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

23 November 2022

Tower Limited
FY22 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) FY22 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 Paul Johnston 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

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Level 5, 136 Fanshawe Street
Auckland 1142, New Zealand
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23 November, 2022

Strong business performance drives positive result for Tower

Kiwi insurer, Tower Limited (NZX/ASX:TWR) has today announced full-year underlying profit including large events was $27.3m, up 31% from $20.8.m for the full-year 2021. Reported profit was $18.9m, compared to $19.3m in the prior year.

Summary of key underlying results[1]:

- Gross written premium (GWP) $457m, up 13% on FY21
- Customer numbers increased 5% to 319,000
- Management expense ratio (MER) improved to 36% vs 37% in FY21
- Large event costs $19m vs $13.9m in FY21
- Combined operating ratio (COR) 90.1% vs 91.4% in FY21
- Underlying net profit after tax (NPAT) excluding large events $41m vs $30.8m in FY21
- Underlying NPAT including large events $27.3m vs $20.8m in FY21
- Reported profit including large events $18.9m vs $19.3m in FY21

Reported profit was impacted by a $5.5m after tax additional strengthening of the residual Canterbury earthquake provision and a provision of $2.6m after tax for customer remediation.

Reflecting the positive FY22 results and based on Tower's ordinary dividend policy, the Board has declared a final dividend of 4 cents per share. This brings total dividends for FY22 to 6.5 cents per share, compared to 5 cents in FY21.

Strong growth and business performance

Tower CEO, Blair Turnbull says, "This strong result is underpinned by our strategy of delivering simple and rewarding customer experiences combined with our advanced technology and digital and data capability.

"The decisive actions taken to combat record inflation, global supply change blockages, and increasing frequency and severity of large events together with consistent growth and strong underlying business performance, have delivered a strong result for shareholders."

Growth in both premium and customer numbers has continued in FY22 with GWP increasing 13% year on year to $457m, customer numbers rising 5% to 319,000, and retention rates improving.

The flagship Tower Direct business has also performed well with GWP up 17% to $320m as Tower continues to innovate to build rewarding and engaging relationships with customers.

Mr Turnbull says, "Our digitisation strategy is delivering on its promise. It has simplified purchasing and managing insurance policies and making a claim on one user-friendly online platform."

My Tower registrations are up 51% to 200,000 customers.

Tower's core platform has now been rolled out across seven Pacific countries, supporting a return to growth with GWP up 8% to $58m.

Tower's Partnerships business also increased GWP from active partners by 35% to $54m. Tower has attracted new partners over the year securing agreements with Ray White and Kiwi Advisor Network. Fair and transparent

[1] A reconciliation of underlying results to Tower's reported profit after tax, as prepared in accordance with Generally Accepted Accounting Practice (GAAP), is shown in the Company's FY22 Investor Presentation (slide 28).

commission terms and legacy book acquisitions have resulted in commission payments reducing to 2.2% of gross earned premiums.

Disciplined cost control and improved efficiencies through increasing scale saw overall MER improve to 36% versus 37% in FY21. The company's actions to address claims inflation have seen the BAU claims ratio reduce to 48.9% compared to 50.2% in FY21.

Supporting customers through climate change and large events
Mr Turnbull says, "It's clear that supporting customers and communities through the increasing impacts of climate change is our most important challenge as a New Zealand and Pacific insurer."

Large events comprised $19m in claims costs for the 2022 financial year compared to $13.9m in FY21. These included the one-in-a thousand-year Tongan volcanic eruption and subsequent tsunami, and multiple storms and floods across New Zealand.

Tower continues to take decisive action to address the increasing severity and frequency of extreme weather events. This includes future proofing its underwriting capability by expanding risk-based pricing to inland flooding in FY22 and coastal hazards in FY23. For the 2023 financial year Tower has increased its perils allowance by 50% to $30 million. The successful renewal of Tower's reinsurance programme with $934m of catastrophe cover will also provide important protection from this volatility.

ENDS

This announcement has been authorised by Tower CEO, Blair Turnbull.

For media enquiries, please contact in the first instance:
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Tower Limited

Consolidated financial statements

for the year ended 30 September 2022

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 2022

$ thousands	Note	2022	Re-presented 2021
Gross written premium		445,580	396,003
Unearned premium movement		(27,258)	(9,383)
Gross earned premium	2.1	418,322	386,620
Outward reinsurance premium		(66,116)	(60,341)
Movement in deferred reinsurance premium		(152)	1,586
Outward reinsurance premium expense		(66,268)	(58,755)
Net earned premium		**352,054**	327,865
Claims expense		(240,147)	(226,920)
Less: Reinsurance and other recoveries revenue	2.1	15,243	24,601
Net claims expense	2.2	(224,904)	(202,319)
Gross commission expense		(14,390)	(17,667)
Commission revenue	2.1	5,105	6,461
Net commission expense		(9,285)	(11,206)
Underwriting expense	2.3	(94,220)	(87,160)
Underwriting profit		**23,645**	27,180
Investment income	3.1	1,498	559
Investment expense		(338)	(384)
Other income		1,355	707
Other expenses		(63)	(52)
Financing and other costs		(897)	(363)
Profit before taxation from continuing operations		**25,200**	27,647
Tax expense	7.1	(7,526)	(9,245)
Profit after taxation from continuing operations		**17,674**	18,402
Profit after taxation from discontinued operation	8.4	1,181	913
Profit after taxation for the year		**18,855**	19,315
Items that may be reclassified to profit or loss			
Currency translation differences		3,948	(1,213)
Items that will not be reclassified to profit or loss			
Gain on asset revaluation	5.2	-	159
Deferred income tax relating to asset revaluation	5.2	-	(16)
Other comprehensive loss net of tax		**3,948**	(1,070)
Total comprehensive profit for the year		**22,803**	18,245
Earnings per share:			
Basic and diluted earnings per share (cents) for continuing operations	5.4	4.43	4.21
Basic and diluted earnings per share (cents)	5.4	4.73	4.43
Profit after taxation attributed to:			
Shareholders		18,803	18,683
Non-controlling interests		52	632
		18,855	19,315
Total comprehensive profit attributed to:			
Shareholders		22,737	17,729
Non-controlling interests		66	516
		22,803	18,245

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

Consolidated balance sheet

As at 30 September 2022

$ thousands	Note	**2022**	2021
Assets			
Cash and cash equivalents	**8.1**	84,502	116,129
Investments	**3.2**	258,634	277,470
Receivables	**2.7**	242,089	216,925
Current tax asset	**7.2a**	13,069	12,901
Assets classified as held for sale	**8.4**	20,811	-
Deferred tax asset	**7.3a**	23,893	24,450
Deferred insurance costs	**2.6**	37,819	31,967
Right of use assets	**6.3a(i)**	23,326	25,577
Property, plant and equipment	**6.1**	5,417	9,374
Intangible assets	**6.2**	94,653	88,592
Total assets		**804,213**	803,385
Liabilities			
Payables	**2.8**	58,911	69,977
Unearned premiums	**2.5**	238,116	212,275
Outstanding claims	**2.4**	124,531	122,338
Lease liabilities	**6.3a(ii)**	35,054	39,421
Provisions	**2.9**	11,873	6,709
Current tax liabilities	**7.2b**	136	170
Liabilities classified as held for sale	**8.4**	9,258	-
Deferred tax liabilities	**7.3b**	8,806	2,775
Total liabilities		**486,685**	453,665
Net assets		**317,528**	349,720
Equity			
Contributed equity	**5.1**	460,191	492,424
Accumulated losses		(41,212)	(39,995)
Reserves	**5.2**	(101,451)	(105,385)
Total equity attributed to shareholders		**317,528**	347,044
Non-controlling interests		-	2,676
Total equity		**317,528**	349,720

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

The financial statements were approved for issue by the Board on 23 November 2022.

Michael P Stiassny
Chairman

Graham R Stuart
Director

Consolidated statement of changes in equity

Year Ended 30 September 2022

$ thousands	Contributed equity	Accumulated losses	Reserves	Non-controlling interest	Total Equity
	Attributed to Shareholders				
Year Ended 30 September 2022					
Balance as at 30 September 2021	492,424	(39,995)	(105,385)	2,676	349,720
Comprehensive income					
Profit for the year	-	18,803	-	52	18,855
Currency translation differences	-	-	3,934	14	3,948
Total comprehensive income	**-**	**18,803**	**3,934**	**66**	**22,803**
Transactions with shareholders					
Capital return to shareholders	(30,634)	-	-	-	(30,634)
Purchase of non-controlling interests	(1,599)	-	-	(2,742)	(4,341)
Dividends paid	-	(20,028)	-	-	(20,028)
Other	-	8	-	-	8
Total transactions with shareholders	**(32,233)**	**(20,020)**	**-**	**(2,742)**	**(54,995)**
At the end of the year	**460,191**	**(41,212)**	**(101,451)**	**-**	**317,528**
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

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

Consolidated statement of cash flows

For the Year Ended 30 September 2022

$ thousands		2022	Re-presented 2021
Cash flows from operating activities			
Premiums received		425,677	389,236
Interest received		6,519	5,268
Fee and other income received		4,063	6,212
Reinsurance and other recoveries received		11,745	17,668
EQC settlement receipt		-	52,883
Motor premium refund payments		-	(1,351)
Reinsurance paid		(57,256)	(54,288)
Reinsurance paid in relation to settlement of EQC receivable		-	(10,741)
Claims paid		(238,483)	(213,756)
Employee and supplier payments		(90,191)	(92,384)
Income tax paid		(1,768)	(1,928)
Operating activities cashflow from discontinued operations		(522)	1,276
Net cash inflow from operating activities		**59,784**	98,095
Cash flows from investing activities			
Proceeds from sale of interest bearing investments		181,412	156,544
Proceeds from sale of unlisted equity investments		-	25
Payments for purchase of interest bearing investments		(181,578)	(190,548)
Payments for purchase of intangible assets		(14,695)	(8,866)
Payments for purchase of customer relationships*		(6,089)	(14,434)
Payments for purchase of property, plant & equipment		(2,617)	(3,163)
Investing activities cashflow from discontinued operations		(103)	1,220
Net cash outflow from investing activities		**(23,670)**	(59,222)
Cash flows from financing activities			
Payments for capital return to shareholders		(30,634)	-
Purchase of non-controlling interests		(4,341)	-
Received from lessor on signing of new lease		-	10,944
Dividends paid		(20,028)	(8,866)
Facility fees and interest paid		(897)	(378)
Payments relating to lease liabilities		(6,044)	(2,684)
Financing activities cashflow from discontinued operations		(1,766)	(1,287)
Net cash outflow from financing activities		**(63,710)**	(2,271)
Net (decrease)/increase in cash and cash equivalents		**(27,596)**	**36,602**
Effect of foreign exchange rate changes		3,765	(581)
Cash and cash equivalents at the beginning of the year		116,129	80,108
Cash and cash equivalents at the end of the year		**92,298**	116,129
Cash from discontinued operations	8.4	(7,796)	-
Cash and cash equivalents at the end of the year from continuing operations		**84,502**	116,129

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

* The 2022 balance represents the purchase of Westpac and TSB's rights and obligations relating to servicing a portfolio of insurance underwritten by Tower. 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.

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 23 November 2022. 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 in accordance with the historical cost basis except for certain financial instruments that are stated at their fair value.

d. Re-presentation of comparatives

The Group's Papua New Guinea Operations ("disposal group") constitutes a discontinued operation and is classified as held for sale as at 30 September 2022. Profit or loss information for the current period is prepared on a continuing basis with net results from discontinued operations presented separately. Profit or loss information for 2021 has been re-presented for comparability. Refer to note 8.4 for further details.

Where necessary, comparative information has been reclassified for consistency with the current year presentation.

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. During the year ended 30 September 2022, Tower Limited acquired the minority shareholding of National Pacific Insurance Limited. This is now 100% owned by Tower Limited.

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 statement 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 2022	2021
Parent Company			
New Zealand general insurance operations			
Tower 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 (refer Note 8.4)	PNG	100%	100%
National Pacific Insurance Limited ("NPI") (refer Note 5.1)	Samoa	100%	71%
National Pacific Insurance (Tonga) Limited (refer Note 5.1)	Tonga	100%	71%
National Pacific Insurance (American Samoa) Limited (refer Note 5.1)	American Samoa	100%	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 tax	note 7.3

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.

The Pacific Islands operating segment excludes the disposal group and assets and liabilities held for sale. The prior year comparatives have been re-presented accordingly. Intercompany transactions with the disposal group are eliminated within continuing operations, refer note 8.4.

b. Financial performance of continuing operations

$ thousands	New Zealand	Pacific Islands	Other	Total
Year Ended 30 September 2022				
Gross written premium	395,490	50,090	-	445,580
Gross earned premium	369,871	48,451	-	418,322
Outward reinsurance premium	(51,026)	(15,242)	-	(66,268)
Net earned premium	**318,845**	**33,209**	**-**	**352,054**
Net claims expense	(207,184)	(18,066)	346	(224,904)
Net commission expense	(8,048)	(1,237)	-	(9,285)
Underwriting expense	(76,089)	(18,131)	-	(94,220)
Underwriting profit/(loss)	**27,524**	**(4,225)**	**346**	**23,645**
Net investment income	1,023	137	-	1,160
Other expenses	192	203	-	395
Profit before tax from continuing operations	**28,739**	**(3,885)**	**346**	**25,200**
Profit after tax from continuing operations	**21,642**	**(4,314)**	**346**	**17,674**
Year Ended 30 September 2021 (Re-presented)				
Gross written premium	351,058	44,945	-	396,003
Gross earned premium	340,568	46,052	-	386,620
Outward reinsurance premium	(44,918)	(13,837)	-	(58,755)
Net earned premium	295,650	32,215	-	327,865
Net claims expense	(195,343)	(6,888)	(88)	(202,319)
Net commission expense	(9,762)	(1,444)	-	(11,206)
Underwriting expense	(76,519)	(10,641)	-	(87,160)
Underwriting profit	14,026	13,242	(88)	27,180
Net investment income	43	132	-	175
Other expenses	182	110	-	292
Profit before tax from continuing operations	14,251	13,484	(88)	27,647
Profit after tax from continuing operations	8,855	9,620	(73)	18,402

1.4 Segmental reporting (continued)

c. Financial position of continuing operations

$ thousands	New Zealand	Pacific Islands	Other	Total
Additions to non-current assets 30 September 2022	**29,547**	**883**	**(4,327)**	**26,103**
Additions to non-current assets 30 September 2021	51,970	430	-	52,400
Total assets 30 September 2022	**723,805**	**74,539**	**(14,942)**	**783,402**
Total assets 30 September 2021	708,527	92,843	(10,615)	790,755
Total liabilities 30 September 2022	**426,930**	**51,462**	**(965)**	**477,427**
Total liabilities 30 September 2021	405,058	43,660	(617)	448,101

Additions to non-current assets include additions to property, plant and equipment, right of use assets, intangible assets and investments in subsidiaries.

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 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	**2022**	2021
Gross written premium	445,580	396,003
Movement in unearned premium liability	(27,258)	(9,383)
Gross earned premium	**418,322**	**386,620**
Reinsurance and other recoveries revenue	**15,243**	**24,601**
Reinsurance commission	3,971	5,343
Insurance administration services commission	1,134	1,118
Commission revenue	**5,105**	**6,461**
Underwriting revenue	**438,670**	**417,682**

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 gross premium receivables, see note 2.7), and customer remediation (see note 2.9). 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 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 over the term of the reinsurance agreements dependent on the profitability of proportional arrangement which is 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 is collected.

2.2 Net claims expense

Composition

$ thousands	Exc. Canterbury earthquake		Canterbury earthquake		**Total**	
	2022	2021	**2022**	2021	**2022**	2021
Gross claims expense	231,034	226,611	9,113	309	240,147	226,920
Reinsurance and other recoveries revenue	(13,613)	(23,396)	(1,630)	(1,205)	(15,243)	(24,601)
Net claims expense	**217,421**	203,215	**7,483**	(896)	**224,904**	202,319

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	**2022**	2021
People costs	84,160	64,626
People costs capitalised during the year	(7,557)	(3,569)
Technology	14,556	14,320
Amortisation	14,723	12,556
Depreciation*	4,992	4,440
External fees	10,594	10,300
Marketing	11,757	8,477
Communications	3,039	3,829
Miscellaneous	3,258	4,319
Movement in deferred acquisition costs**	(6,511)	877
Claims related management expenses reclassified to claims expense	(37,085)	(31,320)
Service fees charged to discontinued operations***	(1,706)	(1,695)
Underwriting expenses	**94,220**	87,160

* Includes $2.7m (2021: $2.3m) of depreciation on right of use assets. See note 6.3b for further information.

** 2021 included a writedown for a deficiency on the liability adequacy test of $2.5m, refer note 2.6. This resulted in a lower amortisation expense of deferred acquisition costs in 2022.

*** Refer note 8.4 for further detail.

2.4 Net outstanding claims

a. Composition

$ thousands	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	2022	2021	**2022**	2021	**2022**	2021
Central estimate of future cash flows	89,404	87,535	18,056	16,402	107,460	103,937
Claims handling expense	5,564	5,430	772	1,314	6,336	6,744
Risk Margin	5,051	6,724	5,684	4,933	10,735	11,657
Gross outstanding claims	**100,019**	99,689	**24,512**	22,649	**124,531**	122,338
Reinsurance recoveries	(10,293)	(18,970)	(3,787)	(3,880)	(14,080)	(22,850)
Net outstanding claims	**89,726**	80,719	**20,725**	18,769	**110,451**	99,488
Net claim payments within 12 months	76,422	69,687	8,497	7,508	84,919	77,195
Net claim payments after 12 months	13,304	11,032	12,228	11,261	25,532	22,293
Net outstanding claims	**89,726**	80,719	**20,725**	18,769	**110,451**	99,488

Recognition and measurement

Gross outstanding claims liability comprises a central estimate of future cash outflows and a risk margin for uncertainty.

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.

Discounting has been applied to the provision for outstanding claims relating to the Canterbury earthquakes, using spot rates derived from government issued bonds. The overall discount, at 30 September 2022, is equivalent to using a uniform discount rate of 4.2% per annum. At the previous valuation of the Canterbury earthquakes liability, discounting was not applied as it was considered immaterial in a lower interest rate environment. Discounting has also not been allowed for on other outstanding claims as the expected timeframe for paying these claims is short, and the impact of discounting is considered to be immaterial.

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)

b. Reconciliation of movements in net outstanding claims liability

$ thousands	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance brought forward	**122,338**	**(22,850)**	**99,488**	107,747	(12,889)	94,858
Claims expense - current year	248,024	(20,429)	227,595	234,675	(22,171)	212,504
Claims expense - prior year	(5,970)	4,491	(1,479)	(5,772)	(2,464)	(8,236)
Incurred claims recognised in profit or loss from continuing operations	**240,147**	**(15,243)**	**224,904**	226,920	(24,601)	202,319
Incurred claims recognised in profit or loss from discontinued operations	**1,907**	**(695)**	**1,212**	1,983	(34)	1,949
Claims paid and reinsurance and other recoveries raised from continuing and discontinued operations	(239,706)	24,604	(215,102)	(213,350)	14,397	(198,953)
Foreign exchange	1,826	(347)	1,479	(962)	277	(685)
Liabilities reclassified as held for sale*	(1,981)	451	(1,530)	-	-	-
Outstanding claims	**124,531**	**(14,080)**	**110,451**	122,338	(22,850)	99,488

* Refer note 8.4

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**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
At end of incident year		147,806	147,073	158,309	183,003	200,370	
One year later		146,214	144,041	154,825	181,656	-	
Two years later		146,234	143,209	153,470	-	-	
Three years later		145,752	143,233	-	-	-	
Four years later		146,157	-	-	-	-	
Ultimate claims cost		146,157	143,233	153,470	181,656	200,370	
Cumulative payments		(145,627)	(142,612)	(150,821)	(173,193)	(134,491)	
Central estimate	15,237	530	621	2,649	8,463	65,879	93,379
Claims handling expense							6,337
Risk margin							10,735
Net outstanding claim liabilities							110,451
Reinsurance recoveries							14,080
Gross outstanding claim liabilities							**124,531**

All amounts in this note exclude discontinued operations, consistent with other profit or loss disclosures.

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

2.4 Net outstanding claims (continued)

d. Actuarial information

The estimation of outstanding claims as at 30 September 2022 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.

e. Canterbury earthquakes

Cumulative impact of Canterbury earthquakes

As at 30 September 2022, Tower has 36 claims remaining to settle (2021: 33) 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.

$ thousands	**2022**	2021
Earthquake claims estimate net of EQC payments	(953,531)	(944,418)
Reinsurance recoveries	733,720	732,090
Claim expense net of reinsurance recoveries	**(219,811)**	(212,328)
Reinsurance expense	(25,045)	(25,045)
Cumulative impact of Canterbury earthquakes before tax	**(244,856)**	(237,373)
Income tax	68,560	66,464
Cumulative impact of Canterbury earthquakes after tax	**(176,296)**	(170,909)

Canterbury earthquake impact on profit or loss before tax

$ thousands	**2022**	2021
Net claims (gain)/expense	7,483	(896)

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	2022	2021
Expected future claims development proportion	**20.3%**	19.7%
Claims handling expense ratio	**6.6%**	6.7%
Risk margin	**6.0%**	9.1%

Expected future claims development proportion

This is the proportion of additional claims cost that is expected to be recognised in the future for 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.

Claims handling expense ratio

This reflects the expected cost to administer current open and 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 decrease in the risk margin this year reflects the reassessment of 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	2022	2021
Number of future new overcap and new litigated claims	**46**	38
Average cost of new overcap or new litigated claim	**114,000**	121,000
Provision for re-opened claims	**1,070,000**	2,400,000
Additional portfolio-level provision for incurred but not enough reported	**2,355,000**	1,274,000

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)	
		2022	2021
Expected future claims development	+ 10%	(1,419)	(1,339)
	- 10%	1,419	1,339
Claims handling expense ratio	+ 10%	(556)	(543)
	- 10%	556	543
Risk margin	+ 10%	(505)	(672)
	- 10%	505	672

Canterbury earthquake outstanding claims

$ thousands		Impact on profit or (loss)	
	Movement in assumption	**2022**	2021
Number of new overcap or new litigated claims	+ 35%	(1,817)	(1,610)
	- 35%	1,817	1,610
Change in average cost of a new overcap or new litigated claim	+ 20%	(1,038)	(920)
	- 20%	1,038	920
Number of reopened claims	+ 35%	(375)	(840)
	- 35%	375	840
Change in average cost of a reopened claim	+ 20%	(214)	(480)
	- 20%	214	480

2.5 Unearned premium liability

Reconciliation

$ thousands	**2022**	2021
Opening balance	**212,275**	203,452
Premiums written during the year from continuing operations	445,580	396,003
Premiums earned during the year from continuing operations	(418,322)	(386,620)
Unearned premium movement from continuing operations	27,258	9,383
Premiums written during the year from discontinued operations	8,055	8,678
Premiums earned during the year from discontinued operations	(8,684)	(8,910)
Unearned premium movement from discontinued operations	(629)	(232)
Foreign exchange movements	3,957	(328)
Liabilities reclassified as held for sale	(4,745)	-
Unearned premium liability from continuing operations	**238,116**	212,275

All unearned premiums will be earned in the 12 months after 30 September 2022 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-rated 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 2022 was sufficient for the New Zealand business (2021: $2.0m deficiency). The unearned premium liabilities as at 30 September 2022 for each Pacific entity was also sufficient (2021: all sufficient with the exception of Fiji and Vanuatu where a total deficiency of $0.5m was recognised).

%	**2022**	2021
Central estimate net claims as a % of unearned premium liability	**45.5%**	45.2%
Risk margin as a % of net claims	**11.2%**	11.0%

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	
	2022	2021	**2022**	2021	**2022**	2021
Balance bought forward	**21,116**	25,220	**10,851**	9,447	**31,967**	34,667
Costs deferred	48,192	40,323	17,283	17,968	65,475	58,291
Amortisation expense	(42,765)	(41,897)	(17,073)	(16,428)	(59,838)	(58,325)
Writedown due to LAT deficiency	-	(2,534)	-	-	-	(2,534)
Foreign exchange movements	247	4	1,303	(136)	1,550	(132)
Asset reclassified as held for sale	(248)	-	(1,087)	-	(1,335)	-
Closing balance	**26,542**	21,116	**11,277**	10,851	**37,819**	31,967

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	**2022**	2021
Gross premium receivables	200,715	178,213
Provision for expected future premium cancellations	(651)	(655)
Premium receivable	**200,064**	177,558
Reinsurance recoveries	15,847	20,326
Canterbury earthquake reinsurance recoveries	3,787	3,880
Other recoveries	11,378	5,207
Reinsurance and other recoveries	**31,012**	29,413
Finance lease receivables	2,375	4,278
Prepayments	4,411	3,279
Other receivables	2,401	2,397
Receivable from discontinued operations*	1,826	-
Receivables	**242,089**	216,925
Receivable within 12 months	241,742	214,504
Receivable in greater than 12 months	347	2,421
Receivables	**242,089**	216,925

* Refer note 8.4 for further detail.

Recognition and measurement

Receivables (inclusive of GST) are recognised at fair value and are subsequently measured at 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.

2.7 Receivables (continued)

Finance lease receivables

Tower entered into 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	**2022**	2021
Less than one year	2,074	2,019
Between one and five years	347	2,421
Total undiscounted finance lease receivable	**2,421**	4,440
Unearned finance income	(46)	(162)
Net investment in the finance lease	**2,375**	4,278

2.8 Payables

Composition

$ thousands	**2022**	2021
Trade payables	14,672	11,452
GST payable	25,951	23,264
EQC & Fire and Emergency New Zealand levies payable	11,583	10,857
Reinsurance premium payable	3,696	6,343
Unsettled investment purchases	-	11,456
Other	3,009	6,605
Payables	**58,911**	69,977
Payable within 12 months	58,911	69,977
Payable in greater than 12 months	-	-
Payables	**58,911**	69,977

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	**2022**	2021
Annual leave and other employee benefits	8,219	6,709
Customer remediation*	3,654	-
Provisions	**11,873**	6,709
Payable within 12 months	10,716	6,235
Payable in greater than 12 months	1,157	474
Provisions	**11,873**	6,709

* This is a one-off provision for customer remediation arising from an error in the calculation of multi-policy discounts.

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	**2022**	2021
Interest income	6,835	5,127
Net realised loss	(2,028)	(2,152)
Net unrealised loss	(3,309)	(2,416)
Investment income	**1,498**	559

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	**2022**	2021
Fixed interest investments	258,600	277,436
Property investment	34	34
Investments	**258,634**	277,470

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 note 3.3.

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 currently does not have any Level 3 investments.

$ thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
As at 30 September 2022				
Fixed interest investments	-	258,600	-	**258,600**
Property investment	-	34	-	**34**
Investments	**-**	**258,634**	**-**	**258,634**
As at 30 September 2021				
Fixed interest investments	-	277,436	-	277,436
Property investment	-	34	-	34
Investments	-	277,470	-	277,470

There have been no transfers between levels of the fair value hierarchy during the current financial period (2021: 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 Framework (RMF) 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 RMF.

Tower has embedded the 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, Compliance and Conduct Function is responsible for developing and implementing effective risk, compliance and conduct 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.

(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 (%)	**2022**			2021		
	NZ	**Pacific***	**Total**	NZ	Pacific*	Total
Home & Contents	51%	3%	**54%**	52%	4%	56%
Motor	35%	3%	**38%**	34%	3%	37%
Commercial	1%	5%	**6%**	1%	4%	5%
Liability	1%	0%	**1%**	1%	0%	1%
Workers compensation	0%	1%	**1%**	0%	0%	0%
Other	0%	0%	**0%**	1%	0%	1%
Total	**88%**	**12%**	**100%**	89%	11%	100%

* The Pacific Islands operating segment excludes the disposal group and the prior year comparatives have been re-presented accordingly.

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 and is set out below.

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 'not rated' categories in the table below. This includes deposits and investments with Australian bank subsidiaries that comprise 55% (2021: 88%) of the 'not rated' category.

$ thousands	**Cash and Cash Equivalents**		**Fixed Interest Investments**		**Total**	
	2022	2021	**2022**	2021	**2022**	2021
AAA	-	-	119,198	94,430	**119,198**	94,430
AA	66,228	83,614	110,957	143,548	**177,185**	227,162
A	-	-	24,399	33,100	**24,399**	33,100
BBB	-	-	-	-	**-**	-
Below BBB	1,614	9,173	2,009	2,226	**3,623**	11,399
Not rated	16,660	23,342	2,071	4,166	**18,731**	27,508
Total	**84,502**	116,129	**258,634**	277,470	**343,136**	393,599

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	
	2022	2021	**2022**	2021	**2022**	2021
AAA	-	-	-	-	-	-
AA	5,830	12,005	2,929	1,028	**8,759**	13,033
A	8,319	10,805	2,220	320	**10,539**	11,125
BBB	9	-	-	-	**9**	-
Below BBB	102	-	3	-	**105**	-
Not rated	220	40	2	4	**222**	44
Total	**14,480**	22,850	**5,154**	1,352	**19,634**	24,202

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 2022						
Reinsurance recoveries on paid claims	5,154	-	-	-	-	**5,154**
As at 30 September 2021						
Reinsurance recoveries on paid claims	1,352	-	-	-	-	1,352

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 the 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 2022						
Net premium receivable	192,464	5,933	1,188	384	95	**200,064**
As at 30 September 2021						
Net premium receivable	169,915	5,514	1,484	562	83	177,558

* This includes premiums that are less than 30 days outstanding (which are owed but not past due) of $4.0m (2021: $5.5m).

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)**	
	2022	2021	**2022**	2021
New Zealand Dollar - USD				
Currency strengthens by 10%	(793)	(581)	113	23
Currency weakens by 10%	969	710	(138)	(28)
New Zealand Dollar - Fijian Dollar				
Currency strengthens by 10%	(854)	(1,667)	(74)	(38)
Currency weakens by 10%	1,044	2,037	90	47
New Zealand Dollar - PNG Kina				
Currency strengthens by 10%	(629)	(743)	44	30
Currency weakens by 10%	769	908	(54)	(36)

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 have interest rate exposure due to the use of discount rates in calculating the value of insurance liabilities.

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 1% increase or decrease in interest rates on fixed interest investments is shown below (holding everything else constant).

$ thousands	**Impact on profit or (loss)**	
	2022	2021
Interest rates increase by 1% (2021: 0.5%)	**(1,617)**	(988)
Interest rates decrease by 1% (2021: 0.5%)	**1,690**	960

Tower manages its interest rate risk through Board approved investment management guidelines that give 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**	
	2022	2021	**2022**	2021
Floating interest rate (at call)	**-**	-	**84,649**	116,217
Within 3 months	**45,224**	42,949	**28,181**	75,129
3 to 6 months	**20,726**	17,070	**44,940**	31,890
6 to 12 months	**18,969**	17,176	**55,407**	47,381
After 12 months	**25,532**	22,293	**129,959**	122,982
Total	**110,451**	99,488	**343,136**	**393,599**

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.

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 2022 the Group complied with all externally imposed capital requirements (2021: complied).

Tower Limited's Group and Parent solvency margin are illustrated in the table below.

$ thousands	**2022**		2021	
	Parent	**Group**	Parent	Group
Actual solvency capital	136,423	171,647	179,439	214,128
Minimum solvency capital	66,530	79,018	66,252	79,927
Solvency margin*	**69,893**	**92,629**	113,187	134,201
Solvency ratio	**205%**	**217%**	271%	268%

* Tower is required to maintain a solvency margin of at least $15m (2021: $25m), due to a license condition issued by the RBNZ.

In October 2020, the RBNZ commenced consultation on a review of the Insurance (Prudential Supervision) Act 2010. As part of the overall process, the RBNZ issued an exposure draft on an interim solvency standard (ISS) in July 2021 which anticipated the introduction of IFRS 17. The final ISS was issued in October 2022.

Tower will apply the new ISS from 1 October 2023. The 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 some changes that will impact solvency margins. The change in the ISS which is expected to have the largest impact on Tower's solvency margin, the introduction of the operational risk capital charge, will be phased in over the four years to 2026. While Tower is still assessing the ISS in its final form, Tower expects to maintain an appropriate capital position under the ISS.

4.7 Capital management risk (continued)

b. Capital composition

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

$ thousands	**2022**	2021
Total equity attributed to shareholders	317,528	347,044

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. in April 2022.

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, recording and managing operational risks in accordance with their roles and responsibilities. Associated controls for identified risks are recorded and then actively monitored and managed through our enterprise risk management system (ERMS). 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.

Tower also maintains and regularly updates its Crisis Management, Business Continuity and Disaster Recovery Plans to minimise the impact of material incidents or crisis events and to support continuity of critical systems and processes.

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, via its ERMS, has in place an obligations management framework. The framework provides operational and managerial oversight of applicable and relevant regulatory compliance obligations to Tower and supports Tower in discharging its obligations under legislation across NZ & the Pacific.

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, completing quality assurance reviews, managing vulnerable customers, holding workshops with frontline staff to identify potential conduct issues and embedding and monitoring controls across the business to deliver fair customer outcomes.

Tower's approach to managing conduct risk is set out in its Conduct Governance Framework. The framework is a collation of policies, frameworks and processes and ensures there's robust governance in place to oversee Tower's conduct risk profile 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 Committee. Risk mitigation is achieved through ongoing investment in Tower's Security programme and Tower's dedicated security function.

4.12 Climate change risk

Climate change risk is the risk associated with the unpredictable nature and impacts of weather events which may increase in frequency and severity over time due to changes in climate.

Tower's RMF considers environmental and emerging risks, which are regularly reported to the Board. Tower's approach to managing climate change risk includes leading the market by continuing to expand our risk-based pricing strategy for climate-related hazards, maintaining a robust reinsurance programme to provide protection from volatility in weather events, planning for increasing large events over time in our budget process to limit financial impacts, and supporting communities through climate change via product development and education of customers.

Tower considers that climate change risk does not impact the valuation of the majority of Tower's assets and liabilities, where these assets are expected to be realised in one year or less. For non-current assets, Tower has looked to its short-medium term forecasting, which implicitly includes allowances for the risk of climate change in forecasts of the severity and frequency of future claims, including large events. These forecasts show continued profitability for Tower, which supports the carrying value of non-current assets. Accordingly, Tower does not consider that climate change risk has a material impact on the assets and liabilities recorded in these financial statements, as at 30 September 2022.

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 Contributed equity

$ thousands	**2022**	2021
Opening balance	492,424	492,424
Return of share capital to shareholders*	(30,634)	-
Purchase of non-controlling interests**	(1,599)	-
Total contributed equity	**460,191**	492,424
Represented by:		
Opening balance	421,647,258	421,647,258
Cancellation of shares on return of capital	(42,163,271)	-
Total shares on issue	**379,483,987**	421,647,258

* On 9 March 2022 the Group completed its ordinary share buy-back for a consideration of $30.6m (including transaction costs). This resulted in 42.2m shares being cancelled during the year ended 30 September 2022.
** 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 subsequently commenced a process to acquire the remaining 6.12% shareholding which completed on 17 December 2021 for a consideration of $0.9m.

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.

5.2 Reserves

$ thousands	**2022**	2021
Opening balance	(6,082)	(4,985)
Currency translation differences arising during the year	3,934	(1,097)
Foreign currency translation reserve	**(2,148)**	(6,082)
Opening balance	1,707	1,564
Gain on revaluation	-	159
Deferred tax on revaluation	-	(16)
Asset revaluation reserve	**1,707**	1,707
Capital reserve	**11,990**	11,990
Separation reserve*	**(113,000)**	(113,000)
Reserves	**(101,451)**	(105,385)

* The separation reserve was created 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 as a non-equity reserve to meet the requirements of the ATO.

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.

5.3 Net tangible assets per share

$ dollars	**2022**	2021
Net tangible assets per share	**0.55**	0.57

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.

5.4 Earnings per share

	2022	2021
Profit from continuing operations attributable to shareholders ($ thousands)	**17,622**	17,770
Profit from discontinued operations attributable to shareholders ($ thousands)	**1,181**	913
Weighted average number of ordinary shares for basic and diluted earnings per share (number of shares)	**397,851,001**	421,647,258
Basic and diluted earnings per share (cents) for continuing operations	4.43	4.21
Basic and diluted earnings per share (cents)	4.73	4.43

The basic and diluted average numbers of ordinary shares shown above are used for calculating all earnings per share measures including those for profit after tax from discontinued operations (note 8.4).

5.5 Dividends

On 30 June 2022, Tower paid an interim dividend of 2.5 cents per share (2021: 2.5 cents per share), with the cash impact of $9.5m (2021: $10.5m).

On 23 November 2022, the Board approved a final dividend of 4 cents per share (2021: 2.5 cents per share), with the dividend being payable on 1 February 2023. The anticipated cash impact of the final dividend is approximately $15.2m (2021: $10.5m).

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 2022

$ thousands	Land and buildings	Office equipment & furniture	Motor vehicles	Computer equipment	Total
Composition:					
Cost**	-	4,547	1,949	5,237	**11,733**
Accumulated depreciation**	-	(2,303)	(979)	(3,034)	**(6,316)**
Property, plant and equipment	**-**	**2,244**	**970**	**2,203**	**5,417**
Reconciliation:					
Opening balance	4,102	1,968	769	2,535	**9,374**
Depreciation	-	(422)	(288)	(1,577)	**(2,287)**
Additions	-	814	500	1,277	**2,591**
Disposals	-	(85)	-	(4)	**(89)**
Foreign exchange movements	456	(23)	15	(23)	**425**
Assets reclassified as held for sale*	(4,558)	(8)	(26)	(5)	**(4,597)**
Closing Balance	**-**	**2,244**	**970**	**2,203**	**5,417**

* Assets reclassified as held for sale include the Suva building ($4.5m) and the assets of discontinued operations. Refer to Note 8.4.

** During the year, and following the decommissioning of several legacy 'on premise' IT systems, a review of property, plant & equipment with zero book values was completed. As a consequence, property, plant and equipment with a total cost and accumulated depreciation of $12.6m were written off as they are no longer in use. As the assets had zero book values, there was no impact on profit or loss from these write-offs.

30 September 2021

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 for continuing operations	-	(838)	(242)	(1,104)	(2,184)
Depreciation for discontinued operations	-	(90)	(18)	(2)	(110)
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

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 2022

$ thousands	Goodwill	Software	Customer Relationships*	Total
Composition:				
Cost*	17,744	79,259	34,745	**131,748**
Accumulated amortisation*	-	(25,801)	(11,294)	**(37,095)**
Intangible Assets	**17,744**	**53,458**	**23,451**	**94,653**
Reconciliation:				
Opening balance	17,744	48,527	22,321	**88,592**
Amortisation	-	(9,764)	(4,959)	**(14,723)**
Additions	-	16,934	6,089	**23,023**
Disposals	-	(184)	-	**(184)**
Transfers to property, plant and equipment	-	(2,055)	-	**(2,055)**
Closing Balance	**17,744**	**53,458**	**23,451**	**94,653**

* During the year, and following the decommissioning of several legacy IT systems, a review of intangible assets with zero book values was completed. As a consequence, intangible assets with a total cost and accumulated amortisation of $32.8m were written off as they are no longer in use. As the assets had zero book values, there was no impact on profit or loss from these write-offs.

30 September 2021

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 to property, plant and equipment	-	(1,425)	-	(1,425)
Closing Balance	17,744	48,527	22,321	88,592

In the year ended 30 September 2021, Tower acquired and assumed ANZ's rights and obligations related to servicing the insurance polices of a group of customers already underwritten by Tower, and entered into a non-compete agreement for a period of 5 years. In the year ended 30 September 2022, Tower acquired and assumed Westpac's and TSB Bank's rights and obligations relating to servicing the insurance polices of two further groups of customers already underwritten by Tower. The amounts capitalised includes the price paid and associated acquisition/migration costs. The assets will be amortised over 5 year (the ANZ non-compete agreement) or 10 years (for other customer relationships), 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

The customer relationships asset predominantly consists of customer relationship asset with a useful life equivalent to the customer base's expected lifespan of ten years with the exception of one asset with an additional non-compete component that has a contracted useful live of five years.

Where applicable the estimated capitalised cost related to the customer relationships 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 rates (86-94%) and a discount rate of 12.5% for each customer relationship asset.

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 (2021: 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 New Zealand general insurance CGU.

Tower undertook an annual impairment review and no loss has been recognised in 2022 as a result (2021: 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 by determining its value in use by discounting the future cash flows generated from the continuing use of the unit (2021: the recoverable amount was assessed with reference to appraisal value techniques, which is a common practice for insurance companies). A base discount rate of 14.5% was used in the calculation (2021: 12.0%). The cash flows are based on management's plans and forecasted profits for FY23 - FY25 (2021: FY22 - FY24). The projected cash flows are determined based on past performance and management's expectations for market developments with a terminal growth rate of 3% (2021: 2.5%).

The overall valuation is sensitive to a range of assumptions including the discount rate and the terminal 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 2022

$ thousands	Office space	Motor vehicles	Total
Composition:			
Cost	26,977	-	**26,977**
Accumulated depreciation	(3,651)	-	**(3,651)**
Right of use assets	**23,326**	**-**	**23,326**
Reconciliation:			
Opening balance	25,569	8	**25,577**
Depreciation	(2,702)	(3)	**(2,705)**
Additions	438	-	**438**
Disposals	(37)	(5)	**(42)**
Revaluations	968	-	**968**
Net foreign exchange movements	(347)	-	**(347)**
Assets reclassified as held for sale	(563)	-	**(563)**
Right of use assets	**23,326**	**-**	**23,326**

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 for continuing operations	(2,242)	(14)	**(2,256)**
Depreciation for discontinued operations	(162)	-	**(162)**
Additions*	24,332	-	**24,332**
Disposals	(3,308)	-	**(3,308)**
Revaluations	(3)	-	**(3)**
Net foreign exchange movements	(237)	-	**(237)**
Right of use assets	**25,569**	**8**	**25,577**

* 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 right of use asset and lease liability.

Recognition and measurement

Right of use assets are recognised when Tower has the right to use the corresponding 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	**2022**	2021
Composition:		
Current	6,237	6,082
Non-current	28,817	33,339
Lease liabilities	**35,054**	**39,421**
Due within 1 year	6,237	6,082
Due within 1 to 2 years	4,440	6,041
Due within 2 to 5 years	11,990	12,055
Due after 5 years	15,876	19,514
Discount	(3,489)	(4,271)
Lease liabilities	**35,054**	**39,421**

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. The incremental borrowing rate is the rate of interest that Tower would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. Tower's incremental borrowing rate is based on bonds issued by financial institutions with similar credit rating and maturity profile. Incremental borrowing rates used during the year ranged between 1.9% and 5.0% (2021: between 1.9% 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 that 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	**2022**	2021
Depreciation and impairment	Underwriting expense & corporate and other expenses	(2,705)	(2,252)
Interest expense	Finance costs	(897)	(363)
Gain on disposal	Other Income	12	1,179
Lease expense		**(3,590)**	**(1,436)**

c. Amounts recognised in the consolidated statement of cash flows

$ thousands	**2022**	2021
Total cash outflow for lease principal payments	(6,044)	(2,684)

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	**2022**	2021
Current tax	1,159	3,745
Deferred tax	6,593	5,785
Adjustments in respect of prior years	292	(395)
Tax expense	**8,044**	9,135
Tax expense from continuing operations	**7,526**	9,245
Tax expense from discontinued operations	**518**	(110)

Reconciliation of prima facie tax to income tax expense

$ thousands	**2022**	2021
Profit before tax from continuing operations	25,200	27,647
Profit before tax from discontinued operations	1,699	803
Profit before taxation	26,899	28,450
Prima facie tax expense at 28% (2021: 28%)	7,532	7,966
Adjustments in respect of prior years	293	(395)
Tax effect of non-deductible expenses and non-taxable income	(732)	796
Foreign tax credits written off	371	861
Other	580	(93)
Tax expense	8,044	9,135

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	**2022**	2021
Excess tax payments related to prior periods*	12,038	12,038
Excess tax payments related to current period**	1,031	863
Current tax assets	**13,069**	12,901

* Expected to be recovered from 2024 as per the Board approved operational plan for 2023 to 2025.

** Excess tax payment made in the Pacific Islands during the reporting period.

b. Current tax liability

The current tax liability balance of $136k (2021: $170k) 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	**2022**	2021
Tax losses recognised	23,716	24,116
Software, property, plant and equipment	1,989	2,834
Leases	352	373
Provisions and accruals	5,258	4,165
Recognised in profit or loss	**31,315**	31,488
Impact through other comprehensive income	-	-
Recognised in comprehensive profit or loss	**31,315**	31,488
Set-off of deferred tax liabilities pursuant to NZ IAS 12	(7,278)	(7,038)
Deferred tax asset	**24,037**	24,450
Deferred tax asset from continuing operations	**23,893**	24,450
Deferred tax asset from discontinued operations	**144**	-

Reconciliation of movements

$ thousands	**2022**	2021
Opening balance	31,488	35,397
Movements recognised in proft or loss	(173)	(3,909)
Deferred tax asset pre NZ IAS 12 set off	**31,315**	31,488

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7.3 Deferred tax (continued)

b. Deferred tax liability

Composition

$ thousands	**2022**	2021
Deferred acquisition costs	(7,016)	(5,481)
Customer relationships	(4,412)	(3,433)
Software, property, plant and equipment	(4,163)	-
Other*	(203)	(461)
Recognised in profit or loss	**(15,794)**	(9,375)
Asset revaluation	(290)	(438)
Recognised in comprehensive profit or loss	**(16,084)**	(9,813)
Set-off of deferred tax liabilities pursuant to NZ IAS 12	7,278	7,038
Deferred tax liability	**(8,806)**	(2,775)

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

Reconciliation of movements

$ thousands	**2022**	2021
Opening balance	(9,813)	(7,921)
Movements recognised in other comprehensive income	148	(16)
Movements recognised in profit or loss	(6,419)	(1,876)
Deferred tax liability pre NZ IAS 12 set off	**(16,084)**	(9,813)

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 $84.7m (2021: $86.1m).

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, shareholder continuity and no 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	**2022**	2021
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 statement of cash flow

Composition

$ thousands	**2022**	2021
Cash at bank	**54,422**	88,740
Deposits at call	**30,080**	27,389
Cash and cash equivalents	**84,502**	116,129

The average interest rate at 30 September 2022 for deposits at call is 2.89% (2021: 0.25%).

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

$ thousands	**2022**	2021
Profit after taxation from continuing operations	**17,674**	18,402
Adjusted for non-cash items		
Depreciation of property, plant and equipment	2,287	2,182
Depreciation, impairment and disposals of right of use assets	2,705	2,252
Amortisation of intangible assets	14,723	12,556
Financing costs	897	363
Fair value losses on financial assets	5,337	4,568
Gain on disposal of fixed assets	(24)	319
Change in deferred tax	6,452	5,731
Adjusted for movements in working capital		
Change in receivables	(30,495)	41,957
Change in payables	41,445	6,888
Change in taxation	(695)	1,601
Net cash inflows from operating activities from continuing operations	**60,306**	96,819
Cashflows from operating activities from discontinued operations	(522)	1,276
Net cash inflows from operating activities	**59,784**	98,095

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	**2022**	2021
Salaries and other short term employee benefits	4,466	4,799
Long term benefits	773	260
Termination benefits	748	486
Director fees	676	723
Related party remuneration	**6,663**	6,268

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.

The Board has decided to implement a share based long term incentive scheme with effect from 1 October 2022.

During the year ended 30 September 2022, Tower Limited acquired the minority shareholding of National Pacific Insurance Limited. Refer Note 5.1.

> 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	**2022**	2021
Audit of financial statements*	612	599
Other assurance services**	63	60
Total fees paid to Group's auditors	**675**	659
Fees paid to subsidiaries' auditors different to Group auditors:		
Audit of financial statements***	16	14
Auditors remuneration	**691**	673

* Audit of financial statements includes fees for both the audit of annual financial statements and the review of the interim financial statements. PwC Fiji performs the audits of all overseas incorporated subsidiaries with the support of PwC New Zealand and other PwC network firms. $129.6k is paid to other PwC network firms (non New Zealand) for their audit services.

** Other assurance services includes annual solvency return assurance and Pacific Island regulatory return audits. The other assurance services for the year ended 30 September 2021 were completed during the year ended 30 September 2022.

*** The audit of Tower Insurance (Vanuatu) Limited was performed by Law Partners (2021: Law Partners).

8.4 Discontinued operation and asset held for sale

On 10 June 2022 Tower announced the conditional sale of all of its shares in its Papua New Guinea subsidiary to Alpha Insurance Limited for a sale price of AUD 7.9m, subject to settlement adjustments. The sale was still conditional as at 30 September 2022 and so the Group's Papua New Guinea Operations constitutes a discontinued operation and is classified as held for sale as at 30 September 2022.

Subsequently, the sale became unconditional and was completed on 28 October 2022, for a revised price of PGK 22m, subject to settlement adjustments and transaction costs. The estimated gain on sale that will be included in profit or loss after tax, including reclassifications of amounts in the foreign currency translation reserve, is approximately $2.1m, however at the time these financial statements were prepared a final calculation of the gain on sale had not been completed.

At 30 September 2022, Tower was actively marketing the Suva building for sale. The recoverable amount of the building of $4.5m is included in the property, plant and equipment disclosed below. The sale is expected to be completed within a year from the reporting date.

The sale of the Suva building was approved by the Board on 3 November 2022. Refer note 8.6.

Assets and liabilities classified as held for sale

$ thousands	**2022**
Assets classified as held for sale	
Cash and cash equivalents	7,796
Investments	3,580
Receivables	2,565
Current tax assets	315
Deferred tax assets	144
Deferred insurance costs	1,335
Right of use assets	479
Property, plant and equipment*	4,597
Total assets classified as held for sale	**20,811**
Liabilities classified as held for sale	
Payables**	1,965
Unearned premiums	4,745
Outstanding claims	1,981
Lease liabilities	519
Provisions	48
Total liabilities classified as held for sale	**9,258**
Net assets classified as held for sale	**11,553**

* Property, plant and equipment disclosed above includes the Suva building carrying value of $4.5m.

** As at 30 September 2022, Tower PNG owed other members of the Tower Group of $1.8m. The liabilities from discontinued operations disclosed above are stated without adjustment for these intercompany transactions.

The cumulative currency translation losses recognised in other comprehensive income in relation to the discontinued operation as at 30 September 2022 were $2.7m.

8.4 Discontinued operation and asset held for sale (continued)

Profit from discontinued operation

$ thousands	**2022**	2021
Gross written premium	8,055	8,678
Unearned premium movement	629	232
Gross earned premium	8,684	8,910
Outward reinsurance premium	(3,187)	(3,426)
Movement in deferred reinsurance premium	(58)	(46)
Outward reinsurance premium expense **	(3,245)	(3,472)
Net earned premium	**5,439**	**5,438**
Claims expense	(1,907)	(1,983)
Less: Reinsurance and other recoveries revenue	695	34
Net claims expense	(1,212)	(1,949)
Gross commission expense	(310)	(391)
Commission revenue	288	292
Net commission expense	(22)	(99)
Underwriting expense **	(2,559)	(2,591)
Underwriting profit	**1,646**	**799**
Investment income	50	21
Other income/(expense)	15	(2)
Financing and other costs	(12)	(15)
Profit before taxation	**1,699**	**803**
Tax expense	(518)	110
Profit after taxation from discontinued operation	**1,181**	**913**

** Tower PNG paid fees to other members of the Tower Group of $2.4m during the financial year ended 30 September 2022 (2021: $2.5m), relating to the provision or reinsurance, management and other services. These amounts are included within the reinsurance premium expense and underwriting expense lines above, and are then eliminated within continuing operations.

Earnings per share

	2022	2021
Basic and diluted earnings per share (cents) for discontinued operations	0.30	0.22

The currency translation differences recognised in other comprehensive income during the period ending 30 September 2022 in relation to the discontinued operation were $1.1m.

8.5 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.

8.6 Subsequent events

On 6 October 2022, Tower entered an agreement with Kiwibank to purchase the rights and obligations relating to servicing the insurance polices of a group of customers underwritten by Tower for $5.9m payable on 1 December 2022.
On 28 October 2022, Tower completed the sale of Tower Insurance (PNG) Limited, refer note 8.4 for more information.

On 3 November 2022, the Board approved the sale of Suva building at a price of FJD 8.2m which, after allowing for transaction costs and taxes, is greater than the book value of this asset recorded in these financial statements. The estimated gain on sale to be recognised in profit or loss after tax is approximately $1.1m, however at the time these financial statements were prepared a final calculation of the gain on sale had not been completed.

On 23 November 2022, the Board approved a full year dividend of 4 cents per share, with the dividend being payable on 1 February 2023 as specified by Note 5.5. The anticipated cash impact of the final dividend is approximately $15.2m.

8.7 Capital commitments

As at 30 September 2022, Tower has nil capital commitments (2021: nil).

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

New accounting standards

No new accounting standards were implemented during the year with a material effect on Tower.

Issued and not yet effective

The only new or revised accounting standard that is expected to have a material impact on Tower's financial statements is NZ IFRS 17 *Insurance Contracts* ("IFRS 17"). Other new or revised accounting standards that will be mandatory in future financial years are not expected to have a material impact.

IFRS 17

IFRS 17 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. Tower expects to apply the standard using the full retrospective approach.

IFRS 17 replaces the current guidance in NZ IFRS 4 *Insurance Contracts* ("IFRS 4"), 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.

IFRS 17 contains three new measurement models. The general model measures insurance contracts based on the fulfilment cash flows (the present value of estimated future cash flows with an explicit risk adjustment for non-financial risk) and the contractual service margin (the unearned profit that will be recognised as services are provided over the coverage period). A modified version of the general model (the variable fee approach) is applied to insurance contracts with direct participation features, and a simplified measurement model (the premium allocation approach, or "PAA") is permitted in certain circumstances. The PAA is similar to the current measurement model used for general insurance. Tower expects all its current insurance contracts and reinsurance contracts will meet the requirements of the PAA.

8.8 Impact of new accounting standards and changes in interpretation of current accounting standards (continued)

Under the PAA, insurance and reinsurance contracts will be aggregated together into portfolios based on the contracts having similar risks and being managed together, and then divided into groups based on the expected profitability of contracts and the periods in which the contracts are written. Insurance contracts and reinsurance contracts are measured separately. Under the aggregation requirements, the identification and measurement of contracts that are expected to be loss making will be performed at a lower granularity than occurs for the liability adequacy test under current accounting standards, with any loss component recognised on initial recognition.

IFRS 17 makes changes to the way that discount rates are applied to future cash flows, with discount rates required to reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. Tower has determined that it will not discount insurance assets and liabilities for remaining coverage unless the time between the provision of the services and the premiums received will be more than one year. Insurance assets and liabilities for incurred claims will be discounted to reflect the time value of money. The methodology for deriving the discount rate is currently being finalised, with Tower expecting to apply the bottom-up approach, whereby a risk-free yield curve is adjusted through the addition of an illiquidity premium.

IFRS 17 allows a choice between expensing acquisition costs related to the fulfilment cash flows immediately, or deferring them. Tower expects to defer acquisition costs and amortise them over the coverage period of the related insurance contracts.

IFRS 17 requires a risk adjustment for non-financial risk to be applied to reflect the compensation an entity requires for bearing uncertainty about the amount and timing of cash flows. This differs from the risk margin used under IFRS 4, which reflects the inherent uncertainty in the central estimate of future claims cash flows. Tower is developing its framework for determining the risk adjustment and expects to use a confidence level approach.

IFRS 17 also introduces significant changes to the presentation of insurance contracts. Assets and liabilities related to portfolios of insurance contracts and reinsurance contracts will be shown separately on the balance sheet, replacing current insurance related line such as premium receivables, deferred insurance costs and unearned premiums. In the consolidated statement of comprehensive income Tower will present income and expenses related to insurance contracts gross of reinsurance, which will be disclosed separately.

Tower has a programme 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 a proposed accounting policy framework under NZ IFRS 17, subject to approval by the Board, and systems development work is in the implementation phase.
IFRS 17 is not expected the change the underlying economics or cash flows of Tower's business, although it may impact how profit emerges on a year-to-year basis, and it will change the presentation in the financial statements. Due to the complexity of the requirements within the standard and with global interpretations continuing to change, some material judgements and accounting policy choices are still under consideration by Tower, and therefore a full assessment of the financial impact of IFRS 17 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 2022, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 30 September 2022;
- 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 assurance services for the Group over solvency and regulatory insurance returns. 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. The provision of these other services and relationships 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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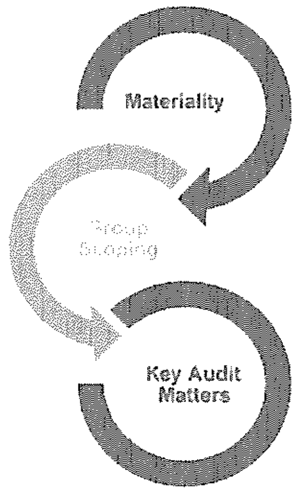
Description of the key audit matter	How our audit addressed the key audit matter
(1) Valuation of outstanding claims (2022: $124,531,000, 2021: $122,338,000) We considered the valuation of outstanding claims a key audit matter as it involves an estimation process combined with significant judgements 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 (excluding Canterbury earthquakes) 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 an 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 available during the year; • inspected a sample of claims paid during the year to confirm that they are supported by appropriate documentation and approved within delegated authority limits; and • tested the integrity of data used in the actuarial models by agreeing relevant model inputs, such as claims data, to source, on a sample basis. Together with our actuarial experts, we: • considered the work and findings of the actuaries engaged by Tower; • 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 Tower's experience, our own sector knowledge and independently observable industry trends (where applicable); • tested on a sample basis, the underlying calculations in certain valuation models; and • assessed the risk margin by comparing to known industry practice. In particular we focused on the assessed level of uncertainty in the central estimate and the inherent uncertainty in the remaining Canterbury earthquake claims and consistency of the risk margin with prior periods.

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.	
(2) Recoverability of the deferred tax asset arising from tax losses **(2022: $23,716,000, 2021: $24,116,000)** 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 year ending 30 September 2023 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: $4.5 million, which represents approximately 1% of gross written premium from continuing and discontinued operations.

We chose gross written 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 were performed on financial statement line items of certain subsidiaries and analytical review procedures were performed on 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, the industry and countries 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
23 November 2022

Auckland

finity

23 November 2022

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 2022. 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 2022.

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)
Fellows of the New Zealand Society of Actuaries

Anagha Pasche
Fellows of the New Zealand Society of Actuaries

Tower

2022 Full Year Results

1 October, 2021 to 30 September, 2022

23 November, 2022

Agenda

Chairman's update
Michael Stiassny, Chairman

Business update
Blair Turnbull, Chief Executive Officer

FY22 financial performance
Paul Johnston, Chief Financial Officer

Looking forward
Blair Turnbull, Chief Executive Officer

Chairman's update

Positive growth and strong underlying business performance, delivering dividends

STRONG & WELL CAPITALISED

- 6.5¢ FY22 dividend
- $30.6m capital returned to shareholders
- AM Best reaffirmed A- financial strength rating
- RBNZ licence condition reduced from $25m to $15m
- Value accretive acquisitions

RESILIENT TO CHALLENGES

- Managing inflationary pressures
- Proactively managing climate change risks
- Successful placement of FY23 reinsurance programme

CONTINUED LONG-TERM GROWTH

- Strong performance on core business platform
- Flagship Tower Direct digital business growing
- Leveraging unique partnership distribution capability
- Digitising Pacific business improving efficiency & growth

Business update

Blair Turnbull
Chief Executive Officer

Our performance

Solid growth and increased efficiencies underpin strong underlying business performance

GWP growth
(Gross written premium)

13% | $457m
vs $404m in FY21

Customer growth

319,000
vs 304,000 in FY21

BAU claims ratio

48.9%
vs 50.2% in FY21

MER
(Management expense ratio)

36.0%
vs 37.0% in FY21

Large events
Net of reinsurance and recoveries

$19m
vs $13.9m in FY21

COR
(Combined operating ratio)

90.1%
vs 91.4% in FY21

Underlying profit

$27.3m
vs $20.8m in FY21

Reported profit

$18.9m
vs $19.3m in FY21

Strong core business performance

UNDERLYING NPAT
excl. large events

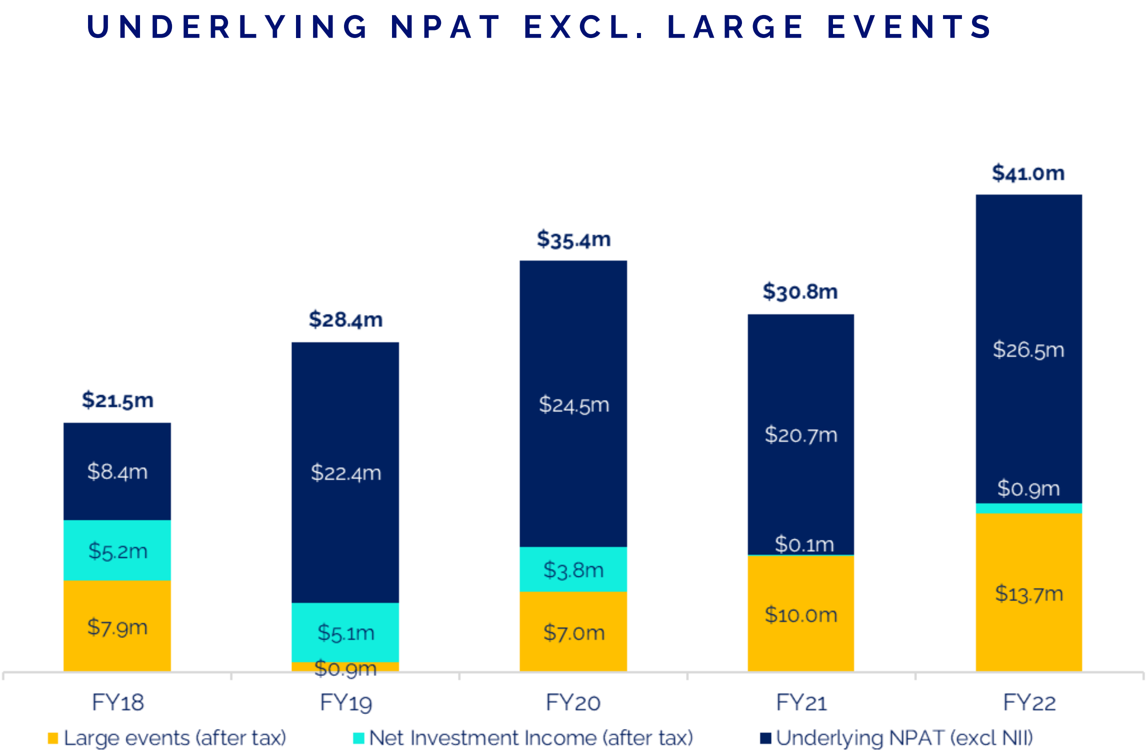
$41m

vs $30.8m FY21

UNDERLYING NPAT
incl. large events

$27.3m

vs $20.8m FY21



- Double digit growth
- Effective management of inflation & claims costs
- Platform delivering scale & efficiencies, reducing MER
- Investment income substantially below historical average
- Reported profit of $18.9m impacted by Canterbury earthquake (CEQ) valuation and customer remediation

Strong growth in customers and premium

GWP GROWTH

13%

to $457m in FY22

CUSTOMER GROWTH

319,000

up 5% on FY21

COST TO ACQUIRE[1]

12%

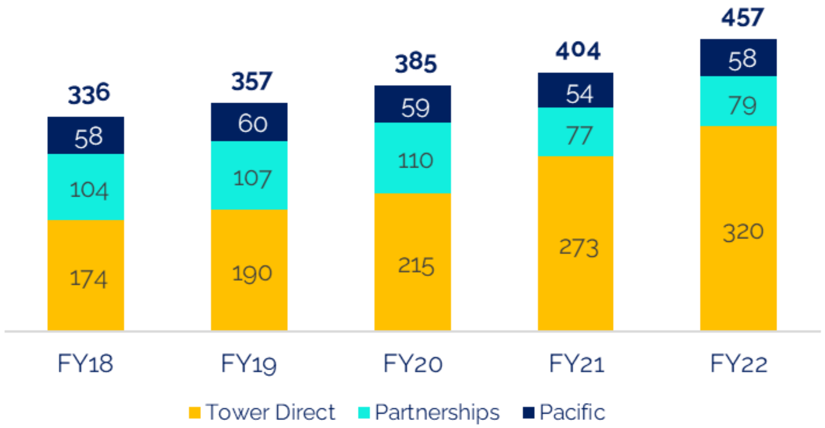
Down from 12.6% in FY21

MULTIPLE PRODUCT HOLDING

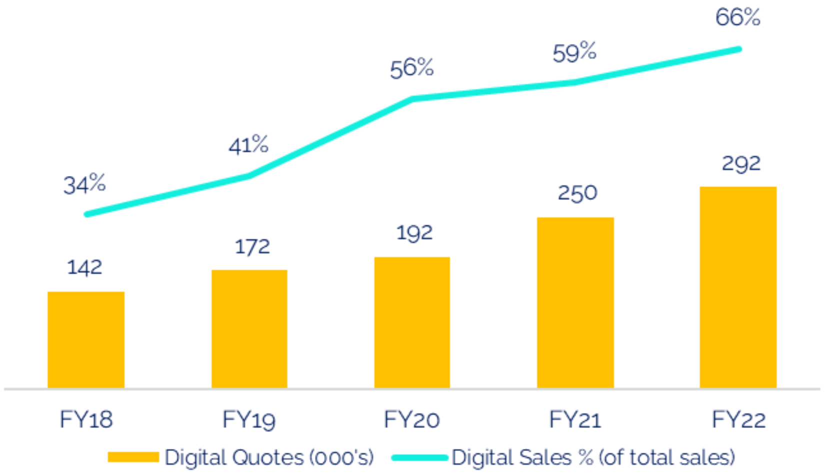
50%

of NZ customers have two or more policies (50% in FY21)

GWP BY BUSINESS UNIT ($m)



TOWER DIRECT DIGITAL QUOTES & SALES



Note 1: Cost to acquire is calculated as deferred acquisition cost amortisation divided by net earned premium

TOWER

Growth and improvements across all three businesses

TOWER DIRECT

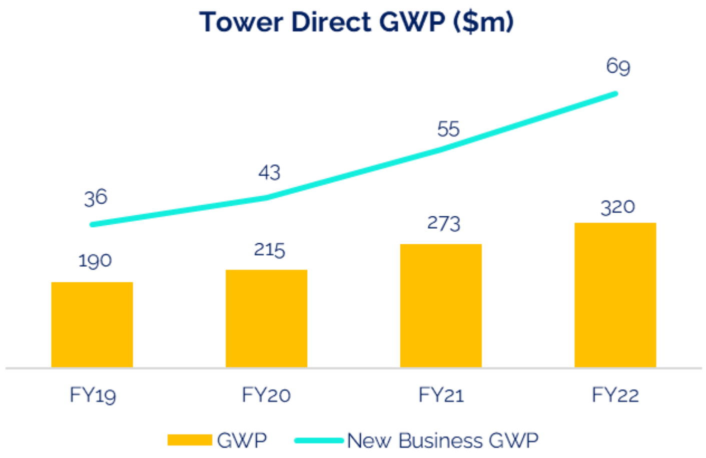
- 17% growth to $320m
- 200k My Tower registrations, up 51%
- Over 500k logins in FY22, up 56%
- 85% legacy book policy retention
- Online purchase journey NPS 61%, up from 57% Sep 21

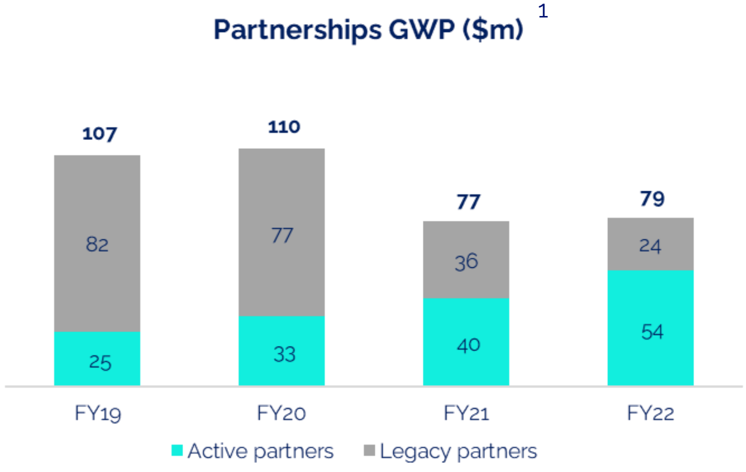
PARTNERSHIPS

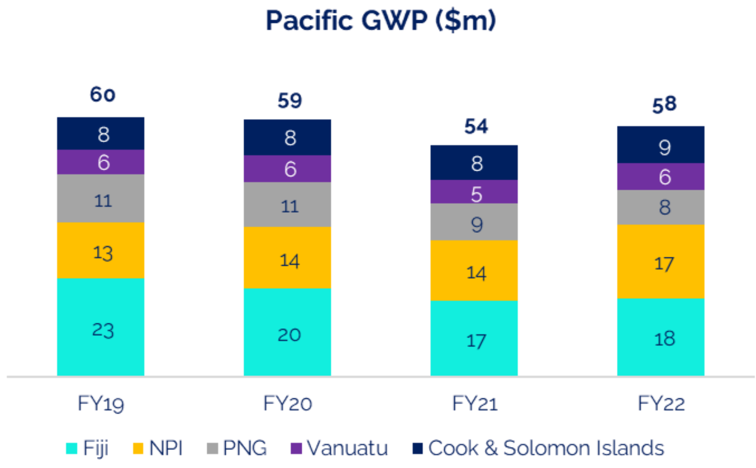
- 38% Trade Me growth to $25m GWP
- Advisor network grew 35% to 1,500
- New partners; Ray White, KAN
- Commission reduced from 2.9% to 2.2% of GEP

PACIFIC

- Pacific migrated to Tower platform
- Industry-first online payments
- My Tower in Fiji and Vanuatu
- GWP up 8%, return to growth
- Simplification - NPI acquisition & PNG sale







Note: 1: Legacy partnership portfolios have been transferred from the Partnerships business unit to Tower Direct after purchase, comprising ANZ in FY21, and TSB and Westpac in FY22

Enhanced underwriting accuracy, and expanded product range

RISK BASED PRICING

145k

NZ house customers transitioned to flood risk pricing

AUTOMATED HOUSE SUM INSURED

97%

of NZ customers updated via CPI or Cordell vs 77% in FY21

AGILE RATING CAPABILITY, MITIGATING INFLATION IMPACTS

140+

Pricing adjustments in FY22

STRAIGHT THROUGH UNDERWRITING

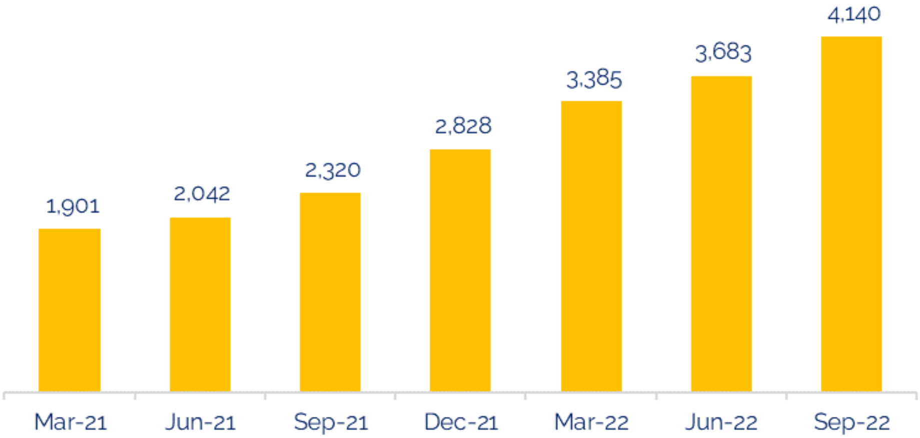
95%

NZ risks sold without assisted underwriting vs 92% in FY21

NEW PRODUCTS LAUNCHED

Pet
Cyclone
Renovation
Travel

EVs UNDERWRITTEN



TOWER

Improving claims ratio while managing inflation and weather events

BAU CLAIMS RATIO

48.9%

vs 50.2% in FY21

NZ WEATHER EVENTS (incl large and other events)

$18m

vs five-year average of $11m

SUPPLY CHAIN OPTIMISATION

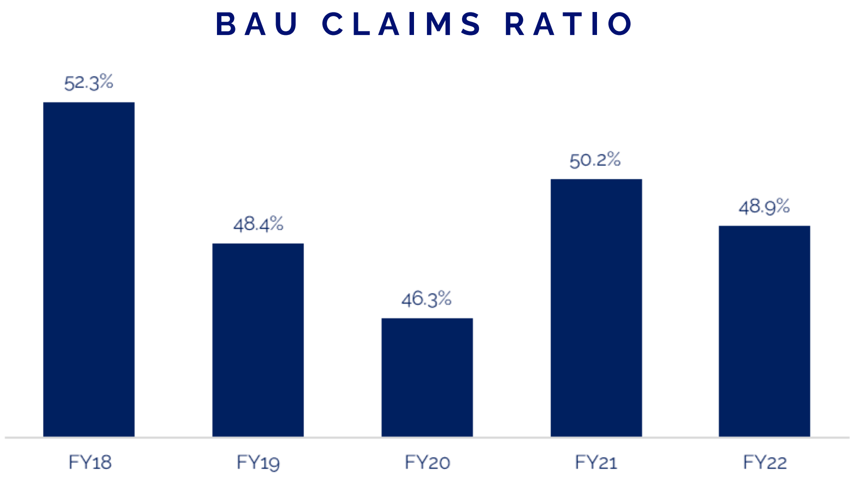
77%

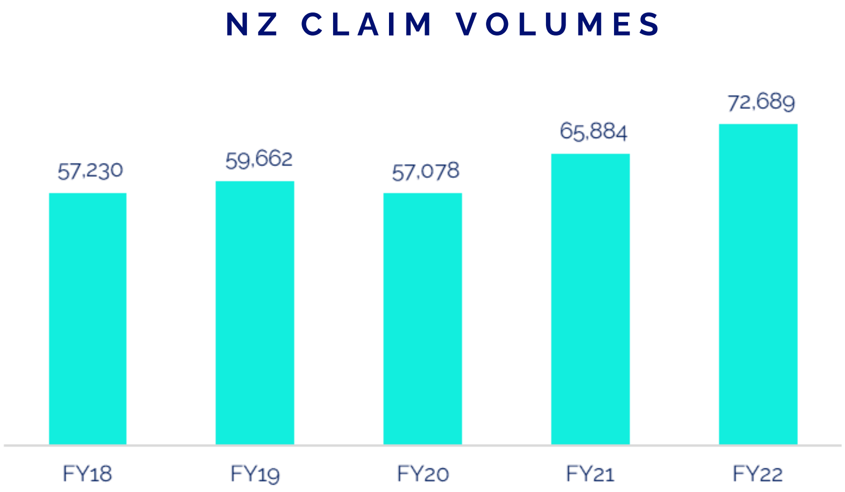
of NZ motor repairs by preferred suppliers vs 75% in FY21

DIGITAL IMPROVING CLAIMS EFFICIENCY

48%

Claims lodged online vs 31% in FY21





TOWER

Improving MER through simplification & platform efficiency

MER

36%

vs 37% in FY21

NZ SERVICE TASKS COMPLETED DIGITALLY [1]

50%

vs 46% in FY21

$26m LEGACY BACKBOOK ACQUISITIONS COMPLETE

$11m

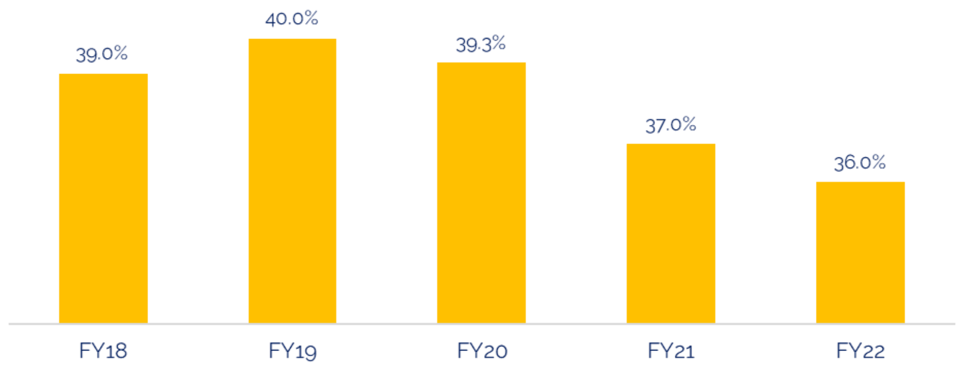
Commissions saved [2]

LEGACY SYSTEMS REMAINING

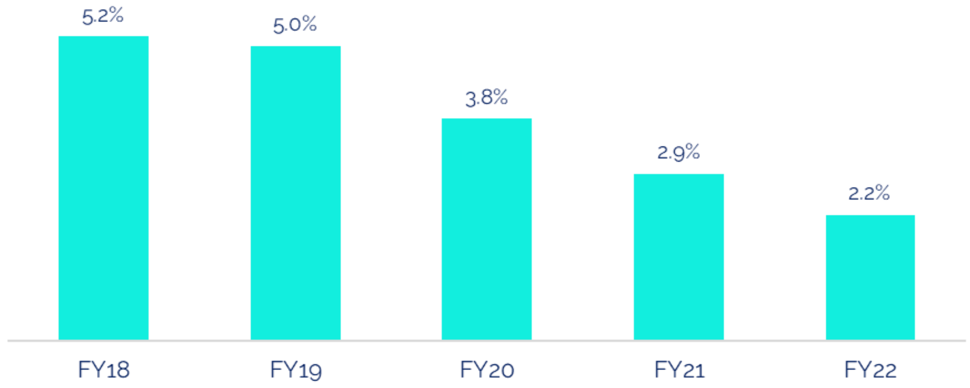
2

Down from 4 in FY21

MANAGEMENT EXPENSE RATIO (% NEP)



COMMISSION (% GEP)



Note 1: Digital service tasks are 50% for the full year FY22 vs 46% for full year FY21. Previously this metric has been reported on as a six monthly figure
Note 2: Commission of $11m saved is the annualised amount of commission paid prior to purchase of all legacy books

TOWER

Financial performance

Paul Johnston
Chief Financial Officer

Group underlying financial performance

- Strong GWP growth of 13% to $457.3m
- Management expense ratio improved 1%, reflecting scale platform efficiencies
- Lower commission expense through legacy portfolio acquisitions
- Underlying NPAT of $27.3m, an increase of 31% on FY21
- Reported profit impacted by CEQ valuation increase of $5.5m after tax and provision for customer remediation of $2.6m after tax

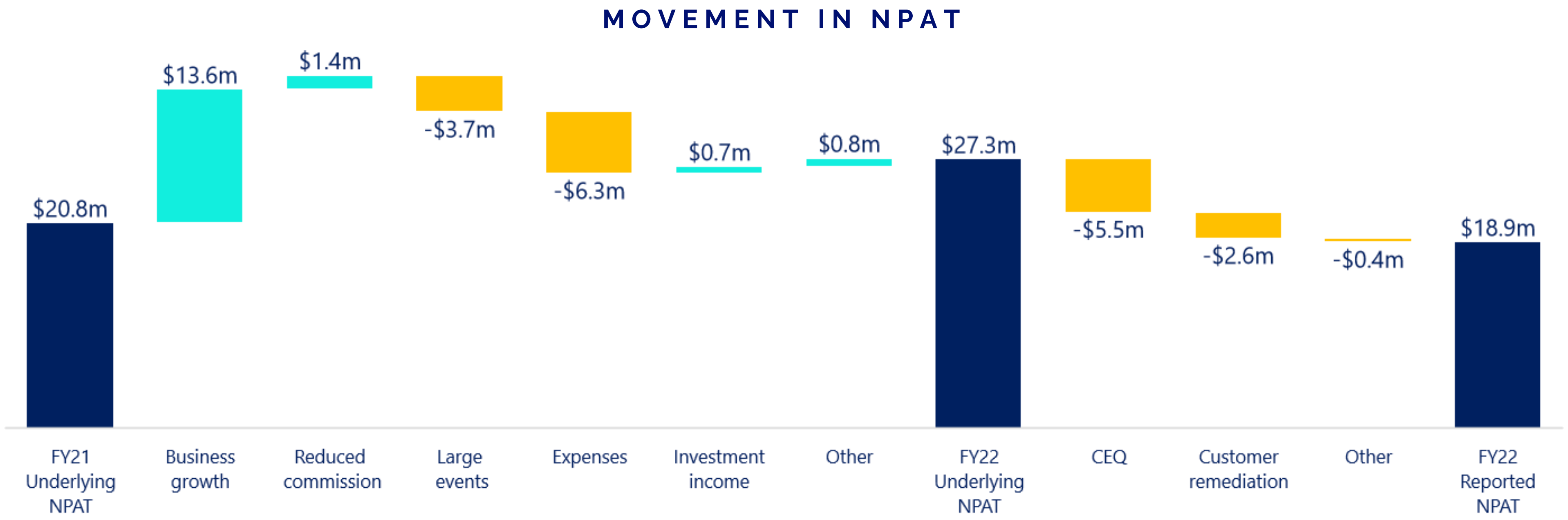
Key ratios (% of NEP)	FY22	FY21	Change
Claims ratio excluding large events	48.9%	50.2%	(1.3)%
Large events claims ratio	5.3%	4.2%	1.1%
Expense ratio	36.0%	37.0%	(1.0)%
Combined ratio	**90.1%**	**91.4%**	**(1.3)%**

$ million	FY22	FY21	Change
Gross written premium	457.3	404.1	53.2
Unearned premium	(26.6)	(9.2)	(17.5)
Gross earned premium (GEP)	430.7	394.9	35.8
Reinsurance	(69.5)	(62.2)	(7.3)
Net earned premium (NEP)	**361.1**	**332.7**	**28.5**
BAU claims expense [1]	(176.5)	(166.8)	(9.6)
Large event claims expense [2]	(19.0)	(13.9)	(5.1)
Management expenses	(120.6)	(112.0)	(8.7)
Net commission expense	(9.3)	(11.3)	2.0
Underwriting profit	**35.7**	**28.7**	**7.0**
Net investment income	1.2	0.2	1.0
Other income	1.3	1.4	(0.0)
Tax	(10.9)	(9.5)	(1.5)
Underlying net profit after tax (NPAT)	**27.3**	**20.8**	**6.5**
One-off transactions (net of tax) [3]	(8.5)	(1.5)	(7.0)
Reported profit after tax	**18.9**	**19.3**	**(0.5)**

Note 1: BAU claims defined as business as usual claims expenses that are not a large event
Note 2: Large event defined as a single event impacting more than 1 risk with an ultimate estimate of $2m or greater (FY21 $1m or greater)
Note 3: Refer to reconciliation between Underlying NPAT and Reported profit on page 28

TOWER

Business growth drives strong underlying NPAT



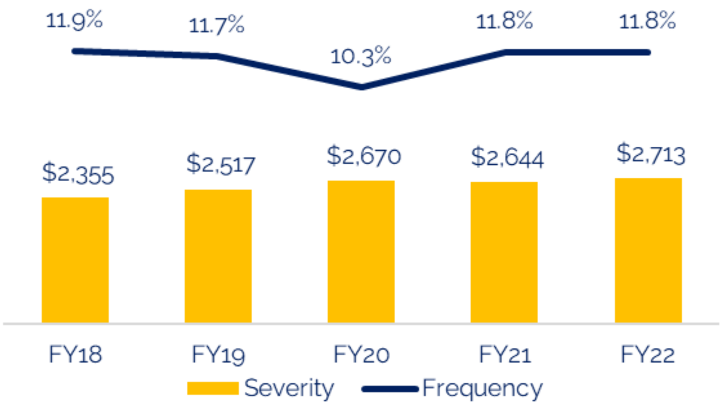
- Underlying NPAT of $27.3m is $6.5m above FY21, reported NPAT $0.4m below FY21
- Business growth underpinned by 13% GWP growth
- Reduction in commission of $1.4m after tax reflects legacy books purchase, partially offset by lower reinsurance commission
- Increase in large events of $5.1m ($3.7m after tax)
- Increase in expenses includes legacy back book purchase amortisation and increase in staffing levels
- CEQ valuation increase as a result of inflation, new overcaps and complexity of existing claims
- Provision for customer remediation includes expected payment to customers including compensation, as a result of multi policy discounts not correctly applied

TOWER

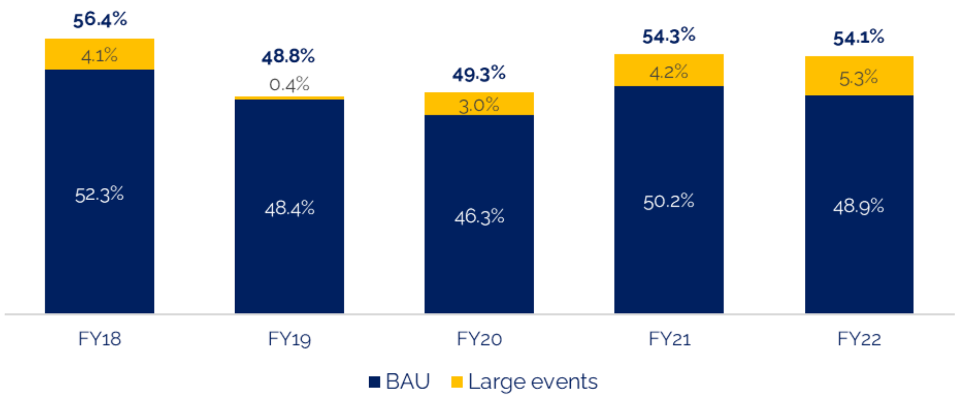
Steady BAU claims ratio in a challenging environment

- Improving BAU loss ratio despite high inflation period and increasing weather events
- Leveraging targeted rating changes and supply chain optimisation to manage economic challenges
- Covid reduced the frequency of motor claims in H1 FY22, however there have been supply chain pressures for all products with associated cost increases
- New unjustified claims tool live in FY22

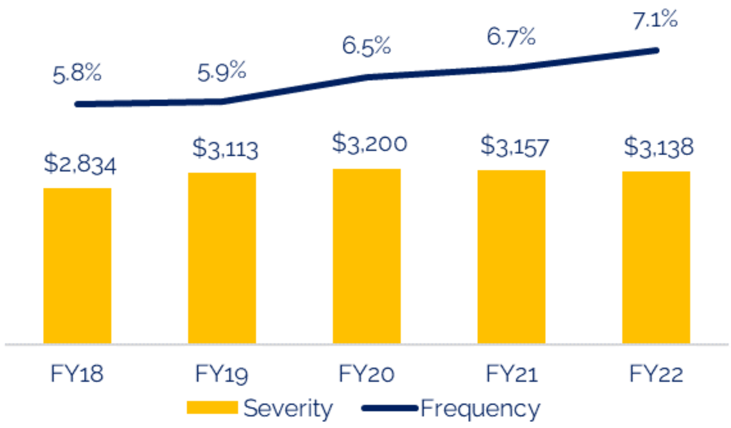
NZ MOTOR SEVERITY[1] & FREQUENCY[2]



TOTAL CLAIMS RATIO



NZ HOUSE SEVERITY & FREQUENCY



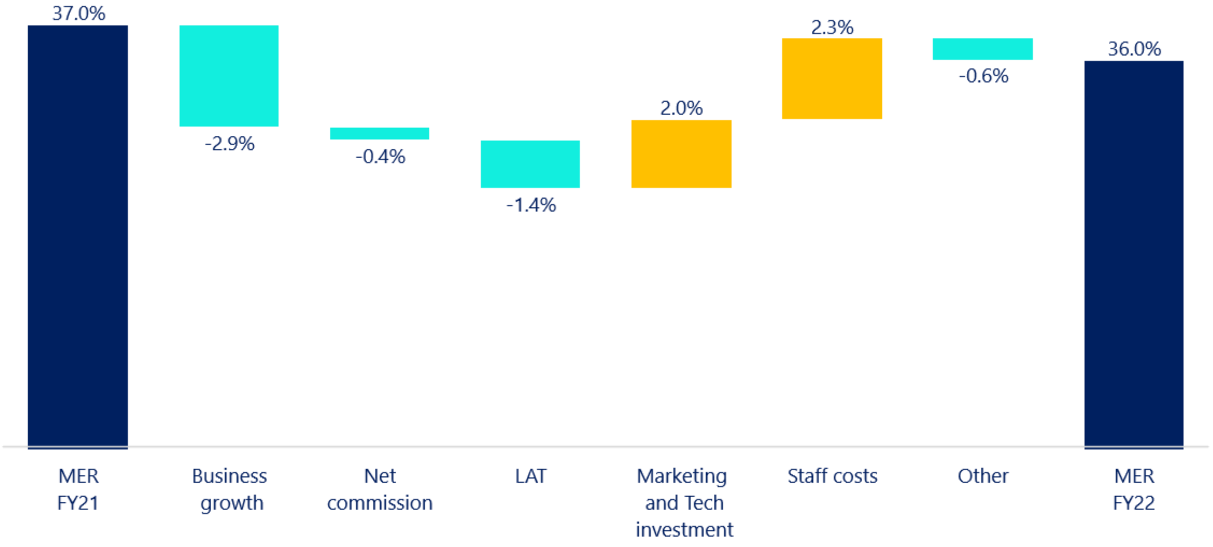
Note 1: Severity is defined as the cost of claims (excluding large events, large house, windscreen) divided by the count of claims. In prior years this definition excluded negative or zero incurred claim volumes and was based only on closed claims. The updated definition is deemed more affective in understanding claims and aligns to the actuarial valuation of outstanding claims
Note 2: Frequency is defined as the number of claims (same exclusions as above) divided by risks in force

TOWER

Continued improvement in management expense ratio

- Management expense ratio[1] (MER) reduced 1% to 36%
- GWP growth contributes a 2.9% reduction in MER
- Net commission expenses decreased due to the purchase of legacy back books
- Unwind of prior year's Liability Adequacy Test (LAT) deficiency
- Investing in people, technology and marketing as well as increasing compliance and regulatory capability
- Other includes an increase in deferral of acquisition costs due to higher acquisition spend

MOVEMENT IN MANAGEMENT EXPENSE RATIO



Note 1: Management expense ratio is defined as Management Expenses (including net acquisition expenses, commission, claims lodgement, and other overhead costs) divided by net earned premium

Investment strategy limits impact of market volatility

- Net investment income was $1.2m vs $0.2m in FY21
- Increasing interest rates resulted in subdued investment income as the portfolio was revalued to market values
- Maintaining conservative investment strategy, with a focus on liquidity and high credit quality, and a target duration for the core investment portfolio of six months
- Our strategy has minimised profit impact from macroeconomic factors and market movements, and we are now set to benefit from higher interest rates

CORE INVESTMENT PORTFOLIO[1] RUNNING YIELD

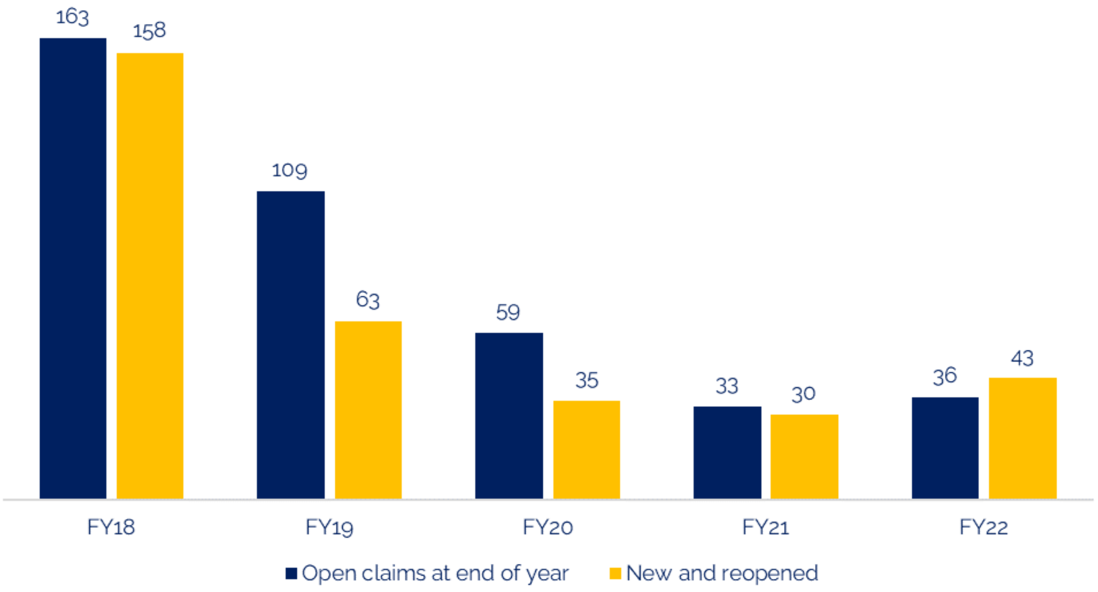
Note 1: Core investment portfolio refers to Tower's fixed income investment portfolio in NZ. It excludes cash held for operational purposes in NZ, and cash and short-term deposits held in Tower's Pacific subsidiaries.

TOWER

Increasing reserves to support Canterbury earthquake claims

- FY22 has seen an adverse CEQ charge of $7.5m ($5.5m after tax) in non-underlying items
  - $5.4m new overcaps (including allowance for future new overcaps)
  - $4.3m increase in existing open claims
  - $2.2m reduction for partial reinsurance cover relating to these increases
- The EQC fixed cap level is not inflation indexed, contributing to additional new overcap claims. We are working with EQC to mitigate additional costs
- Existing claims assessed as increasingly complex to resolve, provisions have been increased to address this
- Dedicated CEQ team actively working to finalise claims as efficiently as possible

OPEN & NEW CEQ CLAIMS[1]

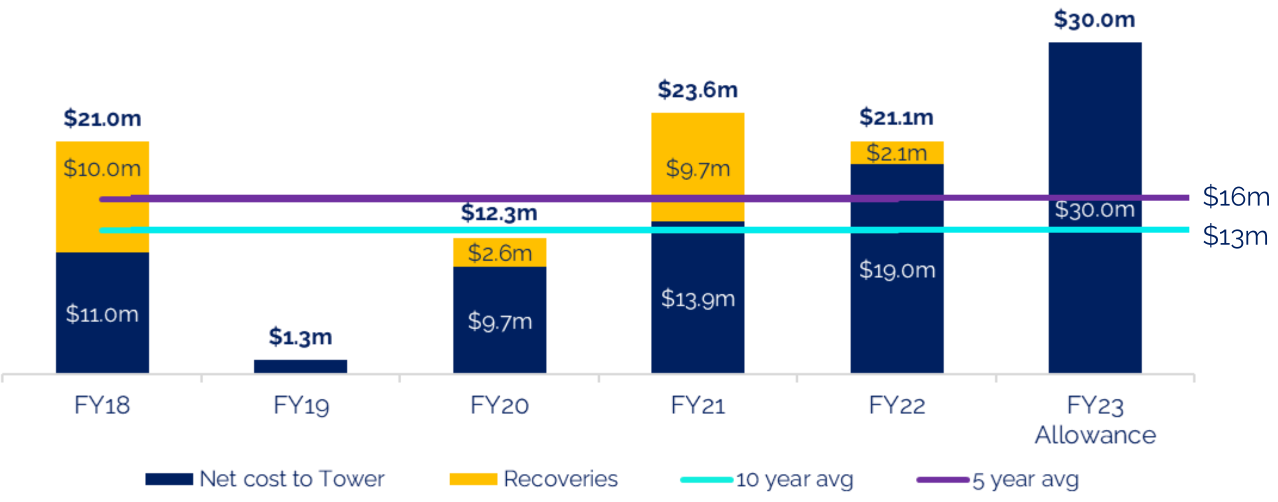


Note 1: Refer to pg 29 for reserving table and graph of open/closed claims in the period

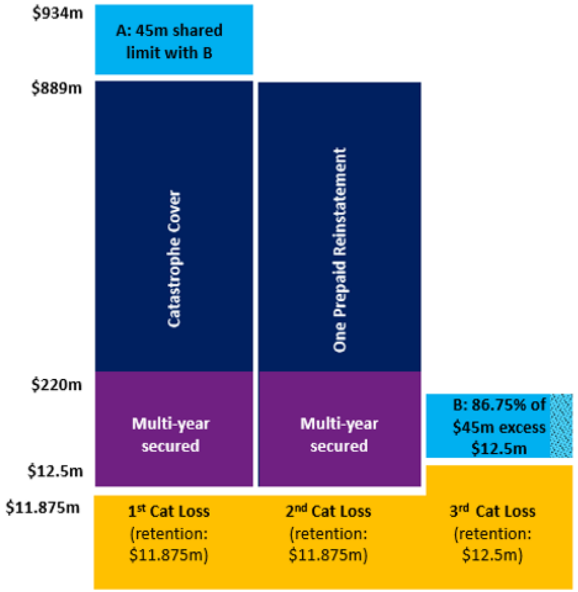
TOWER

Robust reinsurance programme provides protection

HISTORICAL LARGE EVENTS



REINSURANCE PROGRAMME OVERVIEW



FY22 large events

- $21.1m large events incurred in FY22; Tonga volcanic eruption ($6.8m), Cyclone Dovi ($3.6m), North Island Rainstorms ($6.4m), and Nelson Floods ($4.3m)
- $19m net cost to Tower from FY22 $20m aggregate cover excess and $1m recovery of prior period event

FY23 reinsurance cover

- Catastrophe cover: $934m limit with retention of $11.9m
- Aggregate cover removed – provision in FY23 guidance of $30m large events
- Overall reinsurance spend for FY23 is 13.6% of premium income, down from 15.9% for FY22 (14.5% excluding the FY22 aggregate) [1]

Note 1: Overall FY22 gross reinsurance spend as % of premium income (subject to the reinsurance programme) was 14.3% when FY23 programme placed. As a result of FY22 finalisation this increased to 14.5%

TOWER

Strong capital & solvency, delivering shareholder returns

CAPITAL RETURN & DIVIDENDS

$55.3m

returned to shareholders from FY22

AM BEST FINANCIAL STRENGTH RATING

A-

affirmed in April 2022

TOWER PARENT SOLVENCY

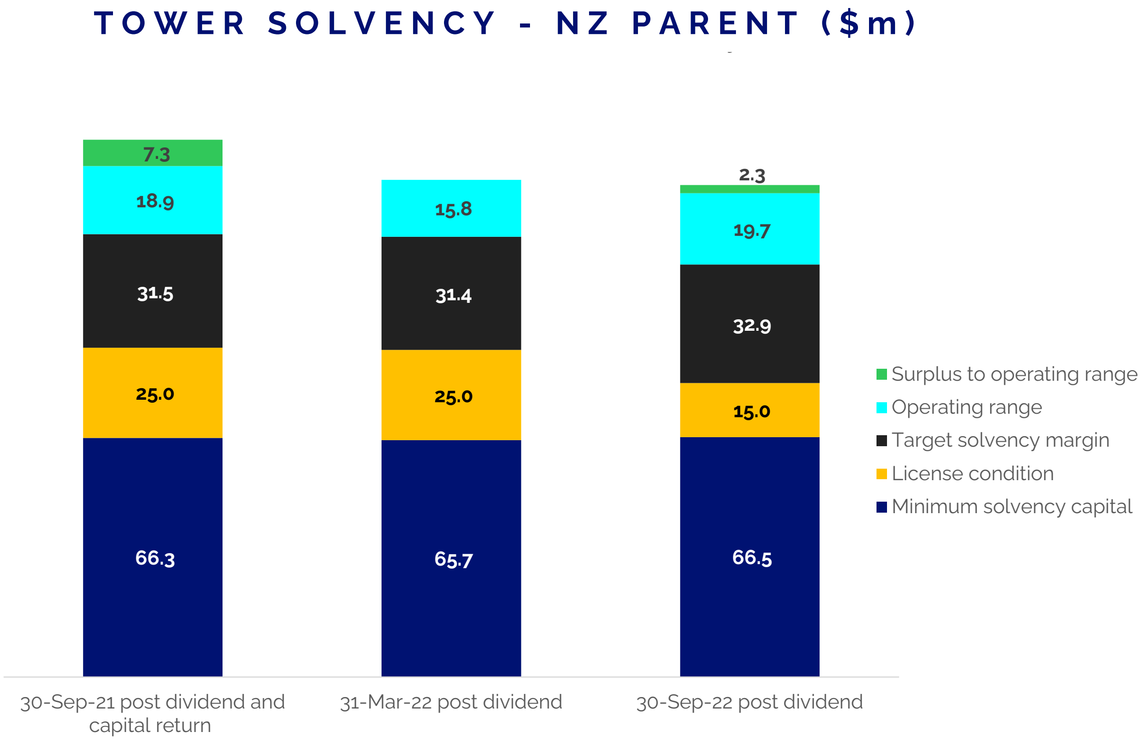
205%

after capital return and final dividend

FULL YEAR DIVIDEND[1]

6.5c

4c final dividend (FY21 full year 5c)



Note 1: Tower's ordinary dividend policy is to pay a stable annual dividend to shareholders that aims to be in the range between 60-80% of "adjusted earnings" (defined as the reported full year Net Profit After Tax (NPAT) plus acquisition amortisation and unusual items) for the Tower consolidated group, where prudent to do so.

TOWER

FY23 guidance

	FY22 Actual	FY23 Guidance
GWP growth	13%	10% - 15% (excluding Tower PNG)
Large events allowance	$19m (net of reinsurance)	$30m
Underlying NPAT (including large events)	$27.3m	$27-32m
Dividend[1]	6.5 cents per share	6.5 cents per share

Note 1: Tower's ordinary dividend policy is to pay a stable annual dividend to shareholders that aims to be in the range between 60-80% of "adjusted earnings" (defined as the reported full year Net Profit After Tax (NPAT) plus acquisition amortisation and unusual items) for the Tower consolidated group, where prudent to do so.

TOWER

Looking forward

Blair Turnbull
Chief Executive Officer

Leveraging scalable platform to continue growth and efficiencies

SERVICE EFFICIENCIES PLANNED FOR FY23

16%

reduction in cost to serve (down to $8)

CLAIMS EFFICIENCIES PLANNED FOR FY23

3%

Saving in total claims costs

MY TOWER CAPABILITY

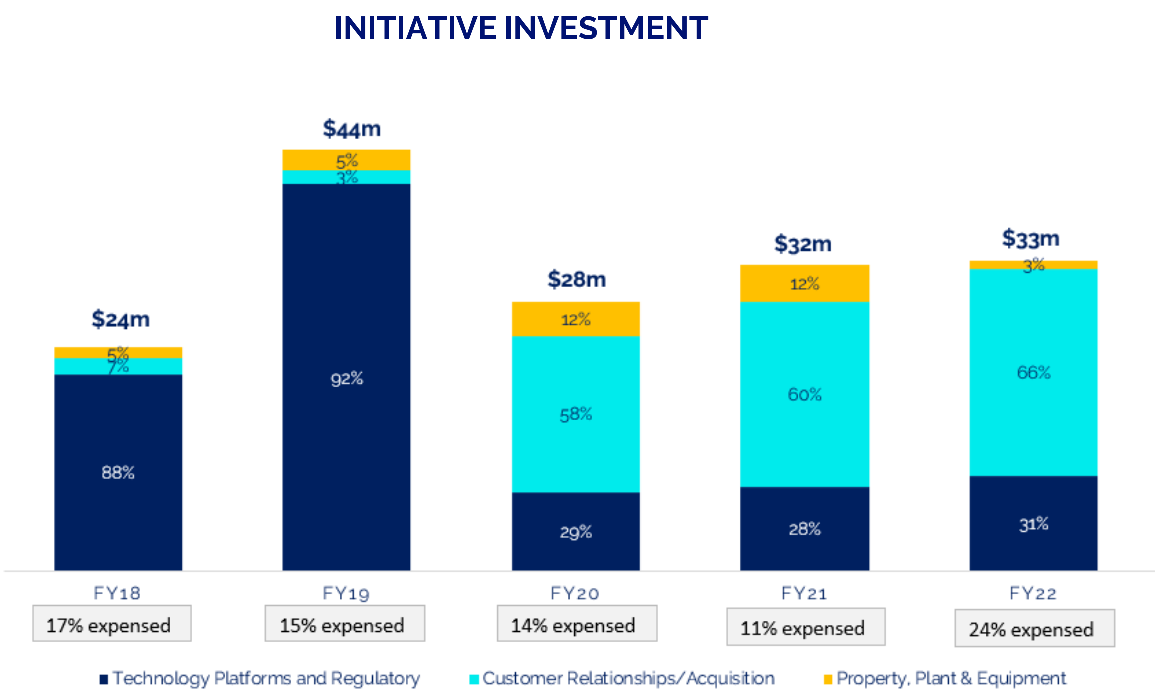
Car replacement journey, ways to save, personal details

Self-service features to launch in H1 FY23

AUTOMATED MARKETING

5 million

Personalised messages planned for FY23



TOWER

Tackling resourcing gap via digital service and unique footprint

RESOURCING HAS IMPACTED NPS[1]

20%

In Sep 22, down from 43% in Sep 21

DIGITAL INVESTMENT

30%

Of FY23 investment on customer experience & frontline enhancements

CONTINUALLY IMPROVE STAFF ENGAGEMENT

7.8

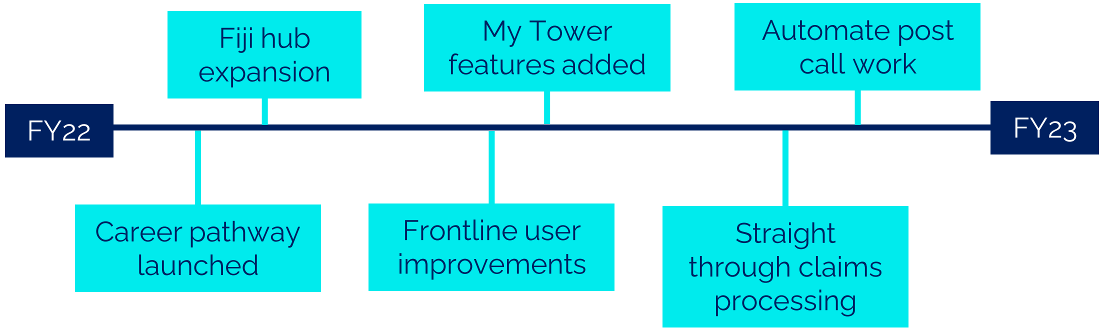
FY22 engagement score up from 7.7 FY21

FIJI HUB INVESTMENT

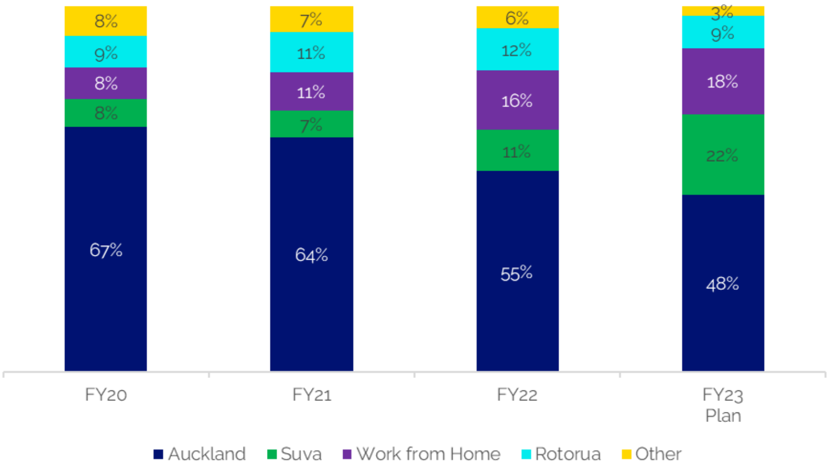
+100

Additional planned Tower staff working in Suva office in FY23

FY23 NPS PATHWAY



TOWER STAFF BY LOCATION



Note 1: NPS = Net Promoter Score

Protecting the future for our customers & communities

PROPERTY RISK RATINGS

Coastal erosion & inundation

Planned for FY23

SUPPORTING COMMUNITIES THROUGH CLIMATE CHANGE

Parametric cyclone cover

Pilot launched in Fiji

SUSTAINABLE PRODUCT DEVELOPMENT

$15K sustainability benefit, e-mobility

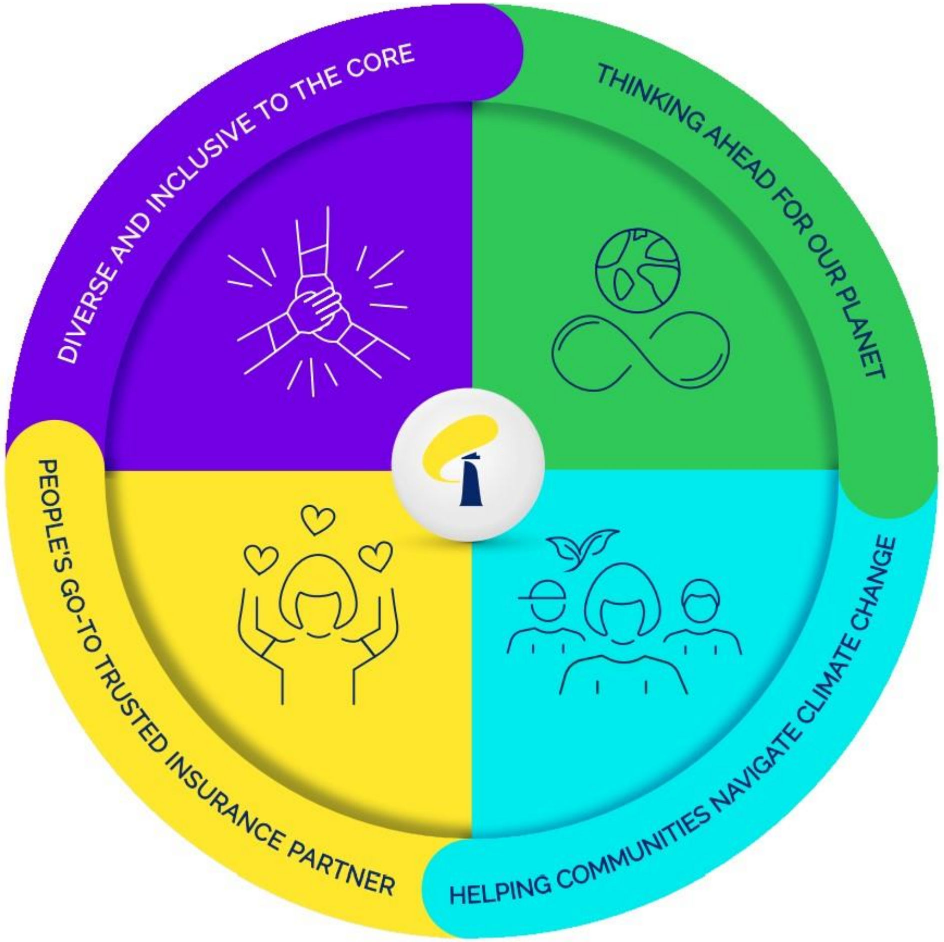
Focus on supply chain and customer education

2025 EMISSIONS REDUCTION TARGET OF

21%

FY22 emissions up 12% to 617 tCO_2e vs FY20 base year

OUR ENVIRONMENT, SOCIAL AND GOVERNANCE STRATEGY



TOWER

CONTINUING TO DELIVER DIVIDENDS AND GROWTH

- ✓ Strong underlying operating performance
- ✓ Positive customer outcomes and growth
- ✓ Mitigating inflation headwinds and implementing process enhancements
- ✓ Driving efficiencies through scalable platform and focus on expenses
- ✓ Delivering positive shareholder returns: dividends and accelerating growth

Questions?

TOWER
Overview
Billing
Contact us
Account details
Log out
Make a claim
Get a quote
37 Komai Street, Hamilton
House Plus
Policy number: P0019742851
Current
Effective from 02 Nov 2021
Renewal
Effective from 02 Nov 2022
Policy details
Period of insurance
Total premium
Sum insured
Excess
Finance providers
Special features
02 Nov 2021 to 02 Nov 2022
$1,241.02 per year
Show premium breakdown
$634,300.00
$400.00
View other policy excess
None
You do not have any special features specified on this policy
02 Nov 2022 to 02 Nov 2023
$1,365.02 per year
$669,300.00
+ Add New
People
Policy holder(s)
Who lives there
farheen fathima
Relative
Billing
Next instalment
$151.70
On 17 Nov 2021
Go to billing
Risk profile
Modelling by RMS
We've identified the following risks for your property
Earthquake
Low
Flood
Medium
View details

Reconciliation between underlying profit after tax and reported profit after tax

$ million	FY22 underlying profit	Non-underlying items (1)	Reclasses (2)	Papua New Guinea (3)	FY22 reported profit
Gross written premium	457.3	(3.7)		(8.1)	445.6
Gross earned premium	430.7	(3.7)		(8.7)	418.3
Reinsurance expense	(69.5)			3.2	(66.3)
Net earned premium	**361.1**	**(3.7)**	**0.0**	**(5.4)**	**352.1**
BAU claims expense	(176.5)	(7.6)	(23.1)	1.2	(205.9)
Large events	(19.0)				(19.0)
Management and sales expenses	(120.6)	(0.2)	24.0	2.6	(94.2)
Net commission expense	(9.3)			0.0	(9.3)
Underwriting profit	**35.7**	**(11.4)**	**1.0**	**(1.7)**	**23.6**
Net investment income	1.2			(0.0)	1.2
Other income	1.3		(1.0)	(0.0)	0.4
Underlying profit before tax	38.3				
Income tax expense	(10.9)	2.9		0.5	(7.5)
Profit after tax from discontinued operation	0.0			1.2	1.2
Underlying profit after tax	**27.3**				
Canterbury impact	(5.5)	5.5			
Multipolicy holder discount remediation	(2.6)	2.6			
Other non-underlying costs	(0.4)	0.4			
Reported profit after tax	**18.9**	**0.0**	**0.0**	**0.0**	**18.9**

(1) Non-underlying items include net impact of Canterbury earthquake valuation update, provision for multipolicy discount customer remediation, regulatory and compliance projects (such as the adoption of IFRS-17), and a prior period tax adjustment

(2) Reclassification of claims handling expenses from management expenses to net claims expense and FX gain/loss from other income to management expenses

(3) Tower Insurance (PNG) Ltd was sold after balance date however for statutory reporting the full P&L of this business is reclassified as a discontinued operation for the full 2022 financial year

Underlying and reported profit:

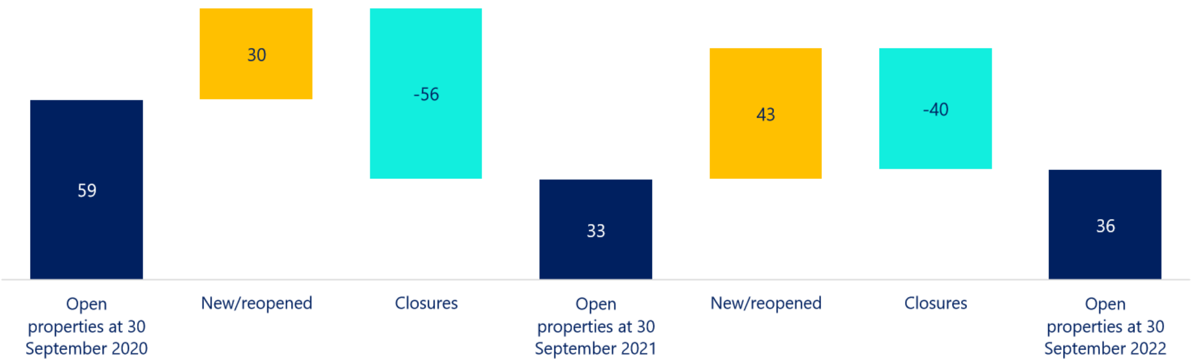
- "Underlying profit" does not have a standardised meaning under Generally Accepted Accounting Practice (GAAP). Consequently it may not be comparable to similar measures presented by other reporting entities and is not subject to audit or independent review
- Tower uses underlying profit as an internal 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.
- "Reported profit after tax" is calculated and presented in accordance with GAAP and is taken from Tower Limited's financial statements for the full year ended 30 September 2022

Canterbury earthquake reserving and open claims

CEQ RESERVING

$ million	Sep-19	Mar-20	Sep-20	Mar-21	Sep-21	Mar-22	Sep-22
Case estimates	20.8	15.1	9.7	7.3	6.8	4.5	5.3
IBNR/IBNER[1]	15.5	11.7	11.6	9.9	9.6	11.9	12.7
Claims handling expense	2.5	1.9	1.9	1.6	1.3	1.0	0.8
Risk margin	7.8	6.7	5.7	5.1	4.9	4.9	5.7
Additional risk margin	5.0	5.0	5.0	2.5	0.0	0.0	0.0
Actuarial provisions	30.8	25.3	24.2	19.1	15.8	17.8	19.2
Gross outstanding claims	**51.6**	**40.4**	**33.9**	**26.4**	**22.6**	**22.3**	**24.5**

OPEN CEQ CLAIMS



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

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 FY22 Results Announcement Investor Presentation Script

Slide 1 – 2022 Full Year Results

Michael Stiassny

Mōrena, good morning and thank you for making the time to join us for this investor call and presentation of our 2022 full year results.

Slide 2 - Agenda

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

Slide 3 – Chairman's update

This has been a positive year for Tower. The business has experienced solid growth, delivered a strong underlying business performance and continues to be well capitalised.

Importantly, despite the inflationary headwinds and pandemic-induced difficulties that all business are struggling with, Tower has proven resilient in 2022 and remains well positioned for long-term growth.

Strong and well capitalised

As a result, I am pleased to announce that the Board has declared a final dividend of 4 cents per share, to be paid on the 1st of February 2023. This brings total dividends for FY22 to 6.5 cents per share.

In late 2021, the Board announced a share buyback as a result of the Reserve Bank lowering Tower's solvency condition. This was completed in February 2022, with $30.6 million being returned to shareholders.

In June, in recognition of our strong financial position, the Reserve Bank once again reduced Tower's licence condition from $25 million to $15 million and ratings agency, AM Best reaffirmed our A-, excellent rating in April.

We continue to look for investments that will deliver strong shareholder value. To that end, over the year we completed our purchase of the minority interests in National Pacific Insurance and also completed our programme of acquiring legacy books and migrating them to Tower Direct. This has resulted in further efficiencies and growth benefits which Blair will expand on shortly.

Resilient to challenges

It has been gratifying to see that the actions Tower has taken to address challenges including record inflation, supply chain issues, access to talent, and increasing large events, are having the desired effect.

However, there is no room for complacency, and we remain tightly focused on continuing to manage the inflationary pressures that are likely to be prevalent for some time.

Climate change is the defining challenge of our lifetime. Proactively managing the risks posed by climate change is fundamental to protecting our customers', our communities' and our shareholders' interests.

In the last year, we introduced flood risk-based pricing and parametric insurance, to better inform and prepare our customers - and our business - for the future. Increasing the large event limit in our financial plans and Tower's reinsurance programme also provide necessary protection from this volatility.

In the coming financial year, we will respond to the Government's new Climate-related Disclosures reporting regime by beginning to share the risks and opportunities we anticipate from a range of potential climate change scenarios.

We see this regime as a positive opportunity to further inform our business strategy and support future resilience.

Continued long term growth

This year's strong performance reflects the investments we have made in our core technology platform and distribution footprint which have positioned Tower well to continue delivering GWP growth.

Our flagship Tower Direct business and unique partnership distribution capability continue to go from strength to strength. Digitisation of our Pacific business continues at pace, and we are now operating on one core platform across New Zealand and the Pacific, leading to further improvements in efficiency and competitiveness.

[pause]

There have been some significant changes to the Board this year. I'd like to publicly acknowledge and thank Steve Smith and Warren Lee, both of whom made considerable contributions to Tower's transformation over many years.

I would also like to welcome Geraldine McBride who has recently joined the Board. Geraldine brings extensive New Zealand and international governance and technology industry experience that will be invaluable as Tower continues to evolve.

In closing, I'd like to thank the Tower team. It's a good result – we're paying a dividend, the business remains strong and well capitalised, and has achieved sustained premium growth. None of this would be possible without the vision, dedication and commitment of our people.

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

Blair Turnbull

Slide 4 – Business update

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

I am delighted to be here sharing our 2022 financial results which see Tower in a very positive position.

Today's results demonstrate the resilience of our customer and digitally led strategy. We are continuing to grow; to drive down expenses; and to innovate our customer experience.

Our technology and direct distribution advantage sets us apart from our competitors and affords strong long-term customer and premium growth prospects.

Slide 5 – Our performance - Solid growth and increased efficiencies underpin strong underlying business performance

I am pleased to report positive business performance for the year which has been achieved through strong growth and efficiencies.

Offering our customers a simple and rewarding experience through our leading technology platform has helped grow Tower's Gross Written Premium for the year to 30 September to $457 million, up 13% on the same period last year. Good customer growth was a key contributor to this, with Tower welcoming 15,000 new customers in the past 12 months, increasing to 319,000 customers.

As the Chair referenced, we are managing external headwinds well with Tower's BAU claims ratio dropping to 48.9% from 50.2% in the 2021 financial year.

We are pleased to have seen our management expense ratio (MER) improve again to 36% versus 37% in FY21, thanks to our disciplined cost control and further efficiencies.

Tower planned for $20m of large events costs for the FY22 year, and these came in at a $19m net impact, up from $13.9m net in FY21.

Pleasingly, our combined operating ratio decreased to 90.1% from 91.4% in the FY21.

Reflecting our positive business performance, underlying NPAT including large events was $27.3 million, up 31% from $20.8m in FY21.

Reported profit was down 2% at $18.9m versus $19.3m in FY21.

Slide 6 – Strong core business performance

Our business fundamentals continue to improve as we drive double digit growth and our investments in our core technology platform and actions to control inflationary pressures continue to deliver efficiencies.

Our core business performance has improved substantially, with underlying NPAT excluding large events increasing 33% year on year to $41m.

As we disclosed in our guidance update on the 17th of October, our reported profit was impacted by additional strengthening of the residual Canterbury earthquake provision, which Paul will talk through in more detail shortly.

Additionally, we have made a provision of $2.6m after tax for customer remediation arising from an error in the calculation of multi-policy discounts.

After we identified the issue, we proactively advised the Financial Markets Authority. We are in the process of identifying affected customers and expect to begin processing refunds in December.

Slide 7 – Strong growth in customers and premium

Tower's focus on simple and rewarding customer experiences combined with our digital and data capability have contributed to strong growth in both premium and customers.

During the financial year we grew our gross written premiums 13% year on year, up to $457m. We also grew customer numbers to 319,000, up 5% on the last financial year.

Our digitisation strategy is driving deeper customer engagement and growth, with the number of Tower Direct quotes online increasing to 292,000 leading to 66% of sales now taking place on digital channels.

These new customers are being brought on board at a lower cost to acquire, at 12% of net earned premium, versus 12.6% in FY21.

However, it's not just about attracting new customers. Half of our New Zealand customers have two or more products with Tower which shows we are continuing to sell more to existing customers as we grow.

Two achievements we are particularly proud of this year are winning Canstar's top Car Insurer of the Year Award, and also the Outstanding Value Award for the second year running.

Slide 8 – Growth and improvements across all three businesses

All three of our business units are growing and improving performance.

Tower Direct

Our flagship Tower Direct business is going from strength to strength growing GWP by 17% to $320m as we innovate to build rewarding and engaging relationships with customers.

And our leading digital platform continues to perform strongly and increase customer engagement. In FY22 we recorded a milestone 200,000 My Tower registrations, up 51% on FY21 which has contributed to a record 500,000 logins in FY22, up 56% on FY21.

Contributing to this success is our strong, 85% retention of the customers we transitioned to Tower Direct via our legacy book acquisitions.

We are pleased that an important aspect of our digital self-service experience is valued by customers with our online purchase journey achieving a customer net promoter score of 61%, up from 57% in FY21.

Partnerships

Our Partnership business is continuing to deliver positive growth with GWP from active partners increasing by 35% to $54m. Our flagship Trade Me partner contributed strongly to this growth, growing by 38% to $25m GWP.

The number of advisors referring customers to Tower has also expanded, increasing by 35% over the year to 1,500 active advisors. This growth will be further bolstered by our new agreement with advisory firm Kiwi Advisor Network.

We continue to attract new retail partners and in September were pleased to enter a significant partnership with leading real estate agency, Ray White which sells 20,000 houses a year across New Zealand. We look forward to welcoming Ray White's customers to Tower as part of its successful Concierge insurance and moving solutions offering.

This year we completed the delivery of our strategy of acquiring legacy insurance books and migrating them to Tower Direct. Between February 2021 and October 2022 we purchased books for a total price of $26m from ANZ, Westpac, TSB and Kiwibank, ending commission payments of around $11m per annum and enabling us to have a direct relationship with these customers, who represent more than 88,000 risks.

This strategy has contributed to commission payments further reducing to just 2.2% of gross earned premium.

Pacific

FY22 was a milestone year for our Pacific business which has returned to growth after the challenges of Covid, growing GWP by 8% to $58m in the year. We are continuing to digitise our Pacific offering, aligning our New Zealand and Pacific activities more closely to deliver growth and efficiencies.

Our core operating platform is now live across all our markets, we have launched a Pacific industry-first online payments capability and the full My Tower experience is now available across Fiji and Vanuatu.

We are continuing the simplification of our Pacific business and to this end sold our Papua New Guinea subsidiary in October and have now begun operating under the Tower brand following our acquisition of the minority interest in National Pacific Insurance.

Slide 9 – Enhanced underwriting accuracy, and expanded product range

Our strategy of leading with an innovative product range which enables us to deepen our customer relationships, improve revenue and increase retention has further progressed in FY22. Early in the year we launched new pet and travel offerings and in August began supporting customers with their home renovations by launching contract works cover.

In a particularly innovative approach, we have now begun piloting a cyclone parametric insurance product in Fiji. Cyclone Response Cover provides a rapid cash pay-out when a customer is impacted by a high wind speed cyclone event, regardless of damage and without the need for an insurance assessor's signoff.

With less than 10% of Pacific families having home insurance, we hope this will address a much-needed gap in the market and help provide economic resilience following a cyclone event.

Since broadening the range of EVs we insure in 2021 and Government schemes to incentivise uptake of EV and hybrid vehicles, the number of EVs we underwrite has continued to soar, increasing 78% to more than 4,000 electric vehicles during FY22.

Underpinning our rapid and targeted product development capability is our disciplined and agile approach to underwriting, enhanced through our use of data analytics.

This sophisticated underwriting approach saw us quickly implement risk-based pricing for flooding in November last year which has enabled us to transition 145,000 customers to this new pricing model as their house insurance policies have come up for renewal. In FY23 we will add coastal inundation and erosion, and windstorm risks to our ratings tool, offering customers greater insights into their homes' risks and giving Tower even better rating accuracy.

Ensuring accurate sum insured amounts for our customers' homes is one tool that's allowing us to stay ahead of inflation. In FY22 97% of our home insurance customers' policies were updated automatically either by the consumer price index or the Cordell calculator, compared to only 77% a year ago.

We are continuously monitoring our pricing to ensure we stay both competitive and profitable. Our agility and data-driven capabilities have enabled us to make more than 140 pricing and underwriting adjustments in the year.

And our underwriting capability is becoming increasingly automated with 95% of risks in New Zealand now sold without requiring a manual underwriting review.

Slide 10 – Improving claims ratio while managing inflation and weather events

Inflation impacts all facets of our lives, including how far our insurance cover will stretch at claims time. Due to the sharp increase in inflation over the previous 12 months, in FY22 it became more expensive to repair and rebuild homes, and repair or replace cars and contents.

But Tower's advantage is our ability to identify and quickly address emerging trends, thanks to our investments in digital and data technology and the decisive actions we've taken over the past 18 months to deliver improvements.

Our increasing scale is also continuing to deliver efficiencies, with Tower's BAU claims ratio being brought back to a very strong level of 48.9%, compared to 50.2% in the 2021 financial year.

This is despite the stormy weather across New Zealand this year resulting in total claims costs of $18m compared to the five-year average of $11m and New Zealand claims volumes overall increasing to almost 73,000 individual claims over the year.

By working with suppliers to optimise our supply chain we are seeing efficiencies with 77% of New Zealand motor repairs now being completed by our preferred supplier network.

And our work to streamline the claims lodgement process has seen the number of New Zealand claims lodged online increase from 31% to 48%.

Slide 11 – Improving MER through simplification and platform efficiency

By global standards, a 1% reduction in management expense ratio is a good result in any year for an insurer. So, in this highly inflationary environment, we are particularly pleased to have achieved yet another improvement in MER to 36% this year.

With half of all tasks and transactions in New Zealand now completed digitally versus 46% in FY21, the customer and efficiency benefits from our leading digital and data technology platform are being realised.

Two key drivers of our reducing expenses are the commissions saved through the transformation of our Partnerships business to a lower commission model and the legacy book acquisition programme.

We are on track with decommissioning legacy systems and now have just two remaining, down from 4 in FY21. I will now hand over to Paul Johnston to present our detailed financial performance.

Slide 12 – Financial performance title slide – Paul Johnston

Thank you, Blair and good morning, everyone.

Slide 13 – Group underlying financial performance

Looking at the consolidated results, we can see that growth in GWP continued to be a highlight, up $53.2m, or 13%, on FY21. As Blair just highlighted, management expenses improved 1% as benefits of the EIS platform and our increasing scale continue to be realised along with lower commissions through our legacy portfolio acquisitions.

Underlying NPAT including large events increased 31% to $27.3m, demonstrating strong business performance.

Reported NPAT was $18.9m, down 2% on FY21. Contributing to this was a Canterbury Earthquake valuation increase of $5.5m after tax and a provision for customer remediation of $2.6m after tax.

Slide 14 – Business growth drives strong underlying NPAT

As this chart demonstrates business growth contributed a strong $13.6m increase to Tower's underlying NPAT of $27.3m in the year, which is $6.5m above FY21.

As we have previously noted, reduced commissions provided a $1.4m benefit to the result.

FY22 saw a $5.1m increase in large events costs compared to FY21 which reduced underlying NPAT by $3.7m after tax. Large event costs were $19m net of reinsurance and a prior period recovery, up from $13.9m in FY21.

A $6.3m after tax increase in expenses includes amortisation of the legacy back book purchases and an increase in staffing costs due to wage inflation and an increase in both growth and regulatory compliance spend.

As we have previously noted, reported profit has been impacted by a $5.5m after tax Canterbury earthquake valuation increase across FY22 as a result of new claims valued more than the historic $100,000 EQC cap, the complexity of existing claims and inflation.

We have also made a provision for customer remediation which includes compensation payments as a result of discounts for taking out more than one policy being incorrectly applied.

Slide 15 – Steady BAU claims ratio in a challenging environment

The positive actions we have taken in the past 18 months to address the rapidly increasing inflationary pressures and an increased number of severe weather events are seeing results as evidenced by our BAU loss ratio improving to 48.9%.

Frequency and severity are the two key components of total claims costs.

The charts show average motor claims severity is following a rising trend up to $2,713 while frequency of motor claims is flat due to the lockdown we saw at the start of the financial year.

House claims have continued to increase year on year and are up 7.1% largely as a result of the wettest winter on record in New Zealand, while severity has dropped slightly back to pre-Covid levels.

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

Our new artificial intelligence-based tool that identifies potentially unjustified claims went live in FY22. While it is early days, the results are promising. Since implementation began in April, we have improved our detection rate of potentially unjustified claims by 300%, which has led to a greater proportion of claims resulting in customers either withdrawing their claims or Tower declining the claims.

Slide 16 - Continued improvement in management expenses

We are pleased to see our management expense ratio continue to reduce with an improvement over the year of 1% to 36%.

Pleasingly business growth has enabled scale efficiencies and a 2.9% reduction in MER with a further 0.4% decrease in net commission expenses due to the legacy back book portfolio purchases.

In addition, we reduced our expectations of future policy administration costs which allowed us to unwind the liability adequacy test deficiency recognised at 30 September 2021, resulting in a 1.4% benefit. We elected to reinvest this LAT release in people, marketing and technology as we prioritise growth and regulatory compliance activities.

Other MER impacts include more deferred acquisition costs due to higher acquisition spend which helped drive our growth.

Slide 17 – Investment strategy limits impact of market volatility

Net investment income in FY22 increased to $1.2m before tax compared with income of $0.2m before tax in FY21.

This subdued income was the result of increases in interest rates revaluing Tower's portfolio to market values, however these losses are expected to be recovered through higher yields as the portfolio matures in the future. This is evidenced by the running yield on the core investment portfolio increasing to 4.12% at the end of September 2022 (from 1.32% at 30 September 2021).

Tower maintains a conservative investment policy with a focus on high credit quality and liquidity bonds, and a target duration for the core investment portfolio of six months.

Our strategy has mitigated the impact on our profit from macroeconomic factors and market movements and we expect to benefit from higher rates going forward.

Slide 18 - Increasing reserves to support Canterbury earthquake claims

We continue to settle open Canterbury earthquake claims with 40 closed over the year.

However we received an additional 43 new overcaps and reopened claims, bringing the total number of open claims at the year end to 36. This was a net increase of 3 from a total of 33 as at the end of September 2021.

As a consequence, FY22 has seen an adverse Canterbury earthquake P&L charge of $7.5m before tax in non-underlying Items, reflecting these increases in expected claims costs. Contributing to this is:

- $5.4m in new overcaps, which includes an allowance for future new overcaps, and;
- a $4.3m increase in provision for existing open claims.

Remaining reinsurance cover partially mitigates these two factors by $2.2m.

A contributing factor to the additional new overcap claims is that the $100K cap is not inflation adjusted so the cost of the same repair is now higher. We will work with EQC to help mitigate these additional costs.

Some of our open CEQ claims are complex and long-term. The expected cost for several of these has increased in FY22, driven by both inflation and more costly rectification approaches and we have increased our provisions to address this.

We continue to closely manage these outstanding claims and our dedicated CEQ team is actively working to finalise claims as efficiently as possible.

Slide 19 - Robust reinsurance programme provides protection

In September we were pleased to successfully renew our reinsurance programme for the 2023 financial year, obtaining comprehensive cover with very competitive rates for our home, motor, boat and commercial portfolios, across New Zealand and the Pacific.

Tower's reinsurance strategy provides protection from volatility caused by large events and maintains financial flexibility to support growth, while underpinning strong solvency.

Under this new arrangement we have increased our catastrophe upper limit from $873m to $934m in FY23 to reflect business growth. The catastrophe cover excess is $11.9m, in line with previous years.

In FY23 we will be paying proportionally less for reinsurance cover at 13.6% of total income, compared to 15.9% of premium income in FY22 (including the previous aggregate programme). This proportional reduction reflects reinsurers' confidence in Tower's positive business performance.

To manage the impact of large events volatility on our results, we have budgeted for $30m of large events in our FY23 plan. For context, this is almost $9m more than ultimate estimate of large events costs for FY22 and more than double the 10-year average of $13m and well above the five-year average of $16m.

FY22 large events of $21.1m comprised $6.8m for the Tonga volcanic eruption and tsunami, $3.6m for Cyclone Dovi, $6.4m for the North Island Rainstorms, and $4.3m for the Nelson Floods.

The expense recorded in Tower's profit and loss was reduced to $19m after reinsurance recoveries under the FY22 $20m aggregate cover excess and a $1m recovery on a prior period event.

Slide 20 - Strong capital and solvency, delivering shareholder returns

In the last 12 months Tower has returned $55.3m to shareholders in the form of dividends and a capital return. As a result of these payments to shareholders, Tower's surplus capital has decreased.

However, with a solvency ratio of 205% as at 30 September, after the capital return and final dividend, it is clear that Tower remains in a strong capital and solvency position. As the Chair announced we will be paying a final dividend of 4 cents on the 1st of February, 2023, bringing the full year dividend to a total of 6.5 cents per share.

Slide 21 – FY23 guidance

In FY23 Tower anticipates underlying NPAT of between $27m and $32m.

This range is based on further growth of between 10% and 15% as well as the allowance for large events of $30m. It represents a $8m after tax increase in the impact of large events when compared to FY22.

Consistently with FY22, we will measure large events as those which have a total cost of more than $2m.

In line with Tower's ordinary dividend policy to pay a sustainable annual dividend in the range of between 60-80% of adjusted earnings where prudent to do so, Tower anticipates FY23 dividends to be 6.5 cents per share.

Slide 22 – Looking forward

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

Blair Turnbull

Thank you, Paul.

Slide 23 – Leveraging scalable platform to continue growth and efficiencies

Tower is continuing to leverage investments in our scalable platform to deliver shareholder value via attractive long-term growth and greater efficiencies.

Two areas where we are targeting efficiencies are in our customer service and claims processes and in FY23 we expect to see significant improvements through further digital and process optimisation.

New My Tower improvements to enhance customer experience and further reduce telephony interactions include our car replacement journey. We know that customers predominantly cancel their motor insurance when they have bought a new car. Our new feature coming soon aims to capture these customers with the option to replace their car policy rather than cancel.

We are also offering customers information at their fingertips on ways to save on their insurance and enhancing the ability to update personal details on the go.

We are further investing in our enhanced sales capability with our automated marketing platform set to send out 5 million targeted and personalised messages in FY23.

Following the completion of our digital transformation, the mix of our spend has moved from focusing on our technology platform, systems and regulatory compliance towards customer relationships and growth, reflecting the maturity of our technology transformation.

Slide 24 - Tackling resourcing gap via digital service and unique footprint

It's no secret that a key challenge for New Zealand businesses today is the tight labour market. And for many businesses with active contact centres this struggle to fill seats has resulted in long wait times and frustrations for customers.

Tower has not been immune to these challenges which have disappointingly seen our net promoter score (NPS) drop to 20% from 43% in September 2021.

However, we have some clear unique advantages that will allow us to tackle this challenge via a pathway for NPS improvement in FY23. This includes:

Firstly, leveraging our digital self-service platform. In FY23 digital will comprise 30% of our investment on customer experience and frontline enhancements and will include new My Tower features, further automation and enhanced straight through claims processing.

Secondly, we will make further improvements to our fantastic staff culture and engagement through promoting and developing career pathways for frontline staff and leveraging digital technology to improve the frontline user experience.

Thirdly and excitingly, we will invest in our Fiji hub by adding an additional 100 Tower people in Suva in FY23. This will see the mix of staff more evenly spread between our operational centres in Auckland, Rotorua and Suva, and our people permanently working from home.

Our investments in digital technology are increasingly enabling us to move workflows across our Suva, Rotorua and Auckland operations centres. Having a physical presence in these locations also gives us access to talent in these markets.

In Suva particularly we are offering high quality roles where our people there appreciate the opportunity to progress their careers into senior positions without having to leave their countries. Tower roles in Fiji comprise a wide range of corporate functions, including, finance, technology, human resources, marketing and customer service.

Our recent recruitment drives in Fiji have seen strong interest from highly educated, experienced and professional candidates who are excited about becoming part of the Tower team and providing high quality service to our customers.

Slide 25 – Protecting the future for our customers and communities

Last year we began our sustainability journey with the development of a strategy that guides how Tower manages its environment, social and governance issues under the following focus areas:

Firstly, a diverse and inclusive workplace that builds people’s physical and emotional wellbeing.

Secondly, ensuring we are thinking ahead for our planet by moving all aspects of our business towards zero-carbon and zero-waste and having a positive impact on New Zealand and the Pacific.

Thirdly, helping communities navigate climate change by championing informed dialogue and supporting research and education on climate change issues.

And finally, being people's go-to trusted insurance partner by providing fair and transparent insurance that is accessible and affordable.

In FY23 we will progress on these commitments by adding coastal erosion and inundation risks to our customer facing risk ratings tool, educating homeowners transparently about the risks that may impact their properties. And we are excited about the potential for parametric cyclone cover to improve the economic resilience of Pacific communities in the future.

We are also committed to further innovating our products to influence our customers to reduce their carbon footprints. We currently offer a home insurance sustainability benefit which contributes $15,000 to sustainable products for a total rebuild; our policies support a range of e-mobility vehicles; and we have updated our GoCarma app to give people real time feedback on their driving emissions, based on their car's make and model, and their driving behaviour.

We take measuring and reducing our emissions seriously as we recognise that every effort to reduce emissions helps to mitigate global warming. Tower has set an ambitious target, grounded in science, of a 21% reduction over five years using FY20 as our base year, which as we all know was subject to Covid restrictions.

We will present full details of our sustainability reporting in this year's annual report which has been prepared in accordance with the Global Reporting Initiative 2021 standard.

And as the Chair noted, we are currently preparing for the introduction of the External Reporting Board's Climate-related Disclosures regime and are planning an early partial disclosure in FY23.

Slide 26 – Continuing to deliver dividends and growth

It’s clear that Tower’s business performance has been strong. And we have delivered customer and premium growth while further improving our management expenses.

Tower is a well-capitalised business with a strong balance sheet and solvency margins and we are delighted to have returned $55.3m to shareholders in the form of dividends and a capital return.

In the coming year, our focus is on continuing our solid underlying operating performance and achieving positive customer outcomes and growth.

We continue to focus on claims inflation and enhancing claims processes while driving efficiencies through our scalable digital platform and focus on expenses.

We remain committed to delivering positive returns to our shareholders through continued dividends and accelerating growth.

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

NZX NEW ZEALAND'S EXCHANGE TE PAEHOKO O AOTEAROA

Template Distribution Notice

Updated as at June 2022

Please note: all cash amounts in this form should be provided to 8 decimal places, including zeros (ie 0.01001000)

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	18/01/2023			
Ex-Date (one business day before the Record Date)	17/01/2023			
Payment date (and allotment date for DRP)	01/02/2023			
Total monies associated with the distribution[1]	$15,179,359			
Source of distribution (for example, retained earnings)	Retained earnings			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution[2]	$0.04000000			
Gross taxable amount [3]	$0.04000000			
Total cash distribution[4]	$0.04000000			
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	$0.01320000	
Section 4: Distribution re-investment plan (if applicable)		
DRP % discount (if any)	N/A	
Start date and end date for determining market price for DRP	N/A	N/A
Date strike price to be announced (if not available at this time)	N/A	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	N/A	
DRP strike price per financial product	N/A	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	N/A	
Section 5: Authority for this announcement		
Name of person authorised to make this announcement	Blair Turnbull	
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	23/11/2022	

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