverability of debts is assessed on an ongoing basis and provision for impairment is made based on objective evidence and having regard to past default experience. Changes to impairment charge are recognised in the Statement of Comprehensive Income. Debts which are known to be uncollectible are written off.

(k) INVESTMENTS
Investments comprise assets held to back insurance liabilities (also referred to as technical reserves) and assets that represent equity holders' funds. All investments are held in short to medium term deposit accounts with financial institutions in accordance with a documented risk management strategy. The investments are measured at fair value.

(l) PREMIUMS OUTSTANDING
At any one time there is a balance of premiums which are outstanding but not overdue. These are recognised at fair value being the amount due.

All outstanding amounts are constantly reviewed for collectability and immediately written off where deemed to be uncollectible.

(m) REINSURANCE AND CLAIMS RECOVERIES OUTSTANDING
During the normal course of the Company's activities claims are paid which will result in a contractual right to seek recovery from its reinsurers and / or other third parties. At any point in time there will be amounts owing by these counterparties which will be represented by assets on the Statement of Financial Position.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

(m) REINSURANCE AND CLAIMS RECOVERIES OUTSTANDING (Continued)
An impairment review is performed at reporting date. When the recoverable amount is less than the carrying value an impairment loss is recognised in the Statement of Comprehensive Income.

(n) DEFERRED ACQUISITION COSTS
Acquisition costs incurred in obtaining new insurance business include commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs.
These costs are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods.

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

An impairment review is performed at reporting date as part of the Liability Adequacy Test. When the recoverable amount is less than the carrying value an impairment loss is recognised in the Statement of Comprehensive Income.

(o) PROPERTY, PLANT AND EQUIPMENT, AND DEPRECIATION
Property, plant and equipment is initially recorded at cost including transaction costs and subsequently measured at cost less any subsequent accumulated depreciation and impairment losses.

Depreciation is calculated using diminishing value method applying the following rates.

- Computer hardware & equipment - 16-50% diminishing value (estimated useful life 3-12 years)
- Office fit out - 10% diminishing value (estimated useful life 19 years)
- Furniture & fittings - 16-25% diminishing value (estimated useful life 8-12 years)
- Office equipment - 25-40% diminishing value (estimated useful life 4-8 years)
- Motor vehicles - 30% diminishing value (estimated useful life 5 years)

(p) INTANGIBLES

Intangible assets represent software and software work in progress and are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangibles are amortised using diminishing value method applying the following rate.

- Software - 40% diminishing value (estimated useful life 4 years)

(q) PROVISIONS
Provisions are only recognised when the Company has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

(r) EMPLOYEE BENEFITS
Provision is made for salaries, commissions, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employee entitlements up to reporting date. This provision is measured at the amounts expected to be paid when the entitlements are settled.

(s) STATEMENT OF CASH FLOWS
The Statement of Cash Flows has been prepared using the direct approach.

(t) COMPARATIVES
The comparatives for the period ending 31 March 2013 in the Statement of Comprehensive Income and Statement of Cash Flows represent a 10 month period from the date of incorporation.

4. CRITICAL JUDGEMENTS AND ESTIMATES
In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used, and certain judgements are made.

The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, the results of which form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, and future periods if relevant.

The areas where the estimates and assumptions involve a high degree of judgement or complexity and are considered significant to the financial statements, listed together with reference to the notes to the financial statements where more information is provided, are:

- **Provision for Outstanding Claims, refer Note 7**

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at reporting date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of recoveries.

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

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available.

Management uses a combination of a central estimate, assessment by the Appointed Actuary and management's industry knowledge and experience to determine the final provision.

4. CRITICAL JUDGEMENTS AND ESTIMATES (Continued)

• **Provision for Unearned Premium, refer Note 6**
The estimate of the unearned premium is calculated based on the date of attachment of risk over period of the policy with an appropriate margin for uncertainty for each portfolio of contracts. The estimate is based on industry and product specific historical information and so is heavily dependent on assumptions and judgements. The liability adequacy test is required to be conducted by product with broadly similar risks and that are managed together as a single portfolio. The Company has determined that all policies for a single product written in New Zealand are affected by common risk factors. The provision for unearned premium should be sufficient to cover the present value of the expected cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claims handling costs and other administration costs relating to the business.

• **Deferred Acquisition Costs, refer Note 13**
Deferred acquisitions costs are deferred only to the extent that they are recoverable from future premium income. The Company estimates its deferred acquisition costs through the central estimate and calculates the provision using an assumption of 16% of UPR. Annually the actual costs incurred and the recoverability through the liability adequacy test will form the tests performed. Any adjustments to the assumptions that result in a change in the provision is recognised in the Statement of Comprehensive Income.

• **Deferred Tax Assets, refer Note 14**
Deferred tax assets are recognised for all unused tax losses to the extent it is probable that taxable profits will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likelihood, timing and quantum of future taxable profits.

5. PROVISION FOR UNEARNED PREMIUM AND LIABILITY ADEQUACY TEST

Provision for Unearned Premium	$
Balance as at 31 March 2013	-
Premiums Written	2,940,713
Premiums in Advance	50,025
Premiums Earned	(364,745)
Balance as at 31 March 2014	2,625,993
Current	221,691
Non-Current	2,404,302

Some MBI warranties at reporting date were sold with a contract start date in the future. The Company is currently not on risk for these contracts and treats the total premiums received in advance as unearned premiums. When the contracts commence the premiums will start to be earned as normal and the Company will be on risk.

Liability Adequacy Test

Liability adequacy tests are performed by the Company's appointed Actuary (Karl Marshall, The Quantium Group PTY Ltd) to determine whether the unearned premium liability is sufficient to cover the present value of the expected cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claims handling costs and other administration costs relating to the business.

If the unearned premium liability less related deferred acquisition costs exceeds the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate then the unearned premium liability is deemed to be sufficient. The risk margins applied to future claims were determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability using the same methodology as described above.
The net unearned premium less Deferred Acquisition Costs is $114,303 higher than the premium liabilities. Therefore it has passed the Liability Adequacy Test and deemed to be sufficient.

6. CLAIMS AND OUTSTANDING CLAIMS

Claims Incurred	$
Claims Payments during year	92,699
Provision for outstanding claims in profit and loss	129,445
Total claims incurred for year ended 31 March 2014	222,144

Provision for outstanding claims	$
Balance as at 31 March 2013	-
Outstanding claims liability	129,445
Balance as at 31 March 2014	129,445

Claims incurred relate to risks borne in the current year.

6. CLAIMS AND OUTSTANDING CLAIMS (Continued)

Assumptions adopted by the Appointed Actuary in the calculation of total liability for outstanding claims

The total liability for outstanding claims are based on the following assumptions.
- Loss Ratios of 35-70%
- Claim handling expenses estimated at 10%
- Risk Margin of 30% to increase the probability of sufficiency of the provision to 75%

The liability is measured based on the advice of, valuations performed by, or under the direction of, the Appointed Actuary. The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not enough reported ("IBNER"), claims incurred but not reported ('IBNR') and the anticipated direct and indirect claims handling costs.

The Appointed Actuary has performed an actuarial assessment in accordance with the standards of the New Zealand Society of Actuaries. The Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Company's claims obligations after having regard to the prevailing market environment and prudent industry practice.

As at 31 March 2014

	Term (Months)	Outstanding Claims Payments	Claims Handling Expense	Risk Margin	Undiscounted Outstanding Claims Provision	Discount	Discounted Outstanding Claims Provision
	$	$	$	$	$	$	$
All Products	12-48	58,165	5,817	19,194	83,176	(219)	82,957

Forward discount rates has been derived from the yields of New Zealand government bonds. Forward rates are used which indicate the rate of investment income that may be earned on money invested during each future period.
The equivalent average single discount rate implicit in the insurance liabilities is 3.73% per annum as at 31 March 2014.

Adjustment for Outstanding Claims Provision	$
Discounted Outstanding Claims Provision	82,957
Adjustment to achieve forced loss	46,488
Provision based on Forced Loss	129,445

Management have adjusted the outstanding claims provision amount for a forced loss of 61% of net earned premiums. This is considered to be the most appropriate method taking into account the characteristics of the class of business, management's industry knowledge and experience.

Claims are expected to be settled within one year.

The sensitivity analysis in respect to changes in initial loss ratios of 10% plus and minus impact on loss and equity of the Company.

	Change in Initial Loss Ratio		
	-10%	No Change	+10%
	$	$	$
Provision for Outstanding Claims	163,101	129,445	95,790

7. ADMINISTRATION EXPENSES

	31 March 2014	31 March 2013
	$	$
Directors' fees	178,336	-
Depreciation	55,450	7,853
Amortised software	56,181	-
Audit of financial statements	20,000	-
Other assurance related services	4,780	-
Finance Lease Interest expense	499	-
Deferred Acquisition Costs	(420,159)	-
Other expenses	1,620,027	501,114
Total Administration expenses	1,515,114	508,967

Other assurance related services includes $2,500 paid to the auditors for the review of RBNZ solvency return for 31 March. No other fees were paid to the auditors. Other assurance related services includes $2,280 paid to another professional services firm for the audit of the capital increase in July 2013.

8. OTHER INCOME

	31 March 2014	31 March 2013
	$	$
Interest Received - IRD	39	29
Profit on sale of Motor Vehicles	8,050	-
Total Other Income	8,089	29

9. CASH AND CASH EQUIVALENTS

	31 March 2014	31 March 2013
	$	$
Cheque Account	58,362	354
Call Account	243,080	110,304
Total Cash and Cash Equivalents	301,441	110,658

10. RECEIVABLES

	31 March 2014 $	31 March 2013 $
Prepayments	1,110	-
Interest accrued - term deposits	75,202	-
Net GST Receivable	-	13,988
Resident Withholding Tax	6,099	2,063
Total Receivables	82,411	16,051

Total receivables are expected to be received during the next 12 months.

11. INVESTMENTS

	31 March 2014 $	Term	Maturity	Interest Rate
Term Deposit - Lease Bond	69,000	365 days	5/07/2014	4.25%
Term Deposits	10,333,229	90 days	18/04/2014 - 20/06/2014	3.7% - 4.0%
	10,402,229			

The lease bond is held separately as a Bank Guarantee regarding the lease of the office premises. Term deposits are held by AA- rated NZ Financial Institutions. The fair value of the investments approximates their carrying value.

12. DEFERRED ACQUISITION COSTS	$
Balance as at 31 March 2013	-
Movement for the year	420,159
Balance as at 31 March 2014	420,159
Current	35,471
Non-Current	384,688

The change in the provision is recognised in the Statement of Comprehensive Income.

13. TAXATION

	31 March 2014 $	31 March 2013 $
Components of tax credit		
Current tax expense	4,037	-
Adjustments to current tax in prior years	-	-
Deferred tax asset	(423,657)	-
Tax Credit	(419,620)	-

	31 March 2014 $	31 March 2013 $
Relationship between tax credit and accounting loss		
Net loss before tax	(1,684,855)	(516,956)
Tax at 28%	(471,759)	(144,748)
Plus (less) tax effect of:		
Non-deductible expenditure	2,668	713
Imputation credit adjustment	4,037	-
Non-taxable income	(1,999)	-
Prior year adjustment	-	-
Tax Loss not Recognised	47,433	144,035
Deferred tax adjustment	-	-
Tax Credit	(419,620)	-

In 2013, the Company was not trading and had not applied for an Insurance Licence. Therefore, the deferred asset tax was not recognised as future profits were uncertain.

During July 2013, the share capital increased and the resultant shareholding did not meet the continuity test as prescribed by Inland Revenue Department of New Zealand. Therefore, accounting losses generated up to the increase in shares is no longer available to be carried forward for tax purposes.

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Provident Insurance Corporation Limited

Notes to the financial statements

13. TAXATION (Continued)

Deferred tax asset

	Property, plant and equipment $	Employee entitlements $	Other provisions $	Tax losses $	Total $
Balance at 23 May 2012	-	-	-	-	-
Charged to surplus or deficit	-	-	-	-	-
Charged to other comprehensive income	-	-	-	-	-
Balance at 31 March 2013	-	-	-	-	-
Charged to surplus or deficit	-	11,562	140,017	272,078	423,657
Charged to other comprehensive income	-	-	-	-	-
Balance at 31 March 2014	-	11,562	140,017	272,078	423,657

	31 March 2014 $
Expected to crystallise in the next 12 months	151,579
Not expected to crystallise in the next 12 months	272,078
	423,657

14. PROPERTY, PLANT AND EQUIPMENT

Classification	Cost				Accumulated Depreciation				Book Value
	1 April 2013 $	Additions $	Disposals $	31 March 2014 $	1 April 2013 $	Disposals $	Depreciation $	31 March 2014 $	31 March 2014 $
Computer Hardware & Equipment	-	20,240	-	20,240	-	-	7,264	7,264	12,976
Furniture & Fittings	-	9,590	-	9,590	-	-	829	829	8,761
Motor Vehicles	80,331	134,822	(27,826)	187,327	7,853	(1,615)	44,443	50,681	136,646
Office Equipment	-	5,499	-	5,499	-	-	1,686	1,686	3,813
Office Fit Out	-	16,376	-	16,376	-	-	1,228	1,228	15,148
Total	**80,331**	**186,527**	**(27,826)**	**239,032**	**7,853**	**(1,615)**	**55,450**	**61,688**	**177,344**

Classification	Cost				Accumulated Depreciation				Book Value
	23 May 2012 $	Additions $	Disposals $	31 March 2013 $	23 May 2012 $	Disposals $	Depreciation $	31 March 2013 $	31 March 2013 $
Computer Hardware & Equipment	-	-	-	-	-	-	-	-	-
Furniture & Fittings	-	-	-	-	-	-	-	-	-
Motor Vehicles	-	80,331	-	80,331	-	-	7,853	7,853	72,478
Office Equipment	-	-	-	-	-	-	-	-	-
Office Fit Out	-	-	-	-	-	-	-	-	-
Total	**0**	**80,331**	**0**	**80,331**	**0**	**0**	**7,853**	**7,853**	**72,478**

15. INTANGIBLES - SOFTWARE

31 March 2014	Completed $	Work in Progress $	Total $	Amortised $	Net Book Value $
Balance at 1 April 2013	-	211,245	211,245	-	211,245
Additions	1,813	28,795	30,608	(498)	
Transferred - completed	240,040	(240,040)	-	(55,683)	
Balance at 31 March 2014	241,853	-	241,853	(56,181)	185,672

31 March 2013	Completed $	Work in Progress $	Total $	Amortised $	Net Book Value $
Balance at 23 May 2012	-	-	-	-	-
Additions	-	211,245	211,245	-	
Transferred - completed	-	-	-	-	
Balance at 31 March 2013	-	211,245	211,245	-	211,245

16. PAYABLES

	31 March 2014 $	31 March 2013 $
Trade Accounts Payable	317,380	9,388
Premiums held for Third Party	23,590	-
	340,970	9,388

All payables are at fair value.

Current	340,970	9,388
Non-Current	-	-

17. FINANCE LEASE OBLIGATION

The Company leases a Canon photocopier under a finance lease agreement. The lease term is 3 years whereby ownership or title of the equipment passes to the Company, i.e. lease to buy.

Interest is fixed for this contract at 27.4% of principal.

Finance Lease Liabilities	31 March 2014 $	31 March 2013 $
Minimum Lease Payments	2,959	-
- Current	1,250	
- Non-Current	1,709	

18. OTHER PROVISIONS

	31 March 2014 $	31 March 2013 $
Employment Benefits	45,248	-
Legal and Other	514,686	-
	559,934	-

Current	559,934
Non-Current	-

Employment Benefits

The provision includes salaries, commissions and leave allowance and expected to be full settled during the 2015 financial year.

18. OTHER PROVISIONS (Continued)

Legal and Other

Rebates and incentives are payable to dealers when they meet their sales targets. This is calculated monthly and the provision represents incentives owing to dealers but remained unpaid at reporting date.

A provision has been set aside for legal, consultancy and settlement costs based on a best estimate for settling an obligation in relation to legal proceedings brought by another insurer. This matter has been settled subsequent to 31 March 2014. These expenses have been included in Other Expenses under Administration Expenses.

19. RISK MANAGEMENT

The financial condition and operations of the business are affected by a number of key risks including insurance risk, interest rate risk, currency risk, market risk, financial risk, compliance risk, fiscal risk and operational risk.

The Company is committed to proactively and consistently managing risk, to effectively limit identified risks within the Company's risk appetite and to achieve continued growth and profitability of the Company.

The Company has an Enterprise Risk Management framework, which aligns with AS/NZS ISO 31000:2009 Risk management: principles and guidelines, to facilitate the identification, evaluation, mitigation and monitoring of the risks affecting the Company.

The accountabilities and responsibilities of employees and directors are conveyed in the Company's Risk Management policy. The Company's exposure to relevant risks are recorded and managed through the Company's risk register.

The board has delegated the monitoring and reporting of extreme and high risk items to the Board Risk Committee, which reports quarterly to the board.

The board has delegated the oversight of the effectiveness of audit functions, internal controls and compliance processes to the Board Audit Committee, which reports quarterly to the board.

Notes on the policies and procedures employed in managing these risks in the business are set out below.

(A) Insurance Risk

Insurance risk is the risk that either inadequate or inappropriate product design, pricing, underwriting, reserving, claims management or reinsurance management will expose the Company to financial loss and, in the worst case a consequent inability to meet its liabilities when they fall due.

The Company's risk management activities include prudent underwriting, pricing, claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance of the insurance operations and to ensure sound business practices are in place for management of risks in underwriting and claims.

The key processes and controls in place which mitigate insurance risk include:

- the recruitment, retention and on-going training of suitably qualified personnel
- the use of management information systems that provide reliable data on the risks which the business is exposed to
- the use of external actuarial expertise to assist in determining premium levels and monitoring claims patterns
- the use of reinsurance to limit the Company's exposure to large single claims and accumulations of claims that arise from a singular event.

(B) Market risk

Market risk is the risk of change in the fair value of financial instruments from fluctuations in the foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market.

The sensitivity analysis and the impact of possible changes in interest rate risk on the Company's profit and equity is included in note 19 (E) below.

(i) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not the Company's functional currency.

The Company's principal transactions are carried out in New Zealand Dollars and its exposure to foreign exchange risk arises primarily with respect to payments overseas for various services to the Company. At reporting date there is no exposure to currency risk. (31 March 2013: Nil)

(ii) Interest rate risk

Interest rate risk is the risk that the value or future value cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Board is responsible for the management of the interest rate risk arising from external borrowings. As at 31 March 2014 there were no external borrowings. (31 March 2013: Nil)

19. RISK MANAGEMENT (Continued)

The Company manages interest rate risk arising from its interest bearing investments in accordance with the Company's Capital Management Plans and the Company's Investment policy.

(iii) Price risk
Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The Company has no exposure to price risk because there are no investments in publicly traded equity securities and other unit trusts.

(C) Credit risk
Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result in changes in credit risk of that instrument. The Company's exposure to credit risk is limited to deposits and investments held with banks as well as credit exposure to trade customers or other counterparties.

Independent ratings are used for counterparties that are rated by rating agencies. Internal procedures cover monitoring customers' financial position, the extent of monies owing and other relevant factors.

The Company has no significant exposure to credit risk. Credit exposure in respect of the Company's cash and term deposits is limited to banks with minimum "AA-" credit ratings.

(D) Liquidity Risk
Liquidity risk is the risk that the entity will encounter difficulty in meeting commitments linked to financial instruments.

The Company manages its liquidity risk on an on-going basis by:
- spreading its investments across multiple banks and institutions with different maturity profiles
- forecasting expected future liquidity and ensuring a sufficient liquidity 'buffer' is maintained at all times.

The table below analyses the Company's financial assets and liabilities at balance date into the relevant maturity groupings based on the remaining period to the maturity date.

31 March 2014	On Demand $	0-3 Months $	4-12 Months $	1-3 Years $	Total $
Financial Assets					
Cash and cash equivalents	301,441	-	-	-	301,441
Term Deposits (Investments)	-	10,333,229	69,000	-	10,402,229
Receivables	379,399	-	-	-	379,399
	680,840	10,333,229	69,000	-	11,083,068
Financial Liabilities					
Accounts Payables	198,352	-	-	-	198,352
Other Liabilities	-	294	956	1,709	2,959
	198,352	294	956	1,709	201,311

31 March 2013	On Demand $	0-3 Months $	4-12 Months $	1-3 Years $	Total $
Financial Assets					
Cash and cash equivalents	110,658	-	-	-	110,658
Term Deposits (Investments)	-	-	-	-	-
Receivables	-	-	-	-	-
	110,658	-	-	-	110,658
Financial Liabilities					
Accounts Payables	4,660	-	-	-	4,660
Other Liabilities	-	-	-	-	-
	4,660	-	-	-	4,660

Financial assets and liabilities are held at amortised costs. The fair value of the financial assets and financial liabilities approximates their carrying value. The carrying amount of these financial assets and liabilities are a reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the balance sheet date.

(E) Sensitivity analysis
The analysis below demonstrates the impact of changes in interest rates on profit after tax and equity on continuing business. The analysis is based on changes in economic conditions that are considered reasonably possible at the reporting date. The potential impact is assumed as at the reporting date.

(i) Interest rate
All Investments of the Company are held by NZ financial institutions on short term deposits (refer note 12). The term deposits have a fixed interest rate for a fixed term. Therefore, the impact at reporting date on the Company's profit after tax and equity is Nil, with all other variables being at a constant. (31 March 2013: Nil)

19. RISK MANAGEMENT (Continued)

The sensitivity analysis in respect to changes in interest rates as applied to Provision for Unearned Premium for 2014 considers the impact of a 175 basis point plus and minus change in New Zealand interest rates (i.e. Reserve Bank of New Zealand Solvency Standard for Non-Life Business). There were no premiums written prior to September 2013.

	Change in Interest Rates		
	-1.75%	No Change	+1.75%
	$	$	$
Provision for Unearned Premium	2,693,836	2,625,993	2,561,682

(F) Operating risk

Operating risk is the risk of financial loss resulting from either external events, inadequate or failed systems or processes, or insufficiently skilled and trained staff. There are a number of key processes and controls in place which mitigate operating risk, including:

- the management and staff responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities
- the Chief Finance and Risk Officer charged with assisting staff identify risks, assessing the sufficiency of and ongoing presence of suitable mitigations
- the Board Risk Committee charged with monitoring and reporting on risks.

20. CAPITAL MANAGEMENT

(i) Share Capital

	31 March 2014	31 March 2013
	$	$
Fully paid up Capital	10,420,000	918,000
Unpaid Capital	-	3,082,000
Share Capital at 31 March	10,420,000	4,000,000
Represented by:		
Number of Shares	10,420,000	4,000,000

When the Company incorporated (23 May 2012) 3,000,000 shares were issued. On 28 August 2012 a further 1,000,000 shares were issued. A further 6,420,000 shares were issued on 4 July 2013. All shares carry the same voting rights.

(ii) Financial Strength Rating

Provident Insurance Corporation Limited has a B++ Financial Strength Rating awarded by AM Best Company on 1 August 2013. The rating scale is:

Rating	Explanation
A++, A+	Superior
A, A-	Excellent
B++, B+	Good
B, B-	Fair
C++, C+	Marginal
C, C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Suspended

Ratings from A to C also may be enhanced with a "++" (double plus), "+" (plus) or "-" (minus) to indicate whether credit quality is near the top or bottom of a category.

20. CAPITAL MANAGEMENT (Continued)

(iii) Capital Management Plan and Solvency

When managing capital, management's objective is to ensure that the Company continues as a going concern with sufficient reserves to settle claims and meet its financial obligations to creditors. The Company has an established capital management plan (CMP), which is reviewed annually.

Minimum Solvency Capital for 31 March 2014 required to meet the solvency standards is:

Actual Solvency Capital (ASC)	8,028,480
Minimum Solvency Capital (MSC)*	3,000,000
Solvency Margin	$5,028,480

*MSC has been set by the Reserve Bank of New Zealand.

21. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2014 (31 March 2013: Nil).

22. CAPITAL COMMITMENTS

There were no capital commitments as at 31 March 2014 (31 March 2013: Nil).

23. SUBSEQUENT EVENTS

There have been no material events subsequent to 31 March 2014, other than those disclosed in note 18.

Independent Auditors' Report

to the shareholders of Provident Insurance Corporation Limited

Report on the Financial Statements

We have audited the financial statements of Provident Insurance Corporation Limited on pages 1 to 17, which comprise the statement of financial position as at 31 March 2014, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Provident Insurance Corporation Limited other than in our capacities as auditors and providers of other assurance related services. These services have not impaired our independence as auditors of the Company.

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Independent Auditors' Report

Provident Insurance Corporation Limited

Opinion

In our opinion, the financial statements on pages 1 to 17:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company as at 31 March 2014, and its financial performance and cash flows for the period then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the period ended 31 March 2014:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
8 July 2014

Auckland

7 August 2014

The Board of Directors
Provident Insurance Corporation Ltd
Crown Centre, Ground Floor, 67-73 Hurstmere Road
Takapuna
Auckland 0622
New Zealand

Dear Sirs

Appointed Actuary – Report Required under Section 78 of the Act

Section 78 of the Act specifies those matters that much be addressed, namely;

(a) I am the Appointed Actuary of Provident Insurance Corporation Limited (**Provident**); and

(b) I have reviewed the actuarial information contained in, or used in the preparation of the financial statements of Provident. The review has been carried out in accordance with the applicable solvency standard. For the avoidance of doubt, actuarial information means:

- Information relating to Provident's calculations of premiums, claims, reserves, insurance rates, and technical provisions; and
- Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and
- Information specified in an applicable solvency standard as being actuarial information for the purposes of this section; and

(c) The scope and limitations of the review will be detailed in Part B Section 1 of the Financial Condition Report (**FCR**) as at 31 March 2014; and

(d) I have no relationship with Provident other than that of Appointed Actuary; and

(e) I have obtained all information and explanations that I require; and

(f) In my opinion and from an actuarial perspective:

- Provident has adopted an outstanding claims provision that is higher and therefore more prudent than the provision recommended in the insurance liability valuation. In all other aspects, the actuarial information contained in the financial statements has been appropriately included in those statements; and

- The actuarial information used in the preparation of the financial statements has been used appropriately; and

(g) No condition has been imposed under Section 21(2)(b) as at 31 March 2014; and

(h) No condition has been imposed under Section 21 (2)(c) as at 31 March 2014.

Yours sincerely

Karl Marshall

Karl Marshall
Appointed Actuary, Provident
Fellow of the New Zealand Society of Actuaries
Tel: +61 2 9292 6431