

**PROVIDENT INSURANCE CORPORATION LIMITED**

**Annual Report - 31 March 2016**



# **Provident Insurance Corporation Limited**

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# Provident Insurance Corporation Limited

## STATEMENT OF COMPREHENSIVE INCOME For Year Ended 31 March 2016

	Note	31-03-16 \$	31-03-15 \$
Gross Written Premium		12,542,289	8,440,482
Reinsurance Premiums (Outwards)		(19,297)	(6,710)
Unearned Premium	5	<u>(5,730,070)</u>	<u>(5,382,864)</u>
<b>Net Earned Premium</b>		6,792,922	3,050,908
<b>Net Claims Incurred</b>	6	(4,148,813)	(1,863,002)
Salaries		(1,513,845)	(1,109,673)
Administration Expenses	7	<u>(2,025,689)</u>	<u>(1,380,433)</u>
<b>Total Expenses</b>		(3,539,534)	(2,490,106)
<b>Underwriting Loss</b>		<u>(895,425)</u>	<u>(1,302,200)</u>
Revenue from Commission		55,082	1,230
Investment Income		740,219	553,189
Other income	8	<u>13,013</u>	<u>7,827</u>
<b>Operating Loss before Taxation</b>		(87,111)	(739,954)
Taxation Credit	13	<u>19,181</u>	<u>204,898</u>
<b>Net loss after Taxation</b>		<u>(67,930)</u>	<u>(535,056)</u>
Other Comprehensive Income		-	-
<b>TOTAL COMPREHENSIVE LOSS</b>		<u><u>(67,930)</u></u>	<u><u>(535,056)</u></u>

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

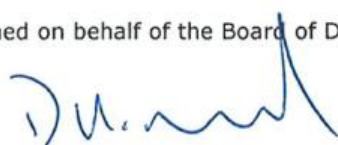
# Provident Insurance Corporation Limited


## STATEMENT OF FINANCIAL POSITION As at 31 March 2016

	Note	31-03-2016 \$	31-03-2015 \$
<b>ASSETS</b>			
Cash and Cash Equivalents	9	699,483	876,895
Premiums Outstanding		521,365	363,389
Receivables	10	505,363	238,648
Investments	11	21,200,000	13,969,000
Deferred Acquisition Costs	12	1,784,763	1,219,514
Deferred Tax Assets	13	647,786	628,605
Property, Plant and Equipment	14	317,182	243,735
Intangibles	15	231,032	132,702
<b>Total Assets</b>		<u>25,906,974</u>	<u>17,672,488</u>
<b>LIABILITIES</b>			
Payables	16	585,139	432,623
Finance Lease Obligation	17	244	1,710
Other Provisions	18	852,206	167,748
Provision for Outstanding Claims	6	2,695,635	958,797
Provision for Unearned Premium	5	<u>13,738,927</u>	<u>8,008,857</u>
<b>Total Liabilities</b>		<u>17,872,151</u>	<u>9,569,735</u>
<b>Net Assets</b>		<u>8,034,823</u>	<u>8,102,753</u>
<b>EQUITY</b>			
Share Capital	20	10,420,000	10,420,000
Retained Earnings		<u>(2,385,177)</u>	<u>(2,317,247)</u>
<b>Total Equity</b>		<u>8,034,823</u>	<u>8,102,753</u>

Approved for issue by the Board of Directors on 27 July 2016.

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 2016

	Share Capital \$	Retained Earnings \$	Total Equity \$
<b>2016</b>			
Balance at 1 April 2015	10,420,000	(2,317,247)	8,102,753
Total Comprehensive Loss for the year	-	(67,930)	(67,930)
Balance at 31 March 2016	<u>10,420,000</u>	<u>(2,385,177)</u>	<u>8,034,823</u>
<b>2015</b>			
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>

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 2016

	Note	31-03-16 \$	31-03-15 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premiums received		12,408,672	8,378,958
Interest received and Other Income		1,124,079	391,432
Claims paid		(2,408,535)	(1,033,650)
Operating expenses paid		(3,741,826)	(3,477,820)
<i>Net cash flows from operating activities</i>	21	<u>7,382,390</u>	<u>4,258,920</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(148,931)	(142,284)
Acquisition of Intangibles - Software		(178,405)	(20,678)
Payments under Finance Lease		(1,466)	(1,250)
Cash invested in term deposits		<u>(7,231,000)</u>	<u>(3,519,254)</u>
<i>Net cash flows from investing activities</i>		<u>(7,559,802)</u>	<u>(3,683,466)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<i>Net cash flows from financing activities</i>		<u>-</u>	<u>-</u>
Net movement in cash held		(177,412)	575,454
Cash and cash equivalents beginning of the year		<u>876,895</u>	<u>301,441</u>
<b>Cash and cash equivalents end of the year</b>	9	<u><u>699,483</u></u>	<u><u>876,895</u></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.

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company intends to adopt NZ IFRS 15 on its effective date and has yet to assess its full impact.

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers'. The Company intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.

These annual financial statements were approved by the Board of Directors on 27 July 2016.

### 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.

# Provident Insurance Corporation Limited

## Notes to the financial statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (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.



# Provident Insurance Corporation Limited

## Notes to the financial statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (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.

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.

# Provident Insurance Corporation Limited

## Notes to the financial statements

### 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 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 12% on the movement of unearned premium (2015: 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

	2016	2015
<u>Provision for Unearned Premium</u>	\$	\$
Balance at the start of the year	8,008,857	2,625,993
Premiums Written	12,542,289	8,440,482
Premiums in Advance	676,540	336,617
Premiums Earned	(7,488,759)	(3,394,235)
Balance as at 31 March	13,738,927	8,008,857
Current	7,184,930	3,882,604
Non-Current	6,553,997	4,126,253

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.

# Provident Insurance Corporation Limited

## Notes to the financial statements

### 5. PROVISION FOR UNEARNED PREMIUM AND LIABILITY ADEQUACY TEST (Continued)

#### 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 \$1,621,192 higher than the premium liabilities. Therefore it has passed the Liability Adequacy Test and deemed to be sufficient.

### 6. CLAIMS AND OUTSTANDING CLAIMS

	2016 \$	2015 \$
<b>Claims Incurred</b>		
Claims Payments during year	2,411,975	1,033,650
Provision for outstanding claims in profit and loss	1,736,838	829,352
<b>Total claims incurred for year ended 31 March</b>	<b>4,148,813</b>	<b>1,863,002</b>

	2016 \$	2015 \$
<b>Provision for outstanding claims</b>		
Balance at the start of the year	958,797	129,445
Outstanding claims liability	1,736,838	829,352
<b>Balance as at 31 March</b>	<b>2,695,635</b>	<b>958,797</b>

Claims incurred relate to risks borne in the prior and current year. Reinsurance & Other Recoveries are Nil for financial years 2016 and 2015.

#### 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
	\$	\$	\$	\$	\$	\$	\$
<b>31 March 2016</b>							
All Products	12-48	840,145	84,015	277,248	1,201,408	(2,542)	1,198,866
<b>31 March 2015</b>							
All Products	12-48	561,907	56,191	185,429	803,527	(2,633)	800,894

Forward discount rates have 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 2.04% (31 March 2015: 3.2%) per annum as at 31 March 2016.

#### Adjustment for Outstanding Claims Provision

	31 March 2016 \$	31 March 2015 \$
Discounted Outstanding Claims Provision	1,198,866	800,894
Adjustment to achieve forced loss	1,496,769	157,903
<b>Provision based on Forced Loss</b>	<b>2,695,635</b>	<b>958,797</b>

Management have adjusted the outstanding claims provision amount for a forced loss of 61% of net earned premiums (31 March 2015: 61%). 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.

# Provident Insurance Corporation Limited

## Notes to the financial statements

### 6. CLAIMS AND OUTSTANDING CLAIMS (Continued)

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.

	2016			Change in Initial Loss Ratio		
	-10%	No Change	+10%	-10%	No Change	+10%
Provision for Outstanding Claims	3,342,588	2,695,635	2,048,683	1,188,909	958,797	728,686

### 7. ADMINISTRATION EXPENSES

	31 March 2016	31 March 2015
	\$	\$
Directors' fees	309,997	320,000
Depreciation	78,267	75,893
Amortised software	79,874	74,968
Audit of financial statements	50,000	35,000
Other assurance related services	2,500	2,500
Finance Lease Interest expense	162	390
Other expenses	2,070,138	1,671,037
Deferred Acquisition Costs	(565,249)	(799,355)
<b>Total Administration expenses</b>	<b>2,025,689</b>	<b>1,380,433</b>

Other assurance related services includes \$2,500 paid to the auditors for the review of RBNZ solvency return for 2016 and 2015 financial years. No other fees were paid to the auditors.

### 8. OTHER INCOME

	31 March 2016	31 March 2015
	\$	\$
Refunded POSM Premium	-	803
Surplus from Seminars	13,013	7,024
<b>Total Other Income</b>	<b>13,013</b>	<b>7,827</b>

### 9. CASH AND CASH EQUIVALENTS

	31 March 2016	31 March 2015
	\$	\$
Cheque Account	285,695	128,349
Call Account	413,788	748,546
<b>Total Cash and Cash Equivalents</b>	<b>699,483</b>	<b>876,895</b>

### 10. RECEIVABLES

	31 March 2016	31 March 2015
	\$	\$
Prepayments	50,743	27,851
Interest accrued - term deposits	366,503	210,797
Other Receivables	88,117	-
<b>Total Receivables</b>	<b>505,363</b>	<b>238,648</b>

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

### 11. INVESTMENTS

	\$	Term	Maturity	Interest Rate
<b>31 March 2016</b>				
Term Deposit - Lease Bond	-	-	-	-
Term Deposits	21,200,000	90 - 549 days	02-04-16 - 11/08/2017	3.3% - 4.58%
	<u>21,200,000</u>			
<b>31 March 2015</b>				
Term Deposit - Lease Bond	69,000	365 days	05-07-15	4.65%
Term Deposits	13,900,000	90 - 182 days	07-04-15 - 17/08/2015	4.3% - 4.75%
	<u>13,969,000</u>			

The lease bond regarding the lease of the office premises was refunded on maturity in July 2015. Term deposits are held by AA- rated NZ Financial Institutions. The fair value of the investments approximates their carrying value.

### 12. DEFERRED ACQUISITION COSTS

	2016	2015
	\$	\$
Balance at the start of the year	1,219,514	420,159
Movement for the year	565,249	799,355
<b>Balance as at 31 March</b>	<b>1,784,763</b>	<b>1,219,514</b>
Current	933,362	591,207
Non-Current	851,401	628,307

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 2016	31 March 2015
	\$	\$
<b>Components of tax credit</b>		
Current tax expense	-	50
Deferred tax asset	(19,181)	(204,948)
<b>Tax Credit</b>	<b>(19,181)</b>	<b>(204,898)</b>

	31 March 2016	31 March 2015
	\$	\$
<b>Relationship between tax credit and accounting loss</b>		
Net loss before tax	(87,111)	(739,954)
Tax at 28%	(24,391)	(207,187)
Plus (less) tax effect of:		
Non-deductible expenditure	6,607	3,346
Deferred tax adjustment	(1,397)	(1,057)
<b>Tax Credit</b>	<b>(19,181)</b>	<b>(204,898)</b>

### Deferred tax asset

	Property, plant and equipment	Employee entitlements	Other provisions	Tax losses	Total
	\$	\$	\$	\$	\$
<b>Balance at 31 March 2014</b>	-	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	-	-	-	-	-
<b>Balance at 31 March 2015</b>	-	17,101	-	611,504	628,605
Charged to surplus or deficit	-	35,195	1,459	(17,473)	19,181
Charged to other comprehensive income	-	-	-	-	-
<b>Balance at 31 March 2016</b>	-	52,296	1,459	594,031	647,786

	31 March 2016	31 March 2015
	\$	\$
Expected to crystallise in the next 12 months	53,755	17,101
Not expected to crystallise in the next 12 months	594,031	611,504
	<b>647,786</b>	<b>628,605</b>

# Provident Insurance Corporation Limited

Notes to the financial statements

## 14. PROPERTY, PLANT AND EQUIPMENT

Classification	Cost				Accumulated Depreciation			Book Value 31 March 2016 \$
	1 April 2015 \$	Additions \$	Disposals \$	31 March 2016 \$	1 April 2015 \$	Disposals \$	Depreciation \$	31 March 2016 \$
Computer Hardware & Equipment	26,335	3,974	-	30,309	14,834	-	5,904	20,738
Furniture & Fittings	10,603	5,544	-	16,147	2,514	-	1,782	4,296
Motor Vehicles	322,503	142,195	-	464,698	114,485	-	68,375	182,860
Office Equipment	5,499	-	-	5,499	3,005	-	843	3,848
Office Fit Out	16,376	-	-	16,376	2,743	-	1,363	4,106
<b>Total</b>	<b>381,316</b>	<b>151,713</b>	<b>-</b>	<b>533,029</b>	<b>137,581</b>	<b>-</b>	<b>78,267</b>	<b>215,848</b>

Classification	Cost				Accumulated Depreciation			Book Value 31 March 2015 \$
	1 April 2014 \$	Additions \$	Disposals \$	31 March 2015 \$	1 April 2014 \$	Disposals \$	Depreciation \$	31 March 2015 \$
Computer Hardware & Equipment	20,240	6,095	-	26,335	7,264	-	7,570	14,834
Furniture & Fittings	9,590	1,013	-	10,603	829	-	1,685	2,514
Motor Vehicles	187,327	135,176	-	322,503	50,681	-	63,804	114,485
Office Equipment	5,499	-	-	5,499	1,686	-	1,319	3,005
Office Fit Out	16,376	-	-	16,376	1,228	-	1,515	2,743
<b>Total</b>	<b>239,032</b>	<b>142,284</b>	<b>-</b>	<b>381,316</b>	<b>61,688</b>	<b>-</b>	<b>75,893</b>	<b>137,581</b>

# Provident Insurance Corporation Limited

## Notes to the financial statements

### 15. INTANGIBLES - SOFTWARE

	Completed \$	Work in Progress \$	Total \$	Amortised \$	Net Book Value \$
<b>31 March 2016</b>					
Balance at 1 April 2015	246,491	17,360	263,851	(131,149)	132,702
Existing Software	-	-	-	(65,775)	
Work in progress completed	17,210	(17,210)	-	-	
Additions	112,977	65,227	178,204	(14,099)	
<b>Balance at 31 March 2016</b>	<b>376,678</b>	<b>65,377</b>	<b>442,055</b>	<b>(211,023)</b>	<b>231,032</b>

	Completed \$	Work in Progress \$	Total \$	Amortised \$	Net Book Value \$
<b>31 March 2015</b>					
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)	
<b>Balance at 31 March 2015</b>	<b>246,491</b>	<b>17,360</b>	<b>263,851</b>	<b>(131,149)</b>	<b>132,702</b>

### 16. PAYABLES

	31 March 2016 \$	31 March 2015 \$
Trade Accounts Payable	584,270	431,754
Premiums held for Third Party	869	869
	<b>585,139</b>	<b>432,623</b>

All payables are at fair value.

Current	585,139	432,623
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 2016 \$	31 March 2015 \$
Finance Lease Liabilities		
Minimum Lease Payments	244	1,710
- Current	244	1,577
- Non-Current	-	133

### 18. OTHER PROVISIONS

	31 March 2016 \$	31 March 2015 \$
Employment Benefits	160,478	90,684
Other	691,728	77,064
	<b>852,206</b>	<b>167,748</b>
Current	498,700	167,748
Non-Current	353,506	-

#### Employment Benefits

The provision includes salaries, commissions, bonuses and leave allowance.



# Provident Insurance Corporation Limited

## Notes to the financial statements

### 18. OTHER PROVISIONS (Continued)

#### 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.

Commission received from point of sale motor insurance is earned over the term of the policies. Any commission unearned is held in a provision for unearned commission.

### 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 2015: 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 2016 there were no external borrowings. (31 March 2015: 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 \$
<b>31 March 2016</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	699,483	-	-	-	699,483
Term Deposits (Investments)	-	2,700,000	12,900,000	5,600,000	21,200,000
Receivables	975,984	-	-	-	975,984
	1,675,467	2,700,000	12,900,000	5,600,000	22,875,467
<b>Financial Liabilities</b>					
Accounts Payables	304,889	-	-	-	304,889
Other Liabilities	-	244	-	-	244
	304,889	244	-	-	305,133
<b>31 March 2015</b>					
<b>Financial Assets</b>					
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
<b>Financial Liabilities</b>					
Accounts Payables	257,450	-	-	-	257,450
Other Liabilities	-	343	1,234	133	1,710
	257,450	343	1,234	133	259,160

Financial assets and liabilities are held at amortised cost. 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.

# Provident Insurance Corporation Limited

## Notes to the financial statements

### 19. RISK MANAGEMENT (Continued)

#### (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 2015: Nil)

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					
	2016			2015		
	-1.75%	No Change	+1.75%	-1.75%	No Change	+1.75%
	\$	\$	\$	\$	\$	\$
Provision for Unearned Premium	14,093,941	13,738,927	13,402,598	8,215,766	8,008,857	7,812,720

#### (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 2016 \$	31 March 2015 \$
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

#### (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 2015. 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 2016 \$	31 March 2015 \$
Actual Solvency Capital (ASC)	7,156,005	7,341,446
Minimum Solvency Capital (MSC)*	3,000,000	3,000,000
Solvency Margin	\$4,156,005	\$4,341,446
Solvency Ratio	2.39	2.45

\*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

	2016 \$	2015 \$
Loss after tax for the year	(67,930)	(535,056)
<b>Add/(less) non-cash items</b>		
Depreciation of property, plant and equipment	78,266	75,892
Amortisation of software	79,874	74,968
Increase in capitalised costs	565,249	799,355
Increase in provision for outstanding claims	1,736,838	829,352
(Increase) in deferred tax	(19,181)	(204,898)
Increase/ (decrease) in other provisions	171,679	(332,342)
	2,544,795	707,271
<b>Add/(less) movements in working capital</b>		
(Increase) in receivables	(424,692)	(129,496)
Increase in payables	152,516	114,374
Other changes in working capital	5,109,771	3,566,771
	4,837,595	3,551,649
<b>Net cash inflow from operating activities</b>	<b>7,382,390</b>	<b>4,258,920</b>

### 22. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2016 (31 March 2015: Nil).

### 23. CAPITAL COMMITMENTS

There were no capital commitments as at 31 March 2016 (31 March 2015: Nil).

### 24. SUBSEQUENT EVENTS

There have been no material events subsequent to 31 March 2016.



## ***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 2016 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 on behalf of the Company 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 and fair presentation of the financial statements 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.

### ***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 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.



## ***Independent Auditors' Report***

Provident Insurance Corporation Limited

### ***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.

*Priematehore Cooper*

Chartered Accountants  
27 July 2016

Auckland





27 July 2016

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 2016; 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 2016; and
- (h) No condition has been imposed under Section 21 (2)(c) as at 31 March 2016.

Yours sincerely

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