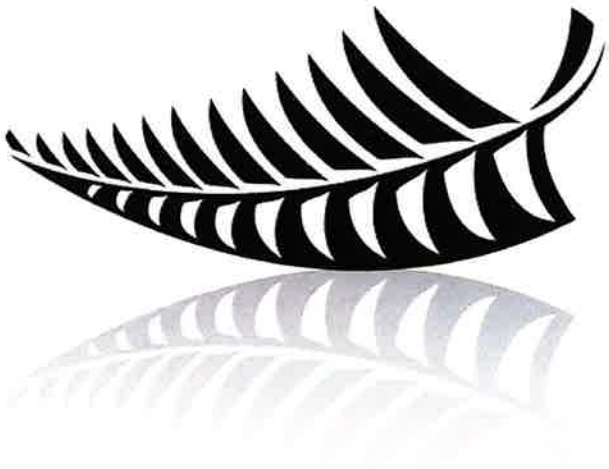
provident insurance

PROVIDENT INSURANCE CORPORATION LIMITED

FINANCIAL STATEMENTS
31 March 2020



CONTENT

STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 March 2020

	Note	31/03/2020	31/03/2019
		$	$
Gross Written Premium		42,338,266	35,479,513
Reinsurance Premiums (Outwards)		(653,280)	(360,725)
Unearned Premium		(3,184,588)	(6,912,426)
Net Earned Premium		38,500,398	28,206,362
Claims Incurred	9	(27,453,085)	(16,996,757)
Salaries		(3,725,857)	(3,142,211)
Administration Expenses	6	(10,751,695)	(7,682,125)
Total Expenses		(14,477,552)	(10,824,336)
Claim Recoveries	9	1,200,053	453,913
Underwriting (Loss) / Profit		(2,230,186)	839,182
GST Provision	23	1,088,578	(2,948,833)
Revenue Earned from Commission		-	69,646
Share of profit from joint venture	25	11,613	64,327
Interest Income		1,626,408	1,539,671
Other income	7	135,468	264,981
Operating Profit / (Loss) before Taxation		631,881	(171,026)
Taxation (Expense) / Benefit	13	(278,036)	105,647
Net Profit / (Loss) after Taxation		353,845	(65,379)
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE INCOME / (LOSS)		353,845	(65,379)

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The above Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements.

STATEMENT OF FINANCIAL POSITION
As At 31 March 2020

	Note	31/03/2020	31/03/2019
		$	$
ASSETS			
Cash and Cash Equivalents	8	2,721,464	3,792,878
Financial assets at fair value through profit or loss	11	47,500,000	42,100,000
Premiums Receivable		1,730,206	2,873,725
Receivables	10	2,773,830	2,108,621
Deferred Acquisition Costs	12	3,535,430	2,766,845
Investment in Joint Venture	25	700,877	689,265
Property, Plant and Equipment	14	481,956	468,332
Intangible Assets	16	2,351,085	3,473,082
Goodwill	16	1,524,775	1,363,983
Right of Use Assets	15	1,548,265	-
Total Assets		64,867,888	59,636,731
LIABILITIES			
Payables	17	1,167,326	1,568,038
Current Tax Liabilities		162,476	(3,611)
Deferred Tax Liabilities	13	287,751	515,827
Other Provisions	18	721,890	3,653,692
Provision for Outstanding Claims	9	11,231,000	9,917,209
Provision for Unearned Premium	5	37,627,105	34,228,700
Lease Liabilities	15	1,559,629	-
Total Liabilities		52,757,177	49,879,855
Net Assets		12,110,711	9,756,876
EQUITY			
Share Capital	20	12,419,990	10,420,000
Retained Earnings		(309,279)	(663,124)
Total Equity		12,110,711	9,756,876

Approved for issue by the Board of Directors on 5 August 2020.

Signed on behalf of the Board of Directors.

D Randell
Director

D McKinstry
Director

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The above Statement of Financial Position should be read in conjunction with the notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 March 2020

	NOTE	Share Capital $	Retained Earnings $	Total Equity $
2020				
Balance at 1 April 2019		10,420,000	(663,124)	9,756,876
Increase in Share Capital	20	1,999,990	-	1,999,990
Total Comprehensive Income for the year		-	353,845	353,845
Balance at 31 March 2020		12,419,990	(309,279)	12,110,711
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

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The above Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

STATEMENT OF CASH FLOWS
For the Year Ended 31 March 2020

	Note	31/03/2020	31/03/2019
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		43,265,289	34,075,220
Interest received		1,587,690	1,179,398
Other income		1,207,086	401,717
Claims paid		(26,439,294)	(15,745,242)
Operating expenses paid		(16,451,209)	(10,930,625)
Income tax paid		(334,422)	(236,063)
Net cash flows from operating activities	21	2,835,140	8,744,405
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		123,198	124,783
Acquisition of property, plant and equipment	14	(292,262)	(267,429)
Acquisition of Intangibles - Software	16	(176,971)	(1,045,897)
Payment for acquisition of Credit Union Insurance Ltd, net of cash acquired / Goodwill		-	289,720
Proceeds from term deposits		40,400,000	29,190,000
Cash invested in term deposits		(45,800,000)	(33,900,000)
Investment in Joint Venture		-	(624,938)
Net cash flows from investing activities		(5,746,035)	(6,233,761)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuing share capital	20	1,999,990	-
Principal Elements for Lease Payments		(50,685)	-
Interest Paid on Lease Liabilities		(109,824)	-
Net cash flows from financing activities		1,839,481	-
Net movement in cash held		(1,071,414)	2,510,644
Cash and cash equivalents beginning of the year		3,792,878	1,282,234
Cash and cash equivalents end of the year	8	2,721,464	3,792,878

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The above Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

1. CORPORATE INFORMATION

REGISTERED OFFICE

Level 1, 61 Hurstmere Road, Takapuna, Auckland, 0622

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.

The address for the registered office has been changed effective from 1 August 2019.

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:

The Company has adopted NZ IFRS 16 Leases retrospectively from 1 April 2019.

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 Statement of Financial Position") and an operating lease ("off Statement of Financial Position"). 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.

Detailed information pertaining adoption of NZ IFRS 16 is explained in note 3(q) and note 15.

New standards and interpretations not yet adopted

NZ IFRS 17 Insurance Contracts is expected to be effective for periods beginning on or after 1 January 2023. The Company will apply the standard for the year ending 31 March 2024. 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. On 25 June 2020, the International Accounting Standards Board (IASB) has issued amendments to IFRS 17 Insurance Contracts (published on 26 June 2019).

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 issue by the Board of Directors on 5 August 2020.

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.

(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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

(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 could 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)

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) LEASES

As indicated in note 2(b), the Company has adopted NZ IFRS 16 Leases retrospectively from 1 April 2019.

The Company has elected using the modified retrospective approach for adopting NZ IFRS 16, therefore has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new lease standards are therefore recognised in the opening Statement of Financial Position on 1 April 2019.

On Adoption of NZ IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of the commencement date of each lease agreement. The weighted average lessee's incremental borrowing rate applied to the lease liabilities was 11.16%.

For leases previously classified as 'finance leases', the Company has reviewed and concluded there was no finance leases to be recognised as a result of the adoption of NZ IFRS 16.

(i) Practical Expedients Applied

In applying NZ IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 April 2019.
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases.
- Excluding initial direct costs for the measurement of the Right of Use Asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application, Instead, for contracts entered into before the transition date the Company relied on its assessment made applying NZ IAS 17 and NZ IFRIC 4 Determining whether an Arrangement contains a Lease.

For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for lease of low-value assets, the Company has applied the optional exemptions to not recognise Right of Use Assets but to account for the lease expense on a straight line basis over the remaining lease term.

(ii) Measurement of Lease Liabilities

The following is a reconciliation of total operating lease commitments at 31 March 2019 to the lease liabilities recognised at 1 April 2019:

	$	$
Total operating lease commitments disclosed at 31 March 2019		**2,949,106**
Less Adjustment for operating lease commitment commencing 1 August 2019		(2,908,970)
Total operating lease commitments for lease liability recognition under NZ IFRS 16		**40,136**
Recognition Exemptions:		
- Leases of Low Value Assets	-	
- Leases with remaining lease term of less than 12 months	(40,136)	
		(40,136)
Operating lease liabilities before discounting		-
Discounted using incremental borrowing rate		-
Operating lease liabilities		-
Reasonably certain extension options		-
Total Lease Liability recognised under NZ IFRS 16 at 1 April 2019		-
Of Which are:		
- Current Lease Liabilities		-
- Non-Current Lease Liabilities		-
		-

(iii) Measurement of Right of Use Assets

The Company has elected to measure the Right of Use Assets at an amount equal to the lease liabilities adjusted for any prepaid or accrued lease prepayments that existed at the date of transitions.

(iv) Adjustments recognised in the Statement of Financial Position on 1 April 2019

The change in accounting policy had nil impact in the Statement of Financial Position and on retained earnings as of 1 April 2019.

(v) Lessor Accounting

The Company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of NZ IFRS 16 as of 1 April 2019.

(r) 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 (u).

Intangibles are amortised using the following methods and rates:

- Internally generated software - 40% diminishing value (estimated useful life 4 years)
- Distribution Agreements - Management has identified the following intangible assets are arising from the Distribution agreement, and has determined the amortisation methods and rates for each intangible asset as per below:

Identified Intangible Assets	Methods	Rates
Carminder - Credit Unions Relationships	Straight Line	8%
Loanminder - Credit Union Relationships	Straight Line	100%
Carminder - Value of Business Acquired	Straight Line	10%
Carminder - Renewal Rights	Straight Line	10%
Loanminder - Renewable Rights	Straight Line	25%
Trademarks	Straight Line	50%

(s) 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.

(t) 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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.

(v) 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 Statement of Financial Position.

(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 23**

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 26**

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 16**

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.

- **Distribution agreements, refer Note 16**

Management has applied various valuation techniques to allocate the puchase price in acquiring the non-life insurance policies of Co-op Insurance from Credit Union Insurance Limited.

Management has accounted for identifiable assets and liabilities at their fair value as at the acquisition date, and therefore allocated the purchase price between tangible assets, identifiable intangible assets and goodwill.

Management has seperated identifiable intangible assets from goodwill when the following criteria are met:

- It is able to identify as a separate intangible asset arising from the Sales and Purchase Agreement between the Company and Co-op Insurance from Credit Union Insurance Limited ("Distribution Agreement")
- Company has control over the intangible assets as a result of the Distribution Agreement
- It can be demonstrated how the intangible assets will generate probable future economic benefits arising from the Distribution Agreement

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4. CRITICAL JUDGEMENTS AND ESTIMATES (Continued)

- **Leases, refer Note 15**

The Company has adopted the new leasing standard as of 1 April 2019 where the Company is the lessee. The impact of the adoption is explained in note 3(q).

Until 31 March 2019, Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease. The Company leases contained property, plant and equipment.

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment was allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, were included in other long-term payables. The interest element of the finance cost was charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the shorter of the useful life of the asset and the lease term.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the Statement of Financial Position based on their nature. The Company had nothing to recognise for finance lease upon adopting the new leasing standard, therefore did not need to make any adjustments to the accounting for assets held as lessor.

5. PROVISION FOR UNEARNED PREMIUM AND LIABILITY ADEQUACY TEST

	31 March 2020	31 March 2019
Provision for Unearned Premium	$	$
Balance at the start of the year	34,228,700	26,997,467
Opening Provision for new Co-op purchased business	-	532,624
Adjustments due to time payment invoicing	213,817	(213,817)
Premiums Written	42,338,266	35,479,513
Premiums Earned	(39,153,678)	(28,567,087)
Balance as at 31 March	37,627,105	34,228,700
Current	22,799,568	20,508,721
Non-Current	14,827,537	13,719,979

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. As disclosed in Note 9, the Company calculated the provision for outstanding claims at a level equivalent to probability of sufficiency of 95% currently.

The net unearned premium less Deferred Acquisition Costs is higher than the premium liabilities. Therefore it has passed the Liability Adequacy Test and is deemed to be sufficient.

	31 March 2020	31 March 2019
	$	$
Central estimate	22,322,000	19,553,000
Claims Handling expenses	13%	10%
Policy handling expenses	4%	4%
Risk margin	15%	14%
Risk margin ($)	4,990,000	3,213,000
Discount	-1%	-2%

6. ADMINISTRATION EXPENSES

		31 March 2020	31 March 2019
		$	$
Directors' fees		307,500	300,000
Depreciation - Property, Plant and Equipment	Note 14	177,241	140,462
Depreciation - Right of Use Assets		113,815	-
Amortised software/Intangible Assets		1,147,868	264,645
Audit of financial statements *		286,905	122,575
Other Assurance services paid to PwC for Solvency Return		8,320	8,000
Other fees paid to PwC *		25,475	89,925
Sales & Marketing		4,058,253	3,017,801
Communication & IT		1,159,362	552,144
Professional Fees		1,568,179	2,392,363
Fees associated with Potential Capital Event and other projects		576,042	-
Staff Expenses		297,163	375,029
Other expenses		1,794,157	938,503
Deferred Acquisition Costs		(768,585)	(519,322)
Total Administration expenses		10,751,695	7,682,125

Other fees paid to PwC includes:
- $nil (FY19: $45,000) for agreed-upon procedures relating to the financial information associated with the acquisition of Co-op Insurance
- $5,500 (FY19: $1,200) for tax advisory services
- $17,400 (FY19: $46,300) for executive reward advisory services.

* Includes 31 March 2019 overruns related fees.

7. OTHER INCOME

		31 March 2020	31 March 2019
		$	$
MVI income		14,091	173,739
Surplus from Seminars		16,481	19,040
Sublease Income	Note 15	14,333	-
Other Sundry Income		90,563	72,202
Total Other Income		135,468	264,981

Other income is recognised on an accrual basis.

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8. CASH AND CASH EQUIVALENTS

	31 March 2020	31 March 2019
	$	$
Cheque Accounts	1,036,402	310,478
Call Account	1,685,062	982,400
Short term deposit	-	2,500,000
Total Cash and Cash Equivalents	2,721,464	3,792,878

9. CLAIMS AND OUTSTANDING CLAIMS

Claims Incurred

	31 March 2020	31 March 2019
	$	$
Gross claims expense		
Amount relating to risks borne in the current year	28,434,838	17,358,122
Amount relating to reassessment of risks borne in previous reporting periods	(981,753)	(361,365)
Gross claims incurred	27,453,085	16,996,757
Reinsurance and other recoveries		
Amount relating to risks borne in the current year	978,487	453,913
Amount relating to reassessment of risks borne in previous reporting periods	221,566	-
Net claims incurred	26,253,032	16,542,844

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.

For the financial year 2020, the Appointed Actuary has also assessed the impact of Coronavirus Disease ("COVID-19"), an allowance has been determined through discussion with the Company subject matter experts, internal analysis, observations of early emerging experience, and consideration of other actuarial approaches being adopted in the market.

The Key assumptions applied as below:

Loss ratio of 20% - 27.5% for CCI depending on policy term, 27.5% - 40% for GAP depending on policy term, 37.5% - 170% for MBI policies depending on policy term and product class (TED v Standard), 60% - 93.5% for MVI policies depending on the types of vehicle, 40%-60% for LM depending on accident month, and 75% for TAR (previously 85%), 110% MDI and 60% EXW (previously both 65%)

- Discount rate of 1.2% (2019: 1.47%), derived from the yields of New Zealand government bonds
- Policy handling expenses of 4% (2019: 4%), determined based on expenses incurred
- Risk margin of 25% for LM, 10% for MVI and 15% for other products (2019: 30% for LM, 10% for MVI and 15% for other products), 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 2020. 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 Appointed 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.

31 March 2020	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
All Products	12-60	7,304	978	2,995	11,277	(46)	11,231
31 March 2019							
All Products	12-60	6,121	614	930	7,665	(37)	7,628

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 1.2% (2019: 1.47%) per annum as at 31 March 2020.

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

	31 March 2020	31 March 2019
	$	$
Central estimate of expected present value of future payments for claims incurred	7,304,371	6,121,484
Claims handling expenses	978,014	614,112
Risk margin - actuarial	2,994,785	930,000
Risk margin - management	-	2,288,685
	11,277,170	9,954,281
Discount	(46,170)	(37,072)
Balance as at 31 March	11,231,000	9,917,209

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 management's assessment takes into consideration the increasing costs of motor vehicle spare parts and the increasing complexity and therefore cost of repairs. During FY20, Management determined the provision for outstanding claims should be calculated at an actuarial assessment to a level equivalent to a probability of sufficiency of 95%. In prior year, the actuarial assessment was calculated to a probability of sufficiency of 75%, management added an additional risk margin of 48%, bringing the provision for outstanding claims at a level equivalent to a probability of sufficiency of 98%.

Claims are expected to be settled within one year.

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9. CLAIMS AND OUTSTANDING CLAIMS (continued)

Provision for outstanding claims

	31 March 2020	31 March 2019
	$	$
Balance at the start of the year - 1 April	9,917,209	6,669,796
Increase in net claims incurred in current year	10,456,328	7,199,842
Movement in prior year claims provision	(11,212,009)	(7,012,013)
From acquisition of Co-op	-	1,995,898
Incurred claims recognised in profit or loss	27,453,085	16,996,757
Claim payments during the year	(25,383,613)	(15,933,071)
Closing balance	11,231,000	9,917,209

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	31 March 2020	31 March 2019
		$	$
Initial loss ratio	+5%	2,892	908
	-5%	(2,893)	(908)
Discount rate	+1%	(453)	(18)
	-1%	355	18
Claims handling expense	+1%	272	69
	-1%	(272)	(69)

10. RECEIVABLES

	31 March 2020	31 March 2019
	$	$
Prepayments	620,054	177,128
Third Party Claims Administrator Claims Float	300,000	-
Interest accrued - term deposits	1,382,962	1,344,245
Other Receivables	470,814	587,248
Total Receivables	2,773,830	2,108,621

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

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	$	Term	Maturity	Interest Rate
31 March 2020				
Term Deposits	47,500,000	240 - 732 days	8/04/2020 - 13/12/2021	2.65% - 3.78%
31 March 2019				
Term Deposits	42,100,000	270 - 731 days	16/07/2019 - 30/09/2020	3.4% - 4.06%

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

12. DEFERRED ACQUISITION COSTS

	31 March 2020	31 March 2019
	$	$
Balance at the start of the year	2,766,845	2,247,523
Movement for the year	768,585	519,322
Balance as at 31 March	3,535,430	2,766,845
Current	2,142,240	1,657,803
Non-Current	1,393,190	1,109,042

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

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13. TAXATION

	31 March 2020	31 March 2019
	$	$
Components of tax		
Current tax expense	100,697	744,557
Adjustments to current tax in prior years	405,415	(748,168)
Deferred tax expense	(118,847)	(54,604)
Adjustments to deferred tax in prior years	(109,229)	(47,432)
Tax Expense / (Benefit)	278,036	(105,647)

	31 March 2020	31 March 2019
	$	$
Relationship between tax and accounting profit		
Net Profit / (Loss) before tax	631,881	(171,027)
Tax at 28%	176,927	(47,888)
Plus (less) tax effect of:		
Non-deductible expenditure	(195,077)	755,853
Imputation credit adjustment	-	-
Non-taxable income	-	(18,012)
Prior year adjustment	296,186	(795,600)
Tax Expense / (Benefit)	278,036	(105,647)

Deferred tax asset/(liability) reconciliation

	Prior Period Adjustment	Employee entitlements	Right of Use Assets	Other provisions	Intangible assets	Total
	$	$	$	$	$	$
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)
Charged to surplus or deficit	-	(6,907)	17,677	(1,894)	219,200	228,076
Charged to other comprehensive income	-	-	-	-	-	-
Balance at 31 March 2020	-	58,251	17,677	21,641	(385,320)	(287,751)

	31 March 2020	31 March 2019
	$	$
Imputation credits		
Imputation credits available for use in subsequent reporting periods	576,088	236,064

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14. PROPERTY, PLANT AND EQUIPMENT

Classification	Cost				Accumulated Depreciation				Book Value
	1 April 2019 $	Additions $	Disposals $	31 March 2020 $	1 April 2019 $	Disposals $	Depreciation $	31 March 2020 $	31 March 2020 $
Computer Hardware & Equipment	110,250	36,979	(256)	146,973	68,225	(70)	28,399	96,554	50,419
Furniture & Fittings	48,280	18,978	-	67,258	16,163	-	7,382	23,545	43,713
Motor Vehicles	546,800	215,944	(177,862)	584,882	187,501	(109,881)	138,654	216,274	368,608
Office Equipment	5,499	-	-	5,499	4,983	-	158	5,141	358
Office Fit Out	46,144	20,361	(46,144)	20,361	11,769	(12,914)	2,648	1,503	18,858
Total	**756,973**	**292,262**	**(224,262)**	**824,973**	**288,641**	**(122,865)**	**177,241**	**343,017**	**481,956**

Classification	Cost				Accumulated Depreciation				Book Value
	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**

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15. LEASES

(a) As a Lessee

(i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	31 March 2020	1 April 2019
	$	$
Right of Use Assets		
Premises	1,515,900	-
Office Equipments	32,365	-
	1,548,265	-
Lease Liabilities		
Current	85,131	-
Non-Current	1,474,498	-
	1,559,629	-

Additions to the Right of Use assets during the 2020 financial year were $1,662,080.

(ii) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	31 March 2020	1 April 2019
	$	$
Depreciation charge of Right of Use assets:		
Premises	108,279	-
Office Equipments	5,536	-
	113,815	-
Included in Administration Expenses:		
Interest Paid on Lease Liabilities	-	-
Expense relating to short-term leases	71,783	-
The total cash outflow for leases in 2020:	160,509	

(iii) The Company's leasing activities and how these are accounted for

The Company's leases consist of office premises and office equipments. The lease agreement for office premises contains an initial term of 5 years with a right of renewal for another 5 years, which the company expects to exercise upon renewal. The lease agreements for office equipments are made for fixed periods of 5 years without extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the financial year ended 31 March 2019, leases of property, plant and equipment were classified as operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments)
- Variable lease payment that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. Where the rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with the premises up to 1 August 2019 when the Company moved to the new office are classified as short-term leases. All short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The Company has no leases under low-value assets.

(iv) Variable lease payments

The Company is exposed to potential future increases in variable lease payments based on an index or rate for the premises, whereas the leases for office equipments are not as payments are subject to fixed payments over the period.

Variable lease payments for the premises depend on the movement in Consumers Price Index (CPI) in addition to 2% increase in the annual rent as stipulated in the lease agreement. In determining the variable lease payments, the Company refers to the latest projected CPI inflation rate provided by Reserve Bank of New Zealand. The Company has therefore determined the potential future increases to be subject to 4% increases, and are included in the lease liability. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

(v) Extension and Termination options

Extension and termination options are included in the premises lease. The extension and termination options held are exercisable only by the Company and not by the lessor. It is reasonably certain the lease is to be extended upon renewal.

Leases for the office equipment is subject to a fixed term therefore it is not subject to extension.

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(b) As a Lessor

(I) Sublease

The Company entered into a sublease agreement ("Sublease") with CNZ Group Limited trading as "Crawford & Company New Zealand" (Crawford), with commencement date on 1 August 2019. As a part of the risk management associated with the Sublease, the Company had demonstrated to the satisfaction of the lessor that Crawford has sound financial standing as an assignee pursuant to the terms of the Head lease agreement.

The Sublease agreement contains an initial term of 3 years with a right of renewal for another 2 years, which the Company expects Crawford to exercise upon renewal. The lease payments are payable monthly, it is subject to CPI increases on every 2 years. There are no other variable lease payments that depend on an index or rate.

The Company has elected to classify the Sublease as operating leases, on the basis that it does not transfer substantially all of the risks and rewards incidental to ownership of the underlying asset at the end of the lease term.

Lease payments from operating leases are recognised as income on a straight-line basis over the lease term and are included in "Other Income".
Rental income from the Sublease for FY20 was $14,333.36.

Minimum lease payments receivable on the Sublease are as follows:

	31 March 2020 $
Within 1 year	14,333
Between 1 and 2 years	43,000
Between 2 and 3 years	43,000
Between 3 and 4 years	43,000
Between 4 and 5 years	43,000
Later than 5 years	14,333
	200,666

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16. INTANGIBLES AND GOODWILL

31 March 2020	Distribution agreements $	Goodwill $	Internally Developed Software Completed $	Internally Developed Software Work in Progress $	Total $
Opening net book amount	2,159,000	1,363,983	956,679	357,403	4,837,065
Work in progress completed	-	-	357,363	(357,363)	-
Additions	-	9,692	138,731	38,240	186,663
Transfer to Goodwill	(151,100)	151,100	-	-	-
Amortisation charge	(631,754)	-	(516,114)	-	(1,147,868)
Balance at 31 March 2020	1,376,146	1,524,775	936,659	38,280	3,875,860

31 March 2019	Distribution agreements $	Goodwill $	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	1,363,983	863,367	182,530	4,568,880
Transfer to Goodwill	-	-	-	-	-
Amortisation charge	-	-	(264,645)	-	(264,645)
Balance at 31 March 2019	2,159,000	1,363,983	956,679	357,403	4,837,065

(i) Goodwill

Goodwill is measured as described in notes 3 (c) and 3 (r). 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.

Management has identified the following intangible assets are arising from the Distribution agreement, and has determined the fair value of each intangible asset based on the assumptions below:

Indicative Fair Value of Identified Intangible assets	Fair Value $
Carminder - Credit Unions Relationships	482,000
Loanminder - Credit Union Relationships	793,000
Carminder - Value of Business Acquired	250,400
Carminder - Renewal Rights	323,000
Loanminder - Renewable Rights	151,000
Trademarks	8,500
Total Indicated Fair Value of Intangible Assets	**2,007,900**

Assumptions

Identified Intangible Assets	Discounted Useful Life	Discounted Rate	Approach used to determining values
Carminder - Credit Unions Relationships	13 Years	13%	Discounted present value of the incremental after-tax cash flows attributable to the intangible asset.
Loanminder - Credit Union Relationships	10 Years	13%	Based on the formal distribution agreement in place until 2022, with management's high expectation to renew from 2022 onwards.
Carminder - Value of Business Acquired	1 Year	2%	Based on the unearned premium reserve, the related risk-adjusted future losses and expenses discounted to present value at a risk-free rate.
Carminder - Renewal Rights	10 Years	13%	Based on the annual renewal retention ratio for each policy, Management has determined the retention ratio to be as follows:
Loanminder - Renewable Rights	4 Years	13%	- Loanminder: Average policy life of 3 years with an implied 67% renewal rate - Carminder - Direct: 40% renewal rate - Carminder - Third Party: 67% - Carminder - Credit Unions: 70%
Trademarks	2 Years	13%	Based on the market research

Goodwill and Distribution Agreements 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	25% annual growth rate over the five-year forecast period; based on past performance and management's
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	35% is the expected return on equity based on the asperational goals set by management for the next 5 years.

17. PAYABLES

	31 March 2020 $	31 March 2019 $
Trade Accounts Payable	1,167,326	1,568,038
All payables are at fair value.		
Current	1,167,326	1,568,038
Non-Current	-	-

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18. OTHER PROVISIONS

		31 March 2020	31 March 2019
		$	$
Employment Benefits		252,385	232,708
Provision for IRD Settlement	Note 23	-	2,948,833
Provision for Restoration Costs		51,766	-
Other		417,739	472,151
		721,890	3,653,692
Current		482,141	3,441,224
Non-Current		239,749	212,468

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 23 for details.

Provision for Restoration Costs
Provision for the costs involved in dismantling, removing and restoring the office premises at the end of the lease, pursuant to the lease agreement.

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

19. RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

The sensitivity analysis and the impact of possible changes in interest rate risk on the Company's comprehensive income and equity is included in note 19 (E) & (F) 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 2019: 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 2020 there were no external borrowings. (31 March 2019: 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.

31 March 2020	On Demand	0-3 Months	4-12 Months	1-3 Years	4+ Years	Total
	$	$	$	$	$	$
Financial Liabilities						
Accounts Payables	1,064,823	-	-	-	-	1,064,823
Lease Liabilities	-	60,800	182,400	502,033	1,731,101	2,476,335
	1,064,823	60,800	182,400	502,033	1,731,101	3,541,158

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

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19. RISK MANAGEMENT (Continued)

(E) Sensitivity analysis

The analysis 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.

(F) 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 2019: Nil)

(G) Operating risk

- 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.

(H) Coronavirus Disease Pandemic ("COVID-19")

- The Directors and management have assessed the impact of COVID-19.
- As at 31 March 2020, the assessment of the impact of COVID-19 has been taken into account in the calculation of total liability for outstanding claims as detailed in Note 9. The impact of COVID-19 on claims has not been significant as at 31 March 2020, and therefore there has not been a material impact to the 31 March 2020 financial statements.
- Looking forward, there is still significant uncertainty. The Directors and management consider the key areas of risk lie in the volume of sales and the potential cost of future claims as per below:
  - Management has seen an initial decline in the overall gross written premium post the financial year end due to COVID-19 as a result of the restricted sales opportunities during the lockdown phase of the pandemic.
  - The key products exposed to an increase in the cost of future claims are Loanminder and CCI, being redundancies and life cover claims respectively. The cost of future claims could increase through the deterioration of the economy and the associated increases in business closures and redundancies.
- The Company has taken steps to mitigate the identified risks, including but not limited to, applying for the initial Government Wage Subsidy Scheme and deferring non-essential and sales/marketing related expenses. All staff, Directors and some contractors, agreed to take a 20% reduction in their remuneration for the period between April 2020 to June 2020.
- The Board Risk Committee will continue to assess the impact of COVID-19 on the on-going viability of the business but at the date the financial statements were authorised for issue there is no adverse material impact to the financial statements that was not disclosed or adjusted for.
- The Directors are comfortable that COVID-19 has not impacted the Company to continue as a going concern and the financial statements are prepared on a going concern basis.

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20. CAPITAL MANAGEMENT

(i) Share Capital

	31 March 2020	31 March 2019
	$	$
Fully paid up Capital	10,420,000	10,420,000
Unpaid Capital	-	-
Issue of Ordinary Shares	1,999,990	-
Share Capital at 31 March	12,419,990	10,420,000
Represented by:		
Number of Shares	10,798,786	10,420,000

Additional ordinary shares of 378,786 at $5.28 per new share were issued on 5 August 2019.
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. (2019: 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 2020	31 March 2019
	$	$
Actual Solvency Capital (ASC)	8,137	4,920
Minimum Solvency Capital (MSC)*	5,943	4,889
Solvency Margin	2,194	31
Solvency Ratio	137%	101%

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

21. CASH GENERATED FROM OPERATIONS

Reconciliation of profit / (loss) for the year to net cash flows from operating activities

	31 March 2020	31 March 2019
	$	$
Profit / (Loss) after tax for the year	353,845	(65,379)
Add/(less) non-cash items		
Depreciation of property, plant and equipment	177,241	140,462
Depreciation of Right of Use Assets	113,815	-
Amortisation of Intangible Assets	1,147,868	264,645
Intangible Asset Purchase Price Adjustment	(9,692)	-
Increase in capitalised costs	(21,800)	(577,209)
Increase in provision for outstanding claims	1,013,791	1,251,515
Increase in deferred tax asset	(228,076)	(102,036)
Profit from Joint Venture	(11,613)	(64,327)
Increase / (Decrease) in other provisions	-	(1,204,050)
Interest Paid on Lease Liabilities	109,824	-
	2,645,203	(356,379)
Add/(less) movements in working capital		
Increase in receivables	582,296	(1,084,432)
Increase in payables	(3,022,179)	3,486,607
Other changes in working capital	2,629,820	6,698,609
	189,937	9,100,784
Net cash inflow from operating activities	2,835,140	8,744,405

22. KEY MANAGEMENT PERSONNEL

	31 March 2020	31 March 2019
	$	$
Short term employee benefits (including directors fees)	1,646,972	1,510,021
Directors consultancy fee	460,735	360,000
	2,107,707	1,870,021

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.

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23. GST PROVISION

The Company reached a settlement agreement with the New Zealand Inland Revenue Department (IRD) over a long running GST dispute for tax periods 1 April 2014 through to 31 May 2018.

Provision for IRD Settlement	31 March 2020	31 March 2019
	$	$
Opening Balance as at 1 April 2019		2,948,833
Less Paid to IRD 17 July 2019	(1,501,133)	
Less Settlement to IRD for High Court Costs	(34,000)	
Less Agreed discount received on settlement of GST Dispute	(1,088,578)	
Less Paid to IRD on 12 March 2020	(325,122)	
Total Movements between 01 April 2019 and 31 March 2020		(2,948,833)
Closing Balance as at 31 March 2020		-

24. NON-CANCELLABLE OPERATING LEASES

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

	31 March 2020	31 March 2019
	$	$
Not later then one year	-	215,926
Later than one year and not later than five years	-	1,119,203
Later than five years	-	1,613,977

As per the details set out on Note 3(q), the Company has adopted NZ IFRS 16 Leases retrospectively from 1 April 2019.
The Company has recognised right-of-use asset and corresponding lease liabilities for which had previously been classified as 'operating leases' under IAS 17 leases. Therefore there is a nil balance for the financial year ended 31 March 2020 on non-cancellatable operating leases for comparatives.

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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 2020 no commission income was earned from the Joint Venture.

Set out below are the joint ventures of the Company as at 31 March 2020 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 interest 2020	% of ownership interest 2019	Nature of relationship	Measurement method	Carrying Amount 2020	Carrying Amount 2019
Rothbury Specialty Risks Ltd	33.33	33.33	Joint Venture	Equity method	700,877	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

	2020	2019
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 2020	Rothbury Specialty Risks Ltd 2019
Current assets		
Cash and cash equivalents	702,000	579,000
Other current assets	297,000	346,000
Total current assets	999,000	925,000
Non-current assets	1,994,000	2,090,000
Current liabilities		
Financial liabilities (excluding trade payables)	483,158	403,000
Other current liabilities	407,000	544,000
Total current liabilities	890,158	947,000
Net assets	**2,102,842**	**2,068,000**
Reconciliation to carrying amounts		
Opening net assets	2,068,000	1,875,000
Profit for period	34,842	193,000
Closing net assets	**2,102,842**	**2,068,000**
Share in %	33.33	33.33
Share	700,877	689,265
Carrying amount	**700,877**	**689,265**

Summarised statement of comprehensive income	Rothbury Specialty Risks Ltd 2020	Rothbury Specialty Risks Ltd 2019
Revenue	1,028,126	1,058,751
Interest income	10,693	1,279
Other income	130,388	-
Depreciation and amortisation	100,867	65,721
Interest expense	3,835	-
Other expenses	848,390	924,058
Income tax expense / (benefit)	181,273	(122,749)
Profit from continuing operations	34,842	193,000
Profit for the period	34,842	193,000
Total comprehensive income	**34,842**	**193,000**
Share of Profits	11,613	64,327

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26. BUSINESS COMBINATION (FOR THE YEAR ENDED 31 MARCH 2019)

(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.

27. SUBSEQUENT EVENTS

The Company has entered into a Quota Share reinsurance contract ("Quota Share") with Swiss Re Asia Pte Ltd ("Swiss Re") on 15 May 2020, effective from 1 April 2020 to 31 March 2021 in relation to the Motor Vehicle (MVI) Insurance portfolio. The consideration was given in line with the reinsurance management strategy in light of risk mitigation, volatility, liquidity and active solvency management. The Quota Share is subject to 20% of premium from in-force MVI policies and losses occuring during the contract period. The Quota Share will be monitored closely on a regular basis as part of the reinsurance management strategy.

The Company has decided not to apply for COVID-19 Government Wage Subsidy Scheme for the second tranche.

There are no other events occurring subsequent to the financial year ending 31 March 2020, which require adjustment to or disclosure in the financial statements.

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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 2020;
- 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 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 2020, 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 and advisory services in relation to executive remuneration. 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 services and relationships have not impaired our independence as auditor of the Company.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

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Key audit matter	How our audit addressed the key audit matter
Valuation of provision for outstanding claims *2020: $11,231,000, 2019: $9,917,209* We considered the valuation of provision 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 probability of sufficiency of 95% in determining the risk margin. The estimation process also relies on the quality of the underlying data. Management assessed the impact of COVID-19 on the Company's financial statements, including valuation of provision for outstanding claims, as referred to in note 9 of the financial statements.	Together with our actuarial experts, we: ○ Considered the work and findings of the external independent actuary engaged by the Company; ○ Assessed the reasonableness of the key actuarial assumptions including the discount rates, loss ratios, claims handling expenses and risk margins against past experience, market observable data (as applicable) and our experience of market practice; ○ Evaluated the actuarial models and methodologies used by the external independent actuary by comparing with general accepted models and methodologies applied in the industry; and ○ Evaluated the risk margin which brings the probability of sufficiency to 95%. 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 understood and assessed the impact of COVID-19 on the underlying business and potential impact on the valuation of provision for outstanding claims and the associated disclosures in the financial statements. We have no matters to report from the procedures performed.

Key audit matter	How our audit addressed the key audit matter
Valuation of provision for outstanding claims (continued) 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 for claims and outstanding claims related disclosure.	

Our audit approach

Overview

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

Overall materiality: $422,000, which represents approximately 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 is one key audit matter:

- Valuation of provision for outstanding claims

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.

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-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
5 August 2020

Auckland

24 July 2020

The Directors
Provident Insurance Corporation Ltd
Level 1, 61 Hurstmere Road
Takapuna
Auckland 0622
New Zealand

Dear Sir / Madam

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 to be detailed in the Financial Condition Report (FCR) as at 31 March 2020; 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 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 2020; and

h. No condition has been imposed under Section 21 (2)(c) as at 31 March 2020.

Kind regards,

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