PROVIDENT INSURANCE CORPORATION LIMITED

Annual Report - 31 March 2017

Provident Insurance Corporation Limited

CONTENT

Provident Insurance Corporation Limited

STATEMENT OF COMPREHENSIVE INCOME
For Year Ended 31 March 2017

	Note	31/03/2017 $	31/03/2016 $
Gross Written Premium		18,324,484	12,542,289
Reinsurance Premiums (Outwards)		(37,253)	(19,297)
Unearned Premium	5	(7,144,452)	(5,730,070)
Net Earned Premium		11,142,779	6,792,922
Claims Incurred	6	(6,808,905)	(4,148,813)
Salaries		(1,690,751)	(1,513,845)
Administration Expenses	7	(3,199,410)	(2,025,689)
Total Expenses		(4,890,161)	(3,539,534)
Underwriting Loss		(556,287)	(895,425)
Revenue Earned from Commission		320,370	55,082
Investment income		964,714	740,219
Other income	8	26,454	13,013
Operating Profit/ (Loss) before Taxation		755,251	(87,111)
Taxation (Expense)/ Credit	13	(220,345)	19,181
Net Profit/ (Loss) after Taxation		534,906	(67,930)
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE INCOME/ (LOSS)		534,906	(67,930)

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 2017

	Note	31/03/2017 $	31/03/2016 $
ASSETS			
Cash and Cash Equivalents	9	472,859	699,483
Premiums Outstanding		604,654	521,365
Receivables	10	957,976	505,363
Investments	11	31,300,000	21,200,000
Deferred Acquisition Costs	12	1,980,666	1,784,763
Deferred Tax Assets	13	427,441	647,786
Property, Plant and Equipment	14	323,354	317,182
Intangibles	15	237,776	231,032
Total Assets		36,304,726	25,906,974
LIABILITIES			
Payables	16	560,022	585,139
Finance Lease Obligation	17	-	244
Other Provisions	18	1,481,018	852,206
Provision for Outstanding Claims	6	4,810,578	2,695,635
Provision for Unearned Premium	5	20,883,379	13,738,927
Total Liabilities		27,734,997	17,872,151
Net Assets		8,569,729	8,034,823
EQUITY			
Share Capital	20	10,420,000	10,420,000
Retained Earnings		(1,850,271)	(2,385,177)
Total Equity		8,569,729	8,034,823

Approved for issue by the Board of Directors on 27 July 2017.

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 2017

	Share Capital $	Retained Earnings $	Total Equity $
2017			
Balance at 1 April 2016	10,420,000	(2,385,177)	8,034,823
Total Comprehensive Income for the year	-	534,906	534,906
Balance at 31 March 2017	10,420,000	(1,850,271)	8,569,729
2016			
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	10,420,000	(2,385,177)	8,034,823

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 2017

	Note	31/03/2017 $	31/03/2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		18,244,719	12,408,672
Interest received and Other Income		1,331,624	1,124,079
Claims paid		(4,695,852)	(2,408,535)
Operating expenses paid		(4,782,789)	(3,741,826)
Net cash flows from operating activities	21	10,097,702	7,382,390
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(120,118)	(148,931)
Acquisition of Intangibles - Software		(103,948)	(178,405)
Payments under Finance Lease		(260)	(1,466)
Cash invested in term deposits (Net Movement)		(10,100,000)	(7,231,000)
Net cash flows from investing activities		(10,324,326)	(7,559,802)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash flows from financing activities		-	-
Net movement in cash held		(226,624)	(177,412)
Cash and cash equivalents beginning of the year		699,483	876,895
Cash and cash equivalents end of the year	9	472,859	699,483

The above statement of cash flows should be read in conjunction with the 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 and 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 are 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.

While the Company has yet to undertake a detailed assessment of the classification and measurement of financial assets and financial liabilities, the Company does not expect the new guidance to have a significant impact on the classification and meaurement of its financial assets and financial liabilities. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as in the case under NZ IAS 39. While the Company has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the model, it may result in an earlier and greater recognition of credit losses. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and the extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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. While the Company has yet to undertake a detailed assessment, the Company does not expected a significant impact from the adoption of the new standard.

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. The standard will affect the accounting for one of the Company's operating leases, with the asset (the right to use the leased asset) and the financial liability for rental payments both being recognised in the Statement of Financial Position. The Company has not yet determined to what is the impact on the Statement of Financial Position, and how this will affect the Company's Statement of Comprehensive Income and classification of cash flows.

2. BASIS OF PREPARATION (Continued)

New standards and interpretations not yet adopted (Continued)

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The standard is yet to be issued by the New Zealand Accounting Standards Board (NZASB). The Company intends to adopt NZ IFRS 17 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 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) PREMIUM REVENUE AND PROVISION FOR UNEARNED PREMIUM

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

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

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

(b) REINSURANCE

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

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

(c) CLAIMS AND PROVISION FOR OUTSTANDING CLAIMS

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

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

(d) LIABILITY ADEQUACY TEST

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

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

(e) COMMISSION INCOME

Point of Sale Motor Vehicle Insurance (POSM) commission income is recognised in the Statement of Comprehensive Income based on the income earned during the financial year. POSM commission not yet earned is recognised in the Statement of Financial Position as a provision for unearned commission.

(f) 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) 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.

(h) 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.

(i) 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 Statement of Comprehensive Income.

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.

(j) 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.

(k) 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.

(l) 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. The cash flows associated with term deposits are presented on a net movement basis in the Statement of Cash Flows. The Company considers that the knowledge of inflows and outflows is not essential to understanding the activities of the Company and it is considered appropriate to report only the net cash flows.

(m) 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.

(n) 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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.

(p) 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)

(q) 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)

(r) 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.

(s) 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.

(t) 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:

- **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.

4. CRITICAL JUDGEMENTS AND ESTIMATES (Continued)

• **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 10% on the movement of unearned premium, from 1 October 2016 (2016: 12% 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

Provision for Unearned Premium	**2017 $**	**2016 $**
Balance at the start of the year	13,738,927	8,008,857
Premiums Written	18,324,484	12,542,289
Premiums in Advance	1,152,626	676,540
Premiums Earned	(12,332,658)	(7,488,759)
Balance as at 31 March	20,883,379	13,738,927
Current	10,991,199	7,184,930
Non-Current	9,892,180	6,553,997

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

Liability Adequacy Test

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

If the unearned premium liability less related deferred acquisition costs exceeds the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate then the unearned premium liability is deemed to be sufficient. The risk margins applied to future claims were determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability using the same methodology as described above.

The net unearned premium less Deferred Acquisition Costs is $4.008m (2016: $1.62m) higher than the premium liabilities. Therefore it has passed the Liability Adequacy Test and is deemed to be sufficient.

6. CLAIMS AND OUTSTANDING CLAIMS

Claims Incurred	**2017 $**	**2016 $**
Claims Payments during year	4,693,962	2,411,975
Provision for outstanding claims	2,114,943	1,736,838
Total claims incurred for year ended 31 March	6,808,905	4,148,813

Provision for outstanding claims	**2017 $**	**2016 $**
Balance at the start of the year	2,695,635	958,797
Outstanding claims liability	2,114,943	1,736,838
Balance as at 31 March	4,810,578	2,695,635

Claims incurred relate to risks borne in the prior and current year. Reinsurance & Other Recoveries are Nil for financial years 2017 and 2016.

6. CLAIMS AND OUTSTANDING CLAIMS (Continued)

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

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

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

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

	Term (Months)	Outstanding Claims Payments $000's	Claims Handling Expense $000's	Risk Margin $000's	Undiscounted Outstanding Claims Provision $000's	Discount $000's	Discounted Outstanding Claims Provision $000's
31 March 2017							
All Products	12-48	2,015	201	665	2,881	(16)	2,865
31 March 2016							
All Products	12-48	840	84	277	1,201	(2)	1,199

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 2.19% (31 March 2016: 2.04%) per annum as at 31 March 2017.

Adjustment for Outstanding Claims Provision

	31 March 2017 $	31 March 2016 $
Discounted Outstanding Claims Provision	2,865,000	1,198,866
Adjustment to achieve forced loss	1,945,578	1,496,769
Provision based on Forced Loss	4,810,578	2,695,635

Management have adjusted the outstanding claims provision amount for a forced loss of 61% of net earned premiums (31 March 2016: 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.

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 income or loss and equity of the Company.

	Change in Initial Loss Ratio					
	2017			2016		
	-10%	No Change	+10%	-10%	No Change	+10%
Provision for Outstanding Claims	3,891,820	4,810,578	5,729,336	2,048,683	2,695,635	3,342,587

7. ADMINISTRATION EXPENSES

	31 March 2017 $	31 March 2016 $
Directors' fees	310,000	309,997
Depreciation	125,275	78,267
Amortised software	106,642	79,874
Audit of financial statements	60,000	50,000
Other assurance related services	2,500	2,500
Finance Lease Interest expense	22	162
Other expenses	2,790,874	2,070,138
Deferred Acquisition Costs	(195,903)	(565,249)
Total Administration expenses	3,199,410	2,025,689

Other assurance related services includes $2,500 paid to the auditors for the review of RBNZ solvency return for 2017 and 2016 financial years. Other fees were paid to the auditors for taxation advice amounting to $35,200 (2016: Nil).

8. OTHER INCOME

	31 March 2017 $	31 March 2016 $
Surplus from Seminars	26,454	13,013
Total Other Income	26,454	13,013

9. CASH AND CASH EQUIVALENTS

	31 March 2017 $	31 March 2016 $
Cheque Account	204,785	285,695
Call Account	268,074	413,788
Total Cash and Cash Equivalents	472,859	699,483

10. RECEIVABLES

	31 March 2017 $	31 March 2016 $
Prepayments	67,927	50,743
Interest accrued - term deposits	653,629	366,503
Other Receivables	236,420	88,117
Total Receivables	957,976	505,363

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

11. INVESTMENTS

	$	Term	Maturity	Interest Rate
31 March 2017				
Term Deposits	31,300,000	183 -730 days	7/04/2017 - 29/11/2018	3.25% - 4.00%
31 March 2016				
Term Deposits	21,200,000	90 -549 days	2/04/2016 - 11/08/2017	3.3% - 4.58%

Term deposits are held by AA- rated NZ Financial Institutions. The fair value of the investments approximates their carrying value.

12. DEFERRED ACQUISITION COSTS

	2017 $	2016 $
Balance at the start of the year	1,784,763	1,219,514
Movement for the year	195,903	565,249
Balance as at 31 March	1,980,666	1,784,763
Current	1,042,451	933,362
Non-Current	938,215	851,401

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

13. TAXATION

	31 March 2017 $	31 March 2016 $
Components of tax debit/ (credit)		
Current tax expense	-	-
Deferred tax asset	220,345	(19,181)
Tax Debit/ (Credit)	220,345	(19,181)

	31 March 2017 $	31 March 2016 $
Relationship between tax and accounting profit/(loss)		
Net Profit/ (loss) before tax	755,251	(87,111)
Tax at 28%	211,470	(24,391)
Plus (less) tax effect of:		
Non-deductible expenditure	8,875	6,607
Deferred tax adjustment	-	(1,397)
Tax Debit/ (Credit)	220,345	(19,181)

Deferred tax asset

	Property, plant and equipment $	Employee entitlements $	Other provisions $	Tax losses $	Total $
Balance at 31 March 2015	-	17,101	-	611,504	628,605
Charged to surplus or deficit	-	35,195	1,459	(17,473)	19,181
Charged to other comprehensive income	-	-	-	-	-
Balance at 31 March 2016	-	52,296	1,459	594,031	647,786
Charged to surplus or deficit	-	21,087	1,835	(243,267)	(220,345)
Charged to other comprehensive income	-	-	-	-	-
Balance at 31 March 2017	-	73,383	3,294	350,764	427,441

14. PROPERTY, PLANT AND EQUIPMENT

Classification	Cost				Accumulated Depreciation				Book Value
	1 April 2016 $	Additions $	Disposals $	31 March 2017 $	1 April 2016 $	Disposals $	Depreciation $	31 March 2017 $	31 March 2017 $
Computer Hardware & Equipment	30,309	11,044	-	41,353	20,738	-	7,965	28,703	12,650
Furniture & Fittings	16,147	7,073	-	23,220	4,296	-	2,780	7,076	16,144
Motor Vehicles	464,699	177,925	(168,617)	474,006	182,860	(104,023)	112,759	191,596	282,410
Office Equipment	5,499	-	-	5,499	3,848	-	544	4,392	1,107
Office Fit Out	16,376	-	-	16,376	4,106	-	1,227	5,333	11,043
Total	**533,030**	**196,042**	**(168,617)**	**560,454**	**215,848**	**(104,023)**	**125,275**	**237,100**	**323,354**

Classification	Cost				Accumulated Depreciation				Book Value
	1 April 2015 $	Additions $	Disposals $	31 March 2016 $	1 April 2015 $	Disposals $	Depreciation $	31 March 2016 $	31 March 2016 $
Computer Hardware & Equipment	26,335	3,974	-	30,309	14,834	-	5,904	20,738	9,571
Furniture & Fittings	10,603	5,544	-	16,147	2,514	-	1,782	4,296	11,851
Motor Vehicles	322,503	142,196	-	464,699	114,485	-	68,375	182,860	281,839
Office Equipment	5,499	-	-	5,499	3,005	-	843	3,848	1,651
Office Fit Out	16,376	-	-	16,376	2,743	-	1,363	4,106	12,270
Total	**381,316**	**151,714**	**-**	**533,030**	**137,581**	**-**	**78,267**	**215,848**	**317,182**

15. INTANGIBLES - SOFTWARE

31 March 2017	Completed $	Work in Progress $	Total $	Amortised $	Net Book Value $
Balance at 1 April 2016	376,678	65,377	442,055	(211,023)	231,032
Existing Software	-	-	-	(64,938)	
Work in progress completed	6,240	(6,240)	-	-	
Additions	88,306	25,080	113,386	(41,704)	
Balance at 31 March 2017	471,224	84,217	555,441	(317,665)	237,776

31 March 2016	Completed $	Work in Progress $	Total $	Amortised $	Net Book Value $
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)	
Balance at 31 March 2016	376,678	65,377	442,055	(211,023)	231,032

16. PAYABLES

	31 March 2017 $	31 March 2016 $
Trade Accounts Payable	560,022	584,270
Premiums held for Third Party	-	869
	560,022	585,139

All payables are at fair value.

Current	560,022	585,139
Non-Current	-	-

17. FINANCE LEASE OBLIGATION

The Company was leasing a Canon photocopier under a finance lease agreement. The 3 year lease term has ended and the ownership or title of the equipment has passed to the Company, i.e. lease to buy.

Finance Lease Liabilities	31 March 2017 $	31 March 2016 $
Minimum Lease Payments	-	244
- Current	-	244
- Non-Current	-	-

18. OTHER PROVISIONS

	31 March 2017 $	31 March 2016 $
Employment Benefits	241,149	160,478
Other	1,239,869	691,728
	1,481,018	852,206
Current	1,127,512	498,700
Non-Current	353,506	353,506

Employment Benefits

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

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 sales 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 comprehensive income 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 2016: 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 2017 there were no external borrowings. (31 March 2016: Nil)

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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 reporting date into the relevant maturity groupings based on the remaining period to the maturity date.

31 March 2017	On Demand $	0-3 Months $	4-12 Months $	1-3 Years $	Total $
Financial Assets					
Cash and cash equivalents	472,859	-	-	-	472,859
Term Deposits (Investments)	-	5,500,000	16,400,000	9,400,000	31,300,000
Receivables	1,494,703	-	-	-	1,494,703
	1,967,562	5,500,000	16,400,000	9,400,000	33,267,562
Financial Liabilities					
Accounts Payables	345,392	-	-	-	345,392
Other Liabilities	-	-	-	-	-
	345,392	-	-	-	345,392

31 March 2016	On Demand $	0-3 Months $	4-12 Months $	1-3 Years $	Total $
Financial Assets					
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
Financial Liabilities					
Accounts Payables	304,889	-	-	-	304,889
Other Liabilities	-	244	-	-	244
	304,889	244	-	-	305,133

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 reporting 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.

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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 2016: 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					
	2017			2016		
	-1.75%	No Change	+1.75%	-1.75%	No Change	+1.75%
	$	$	$	$	$	$
Provision for Unearned Premium	20,345,536	20,883,379	21,452,285	13,402,598	13,738,927	14,093,941

(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 2017	31 March 2016
	$	$
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 2016. The rating scale is:

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

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

20. CAPITAL MANAGEMENT (Continued)
(iii) Capital Management Plan and Solvency

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

Minimum Solvency Capital for the end of the financial year required to meet the solvency standards is:

	31 March 2017 $	31 March 2016 $
Actual Solvency Capital (ASC)	7,904,512	7,156,005
Minimum Solvency Capital (MSC)*	3,000,000	3,000,000
Solvency Margin	$4,904,512	$4,156,005
Solvency Ratio	2.63	2.39

*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

	2017 $	2016 $
Profit/ (Loss) after tax for the year	534,906	(67,930)
Add/(less) non-cash items		
Depreciation of property, plant and equipment	125,275	78,266
Amortisation of software	106,642	79,874
Increase in capitalised costs	195,903	565,249
Increase in provision for outstanding claims	2,114,942	1,736,838
Decrease/ (Increase) in deferred tax asset	220,345	(19,181)
(Decrease)/ Increase in other provisions	(336,746)	171,679
	2,961,267	2,544,795
Add/(less) movements in working capital		
(Increase) in receivables	(535,902)	(424,692)
(Decrease)/ Increase in payables	(24,248)	152,516
Other changes in working capital	7,696,585	5,109,771
	7,136,435	4,837,595
Net cash inflow from operating activities	10,097,702	7,382,390

22. CONTINGENT LIABILITIES

On 23 March 2017, the Company received a Notice of Proposed Adjustment (NOPA) from the Commissioner of Inland Revenue (IR). The Company has issued a Notice of Response rejecting the proposed adjustments and requesting for clarification over the calculation of proposed adjustments. The IR has acknowledged that certain elements should be excluded within its calculation, but does not have the information to make this adjustment and they are therefore included. The calculations were also performed by the IR at a point in time and would require adjustment beyond this point in time. Therefore, the Company does not currently have an accurate estimate of the maximum potential additional tax liability although it does not expect the worst case scenario to impact its ability to meet the regulatory solvency requirements. The Company is confident its tax treatment to which the assessment relates is correct based on independent tax advice. (31 March 2016: Nil)

23. CAPITAL COMMITMENTS
The company's four year property lease ends on 30 June 2017. The company has a right to another four year lease extension. This commitment amounted to $376,595 (31 March 2016: $106,015).

24. SUBSEQUENT EVENTS
There have been no material events subsequent to 31 March 2017.

Independent auditor's report

To the shareholders of Provident Insurance Corporation Limited

Provident Insurance Corporation Limited's financial statements comprise:

- the statement of financial position as at 31 March 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements of Provident Insurance Corporation Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 March 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Company in the areas of assurance services in relation to the solvency return and tax advice. The provision of these other services has not impaired our independence as auditor of the Company.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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.

The engagement partner on the audit resulting in this independent auditor's report is Karl Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 July 2017

Auckland

20 July 2017

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 Insurance (Prudential Supervision) Act 2010

Section 78 of the Insurance (Prudential Supervision) Act 2010 specifies those matters that much be addressed, namely;

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

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

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

(c) The scope and limitations of the review will be detailed in Part B Section 1 of the Financial Condition Report (**FCR**) as at 31 March 2017; 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 2017; and

(h) No condition has been imposed under Section 21 (2)(c) as at 31 March 2017.

Yours sincerely

Karl Marshall

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