Market Information NZX Limited Level 1, NZX Centre 11 Cable Street Wellington	Company Announcements Office ASX Limited Exchange Centre Level 6, 20 Bridge Street Sydney NSW 2000 Australia

24 November 2021

Tower Limited
FY21 Full Year Results for Announcement to Market

In accordance with NZX Listing Rule 3.5.1 we enclose the following for release to the market in relation to Tower Limited's (NZX/ASX: TWR) FY21 Full Year Results:

1	Media Release
2	Results Announcement
3	Financial Statements (including Independent Auditor's Report)
4	Results Announcement Presentation
5	Results Announcement Call Script
6	NZX Distribution Notice

Tower's Chairman Michael Stiassny, Chief Executive Officer Blair Turnbull and Chief Financial Officer Jeff Wright will discuss the full year results at 10:00am New Zealand time today.

Tower's Board confirms for the purposes of ASX Listing Rule 1.15.3 that Tower continues to comply with the NZX Main Board Listing Rules.

ENDS

This announcement has been authorised by the Tower Board.

Blair Turnbull
Chief Executive Officer
Tower Limited

For media enquiries, please contact in the first instance:
Emily Davies
Head of Corporate Affairs and Reputation
+64 21 815 149
emily.davies@tower.co.nz

Level 5, 136 Fanshawe Street
Auckland 1142, New Zealand
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Incorporated in New Zealand

Market Information
NZX Limited
Level 1, NZX Centre
11 Cable Street
Wellington
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Company Announcements Office
ASX Limited
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Level 6, 20 Bridge Street
Sydney NSW 2000
Australia

24 November, 2021

Tower announces FY21 result, dividend and proposed capital return

Kiwi insurer, Tower Limited (NZX/ASX:TWR) has today reported full year profit of $19.3m, up 72% from $11.2m at the full year 2020. Underlying profit including large events was $20.8m, compared to $28.4m in the prior year.

The Board has declared a final dividend of 2.5 cents per share, bringing total dividends for FY21 to 5 cents per share. As at 30 September Tower New Zealand Parent's solvency ratio was 271% and the company was holding $56.6m above its target solvency margin. Considering current opportunities and the company's capital position, the Board has proposed the return of $30.4m excess capital to shareholders by way of a compulsory share buyback*.

Summary of key results:
- Reported profit including large events $19.3m vs $11.2m in FY20
- Underlying NPAT including large events $20.8m vs $28.4m in FY20
- Gross written premium (GWP) $404m, up 5% on FY20
- Customer numbers increased 5% to 304,000, market share up to 9.2%
- Management expense ratio (MER) improved to 37% vs 39% in FY20
- Combined operating ratio (COR) 91.4%, increased 2.7%

Tower CEO Blair Turnbull said the full year result reflected challenging external factors first signalled at the half year. These included an increase in large events and large house claims, Covid-related claims costs inflation, and lower investment income.

"Tower has navigated a difficult year. Our focus has been on addressing a range of external challenges, while supporting our customers and delivering on our technology and distribution growth strategies," said Mr Turnbull.

FY21 large events comprised a $13.9m impact up from $9.7m in the prior year and included the large fire at Lake Ōhau and severe floods in Napier in late 2020, and Westport flooding in July. The frequency of large house claims, predominantly driven by house fires, continued to increase in the second half rising 61% over the year to 92, totaling approximately $21.1m. Inflationary pressures also continued to challenge claims costs which increased $17.1m in total to $166.8m, while net investment income reduced by $5.1m to $0.2m for the year.

Tower is responding to climate change risks and market challenges with rating and underwriting actions that will continue to ensure a strong and stable insurance business. In August Tower changed the full replacement fire benefit in its house insurance policies to an extended sum insured offering. Earlier this month, Tower announced the extension of its risk-based pricing strategy to include flooding with the aim of assisting customers to better understand their risks and insurance premiums while more accurately matching insurance pricing to risks. Tower believes this a fairer and more transparent way of pricing insurance which will also further strengthen the company's financial resilience.

* Under a Court Scheme of Arrangement. Subject to necessary approvals.

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Prudent cost control and improved efficiencies saw Tower's overall MER improve to 37% versus 39% in FY20. These efficiency improvements were achieved while continuing to invest in Tower's flagship My Tower digital and data platform, which has now reached 132,000 registrations, over double this time last year.

Mr Turnbull says, "Tower's focus on simple and rewarding customer experiences combined with our digital and data capability have contributed to good growth, particularly in New Zealand where we saw a 7.9% premium increase to $350m. As part of our focus on developing deeper customer relationships we have enhanced our customer experience, introduced new products and automated our marketing delivery.

"We were particularly pleased to see Tower's leading motor product win two Canstar awards in 2021 - the top Car Insurer of the Year Award, and also an Outstanding Value Award alongside our partner brand Trade Me.

"Tower ends the year in a strong position to continue delivering sustainable earnings, dividends and premium growth.

"Transforming the customer experience lies at the heart of this strategy. In the year ahead Tower will continue to build customer relationships through leading partnerships and a richer product set. In 2022, Tower will be offering a world class digital experience on one core leading platform for all our personal lines customers across New Zealand and the Pacific," says Mr Turnbull.

ENDS

This announcement has been authorised by the Tower Board.

TOWER
Blair Turnbull
Chief Executive Officer
Tower Limited
ARBN 088 481 234 Incorporated in New Zealand

For media enquiries, please contact in the first instance:
Emily Davies
Head of Corporate Affairs and Reputation
Tower Limited
Mobile: +64 21 815 149
Email: emily.davies@tower.co.nz

Results for announcement to the market		
Name of issuer	Tower Limited	
Reporting Period	12 months to 30 September 2021	
Previous Reporting Period	12 months to 30 September 2020	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$428,205	4%
Total Revenue	$428,205	4%
Net profit/(loss) from continuing operations	$18,683	74%
Total net profit/(loss)	$18,683	74%
Interim/Final Dividend		
Amount per Quoted Equity Security	2.5 cents	
Imputed amount per Quoted Equity Security	N/A	
Record Date	19 January 2022	
Dividend Payment Date	2 February 2022	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	$ 0.57	$ 0.56
A brief explanation of any of the figures above necessary to enable the figures to be understood	Revenues increased 4% year-on-year through a balanced mix of premium rating increases and attracting new customers to Tower, partly offset by lower investment revenue. Net profit increased by 74% year-on-year, primarily due to the prior year being impacted by the impairment of a receivable from the EQC. The comparative period has been restated due to the retrospective application of the change in accounting policy for software-as-a-service assets. Please refer to the 2021 annual results presentation for further information.	
Authority for this announcement		
Name of person authorised to make this announcement	Hannah Snelling, Company Secretary	
Contact person for this announcement	Emily Davies, Head of Corporate Affairs and Reputation	
Contact phone number	+64 21 815 149	
Contact email address	emily.davies@tower.co.nz	
Date of release through MAP	24 November 2021	

Audited financial statements accompany this announcement.

Tower Limited

Consolidated financial statements

for the year ended 30 September 2021

Consolidated financial statements

Financial Statements

Notes to the consolidated financial statements

Independent Auditor's report, and Appointed Actuary's report

Consolidated statement of comprehensive income

For the Year Ended 30 September 2021			Restated
$ thousands	**Note**	**2021**	2020
Gross written premium		404,681	377,159
Unearned premium movement		(9,151)	(4,607)
Gross earned premium	**2.1**	395,530	372,552
Outward reinsurance premium		(63,767)	(58,030)
Movement in deferred reinsurance premium		1,540	810
Outward reinsurance premium expense		(62,227)	(57,220)
Net earned premium		**333,303**	315,332
Claims expense		(228,903)	(206,767)
Less: Reinsurance and other recoveries revenue	**2.1**	24,635	25,711
Net claims expense	**2.2**	(204,268)	(181,056)
Gross commission expense		(18,058)	(20,947)
Commission revenue	**2.1**	6,753	6,457
Net commission expense		(11,305)	(14,490)
Underwriting expense	**2.3**	(89,751)	(89,520)
Underwriting profit		**27,979**	30,266
Investment income	**3.1**	580	5,810
Investment expense		(384)	(466)
Corporate and other income		707	288
Corporate and other expense		(54)	(2,967)
Impairment of EQC receivable	**2.7**	-	(13,126)
Financing and other costs		(378)	(1,125)
Profit before taxation		**28,450**	18,680
Tax expense	**7.1**	(9,135)	(7,470)
Profit after taxation		**19,315**	11,210
Items that may be reclassified to profit or loss			
Currency translation differences		(1,213)	(1,374)
Items that will not be reclassified to profit or loss			
Gain on asset revaluation	**5.3**	159	41
Deferred income tax relating to asset revaluation	**5.3**	(16)	8
Other comprehensive loss net of tax		**(1,070)**	(1,325)
Total comprehensive profit for the year		**18,245**	9,885
Earnings per share:			
Basic and diluted earnings per share (cents)	**5.5**	4.43	2.58
Profit after taxation attributed to:			
Shareholders		18,683	10,761
Non-controlling interests		632	449
		19,315	11,210
Total comprehensive profit attributed to:			
Shareholders		17,729	9,522
Non-controlling interests		516	363
		18,245	9,885

The above statement should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at 30 September 2021 *$ thousands*	Note	2021	Restated 2020
Assets			
Cash and cash equivalents	**8.1**	116,129	80,108
Investments	**3.2**	277,470	237,904
Receivables	**2.7**	215,853	250,746
Current tax asset	**7.2a**	12,901	12,892
Deferred tax asset	**7.3a**	24,450	28,822
Deferred insurance costs	**2.6**	31,967	34,667
Right-of-use assets	**6.3a(i)**	25,577	7,211
Property, plant and equipment	**6.1**	9,374	10,041
Intangible assets	**6.2**	88,592	77,847
Total assets		**802,313**	740,238
Liabilities			
Payables	**2.8**	68,905	66,600
Unearned premiums	**2.5**	212,275	203,452
Outstanding claims	**2.4**	122,338	107,747
Lease liabilities	**6.3a(ii)**	39,421	8,695
Provisions	**2.9**	6,709	9,531
Current tax liabilities	**7.2b**	170	821
Deferred tax liabilities	**7.3b**	2,775	1,346
Total liabilities		**452,593**	398,192
Net assets		**349,720**	342,046
Equity			
Contributed equity	**5.2**	492,424	492,424
Accumulated losses		(39,995)	(48,107)
Reserves	**5.3**	(105,385)	(104,431)
Total equity attributed to shareholders		**347,044**	339,886
Non-controlling interests		2,676	2,160
Total equity		**349,720**	342,046

The above statement should be read in conjunction with the accompanying notes.

The financial statements were approved for issue by the Board on 24 November 2021.

Michael P Stiassny
Chairman

Graham R Stuart
Director

Consolidated statement of changes in equity

Year Ended 30 September 2021

	Attributed to Shareholders				
$ thousands	**Contributed equity**	**Accumulated losses**	**Reserves**	**Non-controlling interest**	**Total Equity**
Year Ended 30 September 2021					
Balance as at 30 September 2020	492,424	(48,107)	(104,431)	2,160	**342,046**
Comprehensive income					
Profit for the year	-	18,683	-	632	19,315
Currency translation differences	-	-	(1,097)	(116)	(1,213)
Gain on asset revaluation	-	-	159	-	159
Deferred income tax relating to asset revaluation	-	-	(16)	-	(16)
Total comprehensive income	**-**	**18,683**	**(954)**	**516**	**18,245**
Transactions with shareholders					
Dividends paid	-	(10,541)	-	-	(10,541)
Other	-	(30)	-	-	(30)
Total transactions with shareholders	**-**	**(10,571)**	**-**	**-**	**(10,571)**
At the end of the year	**492,424**	**(39,995)**	**(105,385)**	**2,676**	**349,720**
Year Ended 30 September 2020					
Balance as at 30 September 2019	209,990	(36,101)	9,808	1,801	185,498
Impact of amalgamation*	-	107,160	-	-	107,160
Balance post amalgamation	209,990	71,059	9,808	1,801	292,658
Adjustment on initial application of NZ IFRS 16	-	(1,333)	-	(4)	(1,337)
Adoption of accounting policy on cloud computing arrangements **	-	(3,986)	-	-	(3,986)
Restated balance at beginning of the year	209,990	65,740	9,808	1,797	287,335
Comprehensive income					
Profit for the year	-	10,761	-	449	11,210
Currency translation differences	-	-	(1,288)	(86)	(1,374)
Gain on asset revaluation	-	-	41	-	41
Deferred income tax relating to asset revaluation	-	-	8	-	8
Total comprehensive income	-	10,761	(1,239)	363	9,885
Transactions with shareholders					
Net proceeds of capital raise	45,000	(119)	-	-	44,881
Dividends written off	-	(99)	-	-	(99)
Other		44			44
Cancellation of shares on amalgamation*	(254,990)	254,990	-	-	-
Recognition of shares on amalgamation*	492,424	(379,424)	(113,000)	-	-
Total transactions with shareholders	282,434	(124,608)	(113,000)	-	44,826
At the end of the year	492,424	(48,107)	(104,431)	2,160	342,046

The above statement should be read in conjunction with the accompanying notes.

* Please note, Tower amalgamated its corporate structure on 30 September 2020. Refer to note 5.2 for further information.

** Refer to note 8.7 for further information.

Consolidated statement of cash flows

For the Year Ended 30 September 2021

$ thousands	**2021**	Restated 2020
Cash flows from operating activities		
Premiums received	398,601	366,738
Interest received	5,273	7,328
Fee and other income received	6,328	7,345
Reinsurance and other recoveries received	17,686	18,035
Settlement of EQC receivable	52,883	-
Motor premium refund payments	(1,351)	(5,849)
Reinsurance paid	(55,979)	(54,867)
Reinsurance paid in relation to settlement of EQC receivable	(10,741)	-
Claims paid	(213,350)	(223,751)
Employee and supplier payments	(97,912)	(97,499)
Income tax paid	(2,797)	(1,317)
Net cash inflow from operating activities	**98,641**	16,163
Cash flows from investing activities		
Proceeds from sale of interest bearing investments	158,509	112,484
Proceeds from sale of unlisted equity investments	572	-
Payments for purchase of interest bearing investments	(191,319)	(117,734)
Payments for purchase of intangible assets	(8,866)	(4,645)
Payments for purchase of customer relationships*	(14,434)	(9,473)
Payments for purchase of property, plant & equipment	(3,163)	(3,122)
Net cash outflow from investing activities	**(58,701)**	(22,490)
Cash flows from financing activities		
Proceeds from share capital issuance	-	47,300
Received from lessor on signing of new lease	10,945	-
Payments for cost of share capital issuance	-	(2,419)
Dividends paid	(10,541)	-
Repayment of borrowings	-	(15,000)
Facility fees and interest paid	(378)	(1,115)
Payment relating to principal element of lease liabilities	(2,848)	(3,070)
Net cash (outflow)/ inflow from financing activities	**(2,822)**	25,696
Net increase in cash and cash equivalents	**37,118**	**19,369**
Effect of foreign exchange rate changes	(1,097)	(1,279)
Cash and cash equivalents at the beginning of the year	80,108	62,018
Cash and cash equivalents at the end of the year	**116,129**	80,108

The above statement should be read in conjunction with the accompanying notes.

* The 2021 balance represents the purchase of ANZ's rights and obligations relating to servicing a portfolio of insurance underwritten by Tower. Please refer to note 6.2 for more information. The comparative 2020 balance reflects the net cashflow associated with the purchase of Youi NZ Pty Ltd's insurance portfolio.

Notes to the consolidated financial statements

1 Overview

This section provides information that is helpful to an overall understanding of the financial statements and the areas of critical accounting judgements and estimates included in the financial statements. It also includes a summary of Tower's operating segments.

1.1 About this Report

a. Entities reporting

The financial statements presented are those of Tower Limited (the Company) and its subsidiaries. The Company and its subsidiaries together are referred to in this financial report as Tower or the Group. The address of the Company's registered office is 136 Fanshawe Street, Auckland, New Zealand.

During the periods presented, the principal activity of the Group was the provision of general insurance. The Group predominantly operates in New Zealand with some of its operations based in the Pacific Islands region.

The financial statements were authorised for issue by the Board of Directors on 24 November 2021. The entity's owners or others do not have the power to amend the financial statements after issue.

b. Statutory base

Tower Limited is a company incorporated in New Zealand under the Companies Act 1993 and listed on the NZX Main Board and the Australian Securities Exchange. The Company is a reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

c. Basis of preparation

The Company is a for-profit entity and 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 for Tier 1 for-profit entities.

The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

The Group financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars. They have been prepared on a fair value measurement basis with any exceptions noted in the accounting policies below, or in the notes to the financial statements.

d. Restatement of comparatives

In April 2021 the IFRS Interpretations Committee (IFRIC) issued an agenda decision 'Configuration or Customisation Costs in a Cloud Computing Arrangement (NZ IAS 38 Intangible Assets)'. This IFRIC agenda decision clarifies the interpretation on how NZ IAS 38 Intangible Assets applies to configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) cloud computing arrangements. Refer to note 8.7 for further details of change in comparatives.

1.2 Consolidation

a. Principles of consolidation

The Group financial statements incorporate the assets and liabilities of all subsidiaries of the Company at balance date and the results of all subsidiaries for the year.

Subsidiaries are those entities over which the consolidated entity has control, being power over the investee; exposure, or rights to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns.

The results of any subsidiaries acquired during the year are consolidated from the date on which control was transferred to the consolidated entity and the results of any subsidiaries disposed of during the year are consolidated up to the date control ceased. There have been no acquisitions or disposals of subsidiaries during the year ended 30 September 2021.

The acquisition of controlled entities from external parties is accounted for using the acquisition method of accounting. Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of changes in equity and balance sheet respectively. Acquisition related costs are expensed as incurred.

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss.

Intercompany transactions and balances between Group entities are eliminated on consolidation.

b. Foreign currency

(i) Functional and presentation currencies

The financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. The Group financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars unless stated otherwise.

(ii) Transactions and balances

In preparing the financial statements of the individual entities, transactions denominated in foreign currencies are translated into the entities functional and reporting currency using the exchange rates in effect at the transaction dates. Monetary items receivable or payable in a foreign currency are translated at reporting date at the closing exchange rate.

Translation differences on non-monetary items such as financial assets held at fair value through profit or loss are reported as part of their fair value gain or loss.

Exchange differences arising on the settlement or retranslation of monetary items at year end exchange rates impact profit after tax in the consolidated statements of comprehensive income unless the items form part of a net investment in a foreign operation. In this case, exchange differences are taken to the Foreign Currency Translation Reserve and recognised (as part of comprehensive profit) in the statement of comprehensive income and the statement of changes in equity.

(iii) Consolidation

For the purpose of preparing consolidated financial statements the assets and liabilities of subsidiaries with a functional currency different to the Company are translated at the closing rate at the balance date. Income and expense items for each subsidiary are translated at a weighted average of exchange rates over the period, as a surrogate for the spot rates at transaction dates. Foreign currency translation differences are taken to the Foreign Currency Translation Reserve and recognised in the statement of comprehensive income and the statement of changes in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate with movements recorded through the Foreign Currency Translation Reserve in the statement of changes in equity.

1.2 Consolidation (continued)

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

c. Subsidiaries

The table below lists Tower Limited's principal subsidiary companies and controlled entities. All entities have a balance date of 30 September.

Name of company	Incorporation	Holdings 2021	2020
Parent Company			
New Zealand general insurance operations			
Tower Limited (formerly named Tower Insurance Limited)	NZ	Parent	Parent
Subsidiaries			
Overseas general insurance operations			
Tower Insurance (Cook Islands) Limited	Cook Islands	100%	100%
Tower Insurance (Fiji) Limited	Fiji	100%	100%
Tower Insurance (PNG) Limited	PNG	100%	100%
National Pacific Insurance Limited ("NPI")	Samoa	71%	71%
Tower Insurance (Vanuatu) Limited	Vanuatu	100%	100%
Management service operations			
Tower Services Limited	NZ	100%	100%

1.3 Critical accounting judgements and estimates

In preparing these financial statements management is required to make estimates and related assumptions about the future. The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, and are reviewed on an ongoing basis. Revisions to the estimates are recognised in the period in which they are revised, or future periods if relevant. The key areas in which estimates and related assumptions are applied are as follows:

- Net outstanding claims	note 2.4
- Liability adequacy test	note 2.5
- Intangible assets	note 6.2
- Lease liabilities (incremental borrowing rate)	note 6.3a(ii)
- Deferred taxation	note 7.3
- Software-as-a-service arrangements	note 8.7a

COVID-19 Pandemic

An assessment of the impact of COVID-19 on Tower's balance sheet is set out below based on information available at the time of preparing these financial statements.

Balance sheet	**Impact**
Investments	Investments are carried at fair value and reflect a lower interest rate environment.
Receivables	Immaterial impact. Provision for impairment of premium receivables and "other recoveries" has been updated to include an allowance for increased non-payment.
Right of Use Assets	Tower has assessed that there is no material impairment to right of use assets.
Intangible assets	No impact. Tower has assessed that its intangible assets have not been impaired.
Deferred acquisition costs (DAC)	Writedown in DAC due to deficiency reported as a result of the Liability Adequacy Test, partially influenced by higher claims costs driven by COVID related inflationary pressures.
Unearned premiums	Immaterial impact. Provision for unearned premium cancellation has been updated to include an allowance for increased non-payment.
Net outstanding claims	Impacts on the quantum of outstanding claims due to supply chain delays and lockdown both slowing the settlement of claims and, therefore, increasing outstanding balances. An additional risk margin has also been established, partially to allow for additional uncertainty in the post-covid environment.

RBNZ continues to engage with Tower on its response to COVID-19 and the sufficiency of its capital position. This is part of an ongoing sector-wide regulatory engagement in response to COVID-19 focused on financial stability, and operational changes/decisions that have customer impacts.

1.4 Segmental reporting

a. Operating segments

Tower operates in two geographical segments, New Zealand and the Pacific region. New Zealand comprises the general insurance business underwritten in New Zealand. Pacific Islands comprises the general insurance business underwritten in the Pacific by Tower subsidiaries and branch operations. Other contains balances relating to Tower Services Limited (management services entity), and also includes intercompany eliminations and group diversification benefits.
The Group does not derive revenue from any individual or entity that represents 10% or more of the Group's total revenue.

b. Financial performance

$ thousands	New Zealand	Pacific Islands	Other	Total
Year Ended 30 September 2021				
Gross written premium	351,058	53,623	-	404,681
Gross earned premium - external	340,568	54,962	-	395,530
Outwards reinsurance expense	(44,918)	(17,309)	-	(62,227)
Net earned premium	**295,650**	**37,653**	**-**	**333,303**
Net claims expense	(195,343)	(8,836)	(89)	(204,268)
Net commission expense	(9,762)	(1,543)	-	(11,305)
Underwriting expense	(76,519)	(13,232)	-	(89,751)
Underwriting profit	**14,026**	**14,042**	**(89)**	**27,979**
Net investment income	44	152	-	196
Other expenses	182	93	-	275
Profit before tax	**14,252**	**14,287**	**(89)**	**28,450**
Profit after tax	**8,855**	**10,533**	**(73)**	**19,315**
Year Ended 30 September 2020				
Gross written premium	317,478	59,681	-	377,159
Gross earned premium - external	311,671	60,881	-	372,552
Outwards reinsurance expense	(38,774)	(18,446)	-	(57,220)
Net earned premium	272,897	42,435	-	315,332
Net claims expense	(162,032)	(19,361)	337	(181,056)
Net commission expense	(12,027)	(2,463)	-	(14,490)
Underwriting expense	(76,323)	(13,197)	-	(89,520)
Underwriting profit	22,515	7,414	337	30,266
Net investment income	4,265	769	310	5,344
Impairment of EQC receivable	(13,126)	-	-	(13,126)
Other expenses	(286)	62	(3,580)	(3,804)
Profit before tax	13,368	8,245	(2,933)	18,680
Profit after tax	8,776	4,789	(2,355)	11,210

1.4 Segmental reporting (continued)

c. Financial position

$ thousands	New Zealand	Pacific Islands	Other	Total
Total assets 30 September 2021	**707,368**	**105,561**	**(10,616)**	**802,313**
Total assets 30 September 2020	529,370	105,376	105,492	740,238
Total liabilities 30 September 2021	**401,523**	**51,688**	**(618)**	**452,593**
Total liabilities 30 September 2020	336,192	61,096	904	398,192

Definition

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the Chief Executive Officer) who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance.

2 Underwriting activities

This section provides information on Tower's underwriting activities.

Tower collects premiums from customers in exchange for providing insurance coverage. These premiums are recognised as revenue when they are earned by Tower, with a liability for unearned premiums recognised on the balance sheet.

When customers suffer a loss that is covered by their policy, Tower will make payments to customers or suppliers, which it recognises as claims expenses. To ensure that Tower's obligations to customers are properly recorded within the financial statements, Tower recognises provisions for outstanding claims.

To manage Tower's risk and optimise its returns, Tower reinsures some of its exposure with reinsurance companies. The premiums paid to reinsurers are recognised as an expense, while recoveries from reinsurers are recognised as revenue.

2.1 Underwriting Revenue

Composition

$ thousands	**2021**	2020
Gross written premium	404,681	384,359
Motor premium refund*	-	(7,200)
Movement in unearned premium liability	(9,151)	(4,607)
Gross earned premium	**395,530**	**372,552**
Reinsurance and other recoveries revenue	**24,635**	**25,711**
Reinsurance commission	5,635	5,242
Insurance administration services commission	1,118	1,215
Commission revenue	**6,753**	**6,457**
Underwriting revenue	**426,918**	**404,720**

*In the year ended 30 September 2020, Tower received lower motor vehicle claims in New Zealand due to travel restrictions imposed during the time spent in New Zealand government's COVID-19 alert level 3 and 4. On 21st April 2020 Tower Limited committed to returning the benefit of lower New Zealand motor claims to customers through motor vehicle premium refunds. Total premiums of $7.2m (excluding GST) were refunded to motor customers related to the year ended 30 September 2020. Gross Written Premiums were reduced accordingly and a provision created (see note 2.9) to recognise this obligation.

2.1 Underwriting Revenue (continued)

Recognition and measurement

Gross earned premium is recognised in the period in which the premiums are earned during the term of the contract, excluding taxes and levies collected on behalf of third parties. It includes a provision for expected future premium cancellations (which is offset against net premium receivables, see note 2.7) and customer premium refunds (see note 2.9 for more information). The proportion of premiums not earned in the consolidated statement of comprehensive income at reporting date is recognised in the consolidated balance sheet as unearned premiums.

Reinsurance and other recoveries on paid claims, reported claims not yet paid, claims incurred but not reported and claims incurred but not enough reported are recognised as revenue. Recoveries are measured as the expected future receipts and recognised when the claim is incurred.

Reinsurance commission revenue includes reimbursements by reinsurers to cover part of Tower's management and sales expense which are broadly recognised with the reference premium over the term of the reinsurance agreements. Reinsurance commission income can also include a proportion of expected profitability of business ceded to the reinsurer. The final value of the variable commission is based on the achievement of a hurdle rate over time. This revenue is recognised on a systematic basis and reassessed at each reporting date.

Insurance administration services commission includes a percentage of levies collected on behalf of third parties and is recognised at the point the levy collected.

2.2 Net claims expense

Composition

$ thousands	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	2021	2020	**2021**	2020	**2021**	2020
Gross claims expense	228,594	201,943	309	4,824	228,903	206,767
Reinsurance and other recoveries revenue	(23,430)	(24,698)	(1,205)	(1,013)	(24,635)	(25,711)
Net claims expense	**205,164**	177,245	**(896)**	3,811	**204,268**	181,056

Recognition and measurement

Net claims expense is measured as the difference between net outstanding claims liability at the beginning and end of the financial year plus any claims payments made net of reinsurance and other recoveries received during the financial year. Please refer to note 2.4 for more information.

Additional disclosures related to the Canterbury earthquake events in 2010 and 2011 are provided in note 2.4.

2.3 Underwriting expense

Composition

$ thousands	**2021**	Restated 2020
People costs	65,042	72,635
People costs capitalised during the year	(3,569)	(2,933)
Technology	14,326	17,383
Amortisation	12,556	9,705
Depreciation*	4,712	4,590
External fees	10,375	7,137
Marketing	8,518	8,181
Communications	4,007	3,691
Miscellaneous	1,090	(522)
Movement in indirect deferred acquisition costs	892	(1,416)
Claims related management expenses reclassified to claims expense	(28,198)	(28,931)
Underwriting expenses	**89,751**	89,520

* Includes $2.4m (2020: $2.6m) of depreciation on right-of-use assets. See note 6.3b for further information.

2.4 Net outstanding claims

a. Composition

$ thousands	Exc. Canterbury earthquake		Canterbury earthquake		**Total**	
	2021	2020	**2021**	2020	**2021**	2020
Central estimate of future cash flows	87,535	65,475	16,402	21,236	103,937	86,711
Claims handling expense	5,430	4,151	1,314	1,908	6,744	6,059
Risk Margin*	6,724	4,325	4,933	10,652	11,657	14,977
Gross outstanding claims	**99,689**	73,951	**22,649**	33,796	**122,338**	107,747
Reinsurance recoveries	(18,970)	(9,643)	(3,880)	(3,246)	(22,850)	(12,889)
Net outstanding claims	**80,719**	64,308	**18,769**	30,550	**99,488**	94,858
Net claim payments within 12 months	69,687	56,110	7,508	12,220	77,195	68,330
Net claim payments after 12 months	11,032	8,198	11,261	18,330	22,293	26,528
Net outstanding claims	**80,719**	64,308	**18,769**	30,550	**99,488**	94,858

* Includes nil additional (2020: $5.0m) for the Canterbury earthquake over and above the provision of the Appointed Actuary, which is set at the 75th percentile of sufficiency. The $5.0m has been released as the Canterbury outstanding claims liability has sufficiently run off.

b. Reconciliation of movements in net outstanding claims liability

$ thousands	**2021**			2020		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Balance brought forward	107,747	(12,889)	94,858	124,060	(13,457)	110,603
Claims expense - current year	234,675	(22,171)	212,504	209,766	(26,084)	183,682
Claims expense - prior year	(5,772)	(2,464)	(8,236)	(2,999)	373	(2,626)
Incurred claims recognised in the consolidated statement of comprehensive income	**228,903**	**(24,635)**	**204,268**	206,767	(25,711)	181,056
Claims paid and reinsurance and other recoveries raised	(213,350)	14,397	(198,953)	(223,654)	26,444	(197,209)
Foreign exchange	(962)	277	(685)	573	(165)	408
Outstanding claims	**122,338**	**(22,850)**	**99,488**	107,747	(12,889)	94,858

2.4 Net outstanding claims (continued)

c. Development of claims

The following table shows the development of net outstanding claims relative to the current estimate of ultimate claims costs for the five most recent years.

$ thousands Ultimate claims cost estimate	Prior	2017	2018	2019	2020	2021	Total
At end of incident year		138,574	148,088	146,873	157,845	183,450	
One year later		140,610	145,887	143,975	154,459	-	
Two years later		141,989	145,763	143,121	-	-	
Three years later		142,280	145,344	-	-	-	
Four years later		142,701	-	-	-	-	
Ultimate claims cost		142,701	145,344	143,121	154,459	183,450	
Cumulative payments		(141,779)	(144,586)	(141,541)	(149,522)	(123,772)	
Undiscounted central estimate	13,212	922	758	1,580	4,937	59,678	81,087
Claims handling expense							6,744
Risk margin							11,657
Net outstanding claim liabilities							99,488
Reinsurance recoveries							22,850
Gross outstanding claim liabilities							**122,338**

Prior year numbers have been restated at current year exchange rates to reflect the underlying development of claims.

d. Actuarial information

The estimation of outstanding claims as at 30 September 2021 has been carried out by:

(i) Geoff Atkins, BA (ActuarDc), FIAA, FIAL, FANZIIF, Appointed Actuary - Canterbury earthquake claims; and

(ii) John Feyter, B.Sc., FNZSA - all other outstanding claims

The New Zealand actuarial assessments are undertaken in accordance with the standards of the New Zealand Society of Actuaries, in particular Professional Standard No. 30 "Valuations of General Insurance Claims". The Actuaries were satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The outstanding claims liability is set by the Actuaries at a level that is appropriate and sustainable to cover the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

2.4 Net outstanding claims (continued)

e. Canterbury earthquakes

Cumulative impact of Canterbury earthquakes

As at 30 September 2021, Tower has 33 claims remaining to settle (2020: 59) as a result of the earthquakes impacting the Canterbury region during 2010 and 2011. The following table presents the cumulative impact of the four main Canterbury earthquake events on the consolidated statement of comprehensive income. Figures include the EQC settlement which has been received at 30 September 2021.

$ thousands	**2021**	Restated 2020
Earthquake claims estimate net of EQC payments	(944,418)	(939,109)
Reinsurance recoveries	732,090	730,885
Claim expense net of reinsurance recoveries	**(212,328)**	(208,224)
Reinsurance expense	(25,045)	(25,045)
Additional risk margin	-	(5,000)
Cumulative impact of Canterbury earthquakes before tax	**(237,373)**	(238,269)
Income tax	66,464	66,715
Cumulative impact of Canterbury earthquakes after tax	**(170,909)**	(171,554)

Canterbury earthquake impact on profit or loss

$ thousands	**2021**	2020
Net claims (gain)/expense	(896)	3,811

2.4 Net outstanding claims (continued)

Recognition and measurement

Gross outstanding claims liability comprises a central estimate of future cash outflows and a risk margin for uncertainty. Tower has not applied a discount given the short tail nature of the portfolio and the low interest rate environment.

The outstanding claims liability is measured at the **central estimate of future cash outflows** relating to claims incurred prior to the reporting date including direct and indirect claims handling costs. The liability is measured based on the advice of the Appointed Actuary or on valuations which have been peer reviewed by the Appointed Actuary. It is intended to include no deliberate or unconscious bias toward over or under-estimation. Given the uncertainty in establishing the liability, it is likely the final outcome will differ from the original liability established. Changes in the claim estimates are recognised in profit or loss in the reporting period in which the estimates are changed.

The gross outstanding claim liabilities also include a **risk margin** that relates to the inherent uncertainty in the central estimate of the future payments. The risk margin represents the amount by which the liability recognised in the financial statements is greater than the actuarial estimate. Tower currently applies a 75% probability of adequacy to the outstanding claims liability which means there is a 1-in-4 chance all future claim payments will exceed the overall reserve held.

Uncertainties surrounding the liability estimation process include those relating to the available data, actuarial models and assumptions, the statistical uncertainty associated with the general insurance run-off process and external risks.

Net outstanding claims liability is calculated by deducting reinsurance and other recoveries from gross outstanding claims. Reinsurance and other recoveries on outstanding claims are recognised as income with the corresponding asset being recognised on the balance sheet.

2.4 Net outstanding claims (continued)

Critical accounting estimates and judgements

Outstanding claims liability (excluding Canterbury Earthquakes)

The estimation of the outstanding claims liability involves a number of key assumptions. Tower's estimation uses Company specific data, relevant industry data and general economic data for each major class of business. The estimation process factors in a number of considerations including the risks to which the business is exposed to at a point in time, claim frequency and severity, historical trends in the development of claims as well as legal, social and economic factors that may affect each class of business.

Assumption	**2021**	2020
Expected future claims development proportion	**19.7%**	50.5%
Claims handling expense ratio	**6.7%**	7.1%
Risk margin	**9.1%**	7.2%

Expected future claims development proportion

This is the proportion of additional claims cost that is expected to be recognised in the future for BAU claims that have already been reported. The assumption is expressed as a proportion of current case estimates for open claims and the resulting amount is recognised in the balance sheet as an outstanding claims liability. The reduction in the expected future claims proportion has arisen following a change in case estimation process in the year ended 30 September 2021.

Claims handling expense ratio

This reflects the expected cost to administer future claims. The ratio is calculated based on historical experience of claims handling costs.

Risk margin

Risk margins are calculated for outstanding claims in each country separately and a diversification benefit is calculated taking into account the uncorrelated effect of random risk. The total risk margin percentage shown is calculated on a weighted average basis. The increase in the risk margin this year reflects the heightened uncertainty on claim outcomes as a result of the COVID-19 pandemic.

Canterbury Earthquake outstanding claims liability

Assumptions are made for the estimation of outstanding claims related to the Canterbury earthquakes. The key assumptions are estimated ultimate costs (including building costs) for settling open claims, and the numbers of new overcap claims, litigated claims, re-opened claims and their associated costs. Other elements of judgement include the apportionment of claim costs between the four main earthquake events, future claim management expenses and assessment of the risk margin.

Assumption	**2021**	2020
Number of new overcap and new litigated claims	**38**	68
Average cost of new overcap or new litigated claim	**$121,000**	$107,000
Provision for re-opened claims	**$2,400,000**	$2,800,000

New overcap and new litigated claims

New overcap claims are typically for properties that have previously been managed by EQC but where damage is now assessed as being more extensive than previously thought and there is now an insurance claim payable.

New litigated claims are existing or future new claims that are referred to either the Insurance Tribunal or the High Court for resolution. Costs for new litigated claims are assumed to be substantially higher than costs for other overcap claims. Only a small number of new litigated claims is now expected.

Provision for re-opened claims

Re-opened claims arise where additional liability arises for additional scope not previously identified or where a repair has failed or where another expense is payable for a claim that is currently closed.

2.4 Net outstanding claims (continued)

f. Sensitivity Analysis

The impact on profit or loss of changes in key assumptions used in the calculation of the outstanding claims liabilities is summarised below. Each change has been calculated in isolation from the other variables and is stated before income tax.

Outstanding claims excluding Canterbury earthquake

$ thousands	Movement in assumption	Impact on profit or loss	
		2021	2020
Expected future claims development	+ 10%	1,339	1,771
	- 10%	(1,339)	(1,771)
Claims handling expense ratio	+ 10%	543	415
	- 10%	(543)	(415)
Risk margin	+ 10%	672	431
	- 10%	(672)	(431)

Canterbury earthquake outstanding claims

$ thousands	Movement in assumption	Impact on profit or loss	
		2021	2020
Number of new overcap or new litigated claims	+ 35%	(1,610)	(2,560)
	- 35%	1,610	2,560
Change in average cost of a new overcap or new litigated claim	+ 20%	(920)	(1,460)
	- 20%	920	1,460
Number of reopened claims	+ 35%	(840)	(980)
	- 35%	840	980
Change in average cost of a reopened claim	+ 20%	(480)	(560)
	- 20%	480	560

2.5 Unearned premium liability

Reconciliation

$ thousands	**2021**	2020
Opening balance	**203,452**	187,855
Premiums written during the year	404,681	377,159
Premiums earned during the year	(395,530)	(372,552)
Unearned premium movement	9,151	4,607
Unearned premium balance purchased*	-	12,003
Foreign exchange movements	(328)	(1,013)
Unearned premium liability	**212,275**	203,452

* Unearned premium balance acquired through the purchase of customer relationships in the year ended 30 September 2020 (see note 6.2).

The majority of unearned premiums will be earned in the 12 months after 30 September 2021 and therefore are current liabilities. The unearned premium liability is presented net of cancellation provisions.

Recognition and measurement

Unearned premium liability is the portion of premiums written that are yet to be earned in the consolidated statement of comprehensive income. It is calculated based on the term of the risk and in accordance with the expected pattern of the incidence of risk underwritten using an appropriate pro-rate method.

Adequacy of unearned premium liability

Tower undertakes a **liability adequacy test ("LAT")** to determine whether the unearned premium liability is sufficient to pay future claims net of reinsurance recoveries.

If the present value of expected future net cash flows relating to current insurance contracts, plus a risk margin, exceeds the unearned premium liabilities less related deferred acquisition costs and intangible assets, then the unearned premium liability is deemed deficient. This deficiency is immediately recognised in profit or loss. In recognising the deficiency, Tower will first write down any related deferred acquisition costs or intangible assets before recognising an unexpired risk liability.

The unearned premium liability as at 30 September 2021 was not sufficient for the New Zealand business and a deficiency of $2.0m was recognised (2020: no deficiency). The unearned premium liabilities for Pacific entities were sufficient with the exception of Fiji and Vanuatu (2020: Fiji, NPI and Vanuatu) where small deficits were recognised. The total deficit for the group recognised as a charge against deferred acquisition cost was $2.5m (2020: $0.4m).

%	**2021**	2020
Central estimate net claims as a % of unearned premium liability	**45.2%**	44.5%
Risk margin as a % of net claims	**11.0%**	10.2%

Critical accounting estimates and judgements

The LAT is conducted using a central estimate of premium liability adjusted for risk margin and it is carried out on an individual country basis. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

2.6 Deferred insurance costs

Reconciliation

$ thousands	Deferred acquisition costs		Deferred outwards reinsurance expense		**Deferred insurance costs**	
	2021	2020	**2021**	2020	**2021**	2020
Balance bought forward	**25,220**	23,736	**9,447**	8,794	**34,667**	32,530
Costs deferred	40,323	42,136	17,968	15,396	58,291	57,532
Amortisation expense	(41,897)	(40,221)	(16,428)	(14,586)	(58,325)	(54,807)
Writedown due to LAT deficiency	(2,534)	(440)	-	-	(2,534)	(440)
Foreign exchange movements	4	9	(136)	(157)	(132)	(148)
Closing balance	**21,116**	25,220	**10,851**	9,447	**31,967**	34,667

Deferred insurance costs are expected to be amortised within 12 months from reporting date.

Recognition and measurement

Acquisition costs comprises costs incurred in obtaining and recording general insurance contracts such as advertising expenses, sales expenses and other underwriting expenses. These costs are initially capitalised and then expensed in line with the earning pattern of the related premium. **Deferred acquisition costs** at the reporting date represent the acquisition costs related to unearned premium.

Outwards reinsurance expense reflects premiums ceded to reinsurers and is recognised as an expense in accordance with the pattern of reinsurance service received. Deferred outwards reinsurance expense at the reporting date represents outwards reinsurance expenses related to unearned premium.

2.7 Receivables

Composition

$ thousands	**2021**	2020
Gross premium receivables	177,141	171,041
Provision for impairment	(655)	(1,383)
Premium receivable	**176,486**	169,658
Business as usual reinsurance recoveries	20,326	15,105
Canterbury earthquake reinsurance recoveries	3,880	3,246
Other recoveries	5,208	5,262
Reinsurance and other recoveries	**29,414**	23,613
EQC receivable*	523	52,883
Finance lease receivables	4,278	-
Prepayments	3,279	2,664
Miscellaneous receivables	1,873	1,928
Receivables	**215,853**	250,746
Receivable within 12 months	213,432	250,746
Receivable in greater than 12 months	2,421	-
Receivables	**215,853**	250,746

* The EQC receivable for 2021 does not relate to the historic Canterbury earthquakes (CEQ) receivable settled during the period. This receivable relates to non-CEQ receivables.

Recognition and measurement

Receivables (inclusive of GST) are recognised at fair value and are subsequently measured at amortised cost less any impairment.

Tower's premium receivables and reinsurance and other recoveries arise from insurance contracts. These receivables are impaired if there is objective evidence that Tower will not be able to collect all amounts due according to the original terms of the receivable.

The remainder of Tower's receivables are assessed for impairment based on expected credit losses. The EQC receivable is the only material item that falls into this category and is discussed further in the sub-note below.

EQC recovery receivable related to Canterbury earthquakes

During the year Tower received $52.9m (excluding GST) in a full and final settlement agreement with EQC regarding the recovery of claims costs related to the 2010 and 2011 Christchurch Earthquakes during the period. Tower fully reimbursed amounts payable to reinsurers of $10.7m and settled other outstanding costs during the period. Tower's net proceeds from this settlement were $42.1m.

There was nil impairment expense in the year ended 30 September 2021 (2020: $13.1m).

2.7 Receivables (continued)

Finance lease receivables

Tower entered a sub-lease for its previous Auckland premises. The sub-lease is for the remaining non-cancellable term of the head lease and therefore is classified as a finance lease. The profile of the net receipts is illustrated in the table below:

$ thousands	**2021**	2020
Less than one year	2,019	-
Between one and five years	2,421	-
More than five years	-	-
Total undiscounted finance lease receivable	**4,440**	-
Unearned finance income	(162)	-
Net investment in the finance lease	**4,278**	-

2.8 Payables

Composition

$ thousands	**2021**	2020
Trade payables	10,380	13,527
GST payable	23,264	20,519
EQC receivable payable to reinsurers	-	10,741
EQC & Fire and Emergency New Zealand levies payable	10,857	11,068
Reinsurance premium payable	6,343	3,414
Unsettled investment purchases	11,456	-
Other	6,605	7,331
Payables	**68,905**	66,600
Payable within 12 months	68,905	66,600
Payable in greater than 12 months	-	-
Payables	**68,905**	66,600

Recognition and measurement

Payables are recognised where goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier. Payables are stated at the fair value of the consideration to be paid in the future inclusive of GST. GST payable represents the net amount payable to the respective tax authorities.

2.9 Provisions

Composition

$ thousands	**2021**	2020
Annual leave and other employee benefits	6,709	6,901
Customer premium refunds	-	2,422
Other	-	208
Provisions	**6,709**	9,531
Payable within 12 months	6,235	9,157
Payable in greater than 12 months	474	374
Provisions	**6,709**	9,531

Recognition and measurement

Tower recognises a provision when it has a present obligation as a result of a past event and it is more likely than not that an outflow of resources will be required to settle the obligation. Tower's provision represents the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

2.10 Assets backing insurance liabilities

Tower has determined that all assets within its insurance companies are held to back insurance liabilities, with the exception of: (i) property, plant and equipment; (ii) right of use assets, (iii) intangible assets; and (iv) investments in operating subsidiaries. Assets backing insurance liabilities are managed in accordance with approved investment mandate agreements on a fair value basis and are reported to the Board on that basis.

3 Investments

Tower invests funds collected as premiums and provided by shareholders to ensure it can meet its obligations to pay claims and expenses and to generate a return to support its profitability. Tower has a low risk tolerance and therefore the majority of its investments are in investment grade supranational and government bonds, and term deposits.

3.1 Investment income

$ thousands	**2021**	2020
Interest income	5,148	7,328
Net realised loss	(2,152)	(1,277)
Net unrealised loss	(2,416)	(241)
Investment income	**580**	5,810

Net realised losses relate to the maturity of fixed interest bonds, with interest coupon rates higher than market rates, purchased at higher than face value. The corresponding higher interest received is reflected in the interest income amount.

Recognition and measurement

Tower's investment income is primarily made up of realised and unrealised interest income on fixed interest investments and fair value gains or losses on its investment assets. Both are recognised in the period that they are earned through profit or loss.

3.2 Investments

$ thousands	**2021**	2020
Fixed interest investments	277,436	237,298
Equity investment	-	572
Property investment	34	34
Investments	**277,470**	237,904

Recognition and measurement

Tower's investment assets are designated at fair value through profit or loss. Investment assets are initially recognised at fair value and are remeasured to fair value through profit or loss at each reporting date. Tower's approach to measuring the fair value of these assets is covered in the following note.

Purchases and sales of investments are recognised at the date which Tower commits to buy or sell the assets (i.e. trade date). Investments 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 transferred.

3.3 Fair value hierarchy

Tower designates its investments at fair value through profit or loss in accordance with its Treasury policy. It categorises its investments into three levels based on the inputs available to measure fair value:

Level 1 Fair value is calculated using quoted prices in active markets. Tower currently does not have any Level 1 investments.

Level 2 Investment valuations are based on direct or indirect observable data other than quoted prices included in Level 1. Level 2 inputs include: (1) quoted prices for similar assets or liabilities; (2) quoted prices for assets or liabilities that are not traded in an active market; or (3) other observable market data that can be used for valuation purposes. Tower investments included in this category include government and corporate debt, where the market is considered to be lacking sufficient depth to be considered active, and part ownership of a property that is rented out to staff.

Level 3 Investment valuation is based on unobservable market data. Tower's equity investment in the unlisted reinsurance company Pacific Re was the only investment in this category. Tower sold the investment to a third party in November 2020 at the carrying value as at 30 September 2020.

$ thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
As at 30 September 2021				
Fixed interest investments	-	277,436	-	**277,436**
Equity investment	-	-	-	**-**
Property investment	-	34	-	**34**
Investments	**-**	**277,470**	**-**	**277,470**
As at 30 September 2020				
Fixed interest investments	-	237,298	-	237,298
Equity investment	-	-	572	572
Property investment	-	34	-	34
Investments	-	237,332	572	237,904

There have been no transfers between levels of the fair value hierarchy during the current financial period (2020: nil).

4 Risk Management

Tower is exposed to multiple risks as it works to set things right for its customers and their communities whilst maximising returns for its shareholders. Everyone across the organisation is responsible for ensuring that Tower's risks are managed and controlled on a day-to-day basis.

4.1 Risk management overview

Tower's approach to achieving effective risk management is to embed a risk-aware culture where everyone across the organisation (including contractors and third parties) is responsible for managing risk.

Tower's Board expresses its appetite for risk in a Risk Appetite Statement, which:

(i) Gives clear concise guidance to management of parameters for risk taking.

(ii) Embeds risk management into strategic and decision-making processes.

(iii) Facilitates risk to be managed at all levels of the organisation through a structured process to identify risk, and the allocation of clear, personal responsibility for management of identified risks by assigned risk owners.

The Board then approves and adopts: (i) the Risk Management Programme (RMP) which is the central document that explains how Tower effectively manages risk within the business; and (ii) the Reinsurance Management Strategy (ReMS) which describes the systems, structures, and processes which collectively ensures Tower's reinsurance arrangements and operations are prudently managed. These documents are approved annually by the Board.

The Board has delegated its responsibility to the Risk Committee to provide oversight of risk management practices and provide advice to the Board and management when required. In addition, the Risk Committee also monitors the effectiveness of Tower's risk management function which is overseen by the Chief Risk Officer (CRO). The CRO provides regular reports to the Risk Committee on the operation of the Risk Management Framework (RMF), the status of material risks, risk and compliance incidents and risk framework changes.

Tower has embedded an RMF with clear accountabilities and risk ownership to ensure that Tower identifies, manages, mitigates and reports on all key risks and controls through the three lines of defence model.

(i) First line: Operational management has ownership, responsibility and accountability for directly identifying, assessing, controlling and mitigating key risks which prevent them from achieving business objectives.

(ii) Second Line: Tower's Risk and Compliance Functions are responsible for developing and implementing effective risk and compliance management processes; providing advisory support to the first line of defence and constructively challenging operational management and risk and obligation owners to ensure positive assurance.

(iii) Third line: Internal Audit is responsible and accountable for providing an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework. Internal audit, along with other groups such as external audit, report independently to the Board and/or the Audit Committee.

The RMF is supported by a suite of policies that address the risks and compliance obligations covered in this section.

4.2 Strategic risk

Strategic risk is the risk that internal or external factors compromise Tower's ability to execute its strategy or achieve its strategic objectives. Strategic risk is managed through:

(i) Monitoring and managing performance against Board approved plan and targets.

(ii) Board leading an annual strategy and planning process which considers our performance, competitor positioning and strategic opportunities.

(iii) Identifying and managing emerging risks using established governance processes and forums.

4.3 Insurance risk

Insurance risk is the risk that for any class of risk insured, the present value of actual claims payable will exceed the present value of actual premium revenues generated (net of reinsurance). This risk is inherent in Tower's operations and arises and manifests through underwriting, insurance concentration and reserving risk.

a. Underwriting risk

Underwriting risk refers to the risk that claims arising are higher (or lower) than assumed in pricing due to bad experience including catastrophes, weakness in controls over underwriting or portfolio management, or claims management issues. Tower has established the following key controls to mitigate this risk:

(i) Use of comprehensive management information systems and actuarial models to price products based on historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes, trended forward to recognise anticipated changes in claims patterns after making allowance for other costs incurred by the Group.

(ii) Passing elements of insurance risk to reinsurers. Tower's Board determines a maximum level of risk to be retained by the Group as a whole.
Tower's reinsurance programme is structured to adequately protect the solvency and capital positions of the insurance business. The adequacy of reinsurance cover is modelled by assessing Tower's exposure under a range of scenarios. The plausible scenario that has the most financial significance for Tower is a major Wellington earthquake. Each year, as part of setting the coming year's reinsurance cover, comprehensive modelling of the event probability and amount of the Group's exposure is undertaken.

(iii) Underwriting limits are in place to enforce appropriate risk selection criteria and pricing with specific underwriting authorities that set clear parameters for the business acceptance.

4.3 Insurance risk (continued)

b. Concentration risk

Concentration risk refers to the risk of underwriting a number of like risks, where the same or similar loss events have the potential to produce claims from many of Tower's customers at the same time. Tower is particularly subject to concentration risks in the following variety of forms:

(i) Geographic concentration risk - Tower purchases a catastrophe reinsurance programme to protect against a modelled 1-in-1000 years whole of portfolio catastrophe loss. In addition it takes out additional aggregate reinsurance cover for large events which fall outside the catastrophe reinsurance programme and tends to cover weather events in New Zealand and across the Pacific.

(ii) Product concentration risk - Tower's business is weighted towards the NZ general insurance market where its risks are concentrated in house insurance (Home & Contents) and motor insurance. Tower limits its exposure through proportionate reinsurance arrangements. The table below illustrates the diversity of Tower's operations.

Gross written premium (%)		**2021**			2020	
	NZ	**Pacific**	**Total**	NZ	Pacific	Total
Home & Contents	51%	4%	**55%**	51%	4%	55%
Motor	33%	4%	**37%**	30%	5%	35%
Commercial	1%	4%	**5%**	1%	6%	7%
Liability	1%	0%	**1%**	1%	0%	1%
Workers compensation	0%	1%	**1%**	0%	1%	1%
Other	1%	0%	**1%**	0%	1%	1%
Total	**87%**	**13%**	**100%**	83%	17%	100%

Tower has limited exposure to long-tail classes (which comprises part of "liability" and "workers compensation"). Long-tail classes have increased uncertainty of the ultimate cost of claims due to the additional period of time to settlement.

c. Reserving risk

Reserving risk is managed through the actuarial valuation of insurance liabilities and monitoring of the probability of adequacy booked reserves. The valuation of the net central estimate is performed by qualified and experienced actuaries. The central estimate is subject to a comprehensive review at least annually.

4.4 Credit risk

Credit risk is the risk of loss that arises when a counterparty fails to meet their financial obligations to Tower in accordance with the agreed terms. Tower's exposure to credit risk primarily results from transactions with security issuers, reinsurers and policyholders.

a. Investment and treasury

Tower manages its investment and treasury credit risks in line with limits set by the Board:

(i) New Zealand cash deposits that are internally managed are limited to banks with a minimum Standard & Poor's (S&P) AA- credit rating.

(ii) Cash deposits and investments that are managed by external investment managers are limited to counterparties with a minimum S&P A- credit rating.

(iii) Tower holds deposits and invests in Pacific regional investment markets through its Pacific Island operations to comply with local statutory requirements and in accordance with Tower investment policies. These deposits and investments generally have low credit ratings representing the majority of the value included in the 'Below BBB' and unrated categories in the table below. This includes deposits and investments with Australian bank subsidiaries that comprise 88% (2020: 83%) of the "not rated" category.

$ thousands	**Cash and Cash Equivalents**		**Fixed Interest Investments**		**Total**	
	2021	2020	**2021**	2020	**2021**	2020
AAA	-	-	94,430	106,805	**94,430**	106,805
AA	83,614	55,478	143,548	90,859	**227,162**	146,337
A	-	-	33,100	29,737	**33,100**	29,737
BBB	-	-	-	-	**-**	-
Below BBB	9,173	5,409	2,226	3,456	**11,399**	8,865
Not rated	23,342	19,221	4,132	6,441	**27,474**	25,662
Total	**116,129**	80,108	**277,436**	237,298	**393,565**	317,406

b. Reinsurance

Tower manages its reinsurance programme in line with the ReMS. Tower seeks to manage the quantum and volatility of insurance risk in order to reduce exposure and overall cost.

Tower's policy is to only deal with reinsurers with a credit rating of S&P "A-" or better unless local statutory requirements dictate otherwise. Additional requirements of the policy are for no individual reinsurer to have more than 25% share of the overall programme and Tower is prohibited from offering inwards reinsurance to external entities. The following table provides details on Tower's exposure to reinsurance recoveries:

4.4 Credit risk (continued)

$ thousands	Reinsurance on:					
	Outstanding claims		Paid claims		Total	
	2021	2020	**2021**	2020	**2021**	2020
AAA	-	-	-	-	-	-
AA	12,005	6,738	1,028	3,490	**13,033**	10,228
A	10,805	6,106	320	1,986	**11,125**	8,092
BBB	-	-	-	-	-	-
Below BBB	-	-	-	-	-	-
Not rated	40	29	4	2	**44**	31
Total	**22,850**	12,873	**1,352**	5,478	**24,202**	18,351

The following table provides further information regarding the ageing of reinsurance recoveries on paid claims at the balance date.

$ thousands		Past due				
	Not due	**1 month**	**1 to 2 months**	**2 to 3 months**	**Over 3 months**	**Total**
As at 30 September 2021						
Reinsurance recoveries on paid claims	1,352	-	-	-	-	**1,352**
As at 30 September 2020						
Reinsurance recoveries on paid claims	5,379	-	-	-	99	5,478

c. Premium receivable

Tower's premium receivable balance primarily relates to policies which are paid on either a fortnightly or monthly basis. Payment default or policy cancellation - subject to the terms of the policyholder's contract - will result in the termination of the insurance contract eliminating both the credit risk and insurance risk.

$ thousands		Past due				
	Not due*	**1 month**	**1 to 2 months**	**2 to 3 months**	**Over 3 months**	**Total**
As at 30 September 2021						
Net premium receivable	168,843	5,514	1,484	562	83	**176,486**
As at 30 September 2020						
Net premium receivable	162,935	3,705	1,992	986	40	169,658

* this includes premiums that are less than 30 days outstanding (which are owed but not past due) of $5.5m (2020: $7.1m).

4.5 Market risk

Market risk is the risk of adverse impacts on investment earnings resulting from changes in market factors. Tower's market risk is predominately as a result of changes in the value of the New Zealand dollar (currency risk) and interest rate movements. Tower's approach to managing market risk is underpinned by its Treasury Policy as approved by the Board.

a. Currency risk

Tower's currency exposure arises from the translation of foreign operations into Tower's functional currency (currency translation risk) or due to transactions denominated in a currency other than the functional currency of a controlled entity (operational currency risk). The currencies giving rise to this risk are primarily the US dollar, Fijian dollar and Papua New Guinea (PNG) kina.

Tower's principal currency risk is currency translation (where movement impacts equity). Tower generally elects not to hedge this risk as it is difficult given the size and nature of the currency markets in the Pacific. Tower seeks to minimise its net exposure to foreign operational risk by actively seeking to return surplus cash and capital to the parent company.

Operational currency risk impacts profit and generally arises from:

(i) Procurement of goods and services denominated in foreign currencies. Tower may enter into hedges for future transactions, using authorised instruments, provided that the timing and amount of those future transactions can be estimated with a reasonable degree of certainty.

(ii) Investment assets managed by the external investment manager that are denominated in foreign currencies. Tower's Board set limits for the management of currency risk based on prudent asset management practice. Regular reviews are conducted to ensure that these limits are adhered to.

The following table demonstrates the impact of the New Zealand dollar weakening or strengthening against the most significant currencies for which Tower has foreign exchange exposure holding all other variables constant.

$ thousands	**Direct impact on equity**		**Impact on profit or loss**	
	2021	2020	**2021**	2020
New Zealand Dollar - USD				
Currency strengthens by 10%	(581)	(407)	23	17
Currency weakens by 10%	710	497	(28)	(20)
New Zealand Dollar - Fijian Dollar				
Currency strengthens by 10%	(1,667)	(1,350)	(38)	(73)
Currency weakens by 10%	2,037	1,650	47	90
New Zealand Dollar - PNG Kina				
Currency strengthens by 10%	(743)	(1,078)	30	57
Currency weakens by 10%	908	1,318	(36)	(70)

4.5 Market risk (continued)

b. Interest rate risk

Tower is exposed to interest rate risk through its holdings in interest-bearing assets. Interest-bearing assets with a floating interest rate expose Tower to cash flow interest rate risk, whereas fixed interest investments expose Tower to fair value interest rate risk.

Tower's interest rate risk primarily arises from fluctuations in the valuation of fixed-interest investments recognised at fair value and from the underwriting of general insurance contracts, which creates exposure to the risk that interest rate movements materially impact the fair value of the insurance liabilities. Interest rate risk arises to the extent that there is a mismatch which arises between the two.

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 impact of a 0.5% increase or decrease in interest rates on fixed interest investments is shown below (holding everything else constant). The assumption made for 0.5% decrease in interest rates is that the lower bound is capped at 0% as negative rates on fixed interest investments are highly unlikely.

$ thousands	**Impact on profit or loss**	
	2021	2020
Interest rates increase by 0.5%	**(988)**	(921)
Interest rates decrease by 0.5%	**960**	750

Tower manages its interest rate risk through Board approved investment management guidelines that have regard to policyholder expectations and risks and to target surplus for solvency as advised by the Appointed Actuary.

4.6 Liquidity risk

Liquidity risk arises where liabilities cannot be met as they fall due as a result of insufficient funds and/or illiquid asset portfolios. Tower mitigates this risk through maintaining sufficient liquid assets to ensure that it can meet all obligations on a timely basis.

Tower is primarily exposed to liquidity risk through its obligations to make payment for claims of unknown amounts on unknown dates. Fixed-interest investments can generally be readily sold or exchanged for cash to settle claims and are managed in accordance with the policy of broadly matching the overall maturity profile to the estimated pattern of claim payments. This is illustrated in the table below.

$ thousands	**Net outstanding claims liability**		**Cash and Investments**	
	2021	2020	**2021**	2020
Floating interest rate (at call)	-	-	116,217	80,108
Within 3 months	42,949	32,943	75,129	36,982
3 to 6 months	17,070	15,140	31,890	53,797
6 to 12 months	17,176	20,246	47,381	55,352
After 12 months	22,293	26,529	122,948	91,167
Total	**99,489**	94,858	**393,565**	317,406

4.7 Capital management risk

Capital risk is the risk that capital is insufficient or not of the best form to provide a buffer against losses arising from unanticipated events, while also maximising the efficient use of capital with a view to enhancing growth and returns and adding long-term value to Tower's shareholders.

Tower has a documented description of its capital management process which sets out Tower's principles, approaches, and processes in relation to capital management that enables it to operate at an appropriate level of target solvency capital which is within the bounds of Tower's risk appetite.

The capital management process allows the Board, management, rating agencies and the regulator to understand Tower's approach to capital management, including requirements for formulating capital targets, and monitoring, reporting and remediating capital as required.

The operation of the capital management process is reported annually to the Board together with a forward-looking estimate of expected capital utilisation and capital resilience. In addition, Tower carries out stress, reverse stress and scenario testing to ensure the level of capital is appropriate given its risk appetite.

In October 2020, the Reserve Bank of New Zealand (RBNZ) commenced consultation on a review of the Insurance (Prudential Supervision) Act 2010. The consultation process is expected to continue through to 2022. Tower has actively participated in the consultation to date, with an ongoing assessment of the impacts to solvency being performed as information becomes known. As part of the overall process, the RBNZ issued an exposure draft on an interim solvency standard (ISS) in July 2021 which anticipates the introduction of IFRS 17 during the consultation period. This draft ISS: combines requirements for life and non-life insurers, which were previously separate standards; proposes enhancements to the transparency of solvency reporting; provides for increased prudential supervision for insurers operating close to their minimum solvency margin; and imposes changes that would reduce solvency margins, such as the introduction of an operational risk capital charge. In October 2021, the RBNZ advised that the effective date of the ISS would be deferred until 2023, and that the feedback received would likely require some changes to the ISS. Tower considers it is not yet possible to provide a reasonable estimate of the impact of changes to its solvency position from the ISS, as the ISS has not been finalised, the RBNZ has stated that it will change, and a lack of clarity in certain areas of the draft ISS means that there are different possible interpretations as to the potential impact.

a. Regulatory solvency capital

The Reserve Bank of New Zealand (RBNZ) is the prudential regulator and supervisor of all insurers carrying on insurance business in New Zealand, and is responsible for administering the Insurance (Prudential Supervision) Act 2010. Tower measures the adequacy of capital against the Solvency Standards for Non-life Insurance Business published by the RBNZ alongside additional capital held to meet RBNZ minimum requirements and any further capital as determined by the Board.

Foreign operations are subject to regulatory oversight in the relevant jurisdiction. It is Tower's policy to ensure that each of the licenced insurers in the Group maintain an adequate capital position within the requirements of the relevant regulator.

During the year ended 30 September 2021 the Group complied with all externally imposed capital requirements (2020: complied).

During the year RBNZ reduced Tower’s required minimum solvency margin, via a license condition, to $25.0m (2020: $50.0m). Tower Limited's Group and Parent solvency margin are illustrated in the table below.

$ thousands	**2021**		2020	
	Parent	**Group**	Parent	Group
Actual solvency capital	179,439	214,128	150,451	181,214
Minimum solvency capital	66,252	79,927	52,342	65,728
Solvency margin	**113,187**	**134,201**	98,109	115,486
Solvency ratio	**271%**	**268%**	287%	276%

The solvency presented as of 30 September 2021 does not reflect any possible change to solvency as a result of the RBNZ's Insurance (Prudential Supervision) Act 2010 review. Policy changes and legislative reforms as a result of this review are expected to come into legislation in 2023 - 2024.

4.7 Capital management risk (continued)

b. Capital composition

The balance sheet capital mix at reporting date is shown in the table below:

$ thousands	**2021**	Restated 2020
Total shareholder equity	347,044	339,886
Total	**347,044**	**339,886**

c. Financial strength rating

Tower Limited has an insurer financial strength rating of "A- (Excellent)" and a long-term issuer credit rating of "a-" as affirmed by international rating agency AM Best Company Inc. with an effective date of 23 April 2021.

4.8 Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes or systems, human error or from external events.

Tower's approach is to proactively manage our operational risks to mitigate potential customer detriment, regulatory or legal censure, financial and reputational impacts.

Tower has in place appropriate operational processes and systems, including prevention and detection measures. These include processes which seek to ensure Tower can absorb and/or adapt to internal or external occurrences that could disrupt business operations.

Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities. Failures in controls are recorded and then actively monitored and managed. Incidents are managed by the first line of defence and overseen by the second line of defence, with ongoing reporting to management and the Board Risk Committee.

4.9 Regulatory and compliance risk

Regulatory and compliance risk is defined as the risk of legal, regulatory or reputational impacts arising from failure to manage compliance obligations, or failure to anticipate and prepare for changes in the regulatory environment.

Tower engages with regulators and regularly monitors developments in regulatory requirements to support ongoing compliance.

4.10 Conduct risk

Conduct risk is defined as the risk that conduct may contribute to poor outcomes for customers.

Tower manages Conduct risk through a number of measures including undertaking ongoing product reviews to ensure products are delivering good customer outcomes, reviewing customer feedback to identify conduct trends or issues, managing vulnerable customers, holding workshops with frontline staff to identify potential conduct issues and embedding and monitoring controls across the business to deliver good customer outcomes.

There is robust governance in place to oversee Tower's conduct risk management programme including reporting to the Management and Board Committees.

4.11 Cyber risk

Cyber risk is any risk associated with financial loss, disruption or damage to the reputation of Tower resulting from either the failure, or unauthorised or erroneous use of its information systems.

Tower’s approach to Cyber risk is to proactively protect against, monitor for and respond to those cyber threats seen to be targeting the organisation. Tower continues to monitor evolving key cyber risks, which are being discussed and reviewed on a monthly basis through our Management Risk and Conduct Committee and on a quarterly basis with the Risk and Audit Committee. Risk mitigation is achieved through ongoing investment in Tower’s Security programme and Tower’s dedicated security function.

5 Capital Structure

This section provides information about how Tower finances its operations through equity. Tower's capital position provides financial security to its customers, employees and other stakeholders whilst operating within the capital requirements set by regulators.

5.1 Borrowings

There were no new short term cash advances during the year ended 30 September 2021. The previous facility agreement with a limit of $15m with Bank of New Zealand expired on 30 September 2020.

Total borrowing costs for the year were nil (2020: $0.8m, none of which were capitalised).

5.2 Contributed equity

$ thousands	**2021**	2020
Opening balance	492,424	209,990
Issue of share capital	-	45,000
Cancellation of shares on amalgamation	-	(254,990)
Recognition of shares on amalgamation	-	492,424
Total contributed equity	**492,424**	492,424
Represented by:		
Opening balance	421,647,258	211,107,758
Issued shares	-	45,000,000
Cancellation of shares on amalgamation *	-	(256,107,758)
Recognition of shares on amalgamation *	-	421,647,258
Total shares on issue	**421,647,258**	421,647,258

* On 30 September 2020, Tower Insurance Limited was renamed Tower Limited (the Company) and was amalgamated by way of a short form amalgamation under the Companies Act 1993 with its ultimate parent, Tower Limited (the prior Tower Limited); its parent, Tower Financial Services Group Limited; and another subsidiary of Tower Limited, Tower New Zealand Limited. At this date the Company's existing share capital of $255m (including the issue of $45m new share capital) was cancelled without payment or other consideration, and instead the shares of the prior Tower Limited (of $492m) became the shares of the Company, so that the shareholders of the prior Tower Limited became shareholders of the Company.

Ordinary shares issued by the Company are classified as equity and are recognised at fair value less direct issue costs. All shares rank equally with one vote attached to each share. There is no par value for each share. There have been no changes in contributed equity during the year.

5.3 Reserves

$ thousands	**2021**	2020
Opening balance	(4,985)	(3,697)
Currency translation differences arising during the year	(1,097)	(1,288)
Foreign currency translation reserve	**(6,082)**	(4,985)
Opening balance	1,564	1,515
Gain on revaluation	159	41
Deferred tax on revaluation	(16)	8
Asset revaluation reserve	**1,707**	1,564
Capital reserve	**11,990**	11,990
Opening balance	**(113,000)**	-
Impact of amalgamation	-	(113,000)
Separation reserve	**(113,000)**	(113,000)
Reserves	**(105,385)**	(104,431)

Recognition and measurement

The assets and liabilities of entities whose functional currency is not the New Zealand dollar are translated at the exchange rates ruling at balance date. Income and expense items are translated at a weighted average of exchange rates over the period approximating spot rates at the transaction dates. Exchange rate differences are taken to the **foreign currency translation reserve**.

Tower's land and buildings are valued at fair value less accumulated depreciation. Any surplus on revaluation of these items is transferred directly to the **asset revaluation reserve** unless it offsets a previous decrease in value recognised in profit or loss in which case it is recognised in the consolidated statement of comprehensive income.

On 30 September 2020, the Company was amalgamated with other Tower entities. On this date, the separation reserve was recognised. The **separation reserve** was originally created in the prior Tower Limited in 2007 at the time of the demerger of the New Zealand and Australian businesses in accordance with a ruling provided by the Australian Tax Office (ATO). It will be carried forward indefinitely to meet the requirements of the ATO.

5.4 Net tangible assets per share

$ dollars	**2021**	2020
Net tangible assets per share	**0.57**	0.56

Net tangible assets per share have been calculated using the net assets as per the balance sheet adjusted for intangible assets (including goodwill) and deferred tax assets divided by total shares on issue.

5.5 Earnings per share

	2021	Restated 2020
Profit attributable to shareholders ($ thousands)	**18,683**	10,761
Weighted average number of ordinary shares for basic and diluted earnings per share (number of shares)	**421,647,258**	417,172,654
Basic and diluted earnings per share (cents)	4.43	2.58

The Group has used the ordinary shares of the prior Tower Limited up to 30 September 2020, and of the Company from that date, for the purposes of calculating the weighted average number of ordinary shares. The prior Tower Limited issued an additional 84,322,958 shares as per its 1 for 4 rights offer (refer to Note 5.2). The shares were issued at NZ$0.56 which represented a 19% discount to the share price of NZ$0.69 as at 15 October 2019 (the date immediately prior to the exercise of rights). As a result, 13,118,388 shares issued as part of the rights offer are treated as a bonus issue. The weighted average number of ordinary shares on issue in both 2021 and 2020 have been adjusted in accordance with NZ IAS 33 Earnings per share.

5.6 Dividends

	2021		2020	
	Cents per share	**$ thousands**	Cents per share	$ thousands
Final dividend for the year	-	-	-	-
Interim dividend for the period	2.5	10,541	-	-

On 24 November 2021, the Board approved a full year dividend of 2.5 cents per share, with the dividend being payable on 2 February 2022. The anticipated cash impact of the final dividend is approximately $10.5m.

During the year ended 30 September 2021 no dividends were written off (2020: $0.1m).

6 Other balance sheet items

This section provides information about assets and liabilities not included elsewhere.

6.1 Property, plant and equipment

Composition:

30 September 2021

$ thousands	Land and buildings	Office equipment & furniture	Motor vehicles	Computer equipment	Total
Composition:					
Cost	4,102	4,257	1,616	17,292	**27,267**
Accumulated depreciation	-	(2,289)	(847)	(14,757)	**(17,893)**
Property, plant and equipment	**4,102**	**1,968**	**769**	**2,535**	**9,374**
Reconciliation:					
Opening balance	4,035	2,989	1,083	1,934	**10,041**
Depreciation	-	(928)	(260)	(1,106)	**(2,294)**
Additions	-	1,437	-	1,654	**3,091**
Revaluations	159	-	-	-	**159**
Disposals	-	(1,527)	(34)	56	**(1,505)**
Foreign exchange movements	(92)	(3)	(20)	(3)	**(118)**
Closing Balance	**4,102**	**1,968**	**769**	**2,535**	**9,374**
30 September 2020					
Composition:					
Cost	4,035	8,599	1,748	15,622	30,004
Accumulated depreciation	-	(5,610)	(665)	(13,688)	(19,963)
Property, plant and equipment	4,035	2,989	1,083	1,934	10,041
Reconciliation:					
Opening balance	4,082	4,002	205	815	9,104
Depreciation	-	(1,048)	(205)	(751)	(2,004)
Additions	-	31	1,211	2,004	3,246
Revaluations	41	-	-	-	41
Disposals	-	21	(125)	(130)	(234)
Foreign exchange movements	(88)	(17)	(3)	(4)	(112)
Closing Balance	4,035	2,989	1,083	1,934	10,041

6.1 Property, plant and equipment (continued)

Recognition and measurement

Property, plant and equipment is initially recorded at cost including transaction costs and subsequently measured at cost less any accumulated depreciation and impairment losses.

Depreciation is calculated using the straight line method to allocate the asset's cost or revalued amounts, net of any residual amounts, over their useful lives. The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount.

Furniture & fittings	5-9 years
Leasehold property improvements	3-12 years
Motor vehicles	5 years
Computer equipment	3-5 years

Land and buildings are shown at fair value, based on periodic valuations by external independent appraisers less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

6.2 Intangible assets

a. Amounts recognised in the balance sheet

30 September 2021

$ thousands	**Goodwill**	**Software***	**Customer Relationships****	**Total**
Composition:				
Cost	17,744	98,850	28,656	**145,250**
Accumulated amortisation	-	(50,323)	(6,335)	**(56,658)**
Intangible Assets	**17,744**	**48,527**	**22,321**	**88,592**
Reconciliation:				
Opening balance	17,744	47,866	12,238	**77,848**
Amortisation	-	(8,205)	(4,351)	**(12,556)**
Additions	-	10,528	14,434	**24,962**
Disposals	-	(237)	-	**(237)**
Transfers	-	(1,425)	-	**(1,425)**
Closing Balance	**17,744**	**48,527**	**22,321**	**88,592**

30 September 2020				
Composition:				
Cost	17,744	89,985	14,222	121,951
Accumulated amortisation	-	(42,119)	(1,984)	(44,103)
Intangible Assets	17,744	47,866	12,238	77,848
Reconciliation:				
Opening balance	17,744	56,467	-	74,211
Adjustment to opening balance	-	(5,536)	-	(5,536)
Restated opening balance	17,744	50,931	-	68,675
Amortisation	-	(7,721)	(1,984)	(9,705)
Additions	-	4,819	14,222	19,041
Disposals	-	(43)	-	(43)
Transfers	-	(120)	-	(120)
Closing Balance	17,744	47,866	12,238	77,848

*Comparative information with respect to Software and related IT projects in progress has been restated due to a change in accounting policies as specified in Note 8.7.

**Tower acquired and assumed ANZ's rights and obligations relating to servicing a portfolio of insurance underwritten by Tower. Tower provided insurance for ANZ and National Bank customers between 1990 and 2009 and continues to cover over 23,000 people under those policies. On completion of the acquisition of the rights and obligations these customers will be insured directly by Tower under a Tower branded policy. The amount capitalised includes the price paid for acquiring the portfolio outright and associated acquisition costs. The asset will be amortised over a 5 to 10 year period, with the pattern of amortisation being aligned with expected net cashflow benefits over this period.

6.2a Amounts recognised in the balance sheet (continued)

Recognition and measurement

Intangible assets are assets without physical substance. They are recognised as an asset if it is probable that expected future economic benefits attributable to the asset will flow to Tower and that costs can be measured reliably.

Application software and customer relationships are recorded at cost less accumulated amortisation and impairment. Application software is amortised on a straight line basis over the estimated useful life of the software. Customer relationships are amortised over the estimated useful life in accordance with the pattern of economic benefit consumption.

Internally generated intangible assets are recorded at cost which comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Amortisation of internally generated intangible assets begins when the asset is available for use and is amortised on a straight line basis over the estimated useful life.
The useful lives for each category of intangible assets with a finite life are as follows:

- capitalised software: 3-5 years for general use computer software and 3-10 years for core operating system software
- customer relationships: 5-10 years

Goodwill (i.e. assets with an indefinite useful life) generated as a result of business acquisition is initially measured as the excess of the purchase consideration over the fair value of the net identifiable assets and liabilities acquired. Goodwill is not subject to amortisation but is tested for impairment annually or more frequently where there are indicators of impairment.

Critical accounting estimates and judgements

Tower has determined that the ANZ customer relationship asset consists of two component intangible assets with different useful lives, and these components are therefore expected to provide a different pattern of benefits to Tower.
The asset components, being 1) a customer relationship asset with a useful life equivalent to the customer base’s expected lifespan of ten years, and; 2) a non-compete period with a contracted useful life of five years. The estimated capitalised cost related to the ANZ customer relationship asset has been apportioned between the two asset components by valuing the non-compete at the differential in net present value of the asset from improved customer retention over the non-compete period, pro-rated over the full asset value. This valuation is calculated with reference to cash flow forecasts that combine past experience with future expectations based on prevailing and anticipated market factors, expected retention rate and a discount rate of 12.5%.

b. Impairment testing

An impairment charge is recognised in profit or loss when the carrying value of the asset, or cash-generating unit (CGU), exceeds the calculated recoverable amount.

(i) Software and customer relationships

Software and customer relationships are reviewed at each reporting date by determining whether there is an indication that the carrying values may be impaired. If an indication exists, the asset is tested for impairment. A loss is recognised for the amount by which the carrying value exceeds the asset's recoverable value.

There were no indications of impairment during the year and therefore these assets were not tested for impairment (2020: no indications).

Critical accounting estimates and judgements

The recoverable amount for software and customer relationships is determined by reference to a value in use calculation based on (i) cash flow forecasts that combine past experience with future expectations based on prevailing and anticipated market factors; and (ii) a discount rate that appropriately reflects the time value of money and the specific risks associated with the assets.

6.2b Impairment testing (continued)

(i) Software and customer relationships

Critical accounting estimates and judgements

Value-in-use calculations involve the use of accounting estimates and assumptions to determine the projected net cash flows, which are discounted using an appropriate discount rate to reflect current market assessment of the risks associated with the assets. An impairment charge for capitalised software is incurred where there is evidence that the economic performance of the asset is not as intended by management. Customer relationships represent the present value of future benefits expected to arise from existing customer relationships. The assumptions for the useful life are based on historical information.

(ii) Goodwill

Goodwill is deemed to have an indefinite useful life and is tested annually for impairment or more frequently where there is an indication that the carrying value may not be recoverable.

Goodwill is allocated to cash generating units (CGUs) expected from synergies arising from the acquisition giving rise to goodwill. Tower's goodwill is allocated to the general insurance CGU.

Tower undertook an annual impairment review and no loss has been recognised in 2021 as a result (2020: nil). COVID-19 impacts were again taken into account when performing the review.

Critical accounting estimates and judgements

The recoverable amount of the New Zealand general insurance business is assessed with reference to its appraisal value, which is a common practice for insurance companies. A base discount rate of 12.0% was used in the calculation (2020: 10.5%). The cash flows are in line with the FY22 - FY24 operational plan (2020: FY21 - FY23) and longer term profitability is assumed to continue to grow at 2.5% per annum. The projected cash flows are determined based on past performance and management's expectations for market developments with a terminal growth rate of 2.5% (2020: 2%).

The overall valuation is sensitive to a range of assumptions including the forecast combined operating ratio used in terminal value calculation, discount rate, and terminal value long-term growth rate. Reasonable changes to these assumptions will not result in an impairment.

6.3 Leases

a. Amounts recognised in the Balance Sheet

(i) Right of use assets

30 September 2021

$ thousands	Office space	Motor vehicles	Total
Composition:			
Cost	26,901	25	**26,926**
Accumulated depreciation	(1,332)	(17)	**(1,349)**
Right of use assets	**25,569**	**8**	**25,577**
Reconciliation:			
Opening balance	7,189	22	**7,211**
Depreciation	(2,404)	(14)	**(2,418)**
Additions*	24,332	-	**24,332**
Disposals	(3,308)	-	**(3,308)**
Revaluations	(3)	-	**(3)**
Impairment	-	-	**-**
Net foreign exchange movements	(237)	-	**(237)**
Right of use assets	**25,569**	**8**	**25,577**

30 September 2020

$ thousands	Office space	Motor vehicles	Total
Composition:			
Cost	9,619	53	**9,672**
Accumulated depreciation	(2,430)	(31)	**(2,461)**
Right of use assets	**7,189**	**22**	**7,211**
Reconciliation:			
Opening balance	10,097	86	**10,183**
Depreciation	(2,518)	(68)	**(2,586)**
Additions	961	4	**965**
Disposals	(1,249)	-	**(1,249)**
Revaluations	(96)	-	**(96)**
Impairment	(27)	-	**(27)**
Net foreign exchange movements	21	-	**21**
Right of use assets	**7,189**	**22**	**7,211**

* In August 2021 Tower entered into a new lease with a 10 year term for its Auckland premises. Tower recognised an initial right-of-use asset of $24.0m and an initial lease liability of $33.3m with the difference primarily representing lease incentives. Tower has assumed no renewals of the lease past the initial 10 year term for the purposes of the right of use asset and lease liability.

Recognition and measurement

Right-of-use assets are recognised when Tower has the right to use the assets. Right-of-use assets are measured at cost comprising the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received; and indirect costs; and restoration costs. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

6.3a Amounts recognised in the Balance Sheet (continued)

(ii) Lease liabilities

$ thousands	**2021**	2020
Composition:		
Current	6,082	2,721
Non-current	33,339	5,974
Lease liabilities	**39,421**	**8,695**
Due within 1 year	6,082	2,721
Due within 1 to 2 years	6,041	2,584
Due within 2 to 5 years	12,055	3,534
Due after 5 years	19,514	418
Discount	(4,271)	(562)
Lease liabilities	**39,421**	**8,695**

Recognition and measurement

Lease liabilities are recognised at the date Tower has the right to use the corresponding asset. Lease liabilities are initially measured as the present value of expected lease payments under lease arrangements. Lease liability will include any option to extend where it is reasonably certain that the option will be exercised. The lease payments are discounted using the incremental borrowing rate as the interest rate in the lease cannot be readily determined. Incremental borrowing rates used during the year ranged between 1.9% and 3.6% (2020: between 2.3% and 3.6%).

Subsequent repayments are split between principal and interest cost where 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.

b. Amounts recognised in the consolidated statement of comprehensive income

$ thousands	Classification	**2021**	2020
Depreciation and impairment	Underwriting expense & corporate and other expenses	(2,418)	(2,598)
Interest expense	Finance costs	(378)	(369)
Gain on disposal	Underwriting expense	1,179	167
Lease expense		**(1,617)**	**(2,800)**

c. Amounts recognised in the consolidated statement of cash flows

$ thousands	**2021**	2020
Total cash outflow for lease principal payments	**(2,848)**	(3,070)

7 Tax

This section provides information on Tower's tax expense during the year and its position at balance date.

7.1 Tax expense

Composition

$ thousands	**2021**	Restated 2020
Current tax	3,745	3,621
Deferred tax	5,785	3,900
Adjustments in respect of prior years	(395)	(51)
Tax expense	**9,135**	7,470

Reconciliation of prima facie tax to income tax expense

$ thousands	**2021**	Restated 2020
Net profit before tax	28,450	18,680
Prima facie tax expense at 28% (2020: 28%)	7,966	5,230
Adjustments in respect of prior years	(395)	(51)
Tax effect of non-deductible expenses and non-taxable income	796	788
Foreign tax credits written off	861	1,127
Other	(93)	376
Tax expense	**9,135**	7,471

Recognition and measurement

Tax expense is calculated on the basis of the applicable tax rates that have been enacted or substantively enacted at the end of the reporting period in the jurisdictions Tower operates in. There have been no tax rate changes during the year in these jurisdictions. Current tax expense relates to tax payable for the current financial reporting period while deferred tax will be payable in future periods.

7.2 Current tax

a. Current tax asset

$ thousands	**2021**	2020
Excess tax payments related to prior periods*	12,038	12,038
Excess tax payments/tax payable related to current period**	863	854
Current tax assets	**12,901**	12,892

*Expected to be recovered from 2024 as per the Board approved operational plan for 2022 to 2025.
** Excess tax payment made in the Pacific Islands during the reporting period.

7.2 Current tax (continued)

b. Current tax liability

The current tax liability balance of $170k (2020: $821k) relates to taxes payable to offshore tax authorities in the Pacific Islands.

Recognition and measurement

Overpayment of tax in the current and prior periods is recognised as a **current tax asset**. Current tax assets are measured at the amount expected to be recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

7.3 Deferred tax

a. Deferred tax asset

Composition

$ thousands	**2021**	Restated 2020
Tax losses recognised	24,116	25,720
Software, property, plant and equipment	2,834	3,744
Leases	373	501
Provisions and accruals	4,165	3,882
Recognised in profit or loss	**31,488**	33,847
Impact through other comprehensive income	-	1,550
Recognised in comprehensive profit or loss	**31,488**	35,397
Set-off of deferred tax liabilities pursuant to NZ IAS 12	(7,038)	(6,575)
Deferred tax asset	**24,450**	28,822

Reconciliation of movements

$ thousands	**2021**	2020
Opening balance	35,397	36,360
Movements recognised in other comprehensive income	-	2,051
Movements recognised in consolidated statement of comprehensive income	(3,909)	(3,014)
Deferred tax asset pre NZ IAS 12 set off	**31,488**	35,397

7.3 Deferred tax (continued)

b. Deferred tax liability

Composition

$ thousands	2021	2020
Deferred acquisition costs	(5,481)	(6,588)
Customer relationships	(3,433)	-
Other*	(461)	(911)
Recognised in profit or loss	**(9,375)**	(7,499)
Asset revaluation	(438)	(422)
Recognised in comprehensive profit or loss	**(9,813)**	(7,921)
Set-off of deferred tax liabilities pursuant to NZ IAS 12	7,038	6,575
Deferred tax liability	**(2,775)**	(1,346)

* Primarily relates to withholding tax on undistributed profit from the Pacific Islands.

Reconciliation of movements

$ thousands	2021	2020
Opening balance	(7,921)	(7,043)
Movements recognised in consolidated statement of comprehensive income	(1,876)	(886)
Movements recognised in equity	(16)	8
Deferred tax liability pre NZ IAS 12 set off	**(9,813)**	(7,921)

Recognition and measurement

Deferred tax is income tax which is expected to be payable or recoverable in the future as a result of the unwinding of temporary differences. These arise from differences in the recognition of assets and liabilities for financial reporting and from the filing of income tax returns. Deferred tax is recognised on all temporary differences, other than those arising from (i) goodwill or (ii) from the initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the accounting nor taxable profit or loss.

At the reporting date, the Group has recognised a deferred tax asset in respect of its unused tax losses of $86.1m (2020: $92.2m).

Deferred tax is calculated at the tax rates that are expected to apply to the year when the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

7.3 Deferred tax (continued)

Critical accounting judgements and estimates

Deferred tax assets are recognised for all unused tax losses to the extent it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likely timing and quantum of future taxable profits.

This assessment is completed on the basis of the approved strategic plans of Tower Limited and subsidiaries. Tower's ability to utilise these tax losses depends on the future profitability, changes in ownership and a major change in Tower's business. The enactment of the new business continuity test in the Income Tax Act 2007 on 30 March 2021 for carrying forward tax losses means that Tower is able to carry forward its tax losses even if there is a significant shareholding change, as long as the business continuity test is met.

7.4 Imputation credits

The Group imputation credit account reflects the imputation credits held by the Company as the representative member of the Group.

$ thousands	**2021**	2020
Imputation credits available for use in subsequent reporting periods	**271**	271

8 Other information

This section includes additional disclosures which are required by financial reporting standards.

8.1 Notes to the Consolidated Cash Flow Statement

Composition

$ thousands	**2021**	2020
Cash at bank	**88,740**	61,892
Deposits at call	**27,389**	18,071
Restricted cash	**-**	145
Cash and cash equivalents	**116,129**	80,108

The average interest rate at 30 September 2021 for deposits at call is 0.25% (2020: 0.47%).

Reconciliation of profit for the year to cash flows from operating activities	**2021**	Restated 2020
Profit for the year	**19,315**	11,210
Adjusted for non-cash items		
Depreciation of property, plant and equipment	2,294	2,004
Depreciation, impairment and disposals of right-of-use assets	2,418	2,432
Amortisation of intangible assets	12,556	9,706
Fair value losses on financial assets	4,568	1,518
Gain/loss on disposal of fixed assets	322	-
Change in deferred tax	5,799	7,565
Adjusted for movements in working capital		
Change in receivables	41,612	(2,659)
Change in payables	8,840	(15,314)
Change in taxation	539	(1,414)
Adjusted for financing activities		
Facility fees and interest paid	378	1,115
Net cash inflows from operating activities	**98,641**	16,163

8.2 Related party disclosures

Tower considers key management personnel to consist of the Board of Directors, Chief Executive Officer and executive leadership team. Information regarding individual director and executive compensation is provided in the Corporate Governance section of the annual report.

$ thousands	**2021**	2020
Salaries and other short term employee benefits paid	5,059	4,736
Termination benefits	486	-
Independent director fees	723	624
Related party remuneration	**6,268**	5,360

Tower insurance products are available to all key management personnel on the same terms as available to other employees. In addition, Tower purchases indemnity insurance for all directors both past and present covering liabilities and legal expenses incurred whilst in office.

Definition

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

8.3 Auditor's remuneration

$ thousands	**2021**	2020
Audit of financial statements (1)	599	550
Other assurance services (2)	60	46
Non-assurance agreed procedures (3)	-	12
Total fees paid to Group's auditors	**659**	608
Fees paid to subsidiaries' auditors different to Group auditors:		
Audit of financial statements (4)	14	15
Auditors remuneration	**673**	623

(1) Audit of financial statements includes fees for both the audit of annual financial statements and the review of the interim financial statements. PwC Fiji perform the audits of all overseas incorporated subsidiaries with support of PwC New Zealand and other PwC network firms. $129,600 is paid to other PwC network firms (non New Zealand) for their audit services.

(2) Other assurance services includes annual solvency return assurance and Pacific Island regulatory return audits. The other assurance services for the year ended 30 September 2020 were completed during the year ended 30 September 2021.

(3) Agreed procedures on Pacific Island regulatory return and Annual Shareholders' Meeting procedures in the year ended 30 September 2020. The non-assurance agreed procedures for the year ended 30 September 2020 were completed during the year ended 30 September 2021.

(4) The audit of Tower Insurance (Vanuatu) Limited was performed by Law Partners (2020: Law Partners).

8.4 Contingent liabilities

The Group is occasionally subject to claims and disputes as a commercial outcome of conducting insurance business. Provisions are recorded for these claims or disputes when it is probable that an outflow of resources will be required to settle any obligations. Best estimates are included within claims reserves for any litigation that has arisen in the usual course of business.

The Group has no other contingent liabilities.

8.5 Subsequent events

On 24 November 2021, the Board approved a full year dividend of 2.5 cents per share, with the dividend being payable on 2 February 2022 as specified by Note 5.6. The anticipated cash impact of the final dividend is approximately $10.5m.

On 24 November 2021, the Board approved $30.4m capital return by way of a compulsory share buyback. The capital return is subject to shareholder and Court approval.

On 14 October 2021 Tower Limited reached an agreement to increase its shareholding in National Pacific Insurance Limited from 71.39% to 93.88% for a consideration of $3.4m. Tower Limited has subsequently commenced a process to acquire the remaining 6.12% shareholding.

8.6 Capital commitments

As at 30 September 2021, Tower has nil capital commitments (2020: $0.7m).

8.7 Impact of new accounting standards and changes in interpretation of current accounting standards

a. Issued and effective

Software-as-a-Service ("SaaS") arrangements

For the year ended 30 September 2021 and its comparative period, the Group has revised its accounting policy in relation to the configuration and customisation costs incurred in implementing Software as a Service (SaaS) arrangements. These are arrangements in which, as a Group, application software is accessed over the internet or via a dedicated portal as required. The change in accounting policy resulted from the IFRS Interpretations Committee pronouncements as to how current accounting standards apply to these types of arrangements in principle, primarily in relation to the recognition and measurement criteria of IAS 38 Intangible Assets with specific respect to Software and IT related projects in progress.

SaaS arrangements are service contracts providing the Group with the right to access a cloud provider's application software over a stated time period. Costs the Group incurs to configure, customise and maintain access to providers application software are recognised as operating expenses when incurred and in accordance with contracted terms.

Impact of accounting policy change

As a result of this change in accounting policy the Group has determined certain costs that have been capitalised relating to SaaS arrangements should have been expensed when they were incurred.
The changes are required to be applied retrospectively. Costs capitalised prior to 1 October 2019 that should have been expensed have been adjusted against opening accumulated losses at 1 October 2019. Costs capitalised in the years ended 30 September 2020 and 30 September 2021 that should have been expensed have been reclassified to the consolidated statement of comprehensive income. The impact on the financial statements for the years ended 30 September 2020 and 30 September 2021 is summarised below:

Consolidated statement of comprehensive income

- an increase in technology expenses for the year ended 30 September 2021 of $3.1m (2020: $1.5m).
- a decrease in people costs capitalised during the year ended 30 September 2021 of $0.5m (2020: $1.3m).
- a decrease in amortisation expenses for the year ended 30 September 2021 of $1.5m (2020: $1.1m).
- a decrease in tax expense for the year ended 30 September 2021 of $0.6m (2020: $0.4m).
- an overall decrease in net profit after tax for the year ended 30 September 2021 of $1.5m (2020: $1.3m).

Consolidated balance sheet

- an increase in opening accumulated losses of $7.1m (2020: $3.9m).
- a decrease in intangible assets as at 30 September 2021 of $2.0m (2020: $7.1m).
- an increase in deferred tax assets as at 30 September 2021 of $0.6m (2020: $2.0m).

Consolidated statement of cash flows

- an increase in employee and supplier payments for the year ended 30 September 2021 of $3.5m (2020: $2.7m).
- a decrease in payments for purchase of intangible assets for the year ended 30 September 2021 of $3.5m (2020: $2.7m).

Earnings per share

- a decrease in earnings per share for the year ended 30 September 2021 of 0.34 cents (2020: 0.27 cents).

Adjustment relating to periods before 1 October 2019

- the portion of the decrease to intangible assets above relating to costs capitalised pre 1 October 2019 is $5.5m.
- the portion of the increase to deferred tax assets above relating to costs capitalised pre 1 October 2019 is $1.6m.
- the reduction in opening accumulated losses at 1 October 2019 relating to costs capitalised pre 1 October 2019 is $3.9m.

8.7 Impact of new accounting standards and changes in interpretation of current accounting standards

b. Issued and not yet effective

NZ IFRS 17 Insurance Contracts is effective for periods beginning on or after 1 January 2023. Tower will apply the standard for the year ending 30 September 2024, with the comparative period for the year ending 30 September 2023. The standard replaces the current guidance in NZ IFRS 4 Insurance Contracts, and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The standard introduces substantial changes in the presentation of financial statements and disclosures, introducing new balance sheet and income statement line items and increased disclosure requirements compared with existing reporting. Tower has a programme with dedicated resource to assess the impact of adopting NZ IFRS 17 and to project manage the transition to the new standard including system development. Tower has completed an initial draft of accounting policies under IFRS 17, with the majority of the impact assessment and systems development work expected to be completed in the financial year ended 30 September 2022. An initial assessment has been completed on Tower's contracts, and it is expected that the majority of Tower's insurance contracts will meet the requirements of the simplified approach available under IFRS 17. However, due to the complexity of the requirements within the standard and the availability of accounting policy choices as to how the standard is implemented which have not yet been finalised, a full assessment of the financial impact has not yet been completed.

Independent auditor's report

To the shareholders of Tower Limited

Our opinion

In our opinion, the accompanying consolidated financial statements of Tower Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 September 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 30 September 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated 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 consolidated 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 Group 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 Group in the areas of assurance over solvency and regulatory insurance returns and agreed upon procedures in respect of voting at the Annual Shareholders Meeting and a regulatory insurance return. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

Key audit matters

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

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Description of the key audit matter	How our audit addressed the key audit matter
(1) Valuation of outstanding claims (2021: $122,338,000, 2020: $107,747,000)	
We considered the valuation of outstanding claims a key audit matter because this involves an estimation process combined with significant judgements and assumptions made by management to estimate future cash outflows to settle claims. The outstanding claims liability includes a central estimate of the future cash outflows relating to claims incurred, as at and prior to the reporting date, and the expected costs of handling those claims. There is uncertainty over the amount that reported claims and claims incurred at the reporting date but not yet reported to the Group will ultimately be settled at. The estimation process relies on the quality of underlying claims data and the use of informed estimates to determine the quantum of the ultimate loss. Key actuarial assumptions applied in the valuation of outstanding claims include: • expected future claims development proportion; and • claims handling expense ratios Outstanding claims in relation to the Canterbury earthquakes have a greater degree of uncertainty and judgement. This mainly arises due to the uncertainty as to further deterioration of open known claims, the Earthquake Commission (EQC) reporting of new claims to the Group which have gone over the $100,000 statutory liability cap (over cap claims), new litigation claims, reopening of closed claims, expected claims costs for open claims and estimates of future claims management expenses. Changes in assumptions can lead to significant movements in the outstanding claims liability.	Claims data is a key input to the actuarial estimates. Accordingly, we: • evaluated the design effectiveness and tested controls over claims processing; • assessed a sample of claim case estimates at the year end to check that they were supported by appropriate management assessment and documentation; • assessed, on a sample basis, the accuracy of previous claim case estimates by comparing to the actual amount settled during the year and analysed any escalation in the claim case estimate to determine whether such escalation was based on new information that came available during the year; • inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation and approved within delegated authority limits; and • tested the integrity of data used in the actuarial models and calculations by agreeing the relevant inputs, such as claims data, to source. Together with our actuarial experts, we: • considered the work and findings of the actuaries engaged by the Group; • evaluated the actuarial models and methodologies used, and any changes to them, by comparing with generally accepted models and methodologies applied in the sector; • assessed key actuarial judgements and assumptions and challenged them by comparing with our expectations based on the Group's experience, our own sector knowledge and independently observable industry trends (where applicable), taking into consideration COVID-19 impacts; and

Description of the key audit matter	How our audit addressed the key audit matter
The outstanding claims liability includes a risk margin that allows for the inherent uncertainty in the central estimate of future claim cash outflows. In determining the risk margin, the Group makes judgements about the volatility of each class of business written and the correlation between different geographical locations. Refer to note 2.4 to the consolidated financial statements.	• assessed the risk margin as per the requirements of applicable accounting standards, by comparing to known industry practice. In particular we focused on the assessed level of uncertainty in the central estimate; and with reference to the inherent uncertainty in the remaining Christchurch earthquake claims and its consistency with prior periods.
(2) Recoverability of the deferred tax asset arising from tax losses **(2021: $24,116,000, 2020: $25,720,000)** The majority of the Group's deferred tax asset arises from tax losses. We considered recoverability of the deferred tax asset a key audit matter because utilisation of the asset is sensitive to the Group's expected future profitability and sufficient continuity of the ultimate shareholders or business continuity. Management judgement is involved in forecasting the timing and quantum of future taxable profits, which are inherently uncertain, and whether it is probable the tax losses will be utilised in the foreseeable future. Refer to note 7.3 to the consolidated financial statements.	In considering the recoverability of the deferred tax asset arising from tax losses we performed the following procedures: • compared the previous management budget with actual results to assess the reliability of management's forecasting; • considered the reasonableness of the assumptions in the FY22 operational plan on the forecast utilisation of tax losses; • assessed the Group's ability to maintain sufficient continuity of the ultimate shareholders or to meet the business continuity test and therefore its entitlement to offset the tax losses against future taxable profits; and • determined whether it was probable (more likely than not) that the tax losses would be utilised in the foreseeable future.

Our audit approach

Overview

Overall group materiality: $3.95 million, which represents approximately 1% of gross earned premium.

We chose gross earned premium as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark for insurance companies.

A full scope audit was performed for the Company based on its financial significance to the Group. Specified audit procedures and analytical review procedures were performed on the remaining Group entities.

As reported above, we have two key audit matters, being:

- Valuation of outstanding claims
- Recoverability of the deferred tax asset arising from tax losses

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated 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 consolidated financial statements as a whole.

How we tailored our group audit scope

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

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 Karen Shires.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
24 November 2021

Auckland

24 November 2021

The Directors
Tower Limited
136 Fanshawe Street
Auckland 1010

Dear Directors

Review of Actuarial Information contained in the financial statements

As required by Section 78 of IPSA the Appointed Actuary, Geoff Atkins of Finity Consulting, has reviewed the actuarial information contained in, or used in the preparation of, the financial statements at 30 September 2021. Geoff Atkins and Finity have no relationship with or interest in Tower other than being a provider of actuarial services.

I prepared the actuarial valuation of liabilities remaining from the Canterbury Earthquakes and reviewed the actuarial valuations of insurance liabilities for the New Zealand business and the Pacific Islands businesses. I reviewed the other actuarial information as specified by IPSA in Section 77, including the solvency calculations for the financial statements.

No limitations were placed on me in performing the review and all data and information requested was provided.

Nothing has come to my attention that would lead me to believe that any of the actuarial information contained in, or used in the preparation of, the financial statements is not appropriate.

In my opinion the company has maintained a solvency margin in excess of the minimum required as at 30 September 2021.

The report is being provided for the sole use of Tower for the purpose state above. It is not intended, nor necessarily suitable, for any other purpose and should only be relied on for the purpose for which it is intended.

Yours sincerely

Geoff Atkins
Appointed Actuary

Anagha Pasche

Fellows of the New Zealand Society of Actuaries

2021 full year results

1 October 2020 to 30 September 2021

24 NOVEMBER 2021

Agenda

1 

Chairman's update
Michael Stiassny, Chairman

2 

Business update
Blair Turnbull, Chief Executive Officer

3 

FY21 financial performance
Jeff Wright, Chief Financial Officer

4 

Looking forward
Blair Turnbull, Chief Executive Officer

TOWER

Chairman's update –
Dividends & premium growth in a challenging market

TACKLING THE CHALLENGES

- Addressing profit challenges first signalled at the half year
- Responding with rating and underwriting actions with improvements expected through FY22
- $400m premium milestone reached through unique technology and distribution footprint

STRONG AND WELL CAPITALISED

- 2.5¢ dividend bringing full year to 5¢ per share
- RBNZ licence condition reduced from $50m to $25m
- Proposed return of $30.4m excess capital through compulsory buy back

POSITIONED FOR LONG-TERM GROWTH

- Flagship Tower Direct digital business
- Unique partnership distribution capability
- Digitising our resilient Pacific business to improve efficiency & growth
- Leading technology partnerships
- Continued efficiency improvements

TOWER


Good growth in a challenging environment

A journey of continued focus & innovation

2015-2019

RE-PLATFORM

Product rationalisation

Christchurch recovery

Investment in cloud-based,
EIS platform implementation

2020-2021

STRENGTHENING THE BUSINESS

Resolving legacy issues

EQC settlement

RBNZ licence condition reduced $25m

Tower entity amalgamation

Continuing customer migration to new platform

2021+

LONG TERM EARNINGS, DIVIDENDS & PREMIUM GROWTH

Scaling leading platform - Pacific digitisation rollout, migrating ANZ and Youi books

Expanding quality product suite

Innovating the customer experience

Building leading partnerships

Automating and enhancing claims journey

Investing in our people and culture

TOWER

Results achieved while navigating a challenging environment

REPORTED PROFIT
incl. large events

$19.3m

vs $11.2m prior year

UNDERLYING NPAT
incl. large events

$20.8m

vs $28.4m prior year

COMBINED OPERATING RATIO (COR)

91.4%

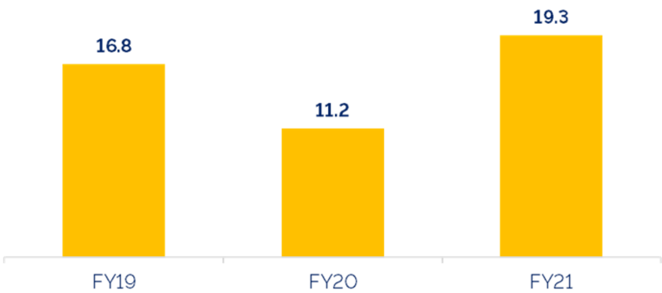
Increased 2.7% from 88.6% prior year

TOWER GROSS WRITTEN PREMIUM (GWP)

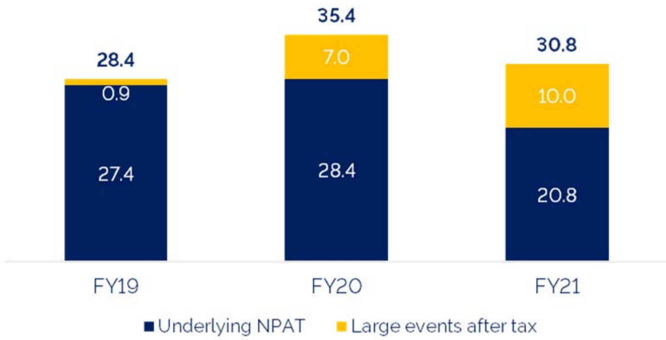
$404m

Up 5% from $385m prior year

REPORTED PROFIT ($m)



UNDERLYING NPAT EXCL. LARGE EVENTS ($m)



TOWER

Impact of external factors

NET INVESTMENT INCOME (pre-tax)

$0.2m

vs $5.3m prior year

LARGE EVENTS (pre-tax)

$13.9m

vs $9.7m prior year

LARGE HOUSE CLAIMS

92

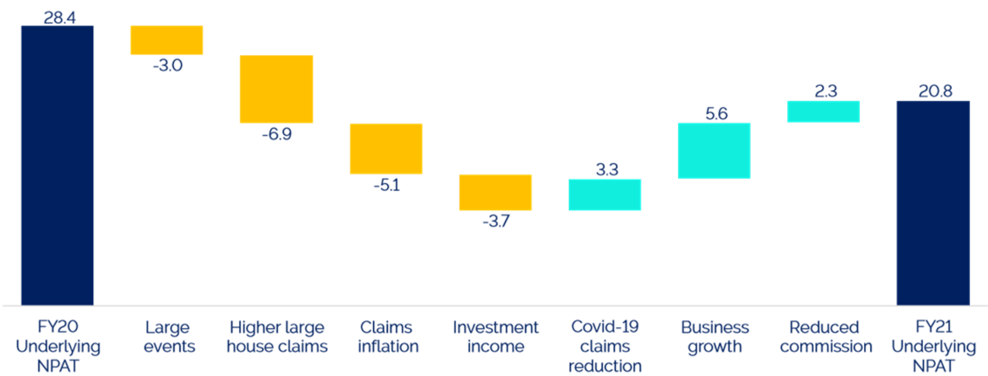
vs 57 prior year

CLAIMS INFLATION (pre-tax)

$7.1m

Increase in claims expense

MOVEMENT IN UNDERLYING NPAT ($m)



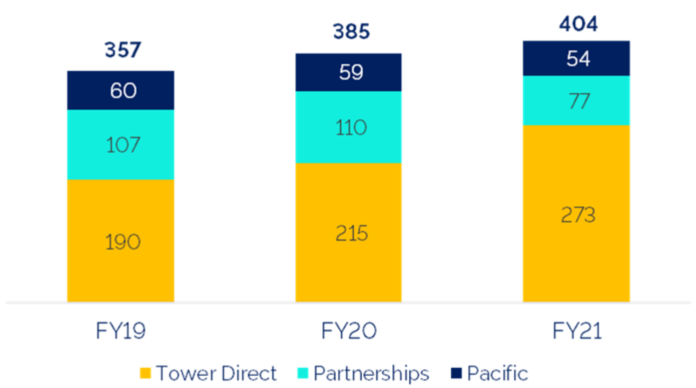
TOWER

Good growth in customers and premium

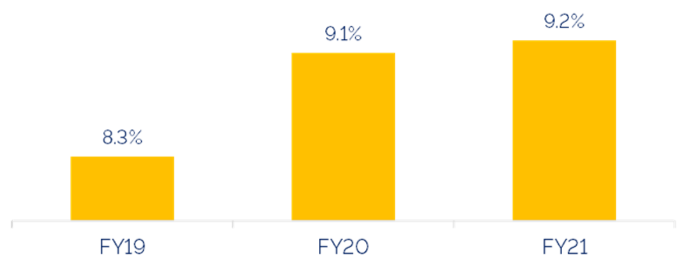
NZ GWP GROWTH	CUSTOMERS
7.9%	**304,000**
To $350m GWP	Up 5% on prior year

NET PROMOTER SCORE	MYTOWER REGISTRATIONS
43%	**132,000**
vs 27% prior year	vs 45k prior year

GWP BY BUSINESS UNIT ($m)



NZ PERSONAL LINES MARKET SHARE



Note 1: There has been a minor customer definitional change compared to FY20 surrounding how joint policy owners are recorded as customers

Product, pricing and underwriting enhanced through data

NZ BAU LOSS RATIO

53.6%

Up 4% on prior year

NZ UNDERWRITING IMPROVEMENTS

Full house fire replacement cap

Flood risk-based pricing

NZ CUSTOMERS WITH MULTIPLE PRODUCTS

50%

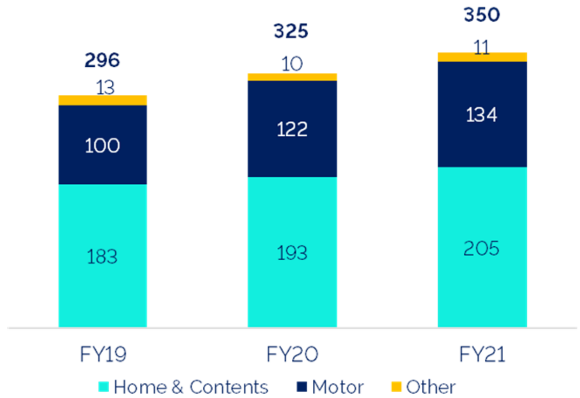
135,000 NZ customers have multiple products

MULTIPLE PRODUCT HOLDER TENURE

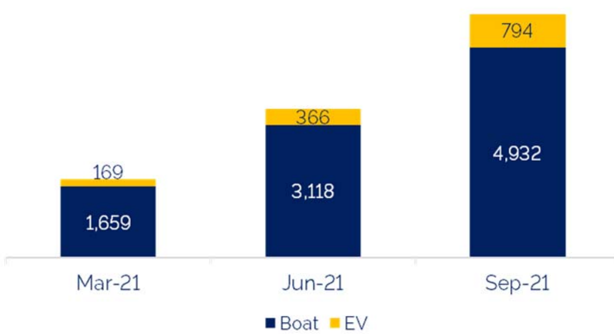
7.9 years

vs 4.8 years for a single product holder

NZ PRODUCT MIX GWP ($m)



NZ NEW BUSINESS RISKS – ELECTRIC VEHICLE & BOAT



TOWER

Investing in digital platform for efficiency and scalability

NZ SERVICE TASKS COMPLETED DIGITALLY

51%

vs 40% prior year

NZ CLAIMS LODGED DIGITALLY

31%

vs 23% prior year

TOTAL CUSTOMERS MIGRATED TO EIS

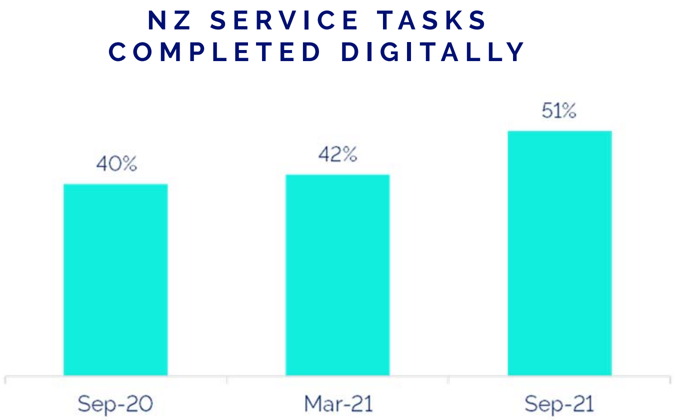
80%

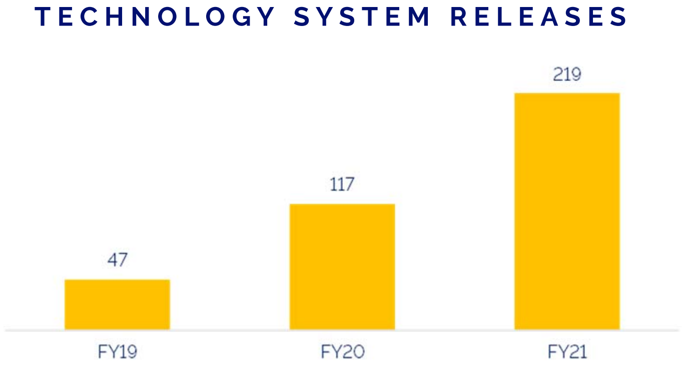
vs 62% in September 2020

CORE ADMIN LEGACY SYSTEMS REMAINING

4

vs 6 prior year, 2 remaining by end of 2022





MER improving while continuing to invest

TOWER MANAGEMENT EXPENSE RATIO

37%

2% better than prior year

ACQUISITION COST

12.6%

vs 13% in prior year

NET COMMISSION EXPENSE REDUCED

22%

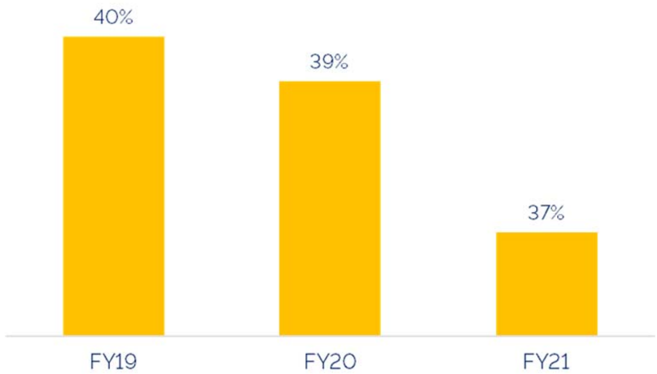
Reduction following book purchase and reinsurance profit share

DIGITAL AND DATA

$1 in $3

Of total management expenses

MANAGEMENT EXPENSE RATIO (% NEP)



COMMISSION EXPENSE RATIO (% GEP)

TOWER

Strong capital & solvency, delivering shareholder returns

TOWER PARENT SOLVENCY	FULL YEAR DIVIDEND PAYMENT
271%	**$21m**
Before return of capital	$10.5m to be paid 2 Feb 2022

ORDINARY DIVIDEND POLICY	PROPOSED CAPITAL RETURN OF
60-80%	**$30.4m**
Of cash earnings* where prudent to do so	Via compulsory share buyback**

2.5¢ dividend bringing full year to **5¢ per share**

*Cash earnings defined as Reported Full Year Net Profit After Tax adjusted for acquisition amortisation and unusual items
**Under a Court Scheme of Arrangement

TOWER

FY21 financial performance

Group underlying financial performance

$ million	FY21	FY20	Change
Gross written premium	404.1	385.1	18.9
Unearned premium	(9.2)	(4.6)	(4.5)
Gross earned premium	394.9	380.5	14.4
Reinsurance	(62.2)	(57.2)	(5.0)
Net earned premium	**332.7**	**323.3**	**9.4**
BAU claims expense	(166.8)	(149.7)	(17.1)
Large event claims expense	(13.9)	(9.7)	(4.2)
Management expenses	(112.0)	(112.7)	0.7
Net commission expense	(11.3)	(14.5)	3.2
Underwriting profit	**28.7**	**36.7**	**(8.0)**
Net investment income	0.2	5.3	(5.1)
Other income	1.4	0.5	0.9
Tax	(9.5)	(14.1)	4.7
Underlying NPAT	**20.8**	**28.4**	**(7.6)**
One-off transactions (net of tax)	(1.5)	(17.2)	15.7
Reported profit after tax	**19.3**	**11.2**	**8.1**

- Solid FY21 GWP of $404.1m. GWP growth $18.9m on FY20 (+5%)
- BAU claims expense impacted by higher volume of large house claims and emerging claims inflation
- Management expense ratio improved by 2.3%, reflecting scale platform efficiencies
- The acquisition of the ANZ portfolio and higher proportional reinsurance profit share contributed to lower commission expenses
- Underlying NPAT before large events of $30.8m is a decrease of 13% on FY20
- Profit impacted by lower investment income
- Reported profit of $19.3m, increase of 72% on FY20. Impacted by EQC receivable write down in FY20 of $9.5m after tax

Key ratios	FY21	FY20	Change
Claims ratio excluding large events	50.2%	46.3%	3.8%
Large events claims ratio	4.2%	3.0%	1.2%
Expense ratio	37.0%	39.3%	-2.3%
Combined ratio	**91.4%**	**88.6%**	**2.7%**

Note: 1: FY20 reported profit has been restated for the IFRIC accounting treatment decision on software-as-a-service (SaaS) costs previously capitalised now expensed as non-underlying
Note 2: there has been minor reclassification between management expenses and “other income and expenses” in the comparative period
Note 3: refer to reconciliation between Underlying NPAT and Reported profit on page 35

TOWER

Claims challenges for insurers

Tower's FY21 result reflects the claims challenges that insurers can face

External factors

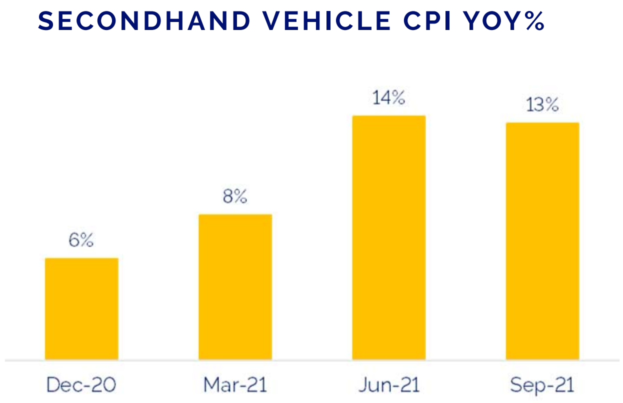
Large events	The volatility of large events in New Zealand and the Pacific is high. The reinsurance programme is Tower's main tool in managing this.
Changing claims trends	Large fire-related house claims increased in FY21 which can be a changing trend or random volatility that needs to be explained and managed.
Inflation	When inflation occurs, quick identification and action is key. The FY21 inflation also raises a question of whether it is a short-term spike or a long-term change.
Supply chain	As New Zealand is heavily dependent on imports, supply chain issues like those associated with Covid-19 can be particularly challenging.

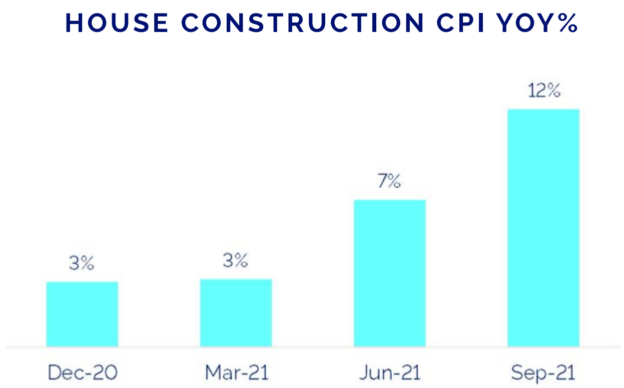
Tower pricing, policies, and process changes have been actioned to address these challenges. It takes 12 months for those actions to flow through the whole portfolio.

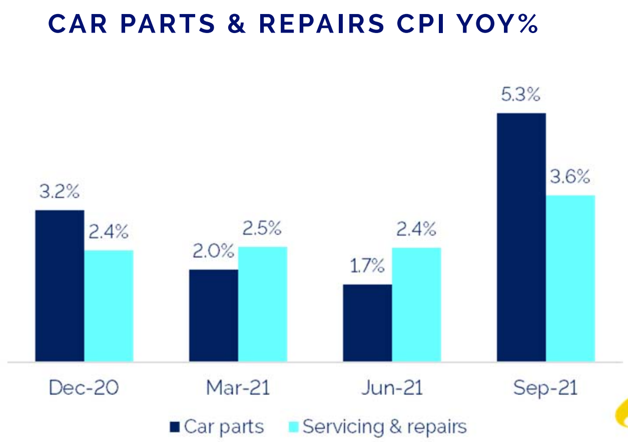
TOWER

Claims inflation in New Zealand impacted us heavily

- Claims inflation was anticipated due to Covid-19, but when it emerged it was more sudden and extreme than expected
- Covid-19 lockdowns and supply chain delays mean there are more open claims than normal, so the impact of inflation is likely not over yet
- Rating increases have been applied and will take 12 months to flow through the whole portfolio
- Tower will continue to monitor inflation closely, taking action as necessary





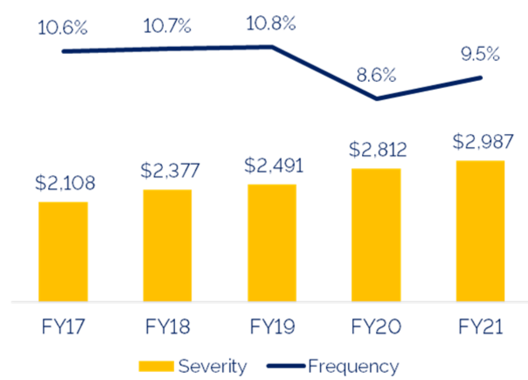


Note 1: CPI (consumer price index) data sourced from *Statistics New Zealand* September quarter

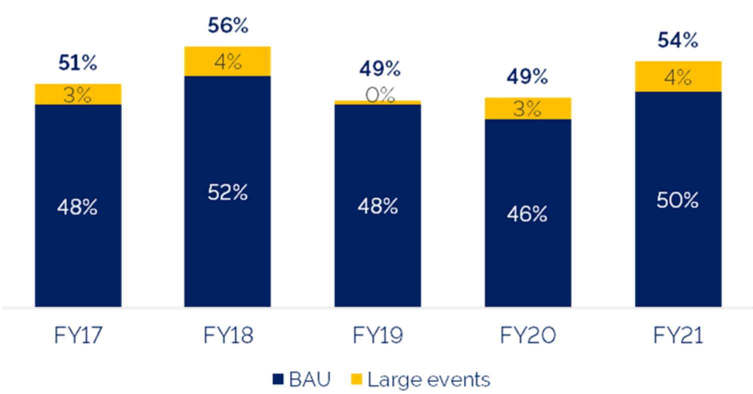
Sharp focus on claims management

- Both BAU and large events ratios were the highest since 2018
- Inflation has been a significant driver of this with average motor claims up 6% and average house claims up 7%
- Rate increases have been applied to all portfolios
- Frequency of motor claims has dipped with Covid-19, while frequency of house claims has increased

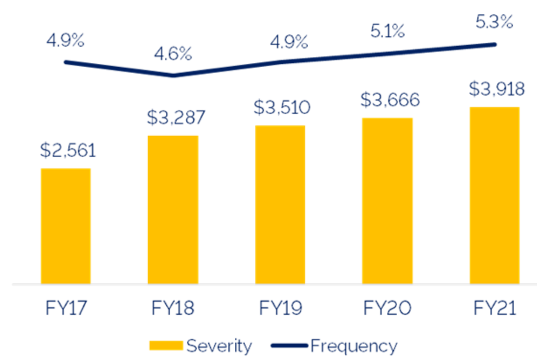
NZ MOTOR FREQUENCY & SEVERITY



TOTAL CLAIMS RATIO



NZ HOUSE FREQUENCY & SEVERITY

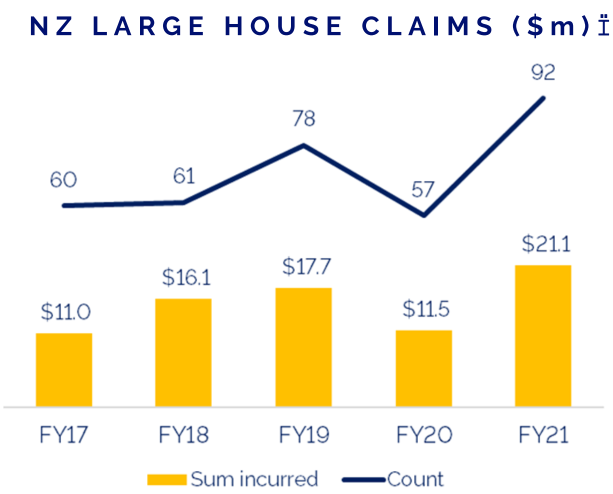


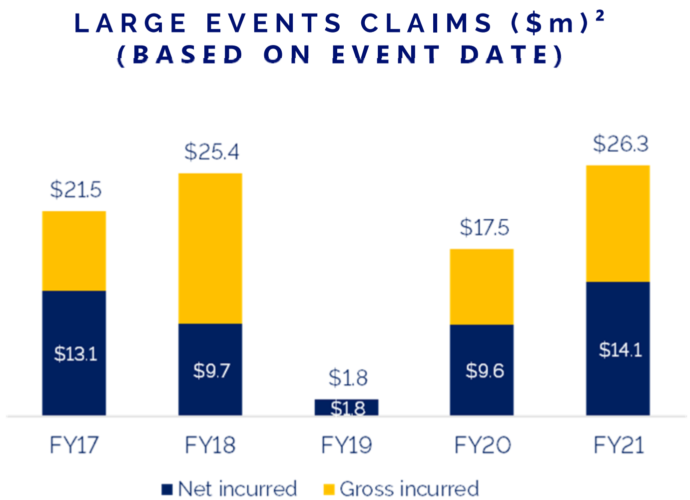
Note 1: Severity is defined as the cost of closed claims (excluding large events, large house, windscreen, zero value or negative incurred claims) divided by the count of claims

Note 2: Frequency is defined as the count of claims (same exclusions as above) divided by risks in force

TOWER

Large house claims and large events





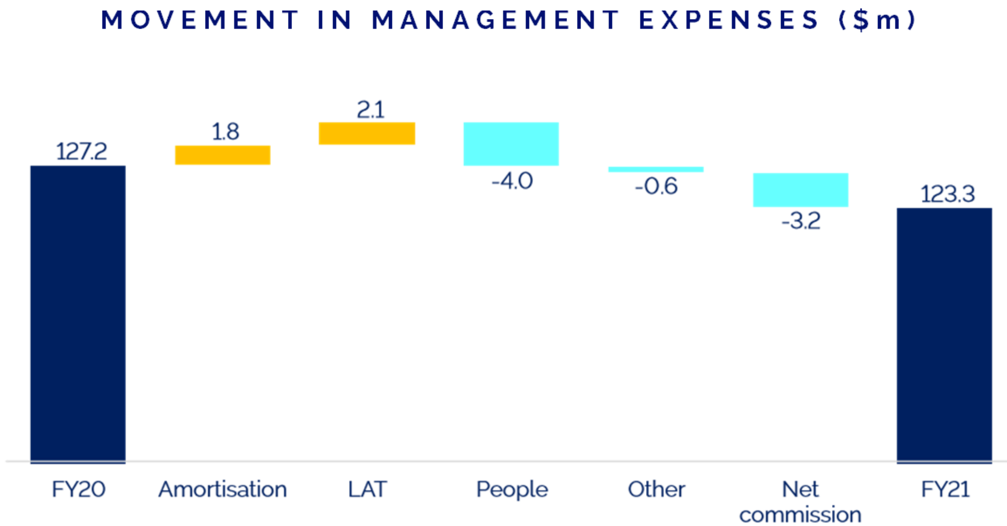
- Both NZ large house claims and large events were at their highest for many years in FY21
- With most large house claims being fire related, Tower has removed the uncapped replacement benefit for total loss house fires
- Tower has investigated the large house fire claims trends but identified no single factor that explains the rise – this analysis continues
- The introduction of risk-based pricing for flood will enable Tower to better manage high risk exposures for large events

Note 1: Large house claims are defined as greater than $50k NZD
Note 2: Large event claims are defined as $1m NZD or greater that impact more than one risk. The gross and net incurred claims have been updated for the most recent ultimate estimate and recoveries subsequently received after each reporting period. Prior period adjustments have been allocated back to the reporting period to match the event date

TOWER

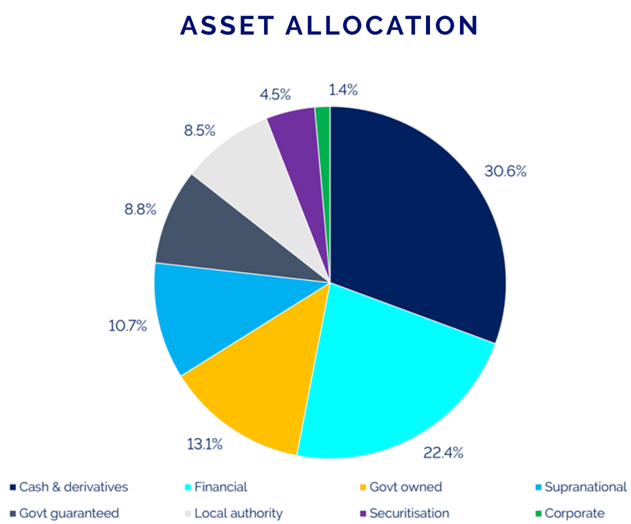
Continued focus on management expenses

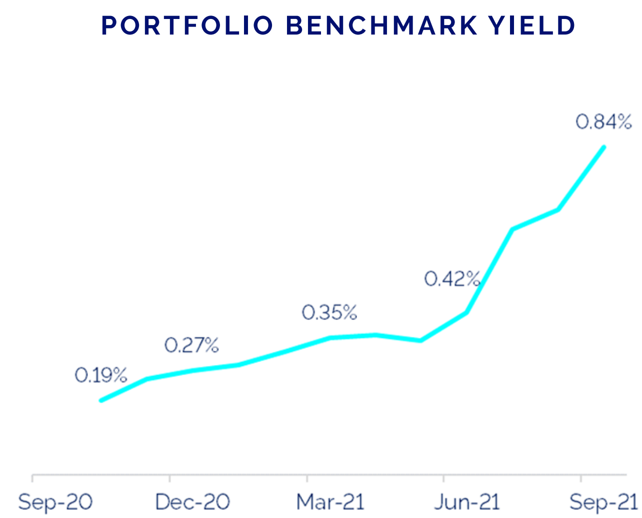
- Management expenses reduced $3.9m to $123.3m in FY21
- MER improved 2.3% on FY20, down to 37%
- Amortisation expense increased largely due to ANZ & EIS amortisation
- Liability adequacy test (LAT) resulted in an additional $2.1m of acquisition costs that were unable to be capitalised
- People expenses reduced by $4.0m partly through the realisation of benefits of the EIS platform post implementation
- Net commission expenses decreased due to the purchase of the ANZ portfolio, and an increase in reinsurance profit share income in FY21



Note: 1: there has been minor reclassification between management expenses and "other income and expenses" in the comparative period.

Macroeconomic factors impact investment income



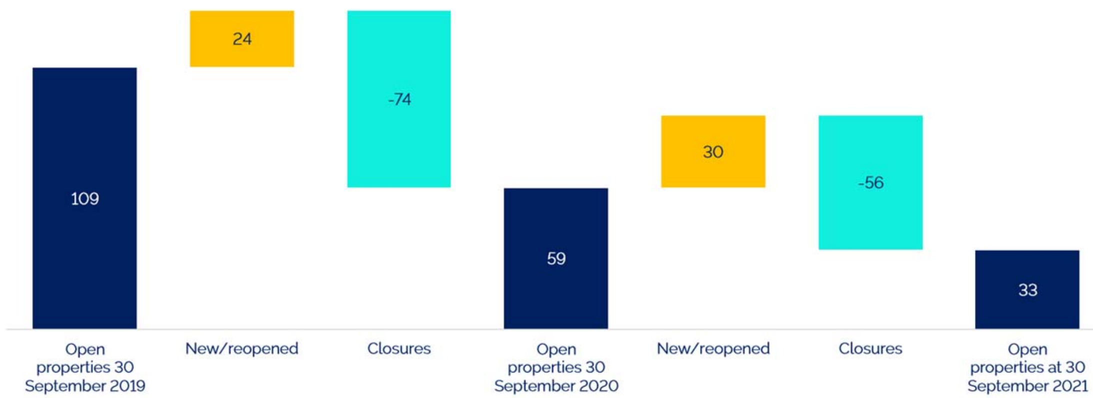


- Tower maintains a conservative investment policy, with the focus on high credit quality and liquidity, and an investment duration of six to twelve months
- Net investment income $0.2m vs $5.3m in FY20
- Low interest rates in the first half of FY21
- Rapidly rising interest rates in the second half drove marked-to-market unrealised losses totaling $2.4m ($0.2m 2020)

Canterbury earthquake claims continue to reduce

- Continued reduction in open claims with 56 claims closed in FY21
- 30 new EQC overcaps and reopenings in line with expectations with the flow reducing through FY21
- Gross outstanding claims down to $22.6m
- Several complex open claims have had significant strengthening, driven by both inflation and more costly rectification approaches
- The additional risk margin of $5m was released through FY21 reflecting the continued run-off of CEQ claims

OPEN CEQ CLAIMS



CEQ RESERVING

$ million	Sep-21	Mar-21	Sep-20	Mar-20	Sep-19	Mar-19	Sep-18
Case estimates	6.8	7.3	9.7	15.1	20.8	29.7	37.5
IBNR/IBNER[1]	9.6	9.9	11.6	11.7	15.5	17.7	18.1
Claims handling expense	1.3	1.6	1.9	1.9	2.5	2.6	3.3
Risk margin	4.9	5.1	5.7	6.7	7.8	9.0	9.0
Additional risk margin	0.0	2.5	5.0	5.0	5.0	5.0	5.0
Actuarial provisions	15.8	19.1	24.2	25.3	30.8	34.3	35.4
Gross outstanding claims	**22.6**	**26.4**	**33.9**	**40.4**	**51.6**	**64.0**	**72.9**

Note: 1: IBNR = Incurred but not reported; IBNER = Incurred but not enough reported

TOWER

Robust reinsurance programme supports resilience

FY22 reinsurance renewal

- Increase of catastrophe cover from $812m to $873m, with increase of retention to $11.25m (from $10m)
- Aggregate cover placed with an excess of $20m (up from $14m) and event range of $2m to $10m (up from $1m to $7.5m)
- Reinsurers on average expect the aggregate excess to be exceeded one in every four years

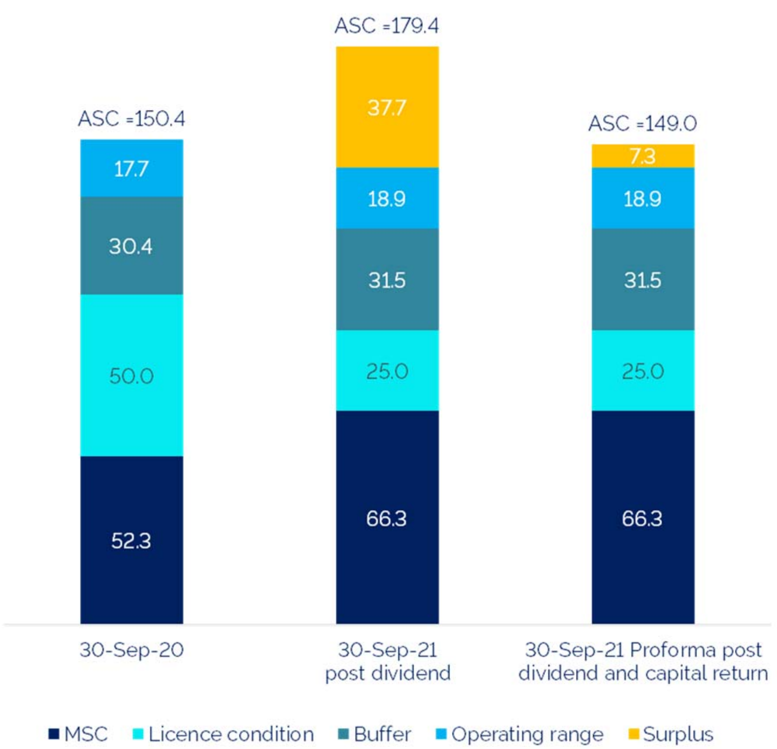
REINSURANCE PROGRAMME OVERVIEW

Aggregate applies to large events (excl. NZ earthquake) from $2m to $10m, with an excess of $20m

Strong capital and solvency position

- Tower's solvency margin above minimum solvency capital (MSC) at the end of FY20 was $98.1m, boosted by the settlement of the EQC Receivable. This has increased to $113.2m at the end of FY21
- Before returning capital, Tower's (NZ parent) solvency margin is $56.6m above its target solvency margin, and $37.7m above the top of its target operating range. This equates to 271% of MSC
- Following the proposed $30.4m return of capital by way of compulsory share buyback*, Tower would be $7.3m above the top of its target operating range, equating to 225% of MSC

TOWER SOLVENCY - NZ PARENT ($m)



Note: 1: ASC = Actual solvency capital, MSC = Minimum solvency capital

*Under a Court Scheme of Arrangement, subject to necessary approvals

Dividend and proposed capital return

Dividend	
Amount	2.5 cents per share
Record date	19 January 2022
Payment date	2 February 2022

Tower's Dividend Policy is to pay 60% - 80% of cash earnings where prudent to do so.

Cash earnings is defined as reported profit adjusted for acquisition, amortisation and unusual items

Proposed capital return by way of compulsory share buyback*	
Amount	1 share for every 10
Price per share	$0.72
Notice of meeting	20 December 2021
Meeting (shareholder vote)	2 February 2022
IRD approval	9 February 2022
Final High Court orders	25 February 2022
Record date	4 March 2022
Payment date	18 March 2022

- Subject to IRD approval that the proposed return of capital is not in lieu of a dividend, shareholder approval and court approval.
- Indicative dates only.

TOWER

Expecting increased return to shareholders in FY22

	FY21 Actual	FY22 Guidance
Underlying NPAT excluding large events	$30.8m	$35.4m to $39.4m
Large events after tax (before tax)	$10m ($13.9m)	$14.4m ($20m)
Underlying NPAT	$20.8m	$21m to $25m
Dividend	5 cents per share	5 cents per share*

* At current number of shares outstanding

While the $20m excess of the aggregate is higher than Tower's long run large event average, the guidance has assumed Tower utilises the full excess. A lower large event outcome will result in higher expected underlying NPAT.

Tower has assumed inflation pressures continue throughout FY22.

TOWER

Our plan for long term growth & improvement

Clear strategy leverages our technology, customer and partnership advantages

GROW AND INNOVATE

Relentless focus on customer relationships

Leverage digital & data everywhere

Partner wherever possible

BUILD FINANCIAL STRENGTH & CAPABILITY

Embracing agile culture & talent

Maintain a strong capital & solvency structure

Our strategy for general insurance, personal lines and small-medium sized commercial segments.
Focused on our core markets in New Zealand and the Pacific.

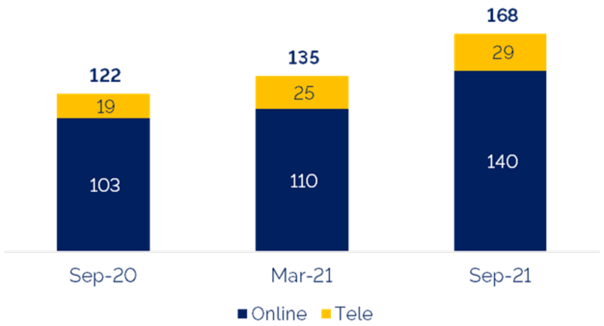
TOWER

Building deeper, more engaged customer relationships

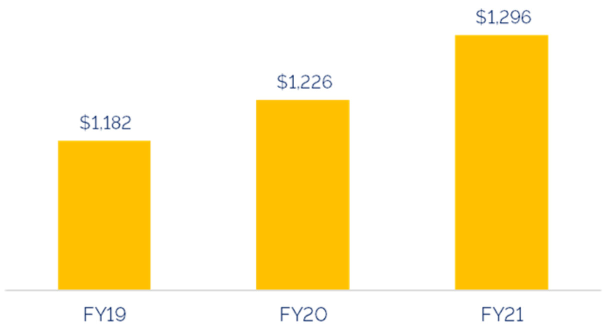
INCREASE IN QUOTES	TOWER QUICK QUOTE
31%	**24%**
vs FY20 for Tower Direct	Conversion rate up from 18% prior to implementation

DIGITAL SALES	QUOTE TO BUY NET PROMOTER SCORE
59%	**57%**
Of Tower Direct GWP sold online +3% vs prior year	First time measured in FY21

TOWER DIRECT QUOTES ('000s)



NZ AVG GWP PER CUSTOMER



TOWER

Progressive product, pricing and underwriting

NEW & ENHANCED PRODUCTS DELIVERED

Boat, EV, Travel, Pacific motor, home & contents, Sustainability benefit

NEW & ENHANCED PRODUCTS PLANNED

Pet, Renovation, Rural & SME

GO CARMA CUSTOMERS HAVE DRIVEN

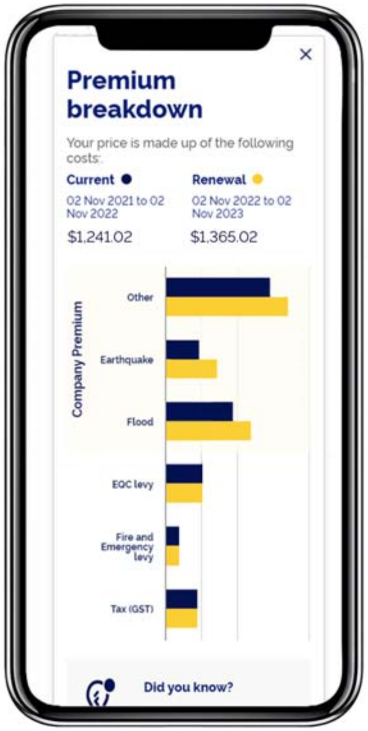
10.5 million kms

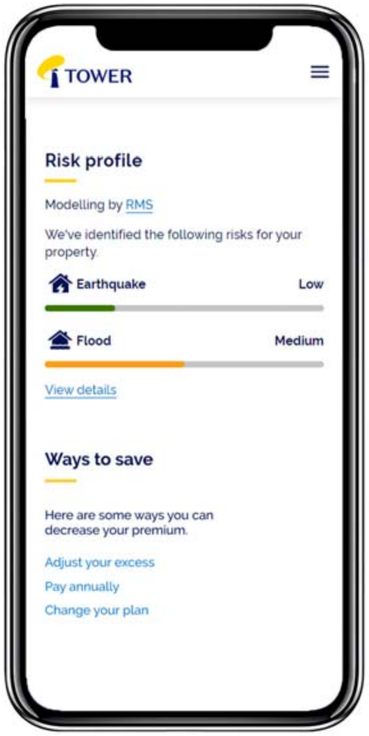
Since Dec '20 launch

OPEN AND TRANSPARENT PRICING

Premium breakdowns & risk profiles

Live from Nov '21





Simplifying and digitising the Pacific

STREAMLINING NZ & PACIFIC OPERATIONS

NPI

100% shareholding from Dec '21

1ST ONLINE INSURANCE OFFERING IN THE PACIFIC

Fiji, Vanuatu

EIS live Fiji Dec '20, Vanuatu Dec '21

PACIFIC MER

43%

vs 51% prior year

NEW PRODUCTS IN DEVELOPMENT

Parametric cover

Planned for FY22

One core leading platform for personal customers across NZ & Pacific complete by end of FY22

Partnering for new capabilities & winning experiences

PRODUCT PARTNERING

Allianz

Pet & travel

CONTINUOUSLY USING DATA

1.7 billion data points

From over 25 external partners

TECHNOLOGY PARTNERING

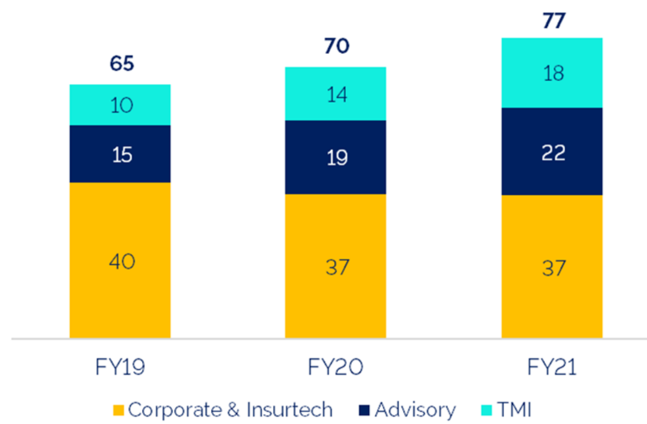
Microsoft, EIS, Friss, Amodo, Ushur

GWP FROM PARTNERS

10%

Increase on FY20

GWP FROM PARTNERS EXCL. ANZ[1] ($m)



Note: 1: In the reporting period the ANZ portfolio was purchased by Tower and is now included in the Tower Direct distribution channel. Prior periods have been adjusted to exclude ANZ

Supporting our people and communities

REDUCTION IN ANNUAL CARBON EMISSIONS

31%

From 551 tCO_2e in FY20 to 378 tCO_2e in FY21

SUPPORTING OUR COMMUNITIES

Bachelor of Climate Change

Partnerships, Scholarships & Internships

EMPLOYEE ENGAGEMENT

77%

Up 6% on FY20

CULTURAL DIVERSITY

58%

Of our workforce identify as non-European

- Beginning our sustainability journey – ESG & carbon plan developed in 2021
- Auckland office 'Six Green Star' rating
- Supporting our people through multiple lockdowns in New Zealand and the Pacific
- 100% of staff with remote working capability
- Member of the Sustainable Business Council

RAINBOW TICK CERTIFIED www.rainbowtick.co.nz

Rainbow tick re-accreditation

shine making homes violence free

Shine tick accreditation

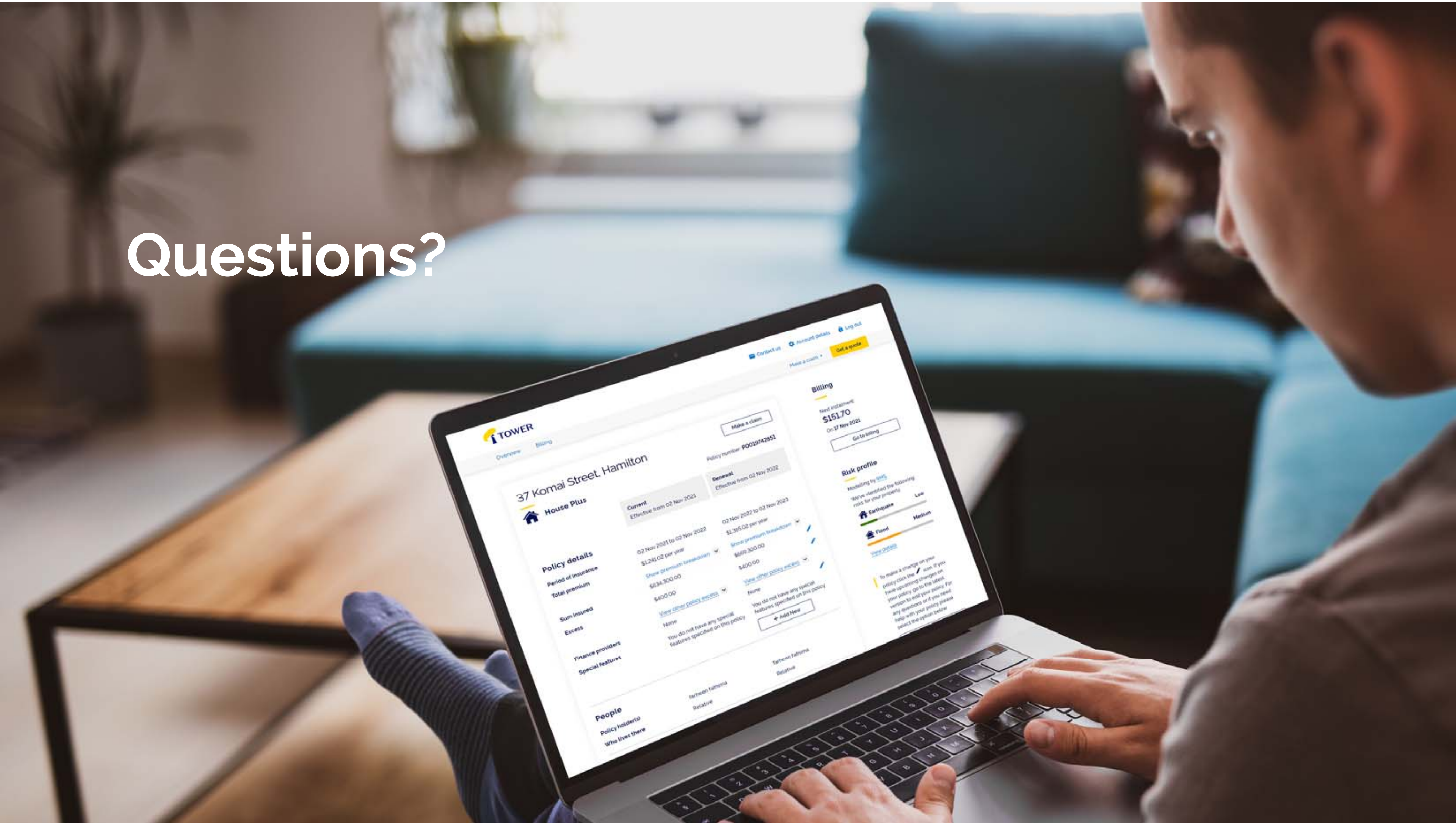
TOWER

Well positioned to deliver dividends and growth

- FY21 was a challenging year with actions taken to deliver improvements in FY22
- Well capitalised with strong balance sheet and solvency margins
- Delivered customer and premium growth while improving management expenses
- 5 cents full year dividend
- Proposed return of capital by way of compulsory share buyback*
- Focus remains on driving shareholder value by accelerating growth and innovation
- Continue to invest in digital and data platform to drive efficiency and support growth

* Under a Court scheme of arrangement, subject to necessary approvals

Questions?



TOWER
37 Komai Street, Hamilton
House Plus
Policy details
Billing
Risk profile
People

Reconciliation between underlying profit after tax and reported profit after tax

$ million	FY21 underlying profit	Non-underlying items (1)	Claims handling expenses (2)	Other items (3)	FY21 reported profit
Gross written premium	404.1	0.6		0.0	404.7
Gross earned premium	394.9	0.6		0.0	395.5
Reinsurance expense	(62.2)				(62.2)
Net earned premium	**332.7**	**0.6**	**0.0**	**0.0**	**333.3**
BAU claims expense	(166.8)	1.5	(25.1)	0.0	(190.4)
Large events	(13.9)				(13.9)
Management and sales expenses	(112.0)	(3.3)	25.1	0.4	(89.8)
Net commission expense	(11.3)				(11.3)
Underwriting profit	**28.7**	**(1.2)**	**0.0**	**0.4**	**28.0**
Net investment income	0.2	0.0			0.2
Other income	1.4	(0.7)		(0.4)	0.3
Underlying profit before tax	30.3				
Income tax expense	(9.5)	0.3			(9.1)
Underlying profit after tax	**20.8**				
Canterbury impact	0.9	(0.9)			
Insurance Faces decomissioning	(0.7)	0.7			
IAS 38 SaaS impact	(1.6)	1.6			
Other non-underlying costs	(0.1)	0.1			
Reported profit after tax	**19.3**	**0.0**	**0.0**	**0.0**	**19.3**

(1) Non-underlying items include net impact of Canterbury earthquake valuation update and part release of the additional Canterbury earthquake risk margin release, write off of Insurance Faces insurance system balances, IAS38 interpretation on SaaS capitalisation written off to profit and loss, release of customer remediation provision treated as non-underlying, and the net costs associated with moving the corporate office in Auckland

(2) Reclassification of claims handling expenses from management expenses to net claims expense

(3) Reclassification of foreign exchange movements to management and sales expenses

Underlying and reported profit:

- "Underlying profit" does not have a standardised meaning under Generally Accepted Accounting Practice (GAAP). Consequently it may not be comparable to similar measures presented by other reporting entities and is not subject to audit or independent review
- Tower uses underlying profit as an internal reporting measure as management believes it provides a better measure of Tower's underlying performance than reported profit, as it excludes large or non-recurring items that may obscure trends in Tower's underlying performance, and is useful to investors as it makes it easier to compare Tower's financial performance between periods
- Tower has applied a consistent approach to measuring underlying profit in the current and comparative periods. Note: there has been minor reclassification between management expenses and "other income and expenses" in the comparative period
- "Reported profit after tax" is calculated and presented in accordance with GAAP and is taken from Tower Limited's financial statements for the year ended 30 September 2021
- Prior period restated - in April 2021 the IFRS Interpretations Committee (IFRIC) issued an agenda decision 'Configuration or Customisation Costs in a Cloud Computing Arrangement (NZ IAS 38 Intangible Assets)'. This decision resulted in Tower expensing previously capitalized assets which has been treated as a non-underlying expense in FY20

TOWER

Disclaimer

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This document contains certain forward-looking statements. Such statements relate to events and depend on circumstances that will occur in the future and are subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including, among others: the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxation; industrial disputes; and war and terrorism. These forward-looking statements speak only as at the date of this document.

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Tower FY21 Investor Presentation Script

Slide 3 – Chairman's update

Michael Stiassny

Mōrena, good morning and thank you for making the time to join us for this investor call and presentation of our full year results.

With me in Auckland is our Chief Executive Officer, Blair Turnbull and our Chief Financial Officer, Jeff Wright who will take you through the results and answer your questions.

Tackling the challenges

The insurance industry has faced a very challenging year. It has been characterised by a marked increase in large events and large house claims, pandemic-induced inflationary pressures swiftly leading to a general increase in business as usual claims costs, and lower investment income.

Tower has not been immune. These challenges which were emerging at the half year, have continued to put pressure on profits over the second half, as you will be aware from our three guidance announcements.

It has been a tough year and the board acknowledges and shares your frustration. What I can say is that action is well underway to address these issues and their impact on profitability.

Most significantly, we have already implemented rating and underwriting changes including the introduction of a full house fire replacement cap and risk-based pricing for inland flooding.

These actions are substantial and will continue to have an impact throughout FY22. Blair and Jeff will take you through those comprehensive measures shortly.

It's also important to note that despite these challenges, our unique technology and distribution footprint have positioned Tower well to continue delivering GWP growth. We have reached a milestone this year, with Tower writing over $400m in premiums which is great.

Strong and well capitalised

Above all, Tower remains a resilient, strong and well capitalised business.

Accordingly I am pleased to announce that based on Tower's ordinary dividend policy of paying 60-80% of cash earnings where it is prudent to do so, the Board has declared a final dividend of 2.5 cents per share, to be paid on the 2nd of February, bringing total dividends for FY21 to 5 cents per share.

In March the Reserve Bank lowered Tower's solvency condition from $50 million to $25 million. As at 30th September Tower's New Zealand Parent solvency ratio was 271% and the company was holding $56.6m above its target solvency margin.

Considering current opportunities and our capital position, the Board has proposed the return of $30.4 million excess capital to shareholders.

Positioned for long term growth

Tower is delivering on its strategy of innovation and growth. Its flagship Tower Direct business and unique partnership distribution capability continue to go from strength to strength.

The Pacific business has proven remarkably resilient through Covid and digitisation will lead to further improvements in efficiency and competitiveness.

Our leading technology partnerships are enabling the business to be increasingly nimble in responding to challenges and capitalising on opportunities.

I'd like to acknowledge the Tower team. As we all recognise, it's been a difficult year on many fronts. However, despite this, we are paying a dividend, we remain strong and well capitalised and we have achieved sustained premium growth. These are hard won victories and are a credit to Tower's solid strategy and the dedication of the people that implement it.

In short, even with the obstacles of 2021, Tower continues to be well positioned for long term growth.

I'll now hand over to Blair and Jeff, who will take you through the results and outlook before we take questions.

Blair Turnbull

Slide 4 – Good growth in a challenging environment

Kia ora, thank you Michael and good morning, everyone.

I am pleased to be here sharing our full year results for 2021 which see Tower in a very solid capital and solvency position. Our technology and distribution advantage continues to set us apart from our competitors and has seen us achieve good growth in FY21, despite the challenges we faced.

Slide 5 – A journey of continued focus and innovation

Tower's journey of focus and innovating our business is accelerating at pace.

In the past 12 months we announced a $42.1 million settlement with EQC; the Reserve Bank reduced our licence condition from $50 million to $25 million; and we simplified our structure. This now positions Tower to deliver long term earnings, dividends and premium growth.

As I said at the half year, strengthening the business remains a priority, particularly as we address the claims inflation and wider environmental pressures we experienced in FY21. The key to our long term success is continuing to scale our leading cloud-based digital and data platform, which is the enabler of our flagship Tower Direct business; our unique Partnership business and our distinctive Pacific business.

Our focus remains on deepening our customer relationships, achieved by offering a rich product suite which supports higher customer satisfaction and engagement, improved longevity and ultimately a more sustainable and profitable Tower business.

We will continue to prioritise and invest in our people to ensure we have a diverse, inclusive culture where everyone can contribute and feel valued, as they are at the heart of delivering an exceptional customer experience.

Slide 6 – Results achieved while navigating a challenging environment

Tower's FY21 results have been achieved while navigating a challenging external environment, which has impacted profit.

However, reported profit including large events was $19.3 million for the year, up 72% from $11.2 million in the prior year.

Underlying NPAT including large events was $20.8 million, versus $28.4 million in FY20.

Tower's combined operating ratio increased 2.7% over the prior year to 91.4% reflecting claims inflationary pressure and higher large events.

Offering customers a simple and rewarding experience through our leading technology platform has helped grow Tower's Gross Written Premium to a milestone $404 million, up 5% on the same period last year.

Slide 7 – Impact of external factors

In insurance, there will always be volatility in claims – it's the nature of our business.

However, it was the unusual combination of four external factors that weighed on our profits in FY21:

- Net investment income before tax dropped $5.1m to $0.2m
- Seven large events contributed $13.9 million in costs vs $9.7 million in the prior year
- Large house claims rose significantly from 57 in FY20 to 92 in FY21
- And inflation contributed an additional $7.1 million to business-as-usual claims costs.

While the impact of any one of these factors alone would be sustainable in a normal year, with the ongoing effects of the pandemic, this was not a normal year.

Jeff will talk to each of these factors in detail shortly, including how we are managing these to mitigate the effects on profitability in FY22.

Slide 8 – Good growth in customers and premium

Despite the challenges, we have continued to grow ahead of the market, particularly in New Zealand where GWP rose 7.9% to $350m.

This was achieved through a balanced mix of market premium ratings and attracting new customers to Tower. Our customer base grew 5% to 304,000 in the year and market share has increased to 9.2%. This growth also reflects improvements in customer satisfaction as evidenced by our Net Promoter Score increasing to 43% vs 27% in the prior year.

Our flagship Tower Direct business is going from strength to strength recording 132,000 My Tower registrations in FY21, compared with 45,000 last year. Tower Direct GWP has grown to $273m but noting this now includes the ANZ legacy portfolio which is midway through migration. This was previously included in the Partnership business which has reduced accordingly.

Our Partnership business has delivered positive growth as we transform from a more traditional, higher commission portfolio to a new generation of partnerships.

While our Pacific business GWP declined by 10% primarily as a result of economic challenges related to Covid-19, it remains resilient. We are simplifying our ownership structure with the purchase of National Pacific Insurance. And our cloud based platform is live in Fiji and will be progressively rolled out across the Pacific as we more closely align our Pacific and New Zealand businesses.

Slide 9 – Product, pricing and underwriting enhanced through data

Core to our strategy is leading with a quality, innovative, balanced product range which enables us to deepen our relationships with customers, improve revenue and increase retention.

Underpinning this is our disciplined and agile approach to underwriting, enhanced through our use of data analytics.

While external events resulted in our New Zealand loss ratio increasing 4% to 53.6% for the year, we quickly identified the emerging challenges such as construction inflation. Through our leading technology platform we were able to adjust pricing within weeks to better manage our margin.

In August, in response to emerging increases in large house fires, we removed the full replacement for house fire benefit from our policies and capped it to an extended sum insured amount.

And throughout the year we have been working to launch New Zealand's first address-based rating tool for flood risk. Tower has invested in detailed modelling showing the risk of flooding from rivers and rain for residential addresses across New Zealand. Tower is not only sharing flood risk ratings with all New Zealanders but using this data to more accurately align premium pricing with risk which supports Tower's ability to manage our loss ratio.

This new feature, launched to the market earlier this month, received a very positive response from customers and stakeholders who recognise that Tower is leading the way in fairer and more transparent insurance pricing.

Our customer first approach is leading to greater loyalty, particularly among an increasing number of customers who hold more than one product with us. In

New Zealand 135,000 customers, representing half of our Kiwi customer base, now hold multiple products with Tower.

Multi product holders have a policyholder tenure of 7.9 years on average compared to 4.8 years for those with only one product – a huge opportunity that we are harnessing with clever product, pricing and underwriting.

By enhancing our product set to keep pace with customers' lifestyles, we are looking to further improve retention rates and build relationships. For example, our boat offering is gaining pace, with around 5,000 new business policies sold this year and our motor policy sales for EVs have increased by 60% since February.

Slide 10 – Investing in digital platform for efficiency and scalability

With more than half of all service tasks in New Zealand now completed digitally vs 40% last year, and a third of claims lodged digitally vs 23% in the prior year, the customer and efficiency benefits from our leading digital and data technology platform are being realised.

Eighty per cent of Tower customers have now been migrated to our cloud-based, digital EIS platform which is enabling us to scale quickly as we acquire new business. We remain focused on decommissioning legacy systems with a further two decommissioned in this financial year. We anticipate just two remaining by the end of 2022.

Meanwhile new technology releases continue to trend upwards as we become more agile and responsive in anticipating customers' needs.

Slide 11 – MER improving while continuing to invest

Our management expenses continue to reduce while we make smart technology and data investments aimed at efficiency, growth and resilience.

Tower's Management Expense Ratio improved 2% to 37% over the year thanks to reducing acquisition costs, which are now down to 12.6%, and a 22% reduction in net commission expenses following the purchase of ANZ and increased reinsurance profit share.

We invest one in every three dollars of management expenses in digital and data technology that will further accelerate customer and efficiency improvements.

Slide 12 – Strong capital & solvency, delivering shareholder returns

Our New Zealand parent solvency ratio is 271%, which is $56.6m above our target solvency margin and reflects our strong capital position.

During the year we were pleased to resume dividend payments after a five year hiatus. The Board has confirmed a full year dividend payment of 2.5 cents per share bringing total dividends for FY21 to 5 cents per share. The total dividend payment is $21 million with $10.5 million to be paid on the 2nd of February 2022.

This payment is in line with the ordinary dividend policy of paying 60-80% of cash earnings where prudent to do so.

Tower is in a strong capital position and we continue to look at acquisitions which are sensible and value accretive for shareholders. In the year we acquired the ANZ legacy portfolio and we are now finalising the acquisition of National Pacific Insurance. However, in considering current opportunities and our capital position, the Board felt it would be appropriate to return excess capital to shareholders.

Therefore, as Michael mentioned, the Board has proposed a capital return by way of a compulsory share buyback* of $30.4 million, subject to necessary approvals being obtained.

I will now hand over to Jeff Wright who will take you through our financial results in more detail.

Slide 13 – FY21 financial performance title slide – Jeff Wright

Thank you, Blair and good morning, everyone.

Slide 14 – Group underlying financial performance

Looking at the consolidated results, we can see that growth in GWP continued to be a highlight, up $18.9m, or 5%, on FY20. Reinsurance expense increased $5m following adjustment to aggregate sums insured and higher proportional reinsurance. This resulted in an increase in Net Earned Premium of $9.4m on FY20.

Investment income was also a significant detractor, down $5.1m.

Encouragingly, management expenses as a percentage of NEP were down 2.3% from 39.3% in FY20 to 37% as benefits of the EIS platform emerge, and net commission expenses decreased by $3.2m, driven by both the acquisition of the ANZ portfolio and an increase in proportional reinsurance profit share.

As already highlighted, claims expense increased significantly by $21.3m before tax across both BAU and large events.

Underlying NPAT of $20.8m is down $7.6m, or 27% on FY20.

*under a Court Scheme of Arrangement

Following the combined impact of several non-underlying items which are detailed in the Appendices, reported NPAT was $19.3m, up 72% on FY20, noting that FY20 was impacted by the EQC receivable write down.

Slide 15 – Claims challenges for insurers

General insurers face a number of challenges, largely external, that need to be recognised and actioned promptly to minimise impact.

Large events are a source of volatility for New Zealand and the Pacific that are likely to become more pronounced with the impacts of climate change. For Tower, this volatility is primarily managed by our aggregate reinsurance programme.

From time to time there will be changes in the drivers of claims expenses that require analysis and action. Tower's recent increase in fire-related large house claims is an example.

While inflation has been relatively benign over recent years, it is an ever-present risk to the cost of claims, as evidenced by the recent Covid-related increase.

Finally, across both New Zealand and the Pacific, supply chain issues can have a material impact because of the high proportion of imported materials for motor, home and contents claims.

The key to managing all these challenges is prompt recognition and remedial action, although even the most rapid response will take 12 months to flow through an insurance portfolio.

Slide 16 – Claims inflation in New Zealand impacted us heavily

It was anticipated that Covid may cause inflationary pressures, particularly for motor. However, it wasn't until the March quarter that evidence of inflation emerged. It has since accelerated rapidly.

Supply chain issues for new vehicles have driven up the value of second-hand vehicles by 13% year on year, significantly increasing the cost of total loss motor claims. While the inflationary impact on motor parts and repairs hasn't been as dramatic, the full impact may be yet to be felt, with significant delays in completing repairs due to supply chain issues with motor parts.

The cost of building materials has become a global issue with double digit inflation common.

Tower has applied premium increases across motor and home to offset inflation, but also continues to work closely with its supply chain partners to moderate the impact on customers as much as possible.

Slide 17 - Sharp focus on claims management

FY21 saw an increase in both the BAU claims loss ratio and large events loss ratio of a combined 5% of Net Earned Premium. At 54%, this is the highest claims loss ratio Tower has experienced since 2018.

Frequency and severity are the two key components of the claims loss ratio.

The severity charts show average motor claims have increased 6% and average house claims 7% on FY20. Most of this inflation was in the second half of FY21 and evidence is that it is continuing.

Frequency of motor claims is largely unchanged but house claims frequency continues to increase.

Slide 18 – Large events & large house claims

The two charts on slide 19 highlight that in FY21 Tower experienced the highest number of large house claims and large event claims for many years, and particularly higher than in FY20.

The majority of large house claims are fire related and as a result of the marked increase, Tower removed the uncapped total loss house fire benefit from new and renewing policies, capping the additional benefit to 20% of the sum insured.

The majority of large events were New Zealand flood, which is in contrast to recent high event years such as 2017 and 2018 which included significant impact from Pacific cyclones.

This apparent increase in New Zealand flood highlights the importance of pricing appropriately for flood, which Tower announced on the 10th of November for new and renewing policies.

Slide 19 - Continued focus on management expenses

Management expenses reduced in absolute terms by $3.9m before tax to $123.3m from $127.2m in FY20.

As a percentage of Net Earned Premium, this represents a reduction of 2.3% to 37%.

In addition to cost containment measures introduced in FY21 in the face of rising claims costs, the reduction in People expenses of $4.0m before tax and

Other expenses of $0.6m before tax was achieved in part through the benefits of the EIS platform post implementation.

As stated previously, net commission reduced $3.2m before tax, driven by both the acquisition of the ANZ portfolio and higher proportional reinsurance profit share.

Amortisation increased with additional capitalisation of EIS platform enhancements and the acquisition of the ANZ portfolio.

In addition, the liability adequacy test resulted in a $2.5m deficiency before tax, requiring an additional $2.1m expense in FY21 for acquisition costs that would otherwise have been capitalised.

Slide 20 – Macroeconomic factors impact investment income

Tower maintains a conservative investment policy with a focus on high credit quality and liquidity.

Net investment income in FY21 was significantly reduced at just $0.2m before tax compared with $5.3m before tax in FY20.

This was driven by low interest rates in the first half of the year, and the negative impact of rapidly rising interest rates in the second half.

Although Tower maintains a relatively low duration of between 0.5 and 0.75 years, the marked-to-market impact of rapidly rising interest rates in the last quarter of FY21 contributed to $2.4m of unrealised losses in the balance sheet as at 30 September 2021. This compares with just $0.2m as at 30 September 2020.

As Tower generally holds investments to maturity, these unrealised losses will unwind as the underlying investments reach their maturity dates.

Slide 21 Canterbury earthquake claims continue to reduce

CEQ claims have reduced to 33 claims from 59 at 30 September 2020.

This was after receiving an additional 30 new overcaps and reopened claims, bringing the total number of claims closed in FY21 to 56.

The rate of new overcaps and reopens was in line with expectations and the pipeline appears to be slowing in the second half.

There remains a small core of complex long term claims, with several of these having significant strengthened through FY21. These continue to be closely managed.

There was a net strengthening of outstanding claims of $4m through FY21 offset by the Board decision to release the $5m Additional Risk Margin, noting that net outstanding claims are now below $20m.

Slide 22 - Robust reinsurance programme supports resilience

Tower's FY22 catastrophe programme was well subscribed by reinsurers and, following an increase in the excess from $10m to $11.25m, was placed at a risk-adjusted near flat premium.

The total catastrophe cover has increased to $873m from $812m in FY20, reflecting higher sums insured and the growing portfolio.

As is the case with aggregate programmes globally, the placement of Tower's FY22 aggregate programme was more challenging.

This was due to both reduced appetite among reinsurers for aggregate programmes following poor recent international experiences, and the large number of aggregate-impacting events in New Zealand over the last 12 months.

Accordingly, Tower's FY22 aggregate programme excess has increased to $20m from $14m in FY20, and the event limits changed to between $2m and $10m from $1m to $7.5m in FY20.

It should be noted that the setting of an excess at $20m implies reinsurers on average expect that level to be exceeded one in every four years.

Slide 23 - Strong capital and solvency structure

Tower NZ Parent actual solvency capital (ASC) has increased from $150m at 30 September 2020 to $179m boosted by the receipt of the EQC receivable.

The Tower Board set a target solvency margin above minimum solvency capital (MSC) that is reviewed at least annually.

Above this target solvency margin is a target operating range.

As at 30 September 2021 after allowing for the 2.5c dividend, Tower NZ Parent's ASC was $56.6m above the target solvency margin, and $37.7m above the top of the operating range.

As a percentage of MSC, the current ASC is 271%.

The Board considers there is sufficient solvency margin to allow the repayment of $30.4m in capital by way of a compulsory share buyback, subject to necessary approvals being obtained.

This would leave Tower NZ Parent's ASC $26.2m above the target solvency margin and $7.3m above the top of the operating range, positioning Tower well for the future.

Slide 24 – Dividend and proposed capital return

As we have said, Tower will pay a dividend of 2.5c per share, bringing the total FY21 dividend to 5c per share. This represents a dividend pay out ratio of 80% of cash earnings which is at the top of the current Dividend Policy range but is considered prudent given the overall strong capital position.

The record date is the 19th of January 2022 with the payment date being the 2nd of February 2022.

In addition, Tower proposes returning $30.4 million in capital by way of a compulsory share buyback, under a Court Scheme of Arrangement, of one in every ten shares held at a price of $0.72 per share. This is a premium of 12% on the closing price on the 23rd of November of $0.645. This is subject to obtaining IRD approval that the capital return is not taxable in New Zealand and is not in lieu of a dividend, in addition to High Court approval and shareholder approval.

This slide provides indicative dates for this process, with the shareholder vote anticipated to occur at the Tower annual shareholder meeting on the 2nd of February 2022.

Slide 25 – Expecting increased return to shareholders in FY22

Tower anticipates underlying NPAT of between $21m and $25m for FY22.

This range is based on the assumed utilisation of the full $20m excess of the aggregate programme. This represents a $4.4m after tax increase in the impact of large events when compared to FY21.

Any lower utilisation will increase expected underlying NPAT.

In setting this guidance, Tower has assumed inflationary pressure continues throughout FY22.

Tower anticipates a full year dividend of 5c per share, or 5.5c per share should the buyback of shares proceed.

Slide 26 – Our plan for long term growth & improvement

Thank you. I will now hand back to Blair who will provide an update on our strategy and outlook.

Blair Turnbull

Thank you, Jeff.

Slide 27 – Clear strategy leverages our technology, customer and partnerships advantage

As I outlined at the half year, despite the headwinds, today's results demonstrate the resilience of our customer and digitally led strategy. We are continuing to grow; to drive down expenses; and to respond quickly to the changing external environment.

You can be confident that we are very focused on addressing the challenges we've identified, improving profitability and continuing to leverage our technology, customer and partnership advantage for growth.

Our core strategy is around personal lines and small to medium sized commercial in New Zealand and the Pacific region.

We have a clear and focused set of five strategic priorities.

We are relentlessly focused on our customers, deepening our relationships with them through rewards, new products and other offerings that make sense and drive value.

As you have seen today, we are leveraging the full capability of our cloud-based platform by using the insights from our data to make our customers' lives easier and to understand their needs better.

We are finding the best people to partner with to boost our offering, develop new products, and deliver services in better ways and more efficiently.

We understand that our people are the ultimate drivers of our success as they are on the front line, building our customer relationships.

And importantly, we are committed to maintaining a strong capital and solvency structure delivering value for shareholders.

Slide 28 – Building deeper, more engaged customer relationships

Building deeper, more engaged customer relationships lies at the heart of our strategy. We are seeking a seamless integration between telephone and digital customer service.

In the year this approach saw the number of quotes issued by the Tower Direct business grow steadily to reach an increase of 31% versus FY20 with the bulk of these being through digital channels. This was helped in part by optimising our customer quote-to-buy journey in order to deliver the quickest insurance quote in the market, which boosted our sales conversion rate from 18% to 24%.

Our commitment to making insurance a simple and rewarding customer experience has seen more customers than ever choosing to purchase a Tower policy online. Digital sales increased to 59% over the year with the net promoter score for our quote-to-buy process achieving 57%.

Positive feedback from customers was a key factor in Tower winning Canstar's top Car Insurer of the Year Award for 2021, and also an Outstanding Value Award alongside our partner brand Trade Me. An achievement we are very proud of this year.

Underpinning this has been a significant improvement in our contact centre wait times which we have halved in the past six months through a combination of enhanced training, technology upgrades and additional resourcing.

Ultimately, these innovative approaches are aimed at creating deeper and more engaged customer relationships that lead to growth, which is why we're pleased to see average GWP per customer increasing to around $1,300 in FY21.

Slide 29 - Progressive product, pricing and underwriting

Investments in our scalable digital platform allow us to quickly develop and bring to market a quality, innovative, balanced product range which in turn enables us to deepen our relationships with customers, improve revenue and increase retention.

In New Zealand this year we launched an end-to-end online boat experience following our acquisition of the referral rights for Club Marine; we launched a new Travel product in anticipation of future travel bubbles and border openings; we enhanced our home offering with a new sustainability benefit which contributes $15,000 to sustainable products for a total rebuild; and in the Pacific we launched new home and contents, and motor policies.

In the coming year we will be working hard on a new home renovation product; we are planning to upgrade our rural and SME offerings; and our exciting new pet product will launch in time for Christmas this year.

We are also continuing to deepen engagement with our Go Carma customers who drove 10.5 million kilometres over the year, receiving safe driving tips and feedback, as well as rewards and offers. Already we are able to offer excess discounts to those customers who demonstrate a lower risk profile through safer driving. And we continue to learn and investigate other opportunities for similarly innovative underwriting approaches.

This year we have raised the benchmark around open and transparent pricing for customers. Through My Tower we are now presenting visual breakdowns of customer premiums in an easy to understand chart which compares year on year changes for the various pricing elements.

In November we also became the first New Zealand insurer to provide customers with a risk rating for flood and earthquake hazards for their homes. This was developed in partnership with Risk Management Solutions (RMS), a world leader in catastrophe risk solutions.

Risk-based pricing is a fairer way to structure insurance as it means that customers don’t pay for risks they don’t have.

We know that customers with multiple products stay with us on average for almost eight years, compared to less than five years for customers with only one product. That’s why these progressive product, pricing and underwriting approaches are key to attracting new customers, deepening our engagement with them on our digital channels, having them buy more products and keeping them with us for longer. Ultimately this results in growth and a more profitable business that continues to improve shareholder value.

Slide 30 – Simplifying and Digitising the Pacific

As we continue to simplify and streamline our customer experiences, our products and our operations, we are focused on aligning our Pacific business more closely with our New Zealand operations.

Our goal for 2022 is for Tower to offer a world class digital experience on one core leading platform for all our personal lines customers across New Zealand and the Pacific. We took an important step towards this aim in November with the announcement that Tower will acquire the remaining shares in National Pacific Insurance (NPI), taking our shareholding up to 100% in December this year.

One of our first steps will be to rebrand NPI to Tower which will coincide with the launch of the first digital insurance solution in these markets.

We will complete Tower's digital roll out across the Pacific in FY22. Our 100% cloud-based EIS platform has already gone live in Fiji this year and will be launched in Vanuatu in the coming weeks.

These enhancements are already delivering benefits with our management expense ratio dropping to 43% compared with 51% in the prior year.

Our agility and digital capability is leading to new product lines aimed at supporting the unique needs of our Pacific customers as well as growth in this important market. One concept in development is a parametric insurance product which we intend to pilot in FY22.

Slide 31 – Partnering for new capabilities & winning experiences

A key element of our strategic focus has been to secure mutually beneficial partnerships that drive significant growth and quickly give us capabilities that we would otherwise have to build from scratch.

Our exciting partnership with Allianz, one of the world's largest insurers, has led to the development of new pet and travel products this year.

Importantly we use insights from our data to make our customers' lives easier and to better understand their needs. We're continuously utilising more than 1.7 billion data points thanks to over 25 external partners including Microsoft, EIS, Friss, Amodo and Ushur, who are all helping us to improve customer outcomes and make better decisions.

In our Partnerships business division, we are building what we believe is a truly unique model, one that relies less on higher commission and more on our technology capability, customer experience and balanced referral arrangements with our partners. These include corporates, insurtechs, advisory businesses and our cornerstone partner Trade Me, with whom we recently renewed our agreement for another five years.

Slide 32 – Supporting our people & communities

We are acutely aware that our ability to continue to grow, partner and innovate as a leading digital and data business is only possible with the support of our fantastic Tower team and the communities we serve.

This year we started our sustainability journey with the development of an ESG strategy that will guide how Tower manages its environment, social and governance issues in the future. Importantly we have taken a first step in measuring our total carbon emissions across our New Zealand and Pacific operations.

What gets measured, gets done and with this in mind we now know that our carbon emissions reduced 31% year on year primarily driven by lower emissions from travel due to Covid-19 restrictions. We are committed to taking the lessons from 18 months of remote working and setting a science-based target for meaningful reduction towards a zero carbon future.

This year our commitment to supporting our customers in navigating the impacts of climate change saw Tower pledge to support scientific research, education, and innovation through student scholarships for the world's first Bachelor of Climate Change degree at the University of Waikato.

As I noted earlier in this section none of this would be possible without our wonderful Tower team, which is why we want to build the best possible culture where everyone can bring their whole selves to work and build a fulfilling career. And that's why we're pleased to see our employee engagement scores continue their positive trend upwards in FY21 with our score increasing 6% to 77%. This is particularly pleasing in a year when we have navigated the challenges of Covid-19 lockdowns both in New Zealand and across our Pacific offices. While 100% of our people are able to work remotely, we know it's not easy and we have put in place a number of initiatives to support our people through this time.

It's also good to see that cultural diversity across our business continues to be strong with well over half of our people identifying as non-European.

For those of us in Auckland, we officially moved into our new six-green-star rated building. While we only got to enjoy the new space for two business days before the current lockdown, we are excited about its potential to promote more agile, collaborative and creative ways of working.

Slide 33 – Well positioned to deliver dividends and growth

It's clear that FY21 was a challenging year and we have taken decisive actions to deliver improvements in FY22. Tower is a well-capitalised business with a strong balance sheet and solvency margins. We have delivered customer and premium growth while further improving our management expenses. We are delighted to have resumed dividends in the year and propose to return excess capital to shareholders.

In FY22, our focus is on:

- Driving shareholder value by accelerating growth and innovation
- Continuing decisive action to address challenges with claims inflation and climate change risks, and;
- Continuing to invest in our digital and data platform to drive efficiency and support growth.

In the meantime, I'm pleased to say we've started this year positively in terms of new business and relatively benign weather. This is in sharp contrast to last year which began with a large fire at Lake Ōhau village and significant floods in Napier. We look forward to sharing a trading update with you at our ASM in February.

Thank you for your time this morning, I will now hand back to the operator to ask for questions.

TOWER

Distribution Notice

Section 1: Issuer information				
Name of issuer	Tower Limited			
Financial product name/description	Ordinary Shares			
NZX ticker code	TWR			
ISIN (If unknown, check on NZX website)	NZTWRE0011S2			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year	X	Quarterly	
	Half Year		Special	
	DRP applies			
Record date	19/01/2022			
Ex-Date (one business day before the Record Date)	18/01/2022			
Payment date (and allotment date for DRP)	02/02/2022			
Total monies associated with the distribution[1]	$10,541,181			
Source of distribution (for example, retained earnings)	Retained earnings			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution[2]	$0.02500000			
Gross taxable amount [3]	$0.02500000			
Total cash distribution[4]	$0.02500000			
Excluded amount (applicable to listed PIEs)	N/A			
Supplementary distribution amount	$0.00000000			
Section 3: Imputation credits and Resident Withholding Tax[5]				
Is the distribution imputed	No imputation			

[1] Continuous issuers should indicate that this is based on the number of units on issue at the date of the form

[2] "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (**RWT**).

[3] "Gross taxable amount" is the gross distribution minus any excluded income.

[4] "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should *include* any excluded amounts, where applicable to listed PIEs.

[5] The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.

If fully or partially imputed, please state imputation rate as % applied[6]	N/A
Imputation tax credits per financial product	N/A
Resident Withholding Tax per financial product	$0.00825000
Section 4: Distribution re-investment plan (if applicable)	
DRP % discount (if any)	
Start date and end date for determining market price for DRP	
Date strike price to be announced (if not available at this time)	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	
DRP strike price per financial product	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	
Section 5: Authority for this announcement	
Name of person authorised to make this announcement	Hannah Snelling
Contact person for this announcement	Emily Davies
Contact phone number	+64 21 815 149
Contact email address	emily.davies@tower.co.nz
Date of release through MAP	24/11/2022

[6] Calculated as (imputation credits/gross taxable amount) x 100. Fully imputed dividends will be 28% as a % rate applied.