Provident Insurance Corporation Limited

Annual report for the financial year ended 31 March 2022

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Directors' report

Directors' declaration

The directors have pleasure in presenting the annual report of Provident Insurance Corporation Limited for the year ended 31 March 2022.

In the opinion of the directors of Provident Insurance Corporation Limited (the **Company**), the annual report and the notes, set out on pages 8 to 51:

• 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 2022 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 financial 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 7 July 2022.

Signed on behalf of the board of directors.

D Randell
Director

D McKinstry
Director

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 2022, 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 2022;
- 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 and general training attended by Company personnel. Subject to certain restrictions, certain partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the Company. These relationships and the provision of these other services have not impaired our independence as auditor of the Company.

Key audit matters

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

Description of the key audit matter	How our audit addressed the key audit matter
Valuation of provision for outstanding claims As at 31 March 2022, the Company had $13.1 million of provision for outstanding claims (2021: $11.9 million), as disclosed in note 19 and the relevant accounting policies described in note 25.3 of the financial statements. We considered the valuation of provision for outstanding claims a key audit matter because of the complexity involved in the estimation process and the significant judgements management makes in determining the balance. In particular, the estimation of claims incurred but not yet reported (IBNR) is subject to a greater degree of uncertainty as there is generally less information about the claim event. The Company has appointed an actuary to determine the valuation of provision for outstanding claims using multiple actuarial techniques utilising the Company's data and applying key actuarial assumptions such as initial loss ratio, discount rates, claims handling expenses and risk margins. The risk margins are determined with the objective of achieving 95% probability of sufficiency for the provision for outstanding claims. The Company conducts sensitivity analyses on the key actuarial assumptions as disclosed in note 19.4.	Together with PwC actuarial experts, we; ● reviewed the work and findings of the Company's appointed actuary; ● assessed the reasonableness of key actuarial assumptions against the Company's past experience, market observable data (as applicable) and our experience of market practice; ● evaluated the actuarial models and methodologies used by the appointed actuary by comparing with general accepted models and methodologies applied in the industry; ● evaluated the risk margins which brings the probability of sufficiency of the provision for outstanding claims to 95%; and ● evaluated the sensitivity analyses. For historical claims data, we: ● re-performed claims data reconciliations; and ● inspected a sample of claims paid during the year to confirm they were supported by appropriate documentation and approved within the delegated authority limits.

Our audit approach

Overview

Materiality	Overall materiality: $450,000, which represents approximately 1% of gross written premium. We chose gross written premium as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Company, is not as volatile as other profit or 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 matter	As reported above, we have one key audit matter, being: • Valuation of provision 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 Director's report 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:

PricewaterhouseCoopers

Chartered Accountants
7 July 2022

Auckland

Statement of comprehensive income for the financial year ended 31 March 2022

	Note	2022 $'000	Restated* 2021 $'000
Gross written premium		**45,018**	43,922
Movement in unearned premium		**398**	(1,465)
Outward reinsurance premium		**(747)**	(4,112)
Net earned premium		**44,669**	38,345
Claims incurred		**(26,662)**	(25,360)
Reinsurance and other recoveries		**804**	4,136
Net incurred claims	4	**(25,858)**	(21,224)
Employee expenses		**(4,477)**	(4,314)
Other underwriting expenses		**(11,187)**	(10,124)
Underwriting expenses		**(15,664)**	(14,438)
Underwriting profit		**3,147**	2,683
Investment (loss)/income	5	**(123)**	1,192
Share of profit from joint venture	24.2	**-**	7
Joint venture bargain purchase gain	24.2	**93**	-
Other income	6	**204**	945
Profit before taxation		**3,321**	4,827
Taxation expense	8.1	**(953)**	(1,438)
Profit after taxation		**2,368**	3,389
Total comprehensive income for the financial year		**2,368**	3,389

*restatements relate to correction of prior period errors as detailed in note 2.4.

The statement of comprehensive income is to be read in conjunction with the accompanying notes.

Statement of financial position
as at 31 March 2022

	Note	2022 $'000	Restated* 2021 $'000
Assets			
Cash and cash equivalents	9	**4,284**	2,023
Financial assets at fair value through profit or loss	10.1	**58,155**	57,287
Receivables and other assets	11	**2,390**	2,728
Current tax asset	8.2	**157**	-
Deferred acquisition costs	12	**2,929**	3,081
Reinsurance and other recoveries	13	**572**	1,192
Investment in joint venture	24.2	**972**	648
Plant and equipment	14	**405**	359
Intangible assets	15.1	**1,369**	1,761
Goodwill	15.2	**1,525**	1,525
Right of use assets	16.1	**1,509**	1,378
Total assets		**74,267**	71,982
Liabilities			
Payables	17	**1,961**	1,754
Current tax liabilities	8.2	**-**	1,607
Other provisions	18	**1,158**	1,059
Provision for outstanding claims	19.2	**13,108**	11,937
Provision for unearned premium	20.1	**37,720**	38,118
Lease liabilities	16.1	**1,616**	1,474
Deferred tax liabilities	8.3	**861**	162
Total liabilities		**56,424**	56,111
Net assets		**17,843**	15,871
Equity			
Share capital	22.1	**12,420**	12,420
Retained earnings		**5,423**	3,451
Total equity		**17,843**	15,871

*restatements relate to correction of prior period errors as detailed in note 2.4.

The Board of Directors of Provident Insurance Corporation Limited approved these financial statements for issue on 7 July 2022.

For and on behalf of the Board

D.H. [signature] [signature]

Director Director

The statement of financial position is to be read in conjunction with the accompanying notes.

Statement of changes in equity
for the financial year ended 31 March 2022

	Note	Share capital $'000	Retained earnings $'000	Total equity $'000
Balance as at 1 April 2020		12,420	(309)	12,111
Correction of error (net of tax)		-	371	371
Balance as at 1 April 2020 (restated*)		12,420	62	12,482
Profit for the financial year (restated*)		-	3,389	3,389
Total comprehensive income for the financial year (restated*)		-	3,389	3,389
Transactions with the owners recorded directly in equity				
Issue of ordinary shares		5,460	-	5,460
Shares bought back and cancelled		(5,460)	-	(5,460)
Balance as at 31 March 2021 (restated*)		**12,420**	**3,451**	**15,871**
Balance as at 31 March 2021 as originally presented		**12,420**	**3,178**	**15,598**
Correction of error (net of tax)		**-**	**273**	**273**
Restated total equity as at 31 March 2021		**12,420**	**3,451**	**15,871**
Profit for the financial year		**-**	**2,368**	**2,368**
Total comprehensive income for the financial year		**-**	**2,368**	**2,368**
Transactions with the owners recorded directly in equity				
Dividends paid	3	**-**	**(396)**	**(396)**
Balance as at 31 March 2022		**12,420**	**5,423**	**17,843**

*restatements relate to correction of prior period errors as detailed in note 2.4.

The statement of changes in equity is to be read in conjunction with the accompanying notes.

Statement of cash flows for the financial year ended 31 March 2022

	Note	2022 $'000	Restated* 2021 $'000
Cash flows from operating activities			
Premiums received		**45,337**	43,796
Interest received		**1,776**	1,722
Other income received		**204**	945
Grant income received		**-**	295
Claims paid	19.2	**(25,491)**	(24,825)
Underwriting expenses paid		**(14,447)**	(12,368)
Reinsurance and other recoveries received		**1,462**	3,139
Reinsurance paid		**(738)**	(4,000)
Income tax paid	8.2	**(2,018)**	(262)
Interest credit/(expense) on lease liabilities		**14**	(157)
Net cash from operating activities	23.2	**6,099**	8,285
Cash flows from investing activities			
Proceeds from sale of plant and equipment		**78**	19
Acquisition of plant and equipment	14	**(221)**	(43)
Acquisition of intangibles - software		**(33)**	-
Proceeds from term deposits		**39,752**	35,100
Cash invested in term deposits		**(4,675)**	(23,201)
Purchase of shares in joint venture	24.1	**(231)**	-
Proceeds from joint venture dividend	24.2	**-**	60
Proceeds from sale of investments		**69,700**	10,380
Payment for purchase of investments		**(107,544)**	(31,213)
Net cash used in investing activities		**(3,174)**	(8,898)
Cash flows from financing activities			
Principal elements of lease payments		**(268)**	(85)
Dividends paid		**(396)**	-
Net cash used in financing activities		**(664)**	(85)
Net increase/(decrease) in cash and cash equivalents		**2,261**	(698)
Cash and cash equivalents at the beginning of the financial year		**2,023**	2,721
Cash and cash equivalents at the end of the financial year	9	**4,284**	2,023

*restatements relate to correction of prior period errors as detailed in note 2.4.

The statement of cash flows is to be read in conjunction with the accompanying notes

Notes to the financial statements

1. Reporting entity

Provident Insurance Corporation Limited (**the Company**) is a company incorporated on 23 May 2012 under the New Zealand Companies Act 1993 and domiciled in New Zealand.

The Company was granted a licence to carry on non-life insurance business in New Zealand by the 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

2.1. Statement of compliance

The Company is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, Companies Act 1993, Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010.

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 company is a for-profit entity and the financial statements have been prepared on the historical cost basis unless the application of fair value or other measurement bases are required by the relevant accounting standards as set out in the accounting policies in Note 25.

Significant accounting policies applied in the preparation of these financial statements are set out in Note 25.

The reporting period is 1 April 2021 to 31 March 2022.

These financial statements are presented in New Zealand dollars, which is the Company’s functional and presentation currency. All values are rounded to the nearest thousand dollars ($‘000) unless stated otherwise.

2.2. New or amended standards adopted

There are no NZ IFRS that are effective for the first time for the financial year beginning on or after 1 April 2021 that would be expected to have a material impact on the financial statements.

Notes to the financial statements (continued)

2.3. 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 *Insurance contracts*, and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts.

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. The Company has a project underway to implement NZ IFRS 17 which includes accounting, actuarial and technology workstreams. The project is progressing in line with agreed milestones and is expected to deliver NZ IFRS 17 compliant technology solutions, operational processes and reporting outcomes in line with the mandatory implementation dates. The Company is still working through impact assessment and is not in a position to quantify the impact at this stage.

2.4. Comparative information

(a) Restatements arising from prior period errors

The Company has identified material prior period errors during the year ended 31 March 2022 which are required to be corrected retrospectively through restatement of the comparative information, with details set out below.

(i) Provision for unearned premium

The Company has identified that mid-term cancellations of insurance contracts in respect of Mechanical Breakdown Insurance (**MBI**), Credit Contract Indemnity (**CCI**) and Guaranteed Asset Protection (**GAP**) had not been correctly treated in the calculation of the provision of unearned premium in prior years. The mid-term cancelled contracts incorrectly continued to have their original premium spread over the original terms, resulting in an overstatement of the provision for unearned premiums. The amounts relating to mid-term cancelled contracts should have been fully released from the provision for unearned premium, through the movement in unearned premium included in the statement of comprehensive income, at the time that a mid-term cancellation is recognised.

The error has been corrected by restating each of the affected financial statement line items for the prior periods. Refer to the table in 2.4(a)(iii) below.

(ii) Deferred acquisition costs

The Company has identified that the amortisation of acquisition costs has not correctly taken into account mid-term cancelled contracts or the term over which acquisition costs relate for Private Motor Vehicle (**PMV)** insurance contracts in prior years. Acquisition costs in respect of Mechanical Breakdown Insurance (**MBI**), Credit Contract Indemnity (**CCI**) and Guaranteed Asset Protection (**GAP**) have also not been amortised in accordance with the expected pattern of the incidence of risk in prior years. These errors have resulted in an overstatement of the deferred acquisition costs asset.

The error has been corrected by restating each of the affected financial statement line items for the prior periods. Refer to the table in 2.4(a)(iii) below.

Notes to the financial statements (continued)

2.4. Comparative information (continued)

(a) Restatements arising from prior period errors (continued)

(iii) Impacts of prior period errors on comparative information

The following tables set out the impacts of the prior period errors on the comparative information presented for the year ended 31 March 2022.

	2021 $'000	Increase/ (decrease) $'000	2021 (restated) $'000
Statement of comprehensive income- financial statement line items impacted:			
Movement in unearned premium	(1,282)	(183)	**(1,465)**
Other underwriting expenses	(10,171)	47	**(10,124)**
Underwriting profit	2,819	(136)	**2,683**
Profit before taxation	4,963	(136)	**4,827**
Taxation expense	(1,476)	38	**(1,438)**
Net profit after taxation	3,487	(98)	**3,389**
Total comprehensive income for the financial year	3,487	(98)	**3,389**
Statement of financial position - financial statement line items impacted:			
Deferred acquisition costs	3,494	(413)	**3,081**
Total assets	72,395	(413)	**71,982**
Current tax liabilities	1,502	105	**1,607**
Provision for unearned premium	38,909	(791)	**38,118**
Total liabilities	56,797	(686)	**56,111**
Net assets	15,598	273	**15,871**
Retained earnings	3,178	273	**3,451**
Total equity	15,598	273	**15,871**
Statement of changes in equity - financial statement line items impacted:			
Retained earnings opening balance 1 April 2020	(309)	371	**62**
Profit for the financial year	3,487	(98)	**3,389**
Total comprehensive income for the financial year	3,487	(98)	**3,389**
Retained earnings closing balance 31 March 2021	3,178	273	**3,451**

Notes to the financial statements (continued)

2.4. Comparative information (continued)

(a) Restatements arising from prior period errors (continued)

(iv) Changes to statement of cash flow items

The classification of items in the comparative statement of cash flows has been corrected to reflect the appropriate presentation of statement of cash flow items. The significant areas of change are as follows:

- interest received cash flows have been updated to reflect the movement in interest accruals as part of interest received rather than proceeds from the sales of investments
- reinsurance related receivable and payable amounts have been updated to correct reinsurance cash flow amounts
- term deposit and investment cash flows have been updated to reflect the look through to the cash flows managed by the Company's investment manager

The following table sets out the changes in the comparative information for cash flow items between the restated amounts and those previously reported for the year ended 31 March 2021:

	2021 $'000	Increase/ (decrease) $'000	2021 (restated) $'000
Statement of cashflows - financial statement line items impacted:			
Cash flows from operating activities			
Premiums received	43,810	(14)	**43,796**
Interest received	1,190	532	**1,722**
Other income received	1,117	(172)	**945**
Underwriting expenses paid	(12,414)	46	**(12,368)**
Reinsurance and other recoveries received	3,747	(608)	**3,139**
Reinsurance paid	(4,779)	779	**(4,000)**
Net cash from operating activities	7,722	563	**8,285**
Cash flows from investing activities			
Proceeds from term deposits	35,684	(584)	**35,100**
Cash invested in term deposits	(22,100)	(1,101)	**(23,201)**
Proceeds from sale of investments	245	10,135	**10,380**
Payment for purchase of investments	(22,200)	(9,013)	**(31,213)**
Net cash used in investing activities	(8,335)	(563)	**(8,898)**
Net decrease in cash and cash equivalents	(698)	-	**(698)**

The comparative information in the reconciliation of cash from operating activities to the profit after taxation has also been restated to reflect the corrected classifications as detailed in note 23.2.

Notes to the financial statements (continued)

2.4. Comparative information (continued)

(b) Other changes to comparative information

Certain amounts and presentations in the comparative information have been restated to conform to the changes in presentation in the current financial period. Material changes are detailed below.

(i) Changes to statement of financial position items

Premiums receivable and other receivables have been combined into a single receivables caption; reinsurance payables and other payables have been combined into a single payables caption and reinsurance and non-reinsurance recoveries have been combined into a single reinsurance and other recoveries caption in the statement of financial position. The relevant breakdowns of these values can be seen in the respective notes.

(ii) Changes to reconciliation of operating cash flows items

The presentation of the reconciliation of operating cash flows in note 23.2 has been expanded to provide more useful information.

2.5. Use of estimates and judgements

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.

Significant estimates, judgements and assumptions are discussed in the following notes:

- Deferred acquisition costs (refer to note 12)
- Intangible assets and goodwill (refer to note 15)
- Provision for outstanding claims (refer to note 19)
- Provision for unearned premiums (refer to note 20.1)

3. Dividends

	2022 $'000	2021 $'000
Dividend paid on class B shares		
Cents per share	22c	-
Total dividend paid	**396**	-

Notes to the financial statements (continued)

4. Net incurred claims

	2022 $'000	2021 $'000
Gross claims incurred		
Amount relating to risk borne in the current year	**33,162**	29,136
Amount relating to reassessment of risks borne in previous reporting periods	**(6,500)**	(3,776)
Gross claims incurred	**26,662**	25,360
Reinsurance recoveries		
Amount relating to risks borne in the current year	**(5)**	2,566
Amount relating to reassessment of risks borne in previous reporting periods	**(392)**	123
Gross reinsurance recoveries	**(397)**	2,689
Non-reinsurance recoveries		
Amount relating to risks borne in the current year	**1,441**	1,431
Amount relating to reassessment of risks borne in previous reporting periods	**(240)**	16
Gross non-reinsurance recoveries	**1,201**	1,447
Net incurred claims	**25,858**	21,224

Amounts relating to reassessment of risks borne in previous reporting periods reflects better than expected finalisation of prior year claims, including the release of risk margin as claims have been finalised.

The Company did not continue the quota share reinsurance arrangement that was in place for the year ended 31 March 2021, thus resulting in significantly reduced reinsurance recoveries for the year ended 31 March 2022.

Notes to the financial statements (continued)

5. Investment (loss)/income

	2022 $'000	2021 $'000
Interest income	**1,230**	1,193
Net realised (losses)/gains on investments	**(118)**	13
Net unrealised losses on investments	**(1,235)**	(14)
Total investment (loss)/income	**(123)**	1,192

6. Other income

	2022 $'000	2021 $'000
Sublease income	**45**	43
Quota share reinsurance commission	**23**	789
Other sundry income	**136**	113
Total other income	**204**	945

7. Profit before taxation

	Note	2022 $'000	2021 $'000
Profit before tax is arrived at after charging/(crediting) the following specific items			
Bad and doubtful debts credit		**(17)**	(4)
Depreciation - plant and equipment	14	**135**	150
Depreciation - right of use assets	16.1	**279**	170
Amortisation - intangible assets	15.1	**425**	587
Gain on disposal of plant and equipment		**(38)**	-
Audit of financial statements*		**252**	176
Other assurance services paid to PwC for solvency return		**10**	8
Other fees paid to PwC**		**1**	6
Interest expense on lease liabilities		**(14)**	157

*Audit of financial statements includes $43,000 (2021: Nil) for advance audit activities in respect of NZ IFRS 17.

**Other fees paid to PwC includes $1,000 (2021: $1,000) for general training offered by PwC attended by Company personnel and (2021: $5,000) for executive reward advisory services.

Notes to the financial statements (continued)

8. Taxation

8.1. Tax Expense

	2022 $'000	2021 $'000
Current tax expense	**256**	1,563
Adjustments to current tax in prior years	**(2)**	-
Deferred tax expense/(credit)	**699**	(125)
Tax expense	**953**	1,438
Reconciliation between net profit before tax and tax expense		
Net profit before tax	**3,321**	4,827
Tax at 28%	**929**	1,351
Plus/(less) tax effect of:		
Non-deductible expenditure	**40**	178
Imputation credit arising from dividend received from joint venture	**-**	(23)
Non-taxable income	**(14)**	(68)
Prior year adjustment	**(2)**	-
Tax expense	**953**	1,438

8.2. Current tax

	2022 $'000	2021 $'000
Balance at the beginning of the financial year	**1,607**	306
Income tax paid	**(2,018)**	(262)
Current year tax on profit	**256**	1,563
Adjustment for prior years	**(2)**	-
(Receivable)/payable at the end of the financial year	**(157)**	1,607

Notes to the financial statements (continued)

8.3. Deferred tax liabilities

	2022 $'000	2021 $'000
Deferred tax asset		
Employee entitlements		
Opening balance	**111**	59
Charged to profit	**36**	52
Deferred tax asset arising from employee entitlements	**147**	111
Right of use assets		
Opening balance	**41**	17
Charged to profit	**3**	24
Deferred tax asset arising from right of use assets	**44**	41
Other provisions		
Opening balance	**19**	22
Charged to profit	**30**	(3)
Deferred tax asset arising from other provisions	**49**	19
Deferred tax asset at 31 March	**240**	171
Deferred tax liability		
Deferred acquisition costs		
Opening balance	**-**	-
Charged to profit	**(820)**	-
Deferred tax liability arising from deferred acquisition costs	**(820)**	-
Intangible assets		
Opening balance	**(333)**	(385)
Charged to profit	**52**	52
Deferred tax liability arising from intangible assets	**(281)**	(333)
Deferred tax liability at 31 March	**(1,101)**	(333)
Net deferred tax liability at 31 March	**(861)**	(162)

8.4. Imputation credits

	2022 $'000	2021 $'000
Imputation credits available for use in subsequent reporting periods	**2,750**	2,362

Notes to the financial statements (continued)

9. Cash and cash equivalents

	2022 $'000	2021 $'000
Transaction accounts	**859**	710
Call account	**3,425**	1,313
Total cash and cash equivalents	**4,284**	2,023

10. Financial assets at fair value through profit or loss

10.1. Financial assets at fair value through profit or loss

	2022 $'000	2021 $'000
Term deposits	**524**	36,400
Bonds	**56,940**	8,851
Unit Trusts	**691**	12,036
Total financial assets at fair value through profit or loss	**58,155**	57,287
Current	**24,765**	51,288
Non-current	**33,390**	5,999
Total financial assets at fair value through profit or loss	**58,155**	57,287

10.2. Fair value hierarchy

Financial assets backing insurance liabilities are designated at fair value through profit or loss. The fair value of a financial asset 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 accordance with 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
- the most recently available redemption unit price from the fund manager at the time of valuation.

10.2. Fair value hierarchy (continued)

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

The Company's investments under this category include 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.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
As at 31 March 2022				
Term deposits	**-**	**524**	**-**	**524**
Bonds	**-**	**56,940**	**-**	**56,940**
Unit Trusts	**-**	**691**	**-**	**691**
Total investments	**-**	**58,155**	**-**	**58,155**
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
As at 31 March 2021				
Term deposits	-	36,400	-	36,400
Bonds	-	8,851	-	8,851
Unit Trusts	-	12,036	-	12,036
Total investments	-	57,287	-	57,287

There have been no transfers between levels of the fair value hierarchy during the current financial year.

Notes to the financial statements (continued)

11. Receivables and other assets

	2022 $'000	2021 $'000
Premiums receivable	**1,615**	1,934
Provision for doubtful debts	**(44)**	(65)
Net premiums receivable	**1,571**	1,869
Prepayments	**478**	456
Third party claims administrator claims float	**300**	300
Reinsurance receivables	**15**	53
Other receivables	**26**	50
Total receivables and other assets	**2,390**	2,728
Current	**2,199**	2,470
Non-current	**191**	258
Total receivables and other assets	**2,390**	2,728

12. Deferred acquisition costs

	2022 $'000	Restated 2021 $'000
Balance at start of year - 1 April	**3,081**	3,075
Additions	**2,951**	2,944
Amortisation	**(3,103)**	(2,938)
Balance at 31 March	**2,929**	3,081
Current	**1,888**	1,928
Non-current	**1,041**	1,153
Total deferred acquisition costs	**2,929**	3,081

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

13. Reinsurance and other recoveries

	2022 $'000	2021 $'000
Provision for reinsurance recoveries on outstanding claims	**61**	779
Provision for non-reinsurance recoveries on outstanding claims	**511**	413
Balance at 31 March	**572**	1,192

Non-reinsurance recoveries include salvage, third party recoveries and other recoveries in respect of insurance claims.

Notes to the financial statements (continued)

14. Plant and equipment

	Computer equipment $'000	Motor vehicles $'000	Office furniture, fitout and equipment $'000	Total $'000
Opening cost 01 April 2020	147	584	93	824
Additions	43	-	-	43
Disposals	-	(36)	-	(36)
Closing cost 31 March 2021	190	548	93	831
Opening accumulated depreciation 01 April 2020	96	216	30	342
Depreciation	32	109	9	150
Disposals	-	(20)	-	(20)
Closing accumulated depreciation 31 March 2021	128	305	39	472
Closing net book value 31 March 2021	62	243	54	359
Opening cost 01 April 2021	**190**	**548**	**93**	**831**
Additions	**38**	**179**	**4**	**221**
Disposals	**(90)**	**(145)**	**(2)**	**(237)**
Closing cost 31 March 2022	**138**	**582**	**95**	**815**
Opening accumulated depreciation 01 April 2021	**128**	**305**	**39**	**472**
Depreciation	**35**	**93**	**7**	**135**
Disposals	**(84)**	**(112)**	**(1)**	**(197)**
Closing accumulated depreciation 31 March 2022	**79**	**286**	**45**	**410**
Closing net book value 31 March 2022	**59**	**296**	**50**	**405**

Notes to the financial statements (continued)

15. Intangible assets and goodwill

15.1. Intangible assets

	Distribution agreements $'000	Internally developed software: Completed $'000	Internally developed software: Work in progress $'000	Total $'000
Opening cost 01 April 2020	2,007	2,122	38	4,167
Transfers	-	35	(35)	-
Write-off	-	-	(3)	(3)
Closing cost 31 March 2021	2,007	2,157	-	4,164
Opening accumulated amortisation 01 April 2020	631	1,185	-	1,816
Amortisation	186	401	-	587
Closing accumulated amortisation 31 March 2021	817	1,586	-	2,403
Closing net book value 31 March 2021	1,190	571	-	1,761
Opening cost 01 April 2021	**2,007**	**2,157**	**-**	**4,164**
Additions	**-**	**-**	**33**	**33**
Transfers	**-**	**28**	**(28)**	**-**
Closing cost 31 March 2022	**2,007**	**2,185**	**5**	**4,197**
Opening accumulated amortisation 01 April 2021	**817**	**1,586**	**-**	**2,403**
Amortisation	**186**	**239**	**-**	**425**
Closing accumulated amortisation 31 March 2022	**1,003**	**1,825**	**-**	**2,828**
Closing net book value 31 March 2022	**1,004**	**360**	**5**	**1,369**

15.2. Goodwill

	2022 $'000	2021 $'000
Goodwill balance at 31 March	**1,525**	1,525

15.3. Goodwill and distribution agreements impairment test

Goodwill and intangible assets relating to distribution agreements arose from the acquisition of the non-life insurance policies from Credit Union Insurance Limited in the year ended 31 March 2019.

Notes to the financial statements (continued)

15.3. Goodwill and distribution agreements impairment test (continued)

Goodwill is not subject to amortisation and is 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.

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.

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 management's approved financial budgets covering a four-year period.

Assumption	Approach used to determining values
Sales volume	9.6% annual growth rate over the four-year forecast period; based on past performance and management's expectations of market development (2021: 5%)
Budgeted gross margin	84.3% based on past performance and management's forecast (2021: 85%)
Terminal growth value	2% is the expected terminal value based on management's expectation of steady growth (2021: 2%)
Return on equity/discount rate	15% is based on the expected return on equity taking into consideration the nature, size and risks of the Company (2021: 15%)

The Company has considered and assessed the reasonably possible changes for the 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. Leases

16.1. As a lessee

The Company's leases consist of office premises and office equipment. 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 equipment 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.

Notes to the financial statements (continued)

16.1. As a lessee (continued)

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

	2022 $'000	2021 $'000
Right of use assets		
Premises	**1,492**	1,353
Office equipment	**17**	25
Total right of use assets	**1,509**	1,378
Lease liabilities		
Current	**179**	100
Non-current	**1,437**	1,374
Total lease liabilities	**1,616**	1,474

The right of use asset and lease liability relating to the premises were adjusted during the year ended 31 March 2022 due to a rent increase effective 1 August 2021 amounting to an increase to the right of use asset of $328,000 and an increase to the lease liability of $287,000.

Amounts relating to leases included in other underwriting expenses in the statement of comprehensive income are disclosed in note 7 Profit before taxation.

Amounts relating to leases are separately disclosed in the statement of cash flows.

16.2. 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:

	2022 $'000	2021 $'000
Within 1 year	**46**	43
Between 1 and 2 years	**46**	43
Between 2 and 3 years	**15**	43
Between 3 and 4 years	**-**	14
Total minimum lease payments	**107**	143

Notes to the financial statements (continued)

17. Payables

	2022 $'000	2021 $'000
Trade accounts payable	**1,686**	1,440
Reinsurance payable	**121**	112
GST payable	**154**	202
Total payables	**1,961**	1,754
Current	**1,961**	1,754
Total payables	**1,961**	1,754

18. Other provisions

	2022 $'000	2021 $'000
Employment benefits	**807**	709
Provision for restoration costs	**51**	51
Provision for incentives	**300**	299
Total provisions	**1,158**	1,059
Current	**636**	873
Non-current	**522**	186
Total provisions	**1,158**	1,059

Employment benefits

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

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 remaining unpaid at reporting date.

Notes to the financial statements (continued)

19. Provision for outstanding claims

19.1. Calculation of the provision for outstanding claims

	2022 $'000	2021 $'000
All products - policy periods from 12 to 60 months		
Central estimate	**8,807**	7,842
Claims handling expenses	**1,277**	937
Risk margin	**3,037**	3,163
Undiscounted outstanding claims provision	**13,121**	11,942
Discount	**(13)**	(5)
Discounted outstanding claims	**13,108**	11,937

The Company's appointed actuary is Adam Follington of the Quantium Group New Zealand PTY Limited. He is a fellow of both the Institute of Actuaries of Australia, and the New Zealand Society of Actuaries (**the appointed actuary**).

The provision for outstanding claims is measured based on the advice of the appointed actuary as at 31 March 2022. 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 and is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims provision. The outstanding claims provision 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.

The provision for outstanding claims is calculated using a combination of a central estimate, assessment by the appointed actuary and application of industry knowledge and experience to determine the final provision.

The estimation of the 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.

Coronavirus (**Covid 19**) and the connected impacts on society (e.g. lockdowns) have impacted the Company's recent claims experience. When analysing this historical experience, and considering future claims experience, the impact of Covid 19 has been a prime consideration for the financial year ended 31 March 2022.

Notes to the financial statements (continued)

19.1. Calculation of the provision for outstanding claims (continued)

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 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.

The outstanding claims provision also includes a risk margin that relates to the inherent uncertainty in the central estimate of the future payments. Risk margins are set by considering a number of factors including:

- industry and product benchmarking
- observed volatility in claims experience
- characteristics of the classes of business written
- overall strength of the valuation models, which is typically a function of:
    - reliability and volume of available data
    - past experience of the insurer and the industry (used to set assumptions)
    - proven nature of the valuation methods.

The risk margins are determined with the objective of achieving 95% probability of sufficiency for the outstanding claims provision. (2021: 95%). Claims are expected to be settled within one year.

19.2. Reconciliation of movement in the provision for outstanding claims

The movement in the provision for outstanding claims is summarised in the following table:

	2022 $'000	2021 $'000
Balance at start of year - 1 April	**11,937**	11,402
Claims incurred - risks relating to current year	**33,162**	29,136
Claims incurred - risks relating to prior periods	**(6,500)**	(3,776)
Claim payments during the year	**(25,491)**	(24,825)
Balance at 31 March	**13,108**	11,937

Notes to the financial statements (continued)

19.3. Actuarial assumptions

The assumptions applied are set out in the following tables:

Loss ratio	Dependent Factor	2022 %	2021 %
Credit contract indemnity (CCI)	underwriting month basis and length of policy term	**15 - 28**	18
Guaranteed asset protection (GAP)	underwriting month basis and length of policy term	**23 - 45**	23 - 45
Mechanical breakdown insurance (MBI)	Claims experience on an underwriting month basis and length	**38 - 217**	41 - 155
Motor Vehicle Insurance (MVI)	month basis and length of policy term	**59 - 77**	60 - 94
Loanminder (LM)	Claims experience on an accident month basis	**48**	48
Tyre and rim (TAR)	underwriting month basis and length of policy term	**50**	50
Material damage (MD)	underwriting month basis and length of policy term	**105 - 115**	105 - 115
Extended warranty (EW)	Claims experience on an underwriting month basis and length of manufacturer warranty term	**60**	60

Risk margin - to bring the probability of sufficiency to 95%		2022 %	2021 %
Credit contract indemnity (CCI)		**30**	41
Guaranteed asset protection (GAP)		**31**	41
Mechanical breakdown insurance (MBI)		**23**	41
Motor Vehicle Insurance (MVI)		**39**	26
Loanminder (LM)		**27**	72
Tyre and rim (TAR)		**30**	41
Material damage (MD)		**30**	41
Extended warranty (EW)		**30**	41
Other assumptions applied	**Dependent factor**		
Discount rate	New Zealand government bond yields	**1.03**	0.04
Claims handling expenses	Based on expenses incurred	**14.5**	11 - 13.8

The changes to the risk margin assumptions for the year ended 31 March 2022 are the result of a full review of risk margins that has been undertaken by the appointed actuary at that date. The changes reflect the long-term claims experience history now available for the Company, data improvements over time and the application of multiple assessment techniques.

19.4. Sensitivity analysis for key assumptions

The Company conducts sensitivity analyses to quantify the exposure to the risk of changes in the key underlying actuarial assumptions on the value of the provision for outstanding claims. A sensitivity analysis is conducted on each key assumption, whilst holding all other variables constant. The table below describes how a change in each assumption will affect profit and equity (excluding impact of tax).

Assumption	Change	2022 $'000	2021 $'000
Initial loss ratio	+5%	**1,151**	1,256
	-5%	**(1,116)**	(1,242)
Discount rate	+1%	**(23)**	(19)
	-1%	**18**	5
Claims handling expenses	+1%	**102**	112
	-1%	**(102)**	(93)

The analysis is based on changes in economic conditions that are considered reasonably possible at the reporting date. The potential impact on the provision for outstanding claims is assumed as at the reporting date.

20. Provision for unearned premium and liability adequacy test

20.1. Provision for unearned premium

	2022 $'000	Restated 2021 $'000
Balance at the start of the financial year	**38,118**	36,653
Premiums written during the financial year	**45,018**	43,922
Premiums earned during the financial year	**(45,416)**	(42,457)
Balance at the end of the financial year	**37,720**	38,118
Current	**24,320**	23,851
Non-current	**13,400**	14,267
Total provision for unearned premium	**37,720**	38,118

Certain contracts recognised by the Company 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.

Notes to the financial statements (continued)

20.1. Provision for unearned premium (continued)

The Company estimates the amount of premiums that are not earned and represent amounts to meet the costs of future claims and expenses of current policies. This estimation includes consideration of the expected development of future claims and how contract cancellations are most appropriately taken into account. The adequacy of the provision forms part of the liability adequacy test performed by the appointed actuary.

20.2. Liability adequacy test

The 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 plus an additional risk margin to reflect the inherent uncertainty in the central estimate arising from rights and obligations under current insurance contracts. 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 following table shows the key assumptions underlying the central estimate of the present value of the expected future cash outflows plus the additional risk margin to reflect the inherent uncertainty in the central estimate:

	2022 $'000	2021 $'000
Central estimate	**23,578**	24,627
Assumptions:		
Claims handling expenses	15%	12%
Policy handling expenses	5%	4%
Risk margin	16%	19%
Discount	-1.3%	-0.5%

The net unearned premium less deferred acquisition costs is higher than the premium liabilities. Therefore, the liability adequacy test has been passed and is deemed to be sufficient.

21. 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.

Notes to the financial statements (continued)

21. Risk management (continued)

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 is 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 risk committee and board audit committee, which each report quarterly to the board.

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

21.1. Insurance risk

Insurance risk is the risk that either inadequate or inappropriate product design, pricing, underwriting, reserving, claims management or reinsurance management will expose the Company to financial loss and, in the worst case, a consequent inability to meet its liabilities when they fall due. The Company’s capital management plan helps mitigate this risk and is discussed in note 22.3.

(a) Underwriting risk

The Company's risk management activities include prudent underwriting, pricing, claims management and reserving. 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

(b) 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.

21.1. Insurance risk (continued)

(b) Concentration risk (continued)

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

Type of insured event to gross written premium	2022 %	2021 %
Mechanical breakdown	**49**	44
Motor vehicle	**36**	41
Credit contract insurance	**13**	13
Contents	**2**	2
Total	**100**	100

(c) Reserving risk

Reserving risk is the risk that the Company will not recognise appropriate reserves for insurance liabilities. The calculation, methodologies and assumptions underlying the provision for outstanding claims are discussed in note 19 and for the provision for unearned premium (including the liability adequacy test) are discussed in note 20.

21.2. Market risk

Market risk relates to financial assets. 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.

(a) 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 10 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:

	2022		2021	
	Change	$'000	Change	$'000
Interest rate	+1.0%	536	+0.5%	286
	-1.0%	(541)	-0.5%	(286)

Notes to the financial statements (continued)

21.2. Market risk (continued)

(b) 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 10 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 appetite within its overall risk management programme.

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

	2022		2021	
	Change	**$'000**	**Change**	**$'000**
Weighted unit price	+1.0%	(3)	+0.5%	42
	-1.0%	3	-0.5%	(42)

21.3. 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.

(a) 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.

Notes to the financial statements (continued)

21.3. Credit risk (continued)

(a) Investments (continued)

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

	Rating				
	AAA	**AA**	**A**	**Unrated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
As at 31 March 2022					
Term deposits	**-**	**524**	**-**	**-**	**524**
Bonds	**28,990**	**24,066**	**3,884**	**-**	**56,940**
Unit trusts	**-**	**-**	**-**	**691**	**691**
Total investments at 31 March	**28,990**	**24,590**	**3,884**	**691**	**58,155**
As at 31 March 2021					
Term deposits	-	36,400	-	-	36,400
Bonds	1,924	3,943	2,984	-	8,851
Unit trusts	-	-	-	12,036	12,036
Total investments at 31 March	1,924	40,343	2,984	12,036	57,287

(b) Reinsurance

The Company manages its reinsurance programme in line with the risk management programme. 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.

Notes to the financial statements (continued)

21.4. 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:

	Gross outstanding claims liability $'000	Payables $'000	Lease liabilities $'000	Total financial liabilities $'000	Cash and financial assets at fair value through profit or loss $'000
31 March 2022					
0 to 3 months	**9,767**	**1,961**	**60**	**11,788**	**9,806**
3 to 6 months	**2,181**	**-**	**63**	**2,244**	**3,022**
6 to 12 months	**862**	**-**	**129**	**991**	**16,221**
After 12 months	**311**	**-**	**1,936**	**2,247**	**33,390**
Total	**13,121**	**1,961**	**2,188**	**17,270**	**62,439**
31 March 2021					
0 to 3 months	9,159	1,754	61	10,974	27,419
3 to 6 months	1,882	-	62	1,944	11,236
6 to 12 months	607	-	126	733	14,656
After 12 months	294	-	1,984	2,278	5,999
Total	11,942	1,754	2,233	15,929	59,310

21.5. Operational risk

Operational 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 operational risk, including:

• The management and staff responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities.

• The risk manager 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.

Notes to the financial statements (continued)

21.6. Coronavirus disease pandemic (Covid 19)

The directors and management have assessed the impact of Covid 19.

As at 31 March 2022, 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 19.

The board risk committee will continue to assess the impact of Covid 19 on 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.

22. Capital management

22.1. Share capital

		2022 $'000	2021 $'000
Fully paid up capital		**12,420**	12,420
Issue of ordinary shares		**-**	5,460
Shares bought back and cancelled		**-**	(5,460)
Share capital at 31 March		**12,420**	12,420
Number of shares	**Voting rights**	**'000**	**'000**
Class A	Full	**9,036**	9,036
Class B	Partial	**1,763**	1,763
Total number of shares at 31 March		**10,799**	10,799

There were no changes in the Company's share capital during the year ended 31 March 2022.

22.2. Financial strength rating

The Company has a Financial Strength Rating of B as provided by rating agency AM Best on 9 December 2021 (2021: B).

22.3. 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 administrating 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 and dividend policy which are reviewed annually.

Notes to the financial statements (continued)

22.3. Capital management plan and solvency (continued)

Minimum solvency capital (**MSC**) for the end of the financial year to meet the solvency standards is:

	2022 $'000	2021 $'000
Actual solvency capital (**ASC**)	**14,949**	12,312
Minimum solvency capital (**MSC**)	**7,043**	6,627
Solvency margin	**7,906**	5,685
Solvency ratio	**212%**	186%

ASC and MSC have been calculated in accordance with the RBNZ solvency standard for non-life insurance business.

23. Notes to the statement of cash flows

23.1. Non-cash investing and financing activities

	2022 $'000	2021 $'000
Issue of ordinary shares	**-**	5,460
Shares bought back and cancelled	**-**	(5,460)
Total non-cash investing and financing activities	**-**	-

Notes to the financial statements (continued)

23.2. Reconciliation of operating cash flows

	2022 $'000	Restated 2021 $'000
Profit after tax for the year	**2,368**	3,389
Add/(deduct) non-cash items:		
Depreciation of plant and equipment	**135**	150
Depreciation of right of use assets	**279**	170
Amortisation of intangible assets	**425**	587
Gain on disposal of plant and equipment	**(38)**	-
Net realised and unrealised losses on investments	**1,353**	1
Profit from joint venture	**-**	(7)
Joint venture bargain purchase gain	**(93)**	-
	4,429	4,290
Add/(deduct) movements in balance sheet items:		
Decrease in receivables and other assets*	**884**	922
Decrease/(increase) in deferred acquisition costs	**152**	(6)
recoveries	**620**	(1,020)
Increase in payables and other provisions	**306**	925
Increase in provision for outstanding claims	**1,171**	534
(Decrease)/increase in provision for unearned premium	**(398)**	1,465
Change in tax balances	**(1,065)**	1,175
	1,670	3,995
Net cash from operating activities	**6,099**	8,285

* including accrued interest reported in financial assets at fair value through profit and loss

24. Related party transactions

24.1. Related parties

Related parties are those entities or persons over which the Company has control or significant influence in operational or financial decisions, or who have the same over the Company. Related parties also include persons that are members of the key management personnel of the Company.

Notes to the financial statements (continued)

24.1. Related parties (continued)

The Company has an interest in a joint venture, accounted for using the equity method (refer to 24.2)

		Ownership Interest	
		2022	2021
		%	%
Rothbury Specialty Risks Limited (**RSR**)	Joint Venture	**50.00**	33.33

Rothbury Specialty Risks Limited (**RSR**) is an insurance broker, incorporated and with its principal place of business in New Zealand, and is a strategic investment for the Company which complements the services provided by the Company.

The Company increased its share in RSR from 33.33% to 50% during the year ended 31 March 2022, by purchasing 1,667 shares for $231,000 on 15 September 2021, with an effective transfer date of 1 April 2021. The joint venture is operated by the other shareholder and the Company earns commissions on any business referred to this broker. The directors have determined that despite the increase in ownership, the Company has continued to have significant influence over RSR due to it having joint control with the other shareholder who also holds a 50% of the shares.

Refer to note 24.4 Transactions with related parties for the commission income received from the joint venture during the year ended 31 March 2022 and to note 24.2 Investment in joint venture for the detailed breakdown of the investment in joint venture.

24.2. Investment in joint venture

	Interest			Carrying amount	
	2022	2021	Measuremen	2022	2021
	%	%	t method	$'000	$'000
Rothbury Specialty Risks Limited	50.00	33.33	Equity method	**972**	648

There are no commitments and contingent liabilities in respect of the joint venture in 2022 (2021: nil).

(a) Summarised financial information for joint venture

The tables below provide summarised financial information for the joint venture interest of the Company.

The information disclosed reflects the financial information presented in the financial statements of the joint venture and not the Company's share of those amounts.

Notes to the financial statements (continued)

24.2. Investment in joint venture (continued)

(a) Summarised financial information for joint venture (continued)

(i) Summarised balance sheet

	Rothbury Specialty Risks Ltd	
	2022	**2021**
	$'000	**$'000**
Current assets		
Cash and cash equivalents	**785**	539
Other current assets	**389**	390
Total current assets	**1,174**	929
Non-current assets	**1,869**	1,968
Current liabilities		
Financial liabilities (including trade payables)	**618**	499
Other current liabilities	**480**	453
Total current liabilities	**1,098**	952
Net assets	**1,945**	1,945
Reconciliation to carrying amounts:		
Opening net assets	**1,945**	2,103
Profit for period	**-**	23
Dividend paid	**-**	(181)
Closing net assets	**1,945**	1,945
Share in %	**50.00**	33.33
Share	**972**	648
Carrying amount	**972**	648
Dividends received from joint venture	**-**	60

Notes to the financial statements (continued)

24.2. Investment in joint venture (continued)

(a) Summarised financial information for joint venture (continued)

(ii) Summarised statement of comprehensive income

	Rothbury Specialty Risks Ltd	
	2022	**2021**
	$'000	**$'000**
Revenue	**898**	922
Interest income	**2**	4
Other income	**34**	-
Depreciation and amortisation	**(110)**	(105)
Interest expense	**-**	(3)
Other expenses	**(803)**	(784)
Income tax expense	**(21)**	(11)
Profit for the period	**-**	23
Other comprehensive income	**-**	-
Total comprehensive income	**-**	23
Share in %	**50.00**	33.33
Share of profits for the period	-	7
Bargain purchase gain	**93**	-
Movement in value of investment in Joint Venture	**93**	7

The bargain purchase gain of $93,000 recognised for the year ended 31 March 2022 reflects the difference between the cost of the additional shares purchased by the Company during the year (as set out in note 24.1) and the value of the share of the joint venture net assets acquired as a result of the purchase of the additional shares.

24.3. Key management personnel

Key management personnel (**KMP**) are those persons who have authority and responsibility for planning and controlling the activities of the Company, directly or indirectly. KMP include employee benefits paid to the chief executive and senior management who report to the chief executive and fees paid to directors, including those for consulting services over and above their remuneration for director services.

	2022	**2021**
	$'000	**$'000**
Short term employee benefits (including directors fees)	**2,033**	2,235
Directors consultancy fee	**308**	186
Total benefits provided to key management personnel	**2,341**	2,421

Notes to the financial statements (continued)

24.4. Transactions with related parties

The following transactions occurred with related parties:

	2022 $'000	2021 $'000
RSR commission income	**9**	10
Total related party commission income received	**9**	10

25. Significant accounting policies

25.1. 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.

Where the risk has attached for a contract, 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. Where the risk has not yet attached for contracts that have been recognised, the entire premium is included in the provision for unearned premiums. 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.

25.2. Reinsurance premium and recoveries

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.

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.

25.3. 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.

25.4. 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.

25.5. 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.

25.6. Investments – financial assets at fair value through profit or loss

(a) 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).*

(b) 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.

Notes to the financial statements (continued)

25.7. Tax

(a) 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.

(b) 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.

(c) 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.

25.8. 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.

25.9. 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.

25.10. Receivables and other assets

Receivables (including premiums receivable) and other assets 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 (refer note 25.16 Impairment of assets).

25.11. Deferred acquisition costs

Acquisition costs incurred in obtaining new insurance business include commission and incentives and certain 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 in accordance with the expected pattern of the incidence of risk.

An impairment review is performed at reporting date as part of the liability adequacy test. Refer to note 20.2 Liability adequacy test.

25.12. Plant and equipment and depreciation

Plant and equipment is initially recorded at cost including transaction costs and subsequently measured at cost less any subsequent accumulated depreciation and impairment losses (refer to note 25.16 Impairment of assets).

Depreciation is calculated using diminishing value method applying the following rates:

Computer equipment - 16-50% diminishing value (estimated useful life 3-12 years)

Office fit out - 10% diminishing value (estimated useful life 19 years)

Furniture and 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)

Notes to the financial statements (continued)

25.13. 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 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.

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 16.2 Leases.

25.14. Intangible assets and goodwill

(a) 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 25.16 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 services.

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.

Notes to the financial statements (continued)

25.14. Intangible assets and goodwill (continued)

(a) Software and software development (continued)

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

(b) 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 (refer note 25.16 Impairment of assets).

(c) Amortisation of intangible assets

Intangibles are amortised using the following methods and rates:

• Internally generated software - 40% diminishing value (estimated useful life 5 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	Amortisation method	Rate
Carminder – credit union relationships	Straight-line	8%
Loanminder – credit union relationships	Straight-line	10%
Carminder – renewal rights	Straight-line	10%
Loanminder – renewal rights	Straight-line	25%
Trademarks	Straight-line	50%

(d) 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.

25.15. 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.

Notes to the financial statements (continued)

25.16. 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. They are 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.

25.17. 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.

25.18. 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.

25.19. Investments in joint ventures

(a) Joint ventures

Interests in joint ventures are accounted for using the equity method (refer to note 25.19(b)).

(b) 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 and the Company's share of movements in other comprehensive income of the investee in other comprehensive income.

Any dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

Any bargain purchase gain arising from the acquisition of an additional stake in a joint venture will be separately recognised in profit or loss.

26. Subsequent events

There are no events occurring subsequent to the financial year ended 31 March 2022 which require adjustment to or disclosure in the financial statements.

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 2022; 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 2022; and

h. No condition has been imposed under Section 21 (2)(c) as at 31 March 2022.

Kind regards,

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