

PROVIDENT INSURANCE CORPORATION LIMITED

**ANNUAL REPORT
31 March 2021**



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**DIRECTORS' DECLARATION
FOR THE YEAR ENDED 31 MARCH 2021**



The directors have pleasure in presenting the annual report of Provident Insurance Corporation Limited for the year ended 31 March 2021.

In the opinion of the directors of Provident Insurance Corporation Limited (the Company), the annual report and the notes, set out on pages 4 to 34:

- Comply with New Zealand generally accepted accounting practice and present fairly, in all material aspects, the financial position of the Company as at 31 March 2021 and the results of operations for the year ended on that date.
- have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The shareholders of the Company have agreed to take advantage of the reporting concessions available to it under section 211(3) of the Companies Act 1993. Accordingly, there is no further information to be provided in this annual report other than the financial statements and the auditor's report.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The directors consider that they have taken adequate steps to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements. There are reasonable grounds to believe that, as at the time this statement is made, the Company will be able to pay all debts or claims as and when they are due.

These annual financial statements were approved for issue by the board of directors on 28 July 2021.

Signed on behalf of the board of directors.

A handwritten signature in blue ink, appearing to read "D. Randell".

D Randell
Director

A handwritten signature in blue ink, appearing to read "D. McKinstry".

D McKinstry
Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2021

	Note	31/03/2021 \$	Restated * 31/03/2020 \$
Gross written premium		43,922,647	42,338,266
Movement in unearned premium		(1,282,461)	(3,184,588)
Outward reinsurance premium		(4,112,512)	(653,280)
Net earned premium		38,527,674	38,500,398
Claims incurred		(25,360,446)	(27,624,588)
Reinsurance and other recoveries		4,136,454	1,371,556
Net claims expenses	9(a)	(21,223,992)	(26,253,032)
Salaries expense		(4,314,950)	(3,725,857)
Administration expenses	6(a)	(10,171,258)	(10,751,695)
Underwriting expenses		(14,486,208)	(14,477,552)
Underwriting profit / (loss)		2,817,474	(2,230,186)
GST settlement	21	-	1,088,578
Share of profit from joint venture	22	7,674	11,613
Investment income	7	1,190,866	1,626,408
Other income	6(b)	945,939	135,468
Operating profit before taxation		4,961,953	631,881
Taxation expense	12(a)	(1,475,500)	(278,036)
Operating profit after taxation		3,486,453	353,845
Total comprehensive income for the year		3,486,453	353,845

* Refer to note 23 Change in comparatives for details regarding the restatements.



STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021

	Note	31/03/2021 \$	Restated * 31/03/2020 \$
ASSETS			
Cash and cash equivalents	20	2,023,060	2,721,464
Financial assets at fair value through profit or loss	8	57,287,291	48,882,962
Premiums receivable		1,869,278	1,730,206
Receivables	10	857,892	1,390,868
Deferred acquisition costs	11	3,494,126	3,535,430
Provision for reinsurance on outstanding claims		779,004	-
Provision for non-reinsurance recoveries on outstanding claims		412,909	171,503
Investment in joint venture	22	648,134	700,877
Property, plant and equipment	14	358,929	481,956
Intangible assets	15(a)	1,760,532	2,351,085
Goodwill	15(b)	1,524,775	1,524,775
Right-of-use assets	13	1,378,258	1,548,265
Total assets		72,394,188	65,039,391
LIABILITIES			
Payables	16	1,640,177	1,167,326
Current tax liabilities		1,501,068	162,476
Other provisions	17	1,059,712	721,890
Reinsurance payables		112,064	-
Provision for outstanding claims	9(b)	11,937,605	11,402,503
Provision for unearned premium	5	38,909,566	37,627,105
Lease liabilities	13	1,474,498	1,559,629
Deferred tax liabilities	12(b)	162,334	287,751
Total liabilities		56,797,024	52,928,680
Net assets		15,597,164	12,110,711
EQUITY			
Share capital	19	12,419,990	12,419,990
Retained earnings		3,177,174	(309,279)
Total equity		15,597,164	12,110,711

* Refer to note 23 Change in comparatives for details regarding the restatements.



STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2021

	Note	Share Capital \$	Retained Earnings \$	Total Equity \$
2021				
Balance at 1 April 2020		12,419,990	(309,279)	12,110,711
Issue of ordinary shares	19(a)	5,460,000	-	5,460,000
Shares bought back and cancelled	19(a)	(5,460,000)	-	(5,460,000)
Total comprehensive income for the year		-	3,486,453	3,486,453
Balance at 31 March 2021		12,419,990	3,177,174	15,597,164

	Note	Share Capital \$	Retained Earnings \$	Total Equity \$
2020				
Balance at 1 April 2019		10,420,000	(663,124)	9,756,876
Issue of ordinary shares	19(a)	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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2021

		31/03/2021	Restated * 31/03/2020
	Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		43,809,970	43,918,569
Interest received		1,190,867	1,626,407
Other income received		1,117,625	83,347
Grant income received	18(f)	295,243	-
Claims paid		(24,825,344)	(26,439,294)
Operating expenses paid		(12,414,023)	(16,451,209)
Reinsurance and other recoveries received		3,747,656	1,123,739
Reinsurance paid		(4,779,452)	(653,280)
Income tax paid		(262,326)	(334,422)
Interest expense on lease liabilities		(157,994)	(109,824)
Net cash flows from operating activities		7,722,222	2,764,033
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		19,107	123,198
Acquisition of property, plant and equipment	14	(43,249)	(292,262)
Acquisition of intangibles - software	15	-	(176,971)
Proceeds from term deposits		35,683,644	40,361,283
Cash invested in term deposits		(22,100,000)	(45,800,000)
Dividends received from joint venture	22	60,417	-
Proceeds from sale of investments		244,664	-
Payment for purchase of investments		(22,200,000)	-
Net cash flows from investing activities		(8,335,417)	(5,784,752)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuing share capital	19	-	1,999,990
Principal elements of lease payments		(85,209)	(50,685)
Net cash flows from financing activities		(85,209)	1,949,305
Net movement in cash held		(698,404)	(1,071,414)
Cash and cash equivalents beginning of the year		2,721,464	3,792,878
Cash and cash equivalents end of the year	20(a)	2,023,060	2,721,464
NON-CASH INVESTING AND FINANCING ACTIVITIES	20(b)		

* Refer to note 23 Change in comparatives for details regarding the restatements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2021

1. CORPORATE INFORMATION

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. The Company is a FMC reporting entity for the purposes of the 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 the Insurance (Prudential Supervision) Act 2010.

The address of the Company's registered office is Floor 1, 61 Hurstmere Road, Takapuna, Auckland, New Zealand.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with International Financial Reporting Standards (IFRS), New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable financial reporting standards as appropriate to for-profit entities.

The financial statements have been prepared in accordance with the requirement of the Financial Markets Conduct Act 2013.

They have 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.

New and amended standards adopted

There are no IFRSs that are effective for the first time for the financial year beginning on or after 1 April 2020 that would be expected to have a material impact on the financial statements.

New standards and interpretations not yet adopted

NZ IFRS 17 Insurance contracts is 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, and has completed the project planning phase. The Company is currently undertaking assessment whether the insurance contracts are eligible for the premium allocation approach.

NZ IFRS 17 will result in fundamental changes to the way the Company evaluates, accounts for and reports on insurance contracts, and will affect the financial statements and key performance indicators of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) PREMIUM REVENUE AND PROVISION FOR UNEARNED PREMIUM

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.

The estimate of the unearned premium is calculated from the date of attachment of risk over the period of the policy in accordance with the pattern of the incidence of risk. The pattern of the incidence of risk in determining the recognition of premiums over the policy period is based on industry and product specific historical information, using an earnings model, depending on the claims development. So it is heavily dependent on assumptions and judgements.

A liability adequacy test is performed to determine whether the unearned premium liability is sufficient to pay future claims, refer to note 5(a).

(b) REINSURANCE PREMIUM AND RECOVERIES

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

Premiums ceded to reinsurers under reinsurance contracts are recorded as an expense and are recognised over the period of indemnity of the contract in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Claims and reinsurance recoveries on paid claims, reported claims not yet paid, claims incurred but not enough reported ("IBNER") and claims incurred but not reported ("IBNR") reported are recognised as revenue. Recoveries are measured as the expected future receipts and recognised when the claim is incurred. 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 or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Ceded reinsurance does not relieve the Company from its obligations to policyholders.

(c) 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.

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 inherent uncertainty of the estimation process.

(d) LIABILITY ADEQUACY TEST

At each reporting date, the Company undertakes a liability adequacy test to determine whether the unearned premium liability is sufficient to pay future claims net of reinsurance.

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 at a Company level by the type of policies which are subject to broadly similar risks and managed together as a single product portfolio.

(e) INVESTMENT INCOME

The Company's investment income is primarily made up of interest income on fixed interest investments and fair value gains or losses on its investment assets. They are recognised in the period that they are earned in the statement of comprehensive income.

Interest income on assets held at fair value through profit or loss is recognised on an accruals basis using the effective interest rate method.

(f) INVESTMENTS - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification

The Company's investments are designated at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments and NZ IFRS 4 Insurance Contracts (Appendix D).

(ii) Recognition and measurement

Purchases and sales of financial assets are recognised on the trade date on which the Company commits to buy or sell the assets. Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transformed.

Investments of the Company are initially recognised at fair value and subsequently remeasured to fair value through profit or loss at each reporting date.

(g) TAX

(i) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. It is recognised 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.

(iii) Goods and Services Tax (GST)

Revenues and expenses 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.

(h) PAYABLES

Payables are recognised when the Company becomes obliged to make future payments resulting from the purchases of goods and services. Payables are carried at amortised cost. They represent liabilities for goods and services provided to the Company prior to the end of the financial year but which are unpaid at reporting date.

(i) 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.

(j) RECEIVABLES

Receivables are recognised initially at fair value and subsequently at amortised cost, less provision for impairment.

(k) PREMIUMS RECEIVABLE

Premium receivables are recognised initially at fair value and subsequently at amortised cost, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due as to their original terms.

(l) 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 over the expected term of the related contracts.

An impairment review is performed at reporting date as part of the liability adequacy test. Refer to note 3(d) Liability adequacy test.

(m) 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)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) LEASES

Right-of-use assets ("ROU assets") are measured at cost comprising the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received; and indirect 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.

Lease liabilities are recognised at the date the Company has the right to use the corresponding asset. Lease liabilities are initially measured as the present value of expected lease payments under lease arrangements. The lease liability will include any option to extend where it is reasonably certain that the option will be exercised. The lease payments are discounted using the incremental borrowing rate as the interest rate in the lease cannot be readily determined. Incremental borrowing rate of 6% is used for office equipments, and 11.16% for premises.

Subsequent repayments are split between principal and finance cost. The finance cost represents the time value of money and is charged to the profit or loss over the lease period. The discount rate applied is unchanged from the applied at the initial recognition of the lease, unless there are material changes to the lease.

The Company has elected to classify the sublease as operating leases, please refer to Note 13(b) Leases.

(o) INTANGIBLES ASSETS AND GOODWILL

(i) Software and software development

Software and software work in progress are initially measured at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. For impairment losses, refer to note 3(p) Impairment of assets.

Costs associated with configuring or customising the applications in a software as a service ("SaaS") are recognised as expenses when the supplier performs those configuration and customisation costs.

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.

The Company continues to review its intangible assets on software to assess whether the Company maintains its control over the assets, and the assets represent the software asset of the Company.

(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.

(iii) Amortisation of intangible assets

Intangibles are amortised using the following methods and rates:

- Internally generated software - 40% diminishing value (estimated useful life 4 years)
- Distribution agreements - management has the following intangible assets arising from the distribution agreement (acquired on 1 August 2018), and has determined the amortisation methods and rates for each intangible asset as per below:

Identified intangible assets	Methods	Rates
Carminster - credit unions relationships	Straight line	8%
Loanminder - credit union relationships	Straight line	10%
Carminster - renewal rights	Straight line	10%
Loanminder - renewable rights	Straight line	25%
Trademarks	Straight line	50%

(iv) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of assets acquired and liabilities assumed on date of acquisition.

Goodwill on acquisition is included in intangible assets and is not amortised. Instead, goodwill is tested for impairment annually, and is carried at cost less accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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.

(p) 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. It is carried at cost less accumulated impairment losses.

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).

Premiums receivable arise from insurance contracts. 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.

Other assets including receivables are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(q) PROVISIONS

Provisions are 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 measured at the best estimate of future cash flows discounted to present value where the effect is material.

(r) EMPLOYEE BENEFITS

Provision is made for salaries, commissions, and annual leave are recognised in respect of employee entitlements up to reporting date. This provision is measured at the amounts expected to be paid when the entitlements are settled.

(s) INVESTMENTS IN JOINT VENTURES

(i) Joint ventures

Interests in joint ventures are accounted for using the equity method (refer to note 3(s)(ii) below), after initially being recognised at cost in the 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 on-going 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:

(a) PROVISION FOR OUTSTANDING CLAIMS

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 yet 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.

For the financial year ended 31 March 2021, the appointed actuary has also assessed the impact of coronavirus disease ("COVID-19"), and have not made any allowance for the impact of COVID-19 on experience going forward. This is on the basis that there are little to no COVID-19 cases in New Zealand, restrictions have been lifted and claims experience for MBI, MVI and CCI appears to have largely returned to normal.

For methodology and calculation of the provision for outstanding claims, refer to note 9.

(b) DEFERRED ACQUISITION COSTS

Deferred acquisitions costs are deferred only to the extent that they are recoverable from future premium income.

These costs include advertising expenses, commissions or brokerage paid to agents or brokers, and other policy acquisition costs. Such costs are capitalised where they relate to the acquisition of new business or the renewal of existing business, are presented as deferred acquisition costs and are amortised on a grouped contract basis (grouped into MVI and non-MVI) over the expected term of the related contracts.

The actual costs incurred, and their recoverability are reviewed semi-annually, and form part of the liability adequacy test performed by the Appointed actuary. The Company adjusts the deferred acquisitions costs to reflect actual experience, and prospectively takes the effect of any changes upon review. Any adjustments to the assumptions that result in a change in the deferred acquisition cost asset is recognised in the statement of comprehensive income.

The balance of the deferred acquisition costs at the reporting date represents the capitalised deferred acquisition costs.

For movement in deferred acquisition costs, refer to note 11.

(c) GOODWILL AND DISTRIBUTION AGREEMENTS

The area involving significant estimates or judgements is the assumptions used in the impairment test on goodwill and distribution agreements. Refer to note 15 Intangible assets and goodwill for the assumptions used in the impairment test.

5. PROVISION FOR UNEARNED PREMIUM AND LIABILITY ADEQUACY TEST

	31 March 2021	31 March 2020
	\$	\$
Provision for unearned premium		
Balance at the start of the year	37,627,105	34,228,700
Adjustments due to time payment invoicing	-	213,817
Premiums written	43,922,647	42,338,266
Premiums earned	(42,640,186)	(39,153,678)
Balance as at 31 March	38,909,566	37,627,105
Current	23,850,894	22,799,568
Non-current	15,058,672	14,827,537

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.

(a) LIABILITY ADEQUACY TEST

The Company's appointed actuary is 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 ("the appointed actuary").

Liability adequacy test is performed by the appointed actuary 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 outflows 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.

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 2021	31 March 2020
Liability Adequacy Test		
Central estimate (\$)	24,627,000	22,322,000
Claims handling expenses	12%	13%
Policy handling expenses	4%	4%
Risk margin	19%	15%
Discount	-0.5%	-1%

6. ADMINISTRATION EXPENSES AND OTHER INCOME

(a) ADMINISTRATION EXPENSES

		31 March 2021	31 March 2020
	Notes	\$	\$
Directors' fees		582,500	307,500
Depreciation - property, plant and equipment	14	150,569	177,241
Depreciation - right-of-use assets	13	170,007	113,815
Amortisation - intangible assets	15	587,153	1,147,868
Audit of financial statements		176,600	286,905
Other assurance services paid to PwC for solvency return		8,700	8,320
Other fees paid to PwC **		5,920	25,475
Sales & Marketing *		1,421,291	2,422,613
Commissions & Brokerage *		2,202,074	1,940,313
Communication & IT		1,535,794	1,159,362
Professional fees		1,450,578	1,568,179
Fees associated with potential capital event and other projects		294,574	576,042
Staff expenses		365,362	297,163
Payment gateway expenses *		568,705	473,190
Other expenses *		610,127	1,016,294
Movement in deferred acquisition costs	11	41,304	(768,585)
Total administration expenses		10,171,258	10,751,695

* Comparatives have been revised to enhance the readability of presentation.

1) reclassification of commissions and brokerage fees to commissions & brokerage from sales & marketing (decreasing by \$1,847,910 in 2020), and other expenses (decreasing by \$354,164 in 2020).

2) separation of payment gateway expenses from other expenses (decreasing by \$473,190 in 2020).

** Other fees paid to PwC includes:

- \$4,725 (FY20: \$17,400) for executive reward advisory services.

- \$1,195 (FY20: \$Nil) for general training offered by PwC attended by Company personnel.

(b) OTHER INCOME

		31 March 2021	31 March 2020
	Notes	\$	\$
MVI income		-	14,091
Surplus from seminars		-	16,481
Sublease income	13	43,000	14,333
Quota share reinsurance commission		789,050	-
Other sundry income		113,889	90,563
Total other income		945,939	135,468

Other income is recognised on an accrual basis.

7. INVESTMENT INCOME

		31 March 2021	31 March 2020
	Notes	\$	\$
Interest income		1,158,221	1,626,408
Net realised gain on investment		13,657	-
Net unrealised gain on investment		18,988	-
Investment income		1,190,866	1,626,408

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) INVESTMENT IN TERM DEPOSITS

	Notes	31 March 2021	31 March 2020
Closing balance as at 31 March (\$) *		36,400,016	48,882,962
Term (days)		365 - 731	240 - 732
Maturity (month/year)		04/21 - 12/21	04/20 - 12/21
Interest Rate (%)		1.25 - 2.70	2.65 - 3.78

Term deposits are held by AA- rated NZ financial institutions.

* 2020 Restated - Refer to note 23 Change in comparatives for details regarding the restatements.

(b) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	31 March 2021 \$	31 March 2020 \$
Investment in term deposits *	8(a)	36,400,016	48,882,962
Investment in bonds		8,850,872	-
Investment in unit trust		12,036,403	-
Financial assets at fair value through profit or loss		57,287,291	48,882,962
Current		50,291,105	36,482,962
Non-current		6,996,186	12,400,000

* 2020 Restated - Refer to note 23 Change in comparatives for details regarding the restatements.

(c) FAIR VALUE HIERARCHY

Investment assets are designated at fair value through profit or loss in accordance with the Company's treasury policy.

The fair value of a financial instrument is the price that would be received to sell a financial asset, in an orderly transaction between market participants at the measurement date.

It is categorised in to the fair value hierarchy based on the inputs available to measure fair value.

Level 1:

Investment valuation is based on the fair value using quoted prices in an active market. The Company does not have any level 1 investments.

Level 2:

Where quoted market prices are not available, fair values have been estimated using present value or other valuation techniques using inputs that are observables for the financial asset either directly or indirectly. Level 2 inputs include:

- quoted prices for similar assets or liabilities;
- quoted prices for assets or liabilities that are not traded in an active market;
- other observable market data that can be used for valuation purposes; or
- external fund certificates measured based on the most recently available unit price from the fund manager at the time of valuation, adjusted appropriately using market observable benchmarks to accurately reflect the fair value.

Instruments	Includes:	Valuations technique
Investments in term deposits	Term deposits	Fair value is determined using observable market prices or other widely used and accepted valuation techniques utilising observable market inputs.
Investments in bonds	Corporate & Government bonds	the fair value is calculated by using a discounted cash flow calculation based on risk margins and swap yields provided by third party suppliers of financial data.
Investment in unit trust	Units in unlisted unit trusts	the fair value is calculated by using the last available redemption unit price for those funds at the balance date.

The Company's investments under this category includes corporate and government debt instruments where the market is not considered active in accordance with NZ IFRS 13 Fair value measurements.

Level 3:

Fair values are estimated using inputs that are unobservable for the financial asset. The Company does not have any level 3 investments.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

	Level 1	Level 2	Level 3	Total
As at 31 March 2021	\$	\$	\$	\$
Investment in term deposits	-	36,400,016	-	36,400,016
Investment in bonds	-	8,850,872	-	8,850,872
Investment in unit trust	-	12,036,403	-	12,036,403
Investment	-	57,287,291	-	57,287,291

	Level 1	Restated * Level 2	Level 3	Total
As at 31 March 2020	\$	\$	\$	\$
Investment in term deposits	-	48,882,962	-	48,882,962
Investment in bonds	-	-	-	-
Investment in unit trust	-	-	-	-
Investment	-	48,882,962	-	48,882,962

There has been no transfers between levels of the fair value hierarchy during the current financial period.

* Refer to note 23 Change in comparatives for details regarding the restatements.

9. NET CLAIMS AND OUTSTANDING CLAIMS

(a) NET CLAIMS EXPENSES

	31 March 2021 \$	Restated * 31 March 2020 \$
Gross claims expense		
Amount relating to risks borne in the current year	29,135,759	28,606,341
Amount relating to reassessment of risks borne in previous reporting periods	(3,775,313)	(981,753)
Gross claims expenses	25,360,446	27,624,588
Reinsurance recoveries		
Amount relating to risks borne in the current year	2,566,669	34,612
Amount relating to reassessment of risks borne in previous reporting periods	122,689	80,749
Gross reinsurance recoveries	2,689,358	115,361
Non-reinsurance recoveries		
Amount relating to risks borne in the current year	1,431,414	945,989
Amount relating to reassessment of risks borne in previous reporting periods	15,682	310,206
Gross non-reinsurance recoveries	1,447,096	1,256,195
Net claims expenses	21,223,992	26,253,032

Amount relating to reassessment of risks borne in previous reporting periods reflects release of risk margin as claims are paid. Mechanical breakdown insurance (MBI), credit contract indemnity (CCI) and guaranteed asset protection (GAP) have had better claims experience than expected over the last 12 months, change in basis of the payment patterns, selected initial loss ratio and improved valuation assumptions.

* Refer to note 23 Change in comparatives for details regarding the restatements.

(b) PROVISION FOR OUTSTANDING CLAIMS

(i) Methodology and assumptions

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.

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.

The key assumptions applied as below:

Loss Ratio	Dependant Factor	31 March 2021 %	31 March 2020 %
• Credit contract indemnity (CCI)	Claims experience on an underwriting month basis and length of policy term	17.50	20.00 - 22.50
• Guaranteed asset protection (GAP)	Claims experience on an underwriting month basis and length of policy term	22.50 - 45.00	25.00 - 40.00
• Mechanical breakdown insurance (MBI)	Claims experience on an underwriting month basis and length of policy term	41.00 - 155.00	36.00 - 167.50
• Motor vehicle insurance (MVI)	Claims experience on an accident month basis and types of vehicle	60.00 - 93.50	60.00 - 95.50
• Loanminder (LM)	Claims experience on an accident month basis	47.50	50.40
• Tyre and rim (TAR)	Claims experience on an underwriting month basis and length of policy term	50.00	72.00
• Material damage (MD)	Claims experience on an underwriting month basis and length of policy term	105.00 - 115.00	110.00
• Extended warranty (EXW)	Claims experience on an underwriting month basis and length of manufacturer warranty term	60.00	60.00

9. CLAIMS AND OUTSTANDING CLAIMS (Continued)

	31 March 2021	31 March 2020
	%	%
Risk margin - to bring the probability of sufficiency to 95%		
• Credit contract indemnity (CCI)	41.00	40.00
• Guaranteed asset protection (GAP)	41.00	41.00
• Mechanical breakdown insurance (MBI)	41.00	41.00
• Motor vehicle insurance (MVI)	26.00	26.00
• Loanminder (LM)	72.00	65.00
• Tyre and rim (TAR)	41.00	41.00
• Material damage (MD)	41.00	41.00
• Extended warranty (EXW)	41.00	41.00

	31 March 2021	31 March 2020
	%	%
Other assumptions applied:		
Discount rate	NZ government bonds yields	
Claims handling expenses	Based on expenses incurred	
	0.40	1.47
	11.00 - 13.75	11 - 14.75

(ii) The calculation of total liability for outstanding claims

The liability is measured based on the advice of the appointed actuary as at 31 March 2021.

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 yet 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 2021	Restated * 31 March 2020
	\$	\$
All products - policy period from 12 to 60 months		
Central estimate	7,842,369	7,459,363
Claims handling expense	936,790	978,014
Risk margin	3,163,761	3,011,296
Undiscounted outstanding claims provision	11,942,920	11,448,673
Discount	(5,315)	(46,170)
Discounted outstanding claims	11,937,605	11,402,503

* Refer to note 23 Change in comparatives for details regarding the restatements.

The outstanding claim liabilities also include a risk margin that relates to the inherent uncertainty in the central estimate of the future payments. Risk margins are determined on a basis that reflects the business. Regard is given to the robustness of the valuation models, the reliability and volume of available data, past experience of the insurer and the industry, and the characteristics of the classes of business written. 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.

Uncertainty in claims is represented as a volatility measure in relation to the central estimate. The volatility measure is derived after consideration of statistical modelling and benchmarking to industry analysis. The measure of the volatility is referred to as the coefficient of variation, defined as the standard deviation of the distribution of future cash flows divided by the mean.

Risk margins are determined by product, and then there is an allowance for diversification of risk between products. The measure of the parameter used to derive the diversification benefit is referred to as correlation, which is adopted with regard to industry analysis, historical experience and actuarial judgement.

The risk margins applied to future claims payments are determined with the objective of achieving 95% probability of sufficiency for the outstanding claims. (2020: 95%). Claims are expected to be settled within one year.

9. CLAIMS AND OUTSTANDING CLAIMS (Continued)

Provision for outstanding claims

	31 March 2021	Restated * 31 March 2020
	\$	\$
Balance at the start of the year - 1 April	11,402,503	9,917,209
Claims expense - risks relating to current year	29,135,759	28,606,341
Claims expense - risks relating to prior year	(3,775,313)	(981,753)
Claim payments during the year	(24,825,344)	(26,139,294)
Balance as at 31 March	11,937,605	11,402,503

* Refer to note 23 Change in comparatives for details regarding the restatements.

10. RECEIVABLES

	31 March 2021	Restated * 31 March 2020
	\$	\$
Prepayments	455,782	620,054
Third party claims administrator claims float	300,000	300,000
Excess of loss reinsurance receivables **	53,017	76,315
GST receivables	-	340,061
Other receivables **	49,093	54,438
Total receivables	857,892	1,390,868
Current	596,579	1,105,982
Non-current	261,313	284,886

* Refer to note 23 Change in comparatives for details regarding the restatements.

** Comparatives have been revised to enhance the readability of presentation:

Excess of loss reinsurance receivable of \$76,315, and GST receivables of \$340,061 have been shown separately from other receivables in 2020.

11. DEFERRED ACQUISITION COSTS

	31 March 2021	31 March 2020
	\$	\$
Balance at the start of the year	3,535,430	2,766,845
Additions	2,943,822	3,447,985
Amortisations	(2,985,126)	(2,679,400)
Balance as at 31 March	3,494,126	3,535,430
Current	2,141,839	2,142,240
Non-current	1,352,287	1,393,190

The movement of deferred acquisition costs is recognised in the statement of comprehensive income.

12. TAXATION

(a) TAX EXPENSE

	31 March 2021	31 March 2020
	\$	\$
Components of tax		
Current tax expense	1,600,918	100,697
Adjustments to current tax in prior years	-	405,415
Deferred tax expense	(125,418)	(118,847)
Adjustments to deferred tax in prior years	-	(109,229)
Tax expense / (benefit)	1,475,500	278,036

	31 March 2021	31 March 2020
	\$	\$
Reconciliation between net profit before tax and tax expense		
Net profit before tax	4,961,953	631,881
Tax at 28%	1,389,346	176,927
<i>Plus (less) tax effect of:</i>		
Non-deductible expenditure	177,550	(195,077)
Imputation credit arising from dividends received from joint venture	(23,497)	-
Non-taxable income	(67,899)	-
Prior year adjustment	-	296,186
Tax expense / (benefit)	1,475,500	278,036

(b) DEFERRED TAX ASSET / (LIABILITY) RECONCILIATION

	31 March 2021	31 March 2020
	\$	\$
Deferred tax asset		
Employee entitlements		
Opening balance	58,252	65,158
Charged to surplus or deficit	52,753	(6,906)
Deferred tax asset arising from employee entitlements	111,005	58,252
Right-of-use assets		
Opening balance	17,677	-
Charged to surplus or deficit	23,744	17,677
Deferred tax asset arising from right-of-use assets	41,421	17,677
Other provisions		
Opening balance	21,641	23,535
Charged to surplus or deficit	(3,280)	(1,894)
Deferred tax asset arising from other provisions	18,361	21,641
Deferred tax asset at 31 March	170,787	97,570

	31 March 2021	31 March 2020
	\$	\$
Deferred tax liability		
Intangible assets		
Opening balance	(385,321)	(604,520)
Charged to surplus or deficit	52,200	219,199
Deferred tax liability arising from intangible asset	(333,121)	(385,321)
Deferred tax liability as at 31 March	(333,121)	(385,321)
Net deferred tax asset / (liability) as at 31 March	(162,334)	(287,751)

(c) IMPUTATION CREDITS

	31 March 2021	31 March 2020
	\$	\$
Imputation credits available for use in subsequent reporting periods	2,362,976	576,088

13. LEASES

(a) AS A LESSEE

(i) Amounts recognised in the statement of financial position

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

	31 March 2021 \$	31 March 2020 \$
Right-of-use assets		
Premises	1,353,473	1,515,900
Office equipments	24,785	32,365
Right-of-use assets	1,378,258	1,548,265
	31 March 2021 \$	31 March 2020 \$
Lease liabilities		
Current	100,781	85,131
Non-current	1,373,717	1,474,498
Lease liabilities	1,474,498	1,559,629

There was no addition to the right-of-use assets in the financial year ended 31 March 2021.

(ii) Amounts recognised in the statement of comprehensive income

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

	Classifications	31 March 2021 \$	31 March 2020 \$
Depreciation charge of Right-of-use assets:			
Premises		162,427	108,279
Office equipments		7,580	5,536
Depreciation charge of right-of-use assets	Administration Expenses	170,007	113,815
Interest expense on lease liabilities	Administration Expenses	158,070	109,874
Expense relating to short-term leases	Administration Expenses	-	71,783
Total lease expense recognised in the statement of comprehensive income		328,077	295,472

(iii) Amounts recognised in the statement of cash flows

The statement of cash flows includes the following amounts relating to leases:

	31 March 2021 \$	31 March 2020 \$
Total cash flows relating to leases recognised in the statement of cash flows	243,203	160,509

(iv) 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.

13. LEASES (Continued)

(b) AS A LESSOR

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.

Minimum lease payments to be received on the sublease are as follows:

	31 March 2021	31 March 2020
	\$	\$
Within 1 year	43,000	14,333
Between 1 and 2 years	43,000	43,000
Between 2 and 3 years	43,000	43,000
Between 3 and 4 years	43,000	43,000
Between 4 and 5 years	14,333	43,000
Later than 5 years	-	14,333
Sublease receivable	186,333	200,666

14. PROPERTY, PLANT AND EQUIPMENT

Classification	Cost				Accumulated depreciation				Book value
	1 April 2020 \$	Additions \$	Disposals \$	31 March 2021 \$	1 April 2020 \$	Disposals \$	Depreciation \$	31 March 2021 \$	31 March 2021 \$
Computer hardware & equipment	146,973	42,367	-	189,340	96,554	-	32,756	129,310	60,030
Furniture & fittings	67,258	-	-	67,258	23,545	-	6,718	30,263	36,995
Motor vehicles	584,882	-	(36,192)	548,690	216,274	(20,485)	109,064	304,853	243,837
Office equipment	5,499	882	-	6,381	5,141	-	146	5,287	1,094
Office fit out	20,361	-	-	20,361	1,503	-	1,885	3,388	16,973
Total	824,973	43,249	(36,192)	832,030	343,017	(20,485)	150,569	473,101	358,929

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

15. INTANGIBLE ASSETS AND GOODWILL

(a) INTANGIBLE ASSETS

	31 March 2021	31 March 2020
	\$	\$
Distribution agreements		
Opening net book amount	1,376,146	2,159,000
Transfer to goodwill	-	(151,100)
Amortisation charge	(186,427)	(631,754)
Distribution agreements - balance as at 31 March	1,189,719	1,376,146
Internally developed software - completed		
Opening net book amount	936,659	956,679
Work in progress completed	34,880	357,363
Additions	-	138,731
Amortisation charge	(400,726)	(516,114)
Internally developed software - completed - balance as at 31 March	570,813	936,659
Internally developed software - work in progress		
Opening net book amount	38,280	357,403
Work in progress completed	(34,880)	(357,363)
Additions	-	38,240
Write-offs	(3,400)	-
Internally developed software - work in progress - balance as at 31 March	-	38,280
Intangible assets - balance as at 31 March	1,760,532	2,351,085

(b) GOODWILL

	31 March 2021	31 March 2020
	\$	\$
Opening net book amount	1,524,775	1,363,983
Additions	-	9,692
Transfer to goodwill	-	151,100
Goodwill - balance as at 31 March	1,524,775	1,524,775

(c) GOODWILL AND DISTRIBUTION AGREEMENTS IMPAIRMENT TEST

Goodwill and intangible assets on distribution agreements arise from the acquisition of the non-life insurance policies of Co-op insurance from Credit Union Insurance Limited, the effective date on which the Reserve Bank of New Zealand approved the transfer of the policies was on 1 August 2018.

An impairment charge is recognised in the statement of comprehensive income when the carrying value of the asset, or cash-generating units (CGU), exceeds the calculated recoverable amount.

The Company monitors both goodwill and intangible assets on distribution agreements as a single CGU.

Goodwill 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.

Distribution agreements are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of the CGU was determined by references to a value-in-use calculations based on the assumptions detailed below.

The value-in-use calculations involve the use of cash flow projections, which are based on the management's approved financial budgets covering a five-year period.

Assumption	Approach used to determining values
Sales volume	5% annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development. (25% in 2020) *
Budgeted gross margin	85% based on past performance and management's forecast. (81% in 2020)
Terminal value growth	2% is the expected the terminal value growth based on management's expectation of steady growth. (2% in 2020)
Return on equity / discount rate	15% is based on the expected return on equity taking into consideration of the nature, size, and risks of the Company. (35% in 2020) *

* The Company has reassessed its forecast in 2021, and has revised its growth assumptions in its forecast for the next 5 years period.

The Company has considered and assessed reasonably possible changes for other key assumptions, and have not identified any instances that could cause the carrying amount of goodwill and intangible assets to exceed its recoverable amount.

16. PAYABLES

	Note	31 March 2021 \$	31 March 2020 \$
Trade accounts payable		1,437,562	1,167,326
GST payable		202,615	-
Payables		1,640,177	1,167,326
Current		1,640,177	1,167,326
Non-current		-	-

The carrying amounts of payables is considered to be the same as their fair values, due to their short term nature.

17. OTHER PROVISIONS

	Notes	31 March 2021 \$	31 March 2020 \$
Employment benefits		709,176	252,385
Provision for restoration costs		51,690	51,766
Provision for incentives		298,846	417,739
Other provisions		1,059,712	721,890
Current		873,541	482,141
Non-current		186,171	239,749

Employment benefits

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

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.

Provision for incentives

Rebates and incentives are calculated monthly and the provision represents incentives owing to dealers but remained unpaid at reporting date.

18. RISK MANAGEMENT

The financial condition and operations of the business are affected by a number of key risks including insurance risk, market risk, credit risk, liquidity risk, interest rate 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 and a risk management policy, which 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 registers.

The board has delegated the monitoring and reporting of extreme and high risk items, and 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.

(i) Underwriting risk

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 pricing and monitoring claims patterns

18. RISK MANAGEMENT (Continued)

(ii) Concentration risk

Concentration risk refers to the risk of underwriting a number of like risks, where the same or similar loss events could potentially eventuate in large single claims and accumulations of claims that arise from a singular event.

The Company identifies the concentration risk by the type of insured events, and limits its exposure through appropriate reinsurance arrangements.

	31 March 2021	31 March 2020
Type of insured events to gross written premium (%)	%	%
Mechanical breakdown	44%	46%
Motor vehicle	41%	37%
Credit contract insurance	13%	16%
Contents	2%	1%
Total	100%	100%

(iii) Sensitivity Analysis

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 and equity (excluding impact of tax).

Sensitivity to the profit and equity (excluding impact of tax) based on the inflation rate was considered immaterial.

The analysis is based on changes in economic conditions that are considered reasonably possible at the reporting date.

The potential impact on the outstanding claims is assumed as at the reporting date.

Impact of changes in assumptions

In '000s	in variables	31 March 2021	31 March 2020
		\$	\$
Initial loss ratio	+5%	1,256	993
	-5%	(1,242)	(976)
Discount rate	+1%	(19)	(18)
	-1%	5	10
Claims handling expense	+1%	112	78
	-1%	(93)	(78)

(b) MARKET RISK

Market risk is the risk of change in the fair value of financial instruments from fluctuations in the market prices (price risk), and interest rate 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.

(i) 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 Company is exposed to cash flow interest rate risk on cash and cash equivalents, which the after tax impact on profit or loss is immaterial.

The Company is exposed to fair value interest rate risk through its holding in interest-bearing financial assets. Refer to note 8 Financial assets at fair value through profit or loss. The Company manages interest rate risk in accordance with the Company's capital management plans and the Company's investment policy.

Fixed-interest investments are measured at fair value through profit or loss. Movements in interest rates impact the fair value of interest-bearing financial assets and therefore impact profit or loss (there is no direct impact on equity).

The following table provides the after tax impact on profit or loss for a reasonably possible changes in interest rate:

	31 March 2021	Restated *
	\$	%
0.50 % increase in interest rate	286,436	244,415
0.50 % decrease in interest rate	(286,436)	(244,415)

* Refer to note 23 Change in comparatives for details regarding the restatements.



18. RISK MANAGEMENT (Continued)

(ii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets.

The Company is exposed to price risk through its investments in unit trusts. Refer to note 8 Financial assets at fair value through profit or loss.

Investments in unit trusts are managed by external investment managers. The Company manages the exposure to price risk by diversifying its portfolio. Diversification of the portfolio is done in accordance with the mandates set by the Company pursuant to its risk management policy.

The following table provides the after tax impact on profit or loss and equity for a reasonably possible change in unit prices:

	31 March 2021	31 March 2020
	%	%
0.50 % increase in weighted unit price	42,396	-
0.50 % decrease in weighted unit price	(42,396)	-

(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 risks primarily results from transactions with security issuers, reinsurers and policyholders.

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 maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets below.

(i) Investments

The Company manages its credit risks through its investment activities in line with mandates set by the board:

- New Zealand cash deposits that are internally managed are limited to banks with a minimum Standard and Poor's (S&P) AA- credit ratings.
- Cash deposits, bonds and investments that are managed by external investment managers are restricted to counterparties with a minimum S&P A- credit ratings

The following table provides details on the Company's exposure to credit risks associated with its investment activities:

	Rating			
	AAA	AA	A	Total
As at 31 March 2021	\$	\$	\$	\$
Investment in term deposits	-	36,400,016	-	36,400,016
Investment in bonds	1,924,043	3,942,996	2,983,833	8,850,872
Investment in unit trust	1,245,768	9,275,252	1,515,383	12,036,403
Total Investments as at 31 March 2021	3,169,811	49,618,264	4,499,216	57,287,291

	Rating			
	AAA	AA	A	Total
As at 31 March 2020	\$	\$	\$	\$
Investment in term deposits	-	48,882,962	-	48,882,962
Total Investments as at 31 March 2020	-	48,882,962	-	48,882,962

(ii) Reinsurance

The Company manages its reinsurance programme in line with the risk management policy. The Company seeks to mitigate volatility of insurance risks in order to reduce exposure and overall cost.

The Company has entered into reinsurance treaties with reinsurers with a minimum of A- credit ratings in S&P and/or AM Best.

The Company decided not to renew its quota share agreement with the reinsurer which expired on 31 March 2021.

18. RISK MANAGEMENT (Continued)

(d) LIQUIDITY RISK

Management of liquidity risk is designed to ensure that the Company has the ability to meet its financial obligations as they fall due.

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 shows the maturity of the contractual undiscounted cash flows of the Company's financial assets and liabilities: (except net outstanding claims liability is discounted)

	Net outstanding claims liability	Total accounts payable	Total lease liabilities	Total financial liabilities	Cash and financial assets at fair value through profit or loss
31 March 2021	\$	\$	\$	\$	\$
0 to 3 months	8,429,111	1,264,260	60,800	9,754,171	22,569,668
3 to 6 months	1,569,522	-	62,363	1,631,886	12,738,277
6 to 12 months	486,733	-	126,290	613,023	16,345,581
After 12 months	265,241	-	1,983,680	2,248,922	7,656,825
Total	10,750,607	1,264,260	2,233,133	14,248,000	59,310,351

	Net outstanding claims liability	Total accounts payable	Total lease liabilities	Total financial liabilities	Cash and financial assets at fair value through profit or loss
31 March 2020	\$	\$	\$	\$	\$
0 to 3 months	8,986,525	1,064,823	60,800	10,112,148	15,548,428
3 to 6 months	1,513,090	-	60,800	1,573,890	10,471,981
6 to 12 months	469,517	-	121,600	591,117	12,870,887
After 12 months	261,869	-	2,233,134	2,495,003	12,713,130
Total	11,231,000	1,064,823	2,476,334	14,772,157	51,604,426

(e) OPERATIONAL RISK

Operating risk is the risk of financial loss resulting from either external events, inadequate or failed systems or processes, or insufficiently skilled and trained staff. There are a number of key processes and controls in place which mitigate operating risk, including:

- The management and staff responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities.
- The chief finance and risk officer charged with assisting staff identify risks, assessing the sufficiency of and ongoing presence of suitable mitigations.
- The board risk committee charged with monitoring and reporting on risks.

(f) CORONAVIRUS DISEASE PANDEMIC ("COVID-19")

The directors and management have assessed the impact of COVID-19.

As at 31 March 2021, 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 outcome of the assessment resulted in the removal of all COVID-19 assumptions which were applied at 31 March 2020.

The Company applied for the government COVID-19 wage subsidy scheme and received \$295,243 ("grant income") on 7 April 2020.

The Company has elected to offset this grant income against salaries expense as permitted by NZ IAS 20 Accounting for government grants and disclosure of government assistance. No other government assistance or grants were received.

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.

19. CAPITAL MANAGEMENT

(a) SHARE CAPITAL

		31 March 2021	31 March 2020
Share capital	Note	\$	\$
Fully paid up capital		12,419,990	10,420,000
Issue of ordinary shares	(i)	5,460,000	1,999,990
Shares bought back and cancelled	(ii)	(5,460,000)	-
Share capital at 31 March		12,419,990	12,419,990

		31 March 2021	31 March 2020
Number of shares	Rights	#	#
Class A	Full voting right	9,035,904	10,798,786
Class B	Non voting right	1,762,882	-
Total number of shares at 31 March		10,798,786	10,798,786

(i) Issue of ordinary shares

On 24 August 2020, the Company issued 1,762,882 fully paid class B shares for \$5,460,000 (2020: additional ordinary class A shares of 378,786 at \$5.28 per new share were issued on 5 August 2019)

(ii) Shares bought back and cancelled

On 26 August 2020, the Company repurchased and cancelled 1,762,882 ordinary class A shares at \$3.10 per share. The new class B share issue, repurchase and cancellation were approved by the board on 24 July 2020.

(b) FINANCIAL STRENGTH RATING

Provident Insurance Corporation Limited has a Financial Strength Rating of B as provided by rating agency AM Best on 16 December 2020. (2020: B)

(c) CAPITAL MANAGEMENT PLAN AND SOLVENCY

The Reserve Bank of New Zealand (RBNZ) is the prudential regulator and supervisor of all insurers carrying on insurance business in New Zealand, and is responsible for administering the Insurance (Prudential Supervision) Act 2010. The Company measures the adequacy of capital against the solvency standards for non-life insurance business published by RBNZ to manage capital.

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 2021	31 March 2020
\$'000	\$	\$
Actual solvency capital (ASC)	12,312	8,137
Minimum solvency capital (MSC)*	6,627	5,943
Solvency margin	5,685	2,194
Solvency ratio	186%	137%

*MSC has been calculated in accordance with RBNZ Solvency Standard for non-life insurance business.

20. NOTES TO THE STATEMENT OF CASH FLOW

(a) CASH AND CASH EQUIVALENTS

	31 March 2021	31 March 2020
	\$	\$
Cheque accounts	710,246	1,036,402
Call account	1,312,814	1,685,062
Total cash and cash equivalents	2,023,060	2,721,464

(b) NON-CASH INVESTING AND FINANCING ACTIVITIES

		31 March 2021	31 March 2020
	Note	\$	\$
Issue of ordinary shares	19(a)	5,460,000	-
Shares bought back and cancelled	19(a)	(5,460,000)	-
Total non-cash investing and financing activities		-	-

(c) CASH GENERATED FROM OPERATIONS

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

		31 March 2021	31 March 2020
	Note	\$	\$
Profit after tax for the year		3,486,453	353,845
Add/(less) non-cash items			
Depreciation of property, plant and equipment		150,569	177,241
Depreciation of right-of-use assets		170,007	113,815
Amortisation of intangible assets		587,152	1,147,868
Intangible asset purchase price adjustment		-	(9,692)
Net realised and unrealised gain on investment		(32,637)	-
Profit from joint venture		(7,674)	(11,613)
		4,353,870	1,771,464
Add/(less) movements in working capital			
Decrease in receivables *		(441,590)	621,013
Increase in payables		2,489,402	(3,022,179)
Other changes in working capital		1,320,540	3,393,735
		3,368,352	992,569
Net cash inflow from operating activities		7,722,222	2,764,033

* Comparatives have been revised to enhance the readability of presentation:

Movement in capitalised costs, provision for outstanding claims and deferred tax asset is now included in other changes in working capital (other changes in working capital increased by \$763,915 in 2020).

21. GST SETTLEMENT

For the year ended 31 March 2020, the Company reached a settlement agreement for \$1,088,578 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.

22. RELATED PARTY TRANSACTIONS

(a) RELATED PARTIES

The Company is related to the following parties:

Name	Type	Domicile	Ownership Interest	
			31 March 2021	31 March 2020
Rothbury Specialty Risks Limited ("RSR")	Joint venture	New Zealand	33.33%	33.33%

Rothbury Specialty Risks Ltd is an insurance broker. It is a strategic investment for the Company which complements the services provided by the Company. The Company holds a one third share of RSR, with an effective date from 1 April 2018 ("joint venture"). The joint venture is operated by one of the other shareholders and the Company earns commissions on any business referred to this broker.

Refer to note 22(c) Transactions with related parties for the commission income received from the joint venture during the year ended 31 March 2021.
Refer to note 22(d) Investment in joint venture for the detailed breakdown of the investment in joint venture.

(b) KEY MANAGEMENT PERSONNEL

	31 March 2021	31 March 2020
	\$	\$
Short term employee benefits (including directors fees)	2,235,858	1,646,972
Directors consultancy fee	186,075	460,735
Key management personnel	2,421,933	2,107,707

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.

(c) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	31 March 2021	31 March 2020
	\$	\$
RSR Commission income	10,376	-
Total commission income received	10,376	-

During the year ended 31 March 2021, the Company received a dividend from RSR (2020: Nil), please refer to note 22(d) Investment in joint venture.

There are no outstanding balances nor commitment at the end of the reporting period in relation to transactions with related parties.

(d) INVESTMENT IN JOINT VENTURE

Set out below are the joint venture of the Company as at 31 March 2021 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		Nature of relationship	Measurement method	Carrying Amount	Carrying Amount
	2021	2020			2021	2020
					\$	\$
Rothbury Specialty Risks Ltd	33.33	33.33	Joint Venture	Equity method	648,134	700,877

(i) Interest in joint venture

There are no commitments and contingent liabilities in respect of joint venture in 2021 (2020: Nil).

(ii) 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.

22. RELATED PARTY TRANSACTIONS (Continued)

(A) Summarised balance sheet

	Rothbury Specialty Risks Ltd 2021 \$	Rothbury Specialty Risks Ltd 2020 \$
Current assets		
Cash and cash equivalents	539,000	702,000
Other current assets	390,000	297,000
Total current assets	929,000	999,000
Non-current assets	1,968,000	1,994,000
Current liabilities		
Financial liabilities (excluding trade payables)	453,399	483,158
Other current liabilities	499,000	407,000
Total current liabilities	952,399	890,158
Net assets	1,944,601	2,102,842

	Rothbury Specialty Risks Ltd 2021 \$	Rothbury Specialty Risks Ltd 2020 \$
Reconciliation to carrying amounts		
Opening net assets	2,102,842	2,068,000
Profit for period	23,027	34,842
Dividend paid	(181,268)	-
Closing net assets	1,944,601	2,102,842
Share in %	33.33	33.33
Share	648,134	700,877
Carrying amount	648,134	700,877
Dividends received from joint venture	60,417	-

(B) Summarised statement of comprehensive income

	Rothbury Specialty Risks Ltd 2021 \$	Rothbury Specialty Risks Ltd 2020 \$
Revenue	921,697	1,028,126
Interest income	4,071	10,693
Other income	-	130,388
Depreciation and amortisation	104,611	100,867
Interest expense	2,600	3,835
Other expenses	784,170	848,390
Income tax expense / (benefit)	11,360	181,273
Profit from continuing operations	23,027	34,842
Profit for the period	23,027	34,842
Total comprehensive income	23,027	34,842
Share of profits	7,674	11,613

23. CHANGE IN COMPARATIVES

The Company has restated certain items from prior year's financial statements in 2021 as a result of an error. There was no impact to 2020 profit as a result of changes below. The key changes are listed below.

(a) Statement of comprehensive income

Claims incurred, and reinsurance and other recoveries are now shown on a gross basis (previously shown on a net basis). As a result, claims incurred and reinsurance and other recoveries have both increased by \$171,503 in 2020.

Changes for internal consistency have also been made to the notes to the financial statements, Note 9(a) Net claims expenses.

(b) Statement of financial position

A number of changes have been made to the presentation of the statement of financial position.

- Provision for outstanding claims has now been shown on a gross basis. As a result, provision for outstanding claims has increased by \$171,503. Non-reinsurance recoveries of \$171,503 has now been disclosed in the provision for non-reinsurance recoveries on outstanding claims.
- Interest accrued on term deposits has been reclassified to financial assets at fair value through profit or loss. As a result, financial assets at fair value through profit or loss has increased by \$1,382,962 in 2020. Previously, interest accrued was grouped with receivables, (which reduced by \$1,382,962 in 2020 to reflect the change in classification).

Changes for internal consistency have also been made to the notes to the financial statements, Note 8 Financial assets at fair value through profit or loss, Note 9(b) Provision for outstanding claims, Note 10 Receivables, and Note 18 Risk management.

(c) Statement of cash flows

A number of changes have been made to the presentation of the statement of cash flows.

- Cash flow related to reinsurance premium is now shown separately, as opposed to previously being netted off in premiums received. As a result, premiums received has now increased by \$653,280 in 2020, and reinsurance paid of \$653,280 has now been shown separately in 2020.
- Cash flow related to reinsurance and other recoveries received is now shown separately, as opposed to previously combined with other income received. As a result, other income received has now decreased by \$1,123,739 in 2020, and reinsurance and other recoveries received of \$1,123,739 is now shown separately in 2020.
- Cash flow related to interests on term deposits are now included in the proceeds from term deposit, as opposed to previously included in interest received. As a result, interest received has increased by \$38,717 in 2020, and proceeds from term deposit has decreased by \$38,717.
- Interest expenses on lease liabilities was moved from cash flows from financing activities (increasing by \$109,824 in 2020) to cash flows from operating activities (decreasing by \$109,824 in 2020), to comply with NZ IAS 7 Statement of cash flows.

24. SUBSEQUENT EVENTS

There are no events occurring subsequent to the financial year ended 31 March 2021, which require adjustment to or disclosure in the financial statements.



Independent auditor's report

To the Shareholders of Provident Insurance Corporation Limited

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 2021, 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).

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 March 2021;
- 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 and other explanatory information.

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.

Independence

We are independent of the Company in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for 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 other assurance services over the regulatory solvency return, advisory services in relation to executive remuneration, and general training attended by Company personnel. 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. The provision of these other services and relationships has 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. We have one key audit matter: valuation of provisions for outstanding claims. This matter was 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 this matter.

Description of the key audit matter	How our audit addressed the key audit matter
<p>Valuation of provisions for outstanding claims</p> <p>2021: \$11,937,605; 2020: \$11,402,503</p> <p>We considered the valuation of provisions for outstanding claims a key audit matter because of the complexity involved in the estimation process and the significant judgements that management make in determining the balance.</p> <p>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.</p> <p>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. Management determined the provisions 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 claims data.</p> <p>Refer to the following notes in the Company's financial statements for the provisions for outstanding claims: Note 3(c) for related accounting policies, Note 4 for critical judgements and estimates and Note 9 for net claims and outstanding claims related disclosure.</p>	<p>Together with our actuarial experts, we:</p> <ul style="list-style-type: none"> o Reviewed the work and findings of the external independent actuary engaged by the Company; o Assessed 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; o Evaluated the actuarial models and methodologies used by the external independent actuary by comparing with generally accepted models and methodologies applied in the industry; and o Evaluated the risk margin which brings the probability of sufficiency to 95%. <p>For historical claims data we:</p> <ul style="list-style-type: none"> o Re-performed premiums and claims data reconciliations; and o Inspected a sample of claims paid during the year to confirm they were supported by appropriate documentation and approved within delegated authority limits.



Our audit approach

Overview

Materiality

Overall materiality: \$439,000, which represents approximately 1% of gross written premiums.

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.

Key audit matters

As reported above, we have one key audit matter, being:

- Valuation of provisions for outstanding claims
-

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.



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. We have nothing to report in this regard.

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/assurance-standards/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 Vatsana Vanpraseuth.

For and on behalf of:

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in black ink.

Chartered Accountants
28 July 2021

Auckland



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

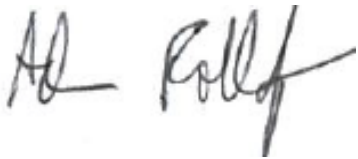
Dear Sir / Madam

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 2021; 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 2021; and
- h. No condition has been imposed under Section 21 (2)(c) as at 31 March 2021.

Kind regards,

A handwritten signature in black ink, appearing to read 'AD Follington', with a stylized, cursive script.

Adam Follington

Appointed Actuary, Provident Insurance Corporation Ltd

Fellow of the New Zealand Society of Actuaries

Tel: +64 2 1271 5667