To Whom It May Concern

RE: AMENDED FINANCIAL STATEMENTS

The Company has updated its solvency position and amended notes 19 (iii) and 26 to the Financial Statements for year ending 31 March 2019. The revised Financial Statements were reissued on 20 September 2019, along with the Audit report and Section 78 letter.

Yours faithfully

David Old
Chief Finance & Risk Officer

Takapuna Beach Centre, Level 1, 61 Hurstmere Road, Takapuna, Auckland 0622
PO Box 33 743, Takapuna, Auckland 0740
Phone 09 484 0078 Fax 09 486 8071

PROVIDENT INSURANCE CORPORATION LIMITED

Annual Report - 31 March 2019

CONTENT

STATEMENT OF COMPREHENSIVE INCOME
For Year Ended 31 March 2019

	Note	31/03/2019 $	31/03/2018 $
Gross Written Premium		35,479,513	21,449,040
Reinsurance Premiums (Outwards)		(360,725)	(55,428)
Unearned Premium	5	(6,912,426)	(6,114,087)
Net Earned Premium		28,206,362	15,279,525
Claims Incurred	9	(16,996,757)	(9,346,776)
Salaries		(3,142,211)	(2,109,344)
Administration Expenses	6	(7,682,125)	(4,080,427)
Total Expenses		(10,824,336)	(6,189,771)
Claim Recoveries		453,913	3,774
Underwriting profit/ (loss)		839,182	(253,248)
GST Provision	22	(2,948,833)	-
Revenue Earned from Commission		69,646	286,934
Share of profit from joint venture	25	64,327	-
Interest Income		1,539,671	1,276,254
Other income	7	264,981	619,433
Operating (Loss)/ Profit before Taxation		(171,026)	1,929,374
Taxation Benefit/(Expense)	13	105,647	(676,847)
Net (Loss)/ Profit after Taxation		(65,379)	1,252,526
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE INCOME		(65,379)	1,252,526

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

pwc

STATEMENT OF FINANCIAL POSITION
As at 31 March 2019

	Note	31/03/2019 $	31/03/2018 $
ASSETS			
Cash and Cash Equivalents	8	3,792,878	1,282,234
Financial assets at fair value through profit or loss	11	42,100,000	37,390,000
Premiums Receivable		2,873,725	1,445,746
Receivables	10	2,108,621	3,163,196
Current Tax Asset		3,611	-
Deferred Acquisition Costs	12	2,766,845	2,247,523
Investment in Joint Venture	25	689,265	-
Property, Plant and Equipment	14	468,332	408,260
Intangible Assets	15	3,473,082	532,830
Goodwill	15	1,363,983	-
Total Assets		59,640,342	46,469,789
LIABILITIES			
Payables	16	1,568,038	1,067,283
Current Tax Liabilities		-	236,063
Deferred Tax Liabilities	13	515,827	13,343
Other Provisions	17	3,653,692	1,663,582
Provision for Outstanding Claims	9	9,917,209	6,669,796
Provision for Unearned Premium	5	34,228,700	26,997,467
Total Liabilities		49,883,466	36,647,534
Net Assets		9,756,876	9,822,255
EQUITY			
Share Capital	19	10,420,000	10,420,000
Retained Earnings		(663,124)	(597,745)
Total Equity		9,756,876	9,822,255

Approved for reissue by the Board of Directors on 20 September 2019.

Signed on behalf of the Board of Directors.

D.H. [signature]

Director

[signature]

Director

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

pwc

STATEMENT OF CHANGES IN EQUITY
For Year Ended 31 March 2019

	Share Capital $	Retained Earnings $	Total Equity $
2019			
Balance at 1 April 2018	10,420,000	(597,745)	9,822,255
Total Comprehensive loss for the year	-	(65,379)	(65,379)
Balance at 31 March 2019	10,420,000	(663,124)	9,756,876
2018			
Balance at 1 April 2017	10,420,000	(1,850,271)	8,569,729
Total Comprehensive Income for the year	-	1,252,526	1,252,526
Balance at 31 March 2018	10,420,000	(597,745)	9,822,255

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

STATEMENT OF CASH FLOWS
For Year Ended 31 March 2019

	Note	31/03/2019 $	31/03/2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		34,075,220	20,739,631
Interest received		1,179,398	945,912
Other income		401,717	553,942
Claims paid		(15,745,242)	(7,487,558)
Operating expenses paid		(10,930,625)	(5,784,286)
Income tax paid		(236,063)	-
Net cash flows from operating activities	20	8,744,405	8,967,641
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		124,783	76,480
Acquisition of property, plant and equipment		(267,429)	(297,211)
Acquisition of Intangibles - Software		(1,045,897)	(382,535)
Payment for acquisition of Credit Union Insurance Ltd, net of cash acquired		289,720	(1,465,000)
Proceeds from term deposits		29,190,000	2,650,000
Cash invested in term deposits		(33,900,000)	(3,440,000)
Investment in Joint Venture		(624,938)	-
Net cash flows from investing activities		(6,233,761)	(8,158,266)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash flows from financing activities		-	-
Net movement in cash held		2,510,644	809,375
Cash and cash equivalents beginning of the year		1,282,234	472,859
Cash and cash equivalents end of the year	8	3,792,878	1,282,234

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

pwc

1. CORPORATE INFORMATION

REGISTERED OFFICE

Ground Floor, 67 - 73 Hurstmere Road, Takapuna, Auckland

Provident Insurance Corporation Limited (the Company) is a for-profit 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 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 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 for-profit entities. They also comply with International Financial Reporting Standards (IFRS).

New and amended standards adopted

The Company has adopted all mandatory new and amended standards and interpretations as follows:

NZ IFRS 9 replaces the provisions of NZ IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of NZ IFRS 9 'Financial Instruments' from 1 April 2018 has had no material impact on the Company's financial statements.

The Company has adopted NZ IFRS 15 Revenue from Contracts with Customers from 1 April 2018.

Revenue is recognised to be the amount of the transactional price when (or as) the performance of a contract is satisfied. The Company recognises revenue when it transfers control over a product or service to a customer. The adoption of NZ IFRS 15 'Revenue from Contracts with Customers' from 1 April 2018 has had no material impact on the Company's financial statements.

New standards and interpretations not yet adopted

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 Company has completed its review of all leases. The expected impact of the changes on Provident's financial statements is an increase to assets of approximately $2.2 m, and an increase to liabilities of approximately $2.2 m. This is based on lease commitments and discount rates at 31 March 2019. There will also be some impact on the pattern of expense recognition for leases, which is not expected to be material. The Company plans to use the Modified retrospective approach and make use of the practical expedients available for 'Leases with a short remaining term'.

NZ IFRS 17 Insurance Contracts is effective for periods beginning on or after 1 January 2021. The Company will apply the standard for the year ending 31 March 2022. The standard replaces the requirements in NZ IFRS 4, and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. The Company has commenced initial work to assess the impact of adopting NZ IFRS 17. Due to the complexity of the requirements within the standard the final impact may not be determined until global interpretations and regulatory responses to the new standard are developed. The International Accounting Standards Board (IASB) has recently issued for comment ED/2019/4 Amendments to IFRS 17. Any resulting amendments to the existing IFRS 17 are expected to be published in mid-2020.

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.

These annual financial statements were approved for reissue by the Board of Directors on 20 September 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) PREMIUM REVENUE AND PROVISION FOR UNEARNED PREMIUM

Gross Written Premium comprises amounts charged for insurance policies relating to Mechanical Breakdown Insurance (MBI), Credit Contract Indemnity (CCI), Loan Equity Insurance (GAP), Tyre & Rim (TAR), Extended Warranty (EXW), Material Damage (MDI), Loanminder (LM) and Motor Vehicle Insurance (MVI). 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 and in accordance with the reinsurance contract.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a business comprises the:

- fair values of the assets acquired and liabilities assumed
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the business.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

(d) CLAIMS AND PROVISION FOR OUTSTANDING CLAIMS

Claims incurred represents payments for claims and the movement in the Provision for Outstanding Claims. Claims incurred 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.

(e) 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 costs 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.

(f) REVENUE EARNED FROM COMMISSION

Commission income received on Motor Vehicle Insurance (MVI) polices is recognised in the Statement of Comprehensive Income based on the earning pattern of the underlining insurance policy. This commission income ceased in August 2018, due to the acquisition of Credit Union Insurance Limited. See note 24.

(g) INVESTMENT INCOME

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

(h) 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 at the reporting date. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(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 at 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. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of 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.

(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. Receivables and payables are stated inclusive of GST where 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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.

(j) CASH AND CASH EQUIVALENTS

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(k) RECEIVABLES

Receivables are recognised initially at fair value and subsequently at amortised cost, less provision for impairment. Premium receivables and other trade receivables are presented net of any allowance for credit losses and impairment.

(l) INVESTMENTS

Investments comprise assets held to back insurance liabilities (also referred to as technical reserves). Therefore this investment has been designated at fair value through profit or loss under NZ IFRS 9. 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 through Profit and Loss (FVPL). The cash flows associated with term deposits are presented on a gross basis in the Statement of 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

Reinsurance programmes are structured to adequately protect the solvency and capital position of the Company.

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. 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. Claim recoveries on claims expenses are recognised as revenue. Recoveries are measured as the present value of expected future receipts.

(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

Software and software work in progress are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Goodwill - see 3 (c) and 3 (t).

Intangibles are amortised using the following methods and rates.

- Internally generated software - 40% diminishing value (estimated useful life 4 years)
- Distribution Agreements - 10% straight line (estimated useful life 10 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) IMPAIRMENT OF ASSETS

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) INVESTMENTS IN JOINT VENTURES

(i) Joint ventures

Interests in joint ventures are accounted for using the equity method (see (ii) below), after initially being recognised at cost in the consolidated balance sheet.

(ii) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Company's share of the post-acquisition profits or losses of the investee in profit or loss. Any dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

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 9**

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 total outstanding claims provision also includes an additional risk margin to take into consideration the inherit uncertainty of the estimation process.

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 less deferred acquisition costs 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 between 6% - 20% on the movement of unearned premium - depending on the type of insurance product. The actual costs incurred and their recoverability are reviewed semi-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.

- **GST Dispute, refer Note 22**

Management has estimated the GST liability associated with the dispute with the Inland Revenue Department (IRD) for the period from 1 April 2014 to 31 May 2018 based on a notice from the IRD in relation to tax periods 1 April 2014 through to 30 November 2016 in relation to CCI and GAP product. The Company has started collecting GST on these products from 1 June 2018. Management has applied a life portion to the policy premiums for Credit Card Indemnity policies using 22.5% rate as agreed with the IRD. Further, management has also estimated the associated income tax refund due to overpaid income tax for these policies in prior periods.

- **Business Combinations, refer Note 24**

Management uses valuation techniques to determine the fair values of the various elements of a business combination. Judgement is used in the determination of the fair value of assets acquired and liabilities assumed, including the value of distribution agreement and goodwill arising on acquisition.

- **Software Development, refer Note 15**

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

5. PROVISION FOR UNEARNED PREMIUM AND LIABILITY ADEQUACY TEST

Provision for Unearned Premium	2019 $	2018 $
Balance at the start of the year	26,997,467	20,883,379
Opening Provision for new Co-op purchased business	532,624	-
Adjustments due to time payment invoicing	(213,817)	-
Premiums Written	35,479,513	21,449,040
Premiums Earned	(28,567,087)	(15,334,952)
Balance as at 31 March	34,228,700	26,997,467
Current	20,508,721	14,699,031
Non-Current	13,719,979	12,298,436

Some MBI warranties and MVI policies 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 (Adam Follington, The Quantum Group New Zealand PTY Ltd. He is a Fellow of both the Institute of Actuaries of Australia and the New Zealand Society of Actuaries) to determine whether the unearned premium liability, less deferred acquisition costs 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 $6.3m (2018: $6.5m) higher than the premium liabilities. Therefore it has passed the Liability Adequacy Test and is deemed to be sufficient.

	31 March 2019 $000	31 March 2018 $000
Central estimate	19,553	12,318
Claims Handling expenses	10%	10%
Policy handling expenses	4%	6%
Risk margin	14%	30%
Risk margin ($)	3,213	4,266
Discount	-2%	-3%

6. ADMINISTRATION EXPENSES

	31 March 2019 $	31 March 2018 $
Directors' fees	300,000	320,000
Depreciation	140,462	135,825
Amortised software	264,645	87,481
Audit of financial statements	122,575	61,285
Other fees paid to PwC	97,925	15,825
Sales & Marketing	3,017,801	1,522,718
Communication & IT	552,144	235,363
Professional Fees	2,392,363	1,180,437
Staff Expenses	375,029	308,243
Other expenses	938,504	480,107
Deferred Acquisition Costs	(519,322)	(266,857)
Total Administration expenses	7,682,125	4,080,427

Other fees paid to PwC includes:
- $5,425 (FY18: $2,575) for reasonable assurance over solvency return
- $45,000 (FY18: nil) for agreed-upon procedures relating to the financial information associated with the acquisition of Co-op Insurance
- $1,200 (FY18: 13,250) for tax advisory services
- $46,300 (FY18: nil) for executive reward advisory services.

7. OTHER INCOME

	31 March 2019 $	31 March 2018 $
MVI income	173,739	587,325
Surplus from Seminars	19,040	14,907
Other Sundry Income	72,202	17,201
Total Other Income	264,981	619,433

Other income is recognised on an accrual basis.

8. CASH AND CASH EQUIVALENTS

	31 March 2019 $	31 March 2018 $
Cheque Accounts	310,478	375,244
Call Account	982,400	906,990
Short term deposit	2,500,000	-
Total Cash and Cash Equivalents	3,792,878	1,282,234

pwc

9. CLAIMS AND OUTSTANDING CLAIMS

Claims Incurred

	2019 $	2018 $
Gross claims expense		
Amount relating to risks borne in the current year	17,358,122	8,949,716
Amount relating to reassessment of risks borne in previous reporting periods	(361,365)	397,060
Gross claims incurred	16,996,757	9,346,776
Reinsurance and other recoveries		
Amount relating to risks borne in the current year	453,913	3,774
Amount relating to reassessment of risks borne in previous reporting periods	-	-
Net claims incurred	16,542,844	9,343,002

Methodology and assumptions adopted by the Appointed Actuary in the calculation of total liability for outstanding claims

The estimation of provision for outstanding claims is based on multiple actuarial techniques that analyse experience, trends and other relevant factors utilising the Company's data, relevant industry data and general economic data. Methods undertaken will vary according to the class of business. Various methods are used to assist in setting the range of possible outcomes. The most appropriate method or a blend of methods is selected, taking into account the characteristics of the class and the extent of the development of each past accident period.

- Loss ratio of 25% for CCI, 40% for GAP, 50% - 70% for MBI policies depending on policy term, 65% - 105% for MVI policies depending on the types of vehicle, 60% for LM and 65% - 85% for TAR, MDI and EXW (2018: 35% for CCI, 40% for GAP and 50% - 70% for MBI policies depending on policy term)
- Discount rate of 1.47% (2018: 1.92%), derived from the yields of New Zealand government bonds
- Claims handling expenses of 8.5% for LM, 12.5% for MVI, 10% for other products (2018: 10%), determined based on expenses incurred
- Policy handling expenses of 4% (2018: 4%), determined based on expenses incurred
- Risk margin of 30% for LM, 10% for MVI and 15% for other products (2018: 30%), calculated to bring the probability of sufficiency to 75%

The liability is measured based on the advice of, valuations performed by, and under the direction of, the Appointed Actuary as at 31 March 2019. 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 2019							
All Products	12-60	6,121	614	930	7,665	(37)	7,628
31 March 2018							
All Products	12-60	2,438	244	805	3,486	(22)	3,465

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 1.47% (2018: 1.92%) per annum as at 31 March 2019.

Provision for outstanding claims

	2019 $	2018 $
Balance at the start of the year - 1 April	6,669,796	4,810,578
Increase in net claims incurred in current year	7,199,842	2,534,097
Movement in prior year claims provision	(7,012,013)	(2,546,021)
From acquisition of Co-op	1,995,898	-
Incurred claims recognised in profit or loss	16,996,757	9,346,776
Claim payments during the year	(15,933,071)	(7,475,634)
Closing balance	9,917,209	6,669,796

Management have adopted a conservative reserving method taking into account the characteristics of the class of business, management's industry knowledge and experience. Part of managements assessment takes into consideration the increasing costs of motor vehicle spare parts and the increasing complexity and therefore cost of repairs. Management determined the provision for outstanding claims at a level equivalent to a probability of sufficiency of 98%, which corresponds to holding a risk margin of 48%. In prior year, management adjusted the provision for outstanding claims for a forced loss ratio of 61% of net earned premiums, which increases the probability of sufficiency to 99%.

Claims are expected to be settled within one year.

An analysis in respect of the provision for outstanding claims as follows:

	2019 $	2018 $
Central estimate of expected present value of future payments for claims incurred	6,121,484	2,437,891
Claims handling expenses	614,112	243,789
Risk margin - actuarial	930,000	804,504
Risk margin - management	2,288,685	3,205,221
	9,954,281	6,691,405
Discount	(37,072)	(21,609)
Balance as at 31 March 2019	9,917,209	6,669,796

pwc

9. CLAIMS AND OUTSTANDING CLAIMS (continued)

Impact of changes in assumptions

The Company conduct sensitivity analyses to quantify the exposure to the risk of changes in the key underlying actuarial assumptions. A sensitivity analysis is conducted on each variable, whilst holding all other variables constant. The tables below describe how a change in each assumption will affect profit before tax. Sensitivity to the profit before tax based on the inflation rate was considered immaterial, and therefore not been shown in the table. There is no impact on reserves.

	Movement in variables 2019	2019 $000	2018 $000
Initial loss ratio	+5%	908	842
	-5%	(908)	(842)
Discount rate	+1%	(18)	(8)
	-1%	18	8
Claims handling expense	+1%	69	31
	-1%	(69)	(31)

10. RECEIVABLES

	31 March 2019 $	31 March 2018 $
Prepayments	177,128	1,535,225
Interest accrued - term deposits	1,344,245	983,971
Other Receivables	587,248	644,000
Total Receivables	2,108,621	3,163,196

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

11. FINANCIAL ASSETS

	$	Term	Maturity	Interest Rate
31 March 2019				
Term Deposits	42,100,000	270 - 731 days	16/07/2019 - 30/09/2020	3.40% - 4.06%
31 March 2018				
Term Deposits	37,390,000	240 - 731 days	19/04/2018 - 29/01/2020	3.48% - 4.06%

Term deposits are held by AA- rated NZ Financial Institutions.

12. DEFERRED ACQUISITION COSTS

	2019	2018
Balance at the start of the year	2,247,523	1,980,666
Movement for the year	519,322	266,857
Balance as at 31 March	2,766,845	2,247,523
Current	1,657,803	1,223,686
Non-Current	1,109,042	1,023,837

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

13. TAXATION

Components of tax

	31 March 2019	31 March 2018
Current tax expense	744,557	236,063
Adjustments to current tax in prior years	(748,168)	-
Deferred tax expense	(102,036)	440,784
Tax (Benefit)/ Expense	(105,647)	676,847

Relationship between tax and accounting profit

		31 March 2019	31 March 2018
Net (Loss)/Profit before tax		(171,027)	1,929,373
Tax at 28%		(47,888)	540,224
Plus (less) tax effect of:			
Non-deductible expenditure		755,853	89,191
Non-taxable income		(18,012)	-
Prior year adjustment	See note 22	(748,168)	-
Deferred Tax adjustment		(47,432)	47,432
Tax (Benefit)/ Debit		(105,647)	676,847

Deferred tax asset/(liability) reconciliation

	Prior Period Adjustment $	Employee entitlements $	Other provisions $	Intangible assets $	Tax losses $	Total $
Balance at 31 March 2017	-	73,383	3,294		350,764	427,441
Charged to surplus or deficit	(47,432)	(42,588)	-		- 350,764	- 440,784
Balance at 31 March 2018	(47,432)	30,795	3,294		-	(13,343)
Charged to surplus or deficit	47,432	34,363	20,241			102,036
Acquisition of Co-op	-	-	-	(604,520)	-	(604,520)
Balance at 31 March 2019	-	65,158	23,535	(604,520)	-	(515,827)

pwc

14. PROPERTY, PLANT AND EQUIPMENT

	Cost				Accumulated Depreciation				Book Value
Classification	1 April 2018 $	Additions $	Disposals $	31 March 2019 $	1 April 2018 $	Disposals $	Depreciation $	31 March 2019 $	31 March 2019 $
Computer Hardware & Equipment	74,978	35,272	-	110,250	42,167	-	26,058	68,225	42,025
Furniture & Fittings	40,020	8,260	-	48,280	10,376	-	5,787	16,163	32,117
Motor Vehicles	500,684	223,897	(177,781)	546,800	193,825	(110,886)	104,562	187,501	359,299
Office Equipment	5,499	-	-	5,499	4,748	-	235	4,983	516
Office Fit Out	46,144	-	-	46,144	7,949	-	3,820	11,769	34,375
Total	**667,325**	**267,429**	**(177,781)**	**756,973**	**259,065**	**(110,886)**	**140,462**	**288,641**	**468,332**

	Cost				Accumulated Depreciation				Book Value
Classification	1 April 2017 $	Additions $	Disposals $	31 March 2018 $	1 April 2017 $	Disposals $	Depreciation $	31 March 2018 $	31 March 2018 $
Computer Hardware & Equipment	41,353	34,494	(869)	74,978	28,703	(476)	13,940	42,167	32,811
Furniture & Fittings	23,220	16,800	-	40,020	7,076	-	3,300	10,376	29,644
Motor Vehicles	474,006	216,149	(189,471)	500,684	191,596	(113,384)	115,613	193,825	306,859
Office Equipment	5,499	-	-	5,499	4,392	-	356	4,748	751
Office Fit Out	16,376	29,768	-	46,144	5,333	-	2,616	7,949	38,195
Total	**560,454**	**297,211**	**(190,340)**	**667,325**	**237,100**	**(113,860)**	**135,825**	**259,065**	**408,260**

15. INTANGIBLES

31 March 2019	Distribution agreements $	Internally Developed Software Completed $	Internally Developed Software Work in Progress $	Total $
Opening net book amount	-	128,362	404,468	532,830
Work in progress completed	-	229,595	(229,595)	-
Additions	2,159,000	863,367	182,530	3,204,897
Amortisation charge	-	(264,645)	-	(264,645)
Balance at 31 March 2019	2,159,000	956,679	357,403	3,473,082

31 March 2018	Distribution agreements $	Internally Developed Software Completed $	Internally Developed Software Work in Progress $	Total $
Opening net book amount	-	153,559	84,217	237,776
Work in progress completed	-	37,020	(37,020)	-
Additions	-	25,264	357,271	382,535
Amortisation charge	-	(87,481)	-	(87,481)
Balance at 31 March 2018	-	128,362	404,468	532,830

(i) Goodwill

Goodwill is measured as described in notes 3 (c) and 3 (t). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Distribution agreements

Distribution agreements acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

Goodwill impairment test

The Company tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of the cash generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Management has determined that the goodwill is not impaired based on the key assumptions below:

Assumption	Approach used to determining values
Sales volume	10% annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
Budgeted gross margin	Based on past performance and management's expectations for the future.
Terminal value growth	2% is the expected the terminal value growth based on management's expectation of steady growth.
Return on Equity	14% is the expected return on equity based on similar insurer performances.

16. PAYABLES

	31 March 2019 $	31 March 2018 $
Trade Accounts Payable	1,568,038	1,067,283

All payables are at fair value.

Current	1,568,038	1,067,283
Non-Current	-	-

17. OTHER PROVISIONS

	31 March 2019 $	31 March 2018 $
Employment Benefits	232,708	90,793
Provision for IRD Settlement	2,948,833	-
Other	472,151	1,572,789
	3,653,692	1,663,582
Current	3,441,224	1,589,833
Non-Current	212,468	73,749

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

Provision for IRD Settlement
Provision for the payment of GST plus use of money interest and Crown court costs, from disputed court case with the Inland Revenue Department. See note 22 for details.

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.

18. 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 18 (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 2018: 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 2019 there were no external borrowings. (31 March 2018: Nil)

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

<u>31 March 2019</u>	On Demand $	0-3 Months $	4-12 Months $	1-3 Years $	Total $
Financial Liabilities					
Accounts Payables	1,296,717	-	-	-	1,296,717
	1,296,717	-	-	-	1,296,717

<u>31 March 2018</u>	On Demand $	0-3 Months $	4-12 Months $	1-3 Years $	Total $
Financial Liabilities					
Accounts Payables	765,145	-	-	-	765,145
	765,145	-	-	-	765,145

(E) Sensitivity analysis

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

(i) Interest rate

All investments of the Company are held by NZ financial institutions on short to medium term deposits (refer note 11). The term deposits have a fixed interest rate for a fixed term. Therefore, the impact at reporting date due to cash flow interest rate risk on the Company's on the Company's profit after tax and equity is Nil, with all other variables being at a constant. The Company has no significant exposure to fair value interest rate risk. (31 March 2018: Nil)

18. RISK MANAGEMENT (Continued)

(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.

19. CAPITAL MANAGEMENT

(i) Share Capital

	31 March 2019 $	31 March 2018 $
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

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

(ii) Financial Strength Rating

Provident Insurance Corporation Limited has a Financial Strength Rating of B as provided by rating agency AM Best on 12 July 2019. (2018: B++) 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.

(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 2019 $	31 March 2018 $
Actual Solvency Capital (ASC)	4,919,811	9,289,425
Minimum Solvency Capital (MSC)*	4,889,000	3,821,050
Solvency Margin	$30,811	$5,468,375
Solvency Ratio	1.01	2.43

*MSC has been calculated in accordance with RBNZ Solvency Standard for Non-Life Insurance Business.

On 4 September 2019, subsequent to filing the Company's solvency return, RBNZ has instructed the Company to revise the solvency return and the solvency disclosures in these financial statements. As disclosed in note 15 an intangible asset on distribution agreements has arisen as a result of the acquisition of Co-op Insurance which gave rise to a deferred tax liability of $604,520 and an equal amount of increase to goodwill (i.e. no effect of Net Assets). The Company, in conjunction with its appointed actuary, had originally calculated its solvency based on the exclusion of the distribution agreement intangible asset net of the deferred tax liability which has arisen as a result of the recognition of this intangible asset. RBNZ adjudged that the intangible asset net of the deferred tax liability was not consistent with the requirements of the Solvency Standard. In complying with the instructions of RBNZ the Company has revised its solvency deducting the total value of the intangible asset from its total equity to derive its revised Actual Solvency Capital.

The Company's Solvency margin becomes $30,811 (previously $547,000) with solvency ratio of 101% (previously 111%), following the revision to intangible assets and adjustment for deferred tax. Subsequently additional capital has been injected into the Company (note 26).

pwc

20. CASH GENERATED FROM OPERATIONS

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

	2019	2018
	$	$
Profit after tax for the year	(65,379)	1,252,526
Add/(less) non-cash items		
Depreciation of property, plant and equipment	140,462	135,825
Amortisation of software	264,645	87,481
Increase in capitalised costs	(577,209)	(266,857)
Increase in provision for outstanding claims	1,251,515	1,859,218
Increase in deferred tax asset	(102,036)	440,784
Profit from Joint Venture	(64,327)	-
(Decrease)/increase in other provisions	(1,204,050)	238,492
	(356,379)	3,747,469
Add/(less) movements in working capital		
Increase in receivables	(1,053,065)	(1,581,312)
Increase in payables	3,455,240	743,324
Other changes in working capital	6,698,609	6,058,160
	9,100,784	5,220,172
Net cash inflow from operating activities	8,744,405	8,967,641

21. KEY MANAGEMENT PERSONNEL

	2019	2018
	$	$
Short term employee benefits (including directors fees)	1,510,021	1,409,578
Directors consultancy fee	360,000	90,000
	1,870,021	1,499,578

Key Management Personnel (KMP) are those persons who have authority and responsibility for planning directing and controlling the activities of the Company, directly or indirectly. KMP include senior management who report to the Chief Executive and fees paid to a Director for consulting work over and above their remuneration as a Director.

22. GST PROVISION

On 8 May 2019 the Company received an unfavourable judgement from the High Court relating to an ongoing GST dispute for tax periods 1 April 2014 through to 31 March 2018. The Inland Revenue (IR) has assessed the amount relating to GST to be $1,315,703 (excluding use of money) for the tax periods 1 April 2014 through to 30 November 2016 only. The Company has estimated the potential liability for the tax periods 1 April 2014 through to 31 March 2019 to be $2,672,030 (excluding use of money). This has been fully provided for in the Statement of Comprehensive Income for the financial year ended 31 March 2019 since it is probable that the amount will be settled by the Company. The provision amount of $2,948,833 includes $276,803 use of money interest and expected legal costs in relation to the dispute. The Company is able to reassess its prior year tax returns to reduce its taxable income by $2,762,030. The tax benefit of this reassessment is $748,168. The Company has filed an appeal with the court and is awaiting a hearing date.

23. NON-CANCELLABLE OPERATING LEASES

The Company's property lease on its existing premises will end on 31 July 2019. The Company signed a five year lease on new premises, which has a five year extension, commencing from 1 August 2019. It is the intention of the Company to take up the five year extension.

Amounts due on operating leases fall due in the following periods:

	2019	2018
Not later then one year	215,926	224,633
Later than one year and not later than five years	1,119,203	-
Later than five years	1,613,977	-

24. BUSINESS COMBINATION

(i) Summary of acquisition

In December 2017 the Company signed a sale and purchase agreement and entered into a transitional arrangement with Credit Union Insurance Limited (trading as Co-op Insurance NZ) for the transfer of their existing non life insurance policies to the Company. An initial payment was agreed on the basis of economic benefit being provided to the Company over the eight month transition period which has been booked as other income. A final payment was made on 15 August 2018. On 23 July 2018, the Reserve Bank of New Zealand ("Reserve Bank") approved the transfer of the Credit Union Insurance Limited's in force non-life insurance business to the Company pursuant to S.49(1) of the Insurance (Prudential Supervision) Act 2010. The acquisition was completed on 1 August 2018. The acquisition aligns with the Company's strategy of building on organic growth with acquisitions of other businesses that build capability and scale in the integrated automotive financial services market.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration (no contingent consideration associated with the acquisition):

Cash paid	2,465,000

The identified assets acquired and liabilities assumed as a result of the acquisition are as follows:

	Fair Value
Premiums Outstanding	785,339
Cash	1,289,720
Provision for Unearned Premium	(532,624)
Provision for Outstanding Claims	(1,995,898)
Deferred tax liabilities	(604,520)
Distribution Agreements	2,159,000
Net identifiable assets	1,101,017
Add: Goodwill	1,363,983
Net assets acquired	2,465,000

The fair value of intangible assets represents the value of distribution agreements and in-force business acquired. The split of this is yet to be determined. The amount was determined by discounting future estimated cash flows by a risk adjusted weighted average cost of capital. All other assets and liabilities was determined using the fair value approach.

Goodwill of $1,363,983 is primarily related to growth expectations, expected future profitability and synergies arising from an extended distribution network and customer base.
There were no acquisitions in the year ended 31 March 2018.

(ii) Acquired receivables

The fair value of acquired trade receivables is $785,339. The gross contractual amount for trade receivables due is $785,339, all of which is expected to be collectible.

(iii) Revenue and profit contribution

As the acquired business was fully integrated into the existing business, it is not possible to separate the business generated from the acquired business from new and existing business. Management therefore consider it impracticable to be able to accurately separate the revenues and expenses, to determine the profit generated from the acquisition.

(iv) Acquisition-related costs

Acquisition-related costs of $65,657 are included in administrative expenses in Statement of Comprehensive Income and in operating cash flows in the Statement of Cash Flows.

25. Investment in joint venture

The Company purchased a one third share of an Auckland, New Zealand based insurance broker on 3 July 2018, with an effective date of 1 April 2018. The new entity will be operated by one of the other shareholders and the Company will earn commissions on any business referred to this broker. During the year ended 31 March 2019 no commission income was earned from the Joint Venture.

Set out below are the joint ventures of the Company as at 31 March 2019 which, in the opinion of the directors, are material to the Company. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Company.

Name of Entity	% of ownership 2019	% of ownership 2018	Nature of relationship	Measurement method	Carrying amount 2019	Carrying amount 2018
Rothbury Specialty Risks Ltd	33.33	-	Joint Venture	Equity method	689,265	-

Rothbury Specialty Risks Ltd is an insurance broker. It is a strategic investment for the Company which complements the services provided by the Company.

(A) Interest in joint venture

Commitments and contingent liabilities in respect of joint venture

	2019	2018
Commitments - joint venture		
Commitment to provide funding for Joint Venture capital commitments, if called	-	-

(B) Summarised financial information for joint venture

The tables below provide summarised financial information for those joint ventures that are material to the Company. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not the Company's share of those amounts.

Summarised balance sheet	**Rothbury Specialty Risks Ltd 2019**
Current assets	
Cash and cash equivalents	579,000
Other current assets	346,000
Total current assets	925,000
Non-current assets	2,090,000
Current liabilities	
Financial liabilities (excluding trade payables)	403,000
Other current liabilities	544,000
Total current liabilities	947,000
Net assets	**2,068,000**
Reconciliation to carrying amounts	
Opening net assets	1,875,000
Profit for period	193,000
Closing net assets	**2,068,000**
Share in %	33.33
Share	689,265
Carrying amount	**689,265**

Summarised statement of comprehensive income	**Rothbury Specialty Risks Ltd 2019**
Revenue	1,058,751
Interest income	1,279
Depreciation and amortisation	65,721
Interest expense	-
Other expenses	924,058
Income tax benefit	(122,749)
Profit from continuing operations	193,000
Profit for the period	193,000
Total comprehensive income	**193,000**
Share of Profits	64,327

pwc

26. SUBSEQUENT EVENTS

On 10 July 2019, the Board resolved to approve a pro rata offer of up to 378,786 ordinary shares at an offer price of $5.28 per new share. As at 31 July 2019 the allotment of new shares had been fully subscribed and will be issued as $2,000,000 fully paid up shares.

On 5 August 2019, an additional $1,999,990 of new capital was injected into the Company.

Independent auditor's report

To the shareholders of Provident Insurance Corporation Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- 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 accompanying 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 2019, 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 Company's solvency return, agreed upon procedures in relation to the financial information associated with the acquisition of Co-op Insurance's non-life insurance business, advisory services in relation to the review of a draft statement of position prepared for the GST dispute, advisory services in relation to executive remuneration and advisory services in relation to the tax implications of a potential share transaction. Partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company.

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $354,000, which represents 1% of gross written premium.

We chose gross written premium as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Company, is not as volatile as other profit and loss measures, and is a generally accepted benchmark for general insurers. The 1% is based on our professional judgement, noting that it is also within the range of commonly accepted revenue related thresholds.

We have determined that there are two key audit matters:

- Valuation of provisions for outstanding claims
- Accounting for the acquisition of Co-op Insurance's non-life insurance business

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter

Valuation of provisions for outstanding claims
 	
2019: $9,917,209, 2018:$6,669,796
 	
We considered the valuation of provisions for outstanding claims a key audit matter because of the complexity involved in the estimation process and the significant judgements that management make in determining the balance.
 	
In particular, judgement arises over the estimation of claims that have been incurred at the reporting date but have not yet been reported to the Company, as there is generally less information available in relation to these claims, and claims that have been reported but there is uncertainty over the amount which will be settled.
 	
To ensure the calculated amount sufficiently allows for the inherent uncertainty in the central estimate of future claims, management based the calculated amount on estimates determined by an external independent actuary using key actuarial assumptions including the discount rates, loss ratios, claims handling expenses and risk margins. Based on the characteristics of the class of business underwritten, management industry knowledge and experience, management determined the provision for outstanding claims at a level equivalent to a probability of sufficiency of 98% in determining the risk margin. The estimation process also relies on the quality of the underlying data.
 	
Refer to the following notes in the Company's financial statements: Note 3(d) for related accounting policies, Note 4 for critical judgements and estimates and Note 9.
	Our audit procedures included:
	
	• Considering the work and findings of the external independent actuary engaged by the Company together with our actuarial experts. Our work included:
	  ○ Assessing the reasonableness of the key actuarial assumptions including the discount rates, forced loss ratios, claims handling expenses and risk margins against past experience, market observable data (as applicable) and our experience of market practice;
	  ○ Evaluating the actuarial models and methodologies used by the external independent actuary by comparing with general accepted models and methodologies applied in the industry; and
	  ○ Evaluating the risk margin which brings the probability of sufficiency to 98%.
	
	Historical claims data is a key input to the actuarial estimates. Accordingly, we:
	
	• Evaluated the design effectiveness and tested the operating effectiveness of controls over the claims process;
	• Re-performed premiums and claims data reconciliations;
	• Inspected a sample of claims paid during the year to confirm they were supported by appropriate documentation and approved within delegated authority limits.
	
	We have no matters to report from the procedures performed.

Key audit matter	How our audit addressed the key audit matter
Accounting for the acquisition of Co-op Insurance's non-life insurance business We considered the accounting of the Company's acquisition of Co-op Insurance's non-life insurance business a key audit matter due to the subjectivity and complexity inherent in business acquisitions. Management has completed a process to allocate the purchase price to identifiable assets and liabilities, and intangible assets - relating to distribution agreements. The excess of the fair value of the consideration paid and the assets and liabilities acquired gives rise to goodwill. This process involves estimation and judgement by management on the following: • The identification of premiums outstanding and the determination of their acquisition-date fair values; • The identification of unearned premiums and provision for outstanding claims assumed and determination of their acquisition-date fair values; and • The valuation of distribution agreements using a discounted cash flow forecasts model. Refer to the following notes in the Company's financial statements: Note 3(c) for related accounting policies, Note 4 for critical judgements and estimates and Note 24.	Our audit procedures included: • Reading the sale and purchase agreement to understand the key terms and conditions, and confirming our understanding of the transaction with management; • Evaluating the assets and liabilities identified in the acquisition accounting against the terms of the sale and purchase agreement; • For premiums outstanding acquired, unearned premiums and provision for outstanding claims assumed, evaluating their acquisition-date fair values against the requirements of NZ IFRS 4 *Insurance Contracts* based on supporting information provided from Co-op Insurance to management; • For the fair value attributed to the distribution agreements, engaging our internal valuation experts to independently develop an expectation of the fair values associated with the acquired identifiable intangible assets, including the distribution agreements, based on our understanding of the transaction and other market observable transactions; and • Reviewed the disclosure associated with the acquisition within the financial statements for compliance with accounting standards. We have no matters to report from the procedures performed.

Emphasis of matter

We draw attention to Note 19(iii) of the financial statements, which describes the effect on the financial statements of a revision made to the solvency return filed on 31 July 2019 in response to the instructions from the Reserve Bank of New Zealand. As stated in the Statement of Financial Position, the financial statements were therefore amended and re-issued on 20 September 2019. This opinion replaces our independent auditor's opinion on the financial statements for the year ended 31 March 2019 issued on 31 July 2019. Our opinion is not modified in respect of this matter.

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 and will not express any form of assurance conclusion on the other information. At the time of our audit, the Directors have advised that no other information will be included in the annual report.

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-2/

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
20 September 2019

Auckland

20 September 2019

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 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 are detailed in Part B Section 1 of the Financial Condition Report (FCR) as at 31 March 2019; 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 2019; and

h. No condition has been imposed under Section 21 (2)(c) as at 31 March 2019.

Kind regards,

Adam Follington
Appointed Actuary, Provident Insurance Corporation Ltd
Fellow of the New Zealand Society of Actuaries
Tel: +64 2 1271 5667