

PROVIDENT INSURANCE CORPORATION LIMITED

Annual Report - 31 March 2015



Provident Insurance Corporation Limited

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Provident Insurance Corporation Limited

STATEMENT OF COMPREHENSIVE INCOME For Year Ended 31 March 2015

	Note	31/03/2015 \$	31/03/2014 \$
Gross Written Premium		8,440,482	2,940,713
Reinsurance Premiums (Outwards)		(6,710)	(2,269)
Unearned Premium	5	<u>(5,382,864)</u>	<u>(2,575,968)</u>
Net Earned Premium		3,050,908	362,476
Claims Incurred	6	(1,863,002)	(222,144)
Reinsurance & Other Recoveries		<u>-</u>	<u>-</u>
Net Claims Incurred		(1,863,002)	(222,144)
Salaries		(1,109,673)	(591,974)
Administration Expenses	7	<u>(1,380,433)</u>	<u>(1,515,114)</u>
Total Expenses		(2,490,106)	(2,107,088)
Underwriting Loss		<u>(1,302,200)</u>	<u>(1,966,756)</u>
Revenue from Commission		1,230	137
Investment income		553,189	273,675
Other income	8	<u>7,827</u>	<u>8,089</u>
Operating Loss before Taxation		(739,954)	(1,684,855)
Taxation Credit	13	<u>204,898</u>	<u>419,620</u>
Net loss after Taxation		<u>(535,056)</u>	<u>(1,265,235)</u>
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE LOSS		<u><u>(535,056)</u></u>	<u><u>(1,265,235)</u></u>

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 2015


	Note	31/03/2015 \$	31/03/2014 \$
ASSETS			
Cash and Cash Equivalents	9	876,895	301,441
Premiums Outstanding		363,389	304,197
Receivables	10	238,648	82,411
Investments	11	13,969,000	10,402,229
Deferred Acquisition Costs	12	1,219,514	420,159
Deferred Tax Assets	13	628,605	423,657
Property, Plant and Equipment	14	243,735	177,344
Intangibles	15	132,702	185,672
Total Assets		<u>17,672,488</u>	<u>12,297,110</u>
LIABILITIES			
Payables	16	432,623	340,970
Finance Lease Obligation	17	1,710	2,959
Other Provisions	18	167,748	559,934
Provision for Outstanding Claims	6	958,797	129,445
Provision for Unearned Premium	5	8,008,857	2,625,993
Total Liabilities		<u>9,569,735</u>	<u>3,659,301</u>
Net Assets		<u>8,102,753</u>	<u>8,637,809</u>
EQUITY			
Share Capital	20	10,420,000	10,420,000
Retained Earnings		(2,317,247)	(1,782,191)
Total Equity		<u>8,102,753</u>	<u>8,637,809</u>

Approved for issue by the Board of Directors on 26 June 2015.

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 2015

	Share Capital \$	Retained Earnings \$	Total Equity \$
2015			
Balance at 1 April 2014	10,420,000	(1,782,191)	8,637,809
Total Comprehensive Loss for the year	-	(535,056)	(535,056)
Balance at 31 March 2015	<u>10,420,000</u>	<u>(2,317,247)</u>	<u>8,102,753</u>
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	<u>10,420,000</u>	<u>(1,782,191)</u>	<u>8,637,809</u>

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 2015

	Note	31/03/2015 \$	31/03/2014 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		8,378,958	2,757,540
Interest received and Other Income		391,432	198,512
Claims paid		(1,033,650)	(92,699)
Operating expenses paid		(3,477,820)	(1,584,727)
<i>Net cash flows from operating activities</i>	21	<u>4,258,920</u>	<u>1,278,626</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	34,261
Acquisition of property, plant and equipment		(142,284)	(186,527)
Acquisition of Intangibles - Software		(20,678)	(34,458)
Payments under Finance Lease		(1,250)	(890)
Cash invested in term deposits (net)		(3,519,254)	(10,402,229)
<i>Net cash flows from investing activities</i>		<u>(3,683,466)</u>	<u>(10,589,843)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuing share capital	20	-	9,502,000
<i>Net cash flows from financing activities</i>		<u>-</u>	<u>9,502,000</u>
Net movement in cash held		575,454	190,783
Cash and cash equivalents beginning of the year		301,441	110,658
Cash and cash equivalents end of the year	9	<u>876,895</u>	<u>301,441</u>

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

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. This is a reporting entity for the purposes of Financial Markets Conduct Act 2013.

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, the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

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 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).

There have been no new or amended standards and interpretations to adopt in the year.

New standards and interpretations not yet adopted

NZ IFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

These annual financial statements were approved by the Board of Directors on 26 June 2015.

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.

Provident Insurance Corporation Limited

Notes to the financial statements

(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.

Provident Insurance Corporation Limited

Notes to the financial statements

(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.

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.

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:

Provident Insurance Corporation Limited

Notes to the financial statements

4. CRITICAL JUDGEMENTS AND ESTIMATES (Continued)

• Provision for Outstanding Claims, refer Note 6

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.

• Provision for Unearned Premium, refer Note 5

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 12

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 unearned premium. The actual costs incurred and their recoverability are reviewed annually and form part of the liability adequacy test performed by the Appointed Actuary. 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 13

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

	2015	2014
<u>Provision for Unearned Premium</u>	\$	\$
Balance at the start of the year	2,625,993	-
Premiums Written	8,440,482	2,940,713
Premiums In Advance	336,617	50,025
Premiums Earned	(3,394,235)	(364,745)
Balance as at 31 March	8,008,857	2,625,993
Current	3,882,604	221,691
Non-Current	4,126,253	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 Quantum 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 \$718,691 higher than the premium liabilities. Therefore it has passed the Liability Adequacy Test and deemed to be sufficient.

Provident Insurance Corporation Limited

Notes to the financial statements

6. CLAIMS AND OUTSTANDING CLAIMS

	2015 \$	2014 \$
Claims Incurred		
Claims Payments during year	1,033,650	92,699
Provision for outstanding claims in profit and loss	829,352	129,445
Total claims incurred for year ended 31 March	1,863,002	222,144
	2015 \$	2014 \$
Provision for outstanding claims		
Balance at the start of the year	129,445	-
Outstanding claims liability	829,352	129,445
Balance as at 31 March	958,797	129,445

Claims incurred relate to risks borne in the prior and current year.

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.

	Term (Months)	Outstanding Claims Payments	Claims Handling Expense	Risk Margin	Undiscounted Outstanding Claims Provision	Discount	Discounted Outstanding Claims Provision
	\$	\$	\$	\$	\$	\$	\$
31 March 2015							
All Products	12-48	561,907	56,191	185,429	803,527	(2,633)	800,894
31 March 2014							
All Products	12-48	58,165	5,817	19,194	83,176	(219)	82,957

Forward discount rates have been derived from the yields of New Zealand government bonds. Forward rates are used which indicate the The equivalent average single discount rate implicit in the insurance liabilities is 3.2% (31 March 2014: 3.73%) per annum as at 31 March 2015.

Adjustment for Outstanding Claims Provision

	31 March 2015 \$	31 March 2014 \$
Discounted Outstanding Claims Provision	800,894	82,957
Adjustment to achieve forced loss	157,903	46,488
Provision based on Forced Loss	958,797	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 on the balance of Provision for Outstanding Claims 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					
	2015			2014		
	-10%	No Change	+10%	-10%	No Change	+10%
Provision for Outstanding Claims	1,188,909	958,797	728,686	163,101	129,445	95,790

Provident Insurance Corporation Limited

Notes to the financial statements

7. ADMINISTRATION EXPENSES

	31 March 2015	31 March 2014
	\$	\$
Directors' fees	320,000	178,336
Depreciation	75,893	55,450
Amortised software	74,968	56,181
Audit of financial statements	35,000	20,000
Other assurance related services	2,500	4,780
Finance Lease Interest expense	390	499
Other expenses	1,671,037	1,620,027
Deferred Acquisition Costs	(799,355)	(420,159)
Total Administration expenses	1,380,433	1,515,114

Other assurance related services includes \$2,500 paid to the auditors for the review of RBNZ solvency return for 2015 and 2014 financial years. No other fees were paid to the auditors. During 2014 financial year 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 2015	31 March 2014
	\$	\$
Refunded POSM Premium	803	-
Surplus from Seminars	7,024	-
Interest Received - IRD	-	39
Profit on sale of Motor Vehicles	-	8,050
Total Other Income	7,827	8,089

9. CASH AND CASH EQUIVALENTS

	31 March 2015	31 March 2014
	\$	\$
Cheque Account	128,349	58,361
Call Account	748,546	243,080
Total Cash and Cash Equivalents	876,895	301,441

10. RECEIVABLES

	31 March 2015	31 March 2014
	\$	\$
Prepayments	27,851	1,110
Interest accrued - term deposits	210,797	75,202
Resident Withholding Tax	-	6,099
Total Receivables	238,648	82,411

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

11. INVESTMENTS

	\$	Term	Maturity	Interest Rate
31 March 2015				
Term Deposit - Lease Bond	69,000	365 days	5/07/2015	4.65%
Term Deposits	13,900,000	90 - 182 days	7/04/2015 - 17/08/2015	4.3% - 4.75%
	<u>13,969,000</u>			

31 March 2014

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%
	<u>10,402,229</u>			

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

	2015	2014
	\$	\$
Balance at the start of the year	420,159	-
Movement for the year	799,355	420,159
Balance as at 31 March	1,219,514	420,159
Current	591,207	35,471
Non-Current	628,307	384,688

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

Provident Insurance Corporation Limited

Notes to the financial statements

13. TAXATION

	31 March 2015	31 March 2014
	\$	\$
Components of tax credit		
Current tax expense	50	4,037
Adjustments to current tax in prior years	-	-
Deferred tax asset	(204,948)	(423,657)
Tax Credit	(204,898)	(419,620)

	31 March 2015	31 March 2014
	\$	\$
Relationship between tax credit and accounting loss		
Net loss before tax	(739,954)	(1,684,855)
Tax at 28%	(207,187)	(471,759)
<i>Plus (less) tax effect of:</i>		
Non-deductible expenditure	3,346	2,668
Imputation credit adjustment	-	4,037
Non-taxable income	-	(1,999)
Prior year adjustment	-	-
Tax Loss not Recognised	-	47,433
Deferred tax adjustment	(1,057)	-
Tax Credit	(204,898)	(419,620)

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 are no longer available to be carried forward for tax purposes.

Deferred tax asset

	Property, plant and equipment	Employee entitlements	Other provisions	Tax losses	Total
	\$	\$	\$	\$	\$
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
Charged to surplus or deficit	-	5,539	(140,017)	339,426	204,948
Charged to other comprehensive income	-	-	-	-	-
Balance at 31 March 2015	-	17,101	0	611,504	628,605

	31 March 2015
	\$
Expected to crystallise in the next 12 months	17,101
Not expected to crystallise in the next 12 months	611,504
	628,605

Provident Insurance Corporation Limited

Notes to the financial statements

14. PROPERTY, PLANT AND EQUIPMENT

Classification	Cost			Accumulated Depreciation			Book Value 31 March 2015 \$
	1 April 2014 \$	Additions \$	Disposals \$	31 March 2015 \$	Depreciation \$	31 March 2015 \$	
Computer Hardware & Equipment	20,240	6,095	-	26,335	7,570	14,834	11,501
Furniture & Fittings	9,590	1,013	-	10,603	1,685	2,514	8,089
Motor Vehicles	187,327	135,176	-	322,503	63,804	114,485	208,018
Office Equipment	5,499	-	-	5,499	1,319	3,005	2,494
Office Fit Out	16,376	-	-	16,376	1,515	2,743	13,633
Total	239,032	142,284	-	381,316	75,893	137,581	243,735

Classification	Cost			Accumulated Depreciation			Book Value 31 March 2014 \$
	1 April 2013 \$	Additions \$	Disposals \$	31 March 2014 \$	Depreciation \$	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	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	55,450	61,688	177,344

Provident Insurance Corporation Limited

Notes to the financial statements

15. INTANGIBLES - SOFTWARE

	Completed \$	Work in Progress \$	Total \$	Amortised \$	Net Book Value \$
31 March 2015					
Balance at 1 April 2014	241,853	-	241,853	(56,181)	185,672
Existing Software	-	-	-	(74,280)	
Additions	4,638	17,360	21,998	(688)	
Balance at 31 March 2015	246,491	17,360	263,851	(131,149)	132,702

	Completed \$	Work in Progress \$	Total \$	Amortised \$	Net Book Value \$
31 March 2014					
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

16. PAYABLES

	31 March 2015 \$	31 March 2014 \$
Trade Accounts Payable	431,754	317,380
Premiums held for Third Party	869	23,590
	432,623	340,970

All payables are at fair value.

Current	432,623	340,970
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.

	31 March 2015 \$	31 March 2014 \$
Finance Lease Liabilities		
Minimum Lease Payments	1,710	2,959
- Current	1,577	1,250
- Non-Current	133	1,709

18. OTHER PROVISIONS

	31 March 2015 \$	31 March 2014 \$
Employment Benefits	90,684	45,248
Legal and Other	77,064	514,686
	167,748	559,934
Current	167,748	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.

Provident Insurance Corporation Limited

Notes to the financial statements

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.

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 2014: 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 2015 there were no external borrowings. (31 March 2014: Nil)

Provident Insurance Corporation Limited

Notes to the financial statements

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.

	On Demand \$	0-3 Months \$	4-12 Months \$	1-3 Years \$	Total \$
31 March 2015					
Financial Assets					
Cash and cash equivalents	876,895	-	-	-	876,895
Term Deposits (Investments)	-	10,400,000	3,569,000	-	13,969,000
Receivables	574,186	-	-	-	574,186
	1,451,081	10,400,000	3,569,000	-	15,420,081
Financial Liabilities					
Accounts Payables	257,450	-	-	-	257,450
Other Liabilities	-	343	1,234	133	1,710
	257,450	343	1,234	133	259,160
31 March 2014					
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	-	11,083,069
Financial Liabilities					
Accounts Payables	198,352	-	-	-	198,352
Other Liabilities	-	294	956	1,709	2,959
	198,352	294	956	1,709	201,311

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 to medium term deposits (refer note 11). 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 2014: Nil)

Provident Insurance Corporation Limited

Notes to the financial statements

19. RISK MANAGEMENT (Continued)

The sensitivity analysis in respect to changes in interest rates as applied to Provision for Unearned Premium 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).

	Change in Interest Rates					
	-1.75%	2015 No Change	+1.75%	-1.75%	2014 No Change	+1.75%
	\$	\$	\$	\$	\$	\$
Provision for Unearned Premium	8,215,766	8,008,857	7,812,720	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 2015 \$	31 March 2014 \$
Fully paid up Capital	10,420,000	10,420,000
Unpaid Capital	-	-
Share Capital at 31 March	10,420,000	10,420,000
Represented by:		
Number of Shares	10,420,000	10,420,000

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. This rating was subsequently reconfirmed on 1 August 2014. 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.

Provident Insurance Corporation Limited

Notes to the financial statements

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 the end of the financial year required to meet the solvency standards is:

	31 March 2015	31 March 2014
	\$	\$
Actual Solvency Capital (ASC)	7,341,446	8,028,480
Minimum Solvency Capital (MSC)*	3,000,000	3,000,000
Solvency Margin	\$4,341,446	\$5,028,480

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

21. CASH GENERATED FROM OPERATIONS

Reconciliation of loss for the year to net cash flows from operating activities

	2015	2014
	\$	\$
Loss after tax for the year	(535,056)	(1,265,235)
Add/(less) non-cash items		
Depreciation of property, plant and equipment	75,892	55,450
Amortisation of software	74,968	56,181
Increase in capitalised costs	799,355	420,159
Increase in provision for outstanding claims	829,352	129,445
(Increase) in deferred tax	(204,898)	(419,620)
Increase/ (decrease) in provisions	(332,342)	559,934
	707,271	(463,686)
Add/(less) movements in working capital		
(Increase) in receivables	(129,496)	(370,557)
Increase in payables	114,374	331,582
Increase in short term investments	3,566,771	10,402,229
	3,551,649	10,363,254
Add/(less) other items classified as financing activities		
(Increase) in capital	-	(8,620,942)
Net cash inflow from operating activities	<u>4,258,920</u>	<u>1,278,626</u>

22. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2015 (31 March 2014: Nil).

23. CAPITAL COMMITMENTS

There were no capital commitments as at 31 March 2015 (31 March 2014: Nil).

24. SUBSEQUENT EVENTS

There have been no material events subsequent to 31 March 2015.



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 (the "Company") on pages 1 to 17, which comprise the statement of financial position as at 31 March 2015, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year 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 and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards 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). 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 are independent of the Company. Other than in our capacity as auditors and providers of other related assurance services, we have no relationship with, or interests in, the Company.



Independent Auditors' Report

Provident Insurance Corporation Limited

Opinion

In our opinion, the financial statements on pages 1 to 17 present fairly, in all material respects, the financial position of the Company as at 31 March 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state 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.

A handwritten signature in purple ink that reads 'Priewatehame Cooper'.

Chartered Accountants
26 June 2015

Auckland



17 July 2015

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 must 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 2015; 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 2015; and
- (h) No condition has been imposed under Section 21 (2)(c) as at 31 March 2015.

Yours sincerely

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