



**Tower Limited
Annual Report**

2019





The Tower of today is well placed to **challenge the industry**, deliver **better outcomes** for customers and drive **shareholder value**.

Born and bred in New Zealand, Tower Insurance has been supporting New Zealand communities with their insurance needs for 150 years. 2019 marks Tower's 150th birthday and while our heritage is important to us, we've set our sights on the future and on becoming the challenger in the New Zealand insurance sector.

We're repositioning ourselves as a contemporary, challenger brand underpinned by a customer-focused, digital-first strategy to successfully compete in the 21st century insurance market place.

Why? Because we believe that people deserve better and we're passionate about delivering on this belief.

The Tower of today is vastly different from the company it used to be. As a challenger brand, we are taking on the big market incumbents, offering Kiwis a genuinely better and different choice for insurance which is driving growth and improving business results.

Over the past year, we...

- Added over 17,000 risks to our core New Zealand portfolio
- Grew GWP in our core New Zealand portfolio by 9.1%
- Increased sales through digital channels to over 50% of new business in September 2019, up from less than 10% in FY16
- Delivered and launched a new IT platform that underpins the future of Tower



Update from the Chair and CEO

Over the past four years Tower has completely transformed, into a company that is increasingly profitable and achieving growth by challenging and breaking industry norms.

In this time, the business has been simplified and improved through the identification and execution of a clear and purposeful strategy. The goal of the Tower Board and management team is to recreate a profitable company that delivers shareholder value and it is clear that the work being delivered is achieving these outcomes.

Our reported result of \$16.8m is a significant achievement and a \$23.5m improvement on last year, with underlying profit after tax increasing \$13.8m on the prior year, to \$27.4m.

This return to profitability is thanks to a strategy that is focused on making things easier and better for customers. Our customer centred strategy provides a unique platform to continue driving growth and rebuild trust by setting the bar for how insurance "should" be.

Our determination to deliver something better to customers is being noticed and this is driving solid growth. Gross Written Premium in the core New Zealand portfolio increased by 9.1%, and total GWP reached \$356.8 million across New Zealand and the Pacific.

We believe that risk-based pricing is a fairer way to price insurance and its continued implementation, along with improved underwriting and a benign weather environment has significantly reduced claims costs.

Over the last year, our total claims ratio has reduced to 48.8%, a 7.6% reduction from 56.4% in 2018 thanks to benign weather and improved underwriting. When large events are excluded, our claims costs decreased to 48.4%, a 3.9% reduction from 52.3% in 2018 which demonstrates the strength of our underwriting.

Pleasingly, our Pacific business has returned to historical norms, with solid and profitable growth, improved underwriting and a benign weather environment all helping to deliver better results.

As well as delivering these improved results, a major piece of work that sets Tower up for its digital future was completed. The successful delivery and launch of our new IT platform is an exciting milestone for Tower. Combined with the other work undertaken, we are now well positioned to deliver on the next phase of our strategy.

The next phase of our strategy is centred on delivering better outcomes for customers. Our customers have told us that New Zealand insurers are complacent and lack transparency, which has led to a lack of trust and we believe that people deserve better.

Our belief that people deserve better means we will utilise our new system to create stunningly simple products, new systems and simpler processes that enable amazing claims experiences.

We're going to turn industry norms on their head:

- We're getting rid of big words and complex policies
- We're increasing transparency around risk and insurance information and knowledge
- We're simplifying pricing and confusing discounts
- And we're creating an employee culture that always pushes for better and is there to help set things right when they go wrong

This is how we will set the bar for how insurance should be and continue driving growth. Thanks to the work that the Tower team have put in, we are now positioned to take on the New Zealand insurance market and challenge the large incumbent organisations that are slow to adapt.

Our business has transformed and the company is vastly different to what it was four years ago. Our results demonstrate the long held belief of the Tower Board and management team, that Tower offers an exciting platform for growth and we are now about to accelerate.

Shareholders can be confident that the work we are doing will deliver significant long-term value.



Michael Stiasny
Chairman



Richard Harding
Chief Executive Officer

Our full year **profit** is a **significant achievement** and a \$23.5m improvement on last year, proof that our **strategy is paying off.**

Three years of improving results and solid growth achieved

- Tower continues to deliver solid growth, which has led to a \$23.5m improvement in profit. Growth has continued in the core NZ book and digital sales remain strong
- Tower's claims ratio has improved significantly thanks to initiatives that have improved underwriting and pricing, and benign weather across New Zealand and the Pacific
- Tower's Pacific business has returned to historic norms, with the region returning to profit on the back of sustainable growth and reduced claims expenses
- Tower has delivered its major technology transformation programme, officially launching its IT platform, with positive early signs being seen
- As previously signalled, a slight uplift in management expenses was experienced as the IT transformation concludes
- Continued positive progress closing Canterbury earthquake claims, with 109 claims remaining open at 30 September 2019



9.1%

GWP Growth in core
NZ book on prior year



Focus on customers driving growth

Overview

- Solid 9.1% GWP growth in core NZ portfolio with total group GWP growing at 6.1%
- Growth in risks in core New Zealand book increased significantly by 17,716
- Over 50% of new business sales online in September 2019, up from less than 10% during FY16
- Continued risk-based pricing approach combined with simple and easy products driving impressive customer growth and improved mix

In a market dominated by overseas-owned and controlled insurers, Tower is offering customers a genuinely different, better alternative, and this focus is driving solid growth in the core book.

Over 17,000 risks have been added to Tower's core New Zealand portfolio over the past year with this continued momentum driving GWP growth in the core New Zealand portfolio 9.1%, with total GWP in New Zealand growing 6.8%.

Tower's efforts to become a digital insurer continue to pay dividends, with 51% of new business coming through digital channels in September 2019. This compares to less than 10% during 2016.

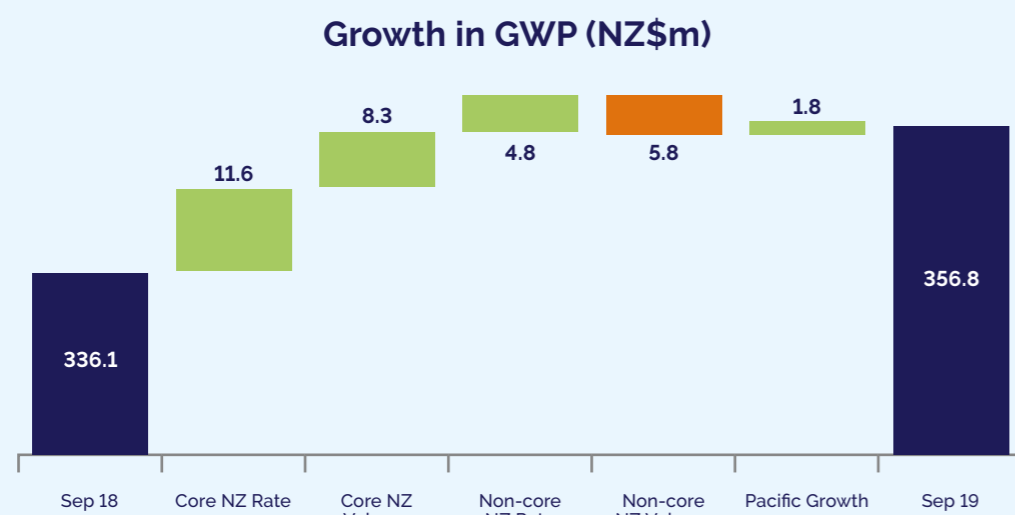
Tower has recently improved its digital claims lodgement process and delivered innovations like a claims chatbot, Charlie, which has resulted in 27% of claims being lodged online in September 2019, evidence that digital is the way of the future.

Growth in the Pacific has returned to historical levels with Vanuatu, Tonga, Samoa, American Samoa and the Cook Islands returning to growth thanks to additional underwriting, pricing and marketing support for local teams. However, this growth was offset by more disciplined growth in Papua New Guinea, remediation of the Fiji motor portfolio and nationalisation of the Worker's Compensation and Comprehensive Third Party schemes in Fiji.

This positive result across Tower's businesses is being achieved through a combination of factors, including:

- Continued execution of risk-based pricing and simpler policies that customers can understand
- Constant refinement of underwriting criteria enabling more granular assessment
- Strong retention through our digital and phone channels, and
- Attracting new, profitable customers with improved and targeted offerings

The growth that has been achieved is the result of offering customers simpler insurance at a fair price and over the coming twelve months Tower sees a positive growth and pricing environment in New Zealand and the Pacific, which will lead to further improved profitability.



Underwriting excellence delivering improvements



Overview

- Underwriting excellence driving good customer and business results
- Risk based pricing is delivering benefits
- Improving reinsurance ratio
- Increased protection with savings reinvested to reduce exposure and volatility

Tower is focused on achieving underwriting excellence which continues to play a vital part in the delivery of the company's strategy and improving results.

Over the past 12 months, significant steps have been made toward achieving underwriting excellence, with the company having:

- Implemented better risk selection and underwriting processes
- Continued to focus on claims leakage and recoveries
- Launched and continued to refine plain language products that have won awards, providing greater clarity to customers and employees at claims time
- Implemented new data practices to enable accurate monitoring of the portfolio

This relentless focus on underwriting excellence has helped shift Tower's portfolio to a more balanced mix and improve claim frequency. This is particularly noticeable in the NZ house product with sustained improvements in claims frequency over the past four years, a result of clear products and benefits for customers.

Tower led the way 18 months ago with risk-based pricing and removing cross-subsidisation between low and high-risk customers. Risk based pricing has resulted in the growth of Tower's portfolio in Auckland while also reducing exposure to high-risk areas by 16%.

Tower's fairer approach to pricing has also allowed the company to grow exposure by 4% in the larger, low risk areas like Auckland, Hamilton and Taranaki.

The reduction of extreme risk policies, combined with already completed changes in our Wellington portfolio has reduced the amount of reinsurance cover required.

Tower has taken significant steps to ensure exposure to large events and the resulting volatility is reduced by reinvesting savings back into its reinsurance programme.

Tower has:

- Catastrophe cover to \$783m, for catastrophic events in excess of 1 in 1000years
- Increased pre-paid catastrophic event coverage from two events to three
- Added additional cover to minimise any potential impacts
- Limited Tower's exposure to catastrophe to \$10m per event
- Capped Tower's exposure to storm and other events at \$10m, up to a limit of \$30m

Tower's approach to underwriting excellence is working and will continue to deliver growth and reinsurance efficiency in future.

Improved New Zealand and Pacific claims expenses

Overview

- Claims costs improved across New Zealand and Pacific
- Underwriting and pricing initiatives have delivered significant improvements
- Benign weather across NZ and Pacific contributed to improvement
- Continued targeting of core insurance activity to offset inflation

New Zealand claims expenses have decreased significantly over the past 12 months with a number of underwriting and pricing initiatives helping to offset inflation.

There are four key factors that have contributed to this result:

1. Last year, an adjustment relating to the 2017 financial year increased the base claims ratio, this was a one-off issue for FY 2018
2. While in prior years, severe weather has impacted claims costs, benign weather this year resulted in a 2.7% decrease in Tower's claims ratio
3. New, simpler products have contributed to a reduction in NZ Contents claim frequency. While Tower's risk-based pricing approach is delivering benefits in NZ house, this has been offset by a higher frequency of large house fires in the second half of FY 2019
4. Good weather also means more people out exploring New Zealand and as a result, there has been an increase in claims frequency in the motor portfolio

In the Pacific, a number of severe weather events over the past few years have impacted claims ratios. However, this part of the business has now returned to historical norms.

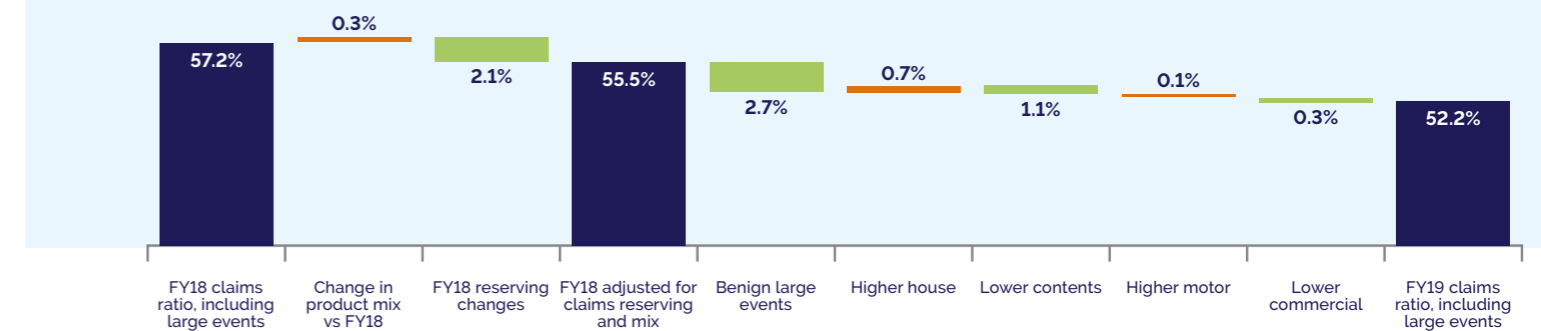
Improvements in claims costs have been delivered through targeted underwriting and pricing initiatives across key markets, and, combined with a benign weather environment, have resulted in a 22.7 percent decrease in our Pacific claims ratio.

Continued repricing of the Fiji motor book has led to improved profitability. Although slightly softer growth than previously seen, this was an important step to ensure future growth remains sustainable and claims costs were controlled.

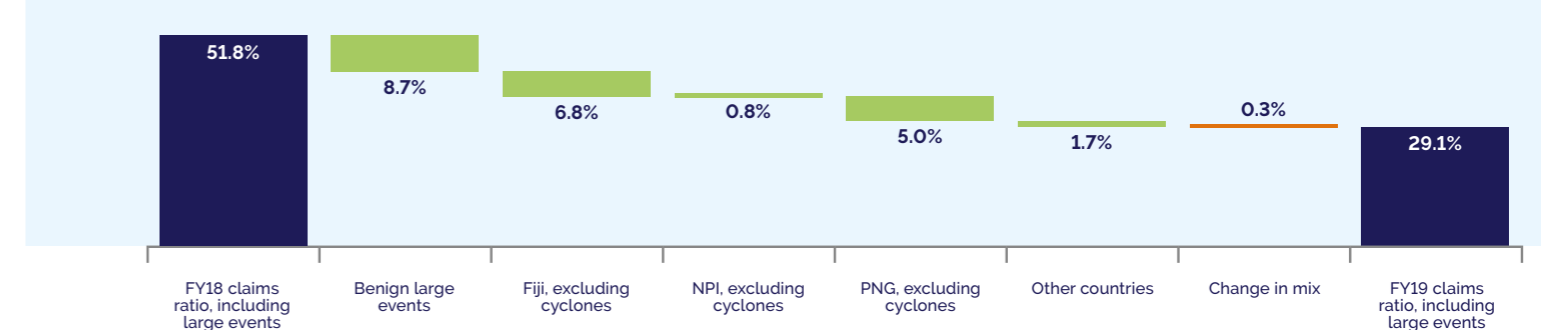
Remediation of the Papua New Guinea portfolio to reduce risk and exposure is now complete and this portfolio has returned to profitability.

While these results are pleasing and significant improvements have been delivered, focus remains on refining Tower's products and pricing approach to ensure continued management of claims costs.

Change in New Zealand claims ratio vs. prior year



Change in Pacific claims ratio vs. prior year



Building capability while controlling costs

Overview

- Uplift in expenses as IT transformation concludes
- Additional spend directed towards growth and reducing risk

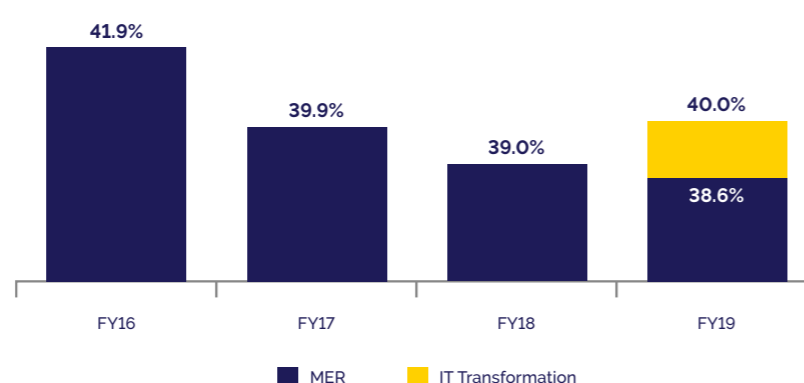
Tower has previously signalled a slight uplift in expenses as Tower's IT transformation concluded. The finalisation of this piece of work has increased the group management expense ratio by 1.4%, which includes increased headcount in frontline teams, the running of dual systems and the delivery of a tailored customer migration process.

Tower is investing in the business to drive long term value, and as outlined previously, a major component of this is new technology and moving customers to a new IT platform.

Managing customers through the migration process is one of the most important parts of this technology transformation and along with investment in frontline teams, a tailored customer management approach will help to reduce risk, maximise retention and manage customer impact.

These costs will continue over the next 12 months as customers are migrated to the new platform. Following this, it is expected that costs of between \$5m – \$7m pre-tax can be removed from Tower's expense base, and along with other productivity gains, the company will be operating at or near its target MER of less than 35%.

Group management expense ratio¹



1. For management reporting, Tower includes claims handling expenses in Management Expense Ratio

IT transformation concluding

Overview

- New IT platform delivered and launched successfully
- Customer migration underway, to be complete by December 2020
- IT transformation will drive growth and continued shift to digital delivery

18 months ago Tower announced its commitment to invest in a new technology platform that will deliver a step change in results. This IT transformation and the new platform underpin Tower's strategy to become a digital challenger brand.

It will accelerate growth opportunities by combining existing data with that of Tower's partners to get a full understanding of customers and actively targeting niche customer segments with compelling and appropriately priced propositions. It will also improve the customer experience with simpler, improved products, reduced wait times and fully digital self-service capability.

After working at pace to deliver against aggressive timeframes Tower has successfully delivered and launched our new platform and the IT transformation is now concluding.

The first phase which enabled the sale of new business on the new system went live in May. It was a core foundation piece of the programme and continues to run well.

Delivery of Phase 2 has now been completed and includes:

1. Rationalisation of insurance products
2. Commencing the 12 months migration of existing customers to the new platform
3. Launching a customer self-service portal, allowing customers to manage their insurance online, just like online banking
4. Implementing online claims management modules enabling customers to lodge and manage their claims online

Customer migration has commenced and will be complete by the end of the 2020 calendar year. Moving around 350,000 customers to a core set of 12 products will deliver significant benefits to customers and improve the efficiency of the business.

The new platform enables the company to rapidly test and learn on all aspects of insurance. What used to take weeks and months can now be tested and delivered almost instantly. Pricing changes that used to take months of coding can now be made, delivered and monitored in the same day.

It allows products to be built quickly, tested with customers and modified on an ongoing basis. It supports the push to move 50 – 70% of all transactions online which will deliver better customer outcomes and significant cost savings and productivity gains.

Along with the reduction in number of products from over 400, to just 12 core products, increased automation and moving low value transactions online, efficiency will improve.

Costs for the programme were in line with previously advised amounts and at this stage, the total cost to deliver the core platform is estimated to be \$47.6m.



The Youi acquisition

In September it was announced that Tower Insurance Limited signed a Portfolio Transfer Agreement for the purchase of Youi NZ Pty Ltd's insurance portfolio, subject to regulatory approvals.

Under this agreement, Tower Insurance will acquire Youi NZ's approximately 34,000 in-force policies for a total purchase price of NZ\$13 million.

A number of steps in this process have been completed and a formal application has been lodged with the RBNZ.

The purchase of Youi's portfolio will accelerate Tower's growth. The portfolio is well underwritten and utilises a risk-based pricing approach which is in line with the company's own underwriting excellence and will also deliver a positive shift in the mix of the insurance portfolio.

The acquisition drives shareholder value through realisation of scale benefits with intention to incorporate the portfolio into Tower's existing reinsurance cover, and management expenses at marginal cost. Youi will contribute approximately \$2m to Underlying NPAT, \$4m pre-amortisation of goodwill, reflecting the pro rata inclusion of 9 months of its full year.

This acquisition firmly positions Tower as a challenger brand and together with the successful completion of the IT transformation, will deliver growth, build scale and leverage the investment in IT.



Canterbury update

Tower continues to make solid progress settling claims in Canterbury. On 1 October 2018, Tower had 163 open claims remaining and in the intervening 12 months, Tower closed 117 Canterbury earthquake claims.

Tower continues to receive higher than expected new over-cap claims from the EQC as a result of past performance, poor workmanship and faulty repairs.

While the number of Canterbury earthquake claims continues to reduce steadily, new over-cap claims from the EQC continue to be a source of upward pressure on the Canterbury valuations, with additional uncertainty managed through solvency capital held by Tower.

Tower's gross outstanding claims have reduced significantly, demonstrating that solid progress is being made. In addition, the amount of IBNR / IBNER and risk margin has increased from 95% to 148% of case estimates.

\$ MILLION	Sep 19	Mar 19	Sep 18
Case estimates	20.8	29.7	37.5
IBNR/IBNER ¹	18.0	20.3	21.4
Risk margin	7.8	9.0	9.0
Additional risk margin	5.0	5.0	5.0
Actuarial provisions	30.8	34.3	35.4
Gross outstanding claims	51.6	64.0	72.9
Ratio of provisions to case estimates ²	148%	115%	95%

1. IBNR ('Incurred but not reported') / IBNER ('Incurred but not enough reported') includes claims handling expenses

2. Ratio of IBNR / IBNER plus risk margin to case estimates

Solvency position

In September 2019, Tower announced that additional capital of \$47.2m was needed to facilitate a change in Tower Insurance's licence condition and the acquisition of the Youi NZ portfolio.

Tower Insurance consulted with RBNZ to understand likely capital requirements to support the acquisition and on-going business of Youi NZ, with discussion also covering Tower Insurance's existing solvency capital. This included conversations on Tower Insurance's EQC receivable, which at the time formed part of Tower Insurance's solvency capital.

Tower Insurance remains confident in the recovery of the EQC receivable and is firmly committed to its collection to the maximum extent possible.

It was agreed that given the likelihood of litigation and associated delay in receiving funds, the EQC receivable has been excluded from Tower Insurance's solvency calculations.

Accordingly, the RBNZ modified Tower Insurance's licence conditions to remove the receivable from its solvency calculations with effect from 31 October 2019.

Following the successful completion of the capital raise and this change in licence condition, Tower Insurance remains in a strong capital position with Actual Solvency Capital well above RBNZ minimum requirements. This will reduce by \$13m following completion of the Youi purchase.

Looking to the future

Tower's strategic plan has driven change and transformed the business. The work completed over the past few years has set the company up well for the future and focus is now firmly on delivering shareholder value.

The coming 12 months is the transition year that will ensure the full benefits of Tower's new IT platform are delivered from FY21.

One of the biggest priorities this year is to migrate ~ 350,000 customers to the new IT platform, which will be completed by the end of the 2020 calendar year.

Tower will continue driving growth, building on the past seven consecutive halves of growth by continuing to price more fairly, delivering amazing claims experiences and improving efficiency and profitability.

Along with a shift to a more agile operating model, benefits will be achieved progressively over the coming year, but FY21 is where the full benefits of our investment in technology will be fully realised.

In FY21 complex legacy systems that currently take significant resource to manage and maintain can be decommissioned.

Growth opportunities will accelerate and the customer experience will improve. Combined with a push to move 50 – 70% of all transactions online, this will deliver significant cost savings and productivity gains.

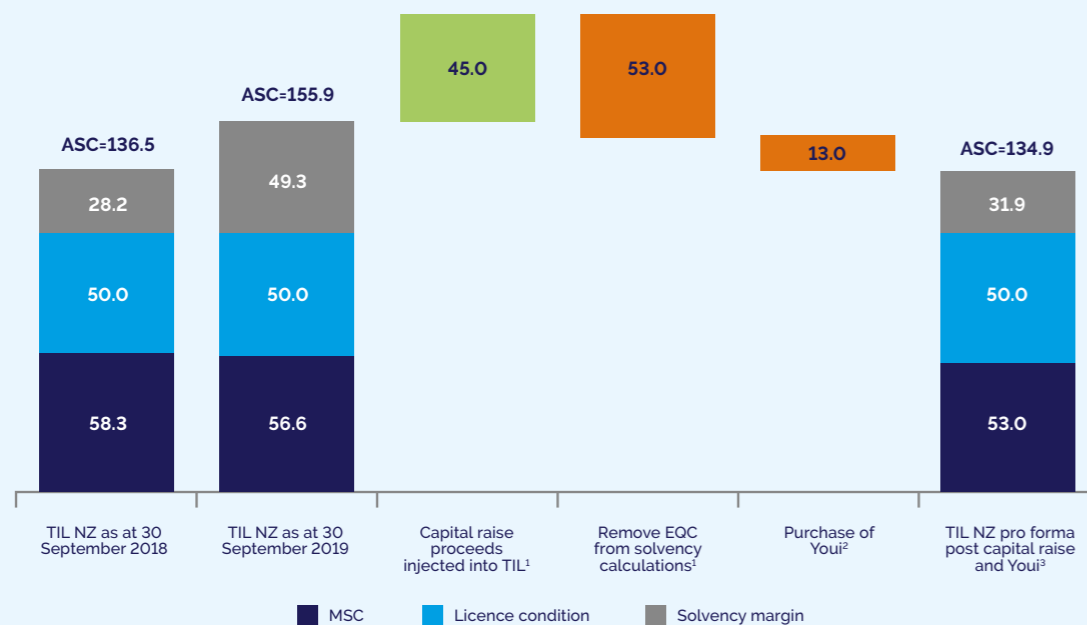
The new platform enables innovation and rapid response to customer needs. It will allow the company to take new products to market faster, to test and learn and drive growth in new areas.

In the Pacific, a new operations centre will support local teams through improved product, pricing and underwriting capability to ensure growth is sustainable.

In short, Tower's customer centred strategy will continue to be driven forward, with a focus on raising the bar for the industry by putting customers first and using new technology.

What has been achieved and the plan that is in place sets the company up well for the future and will build trust, drive growth and deliver shareholder value.

Tower Insurance Limited solvency position, adjusted for certain events after 30 September 2019 (\$m)



1. Occurred 31 October 2019
 2. Purchase of Youi portfolio is subject to regulatory approval
 3. Reflects pro forma impact of capital raise, removal of EQC receivable from solvency calculations, purchase of Youi portfolio and a reduction in MSC recognising the additional risk margin of \$5m that was applied at 31 October 2019
 4. ASC - Actual Solvency Capital, MSC - Minimum Solvency Capital





Tower recognises that confidence in the insurance industry is at an all-time low and while the company acknowledges that it has been part of the problem before, it is firmly committed to improving and being part of an industry that is trusted to deliver good outcomes for customers.

Pleasingly, thanks to an already embedded customer-centred strategy, progress has been made, but there remains a lot still to do.

As part of the conduct and culture review that all insurers were asked to undertake, Tower looked at every aspect of its business and strategy. This formed the basis of a report and action plan to ensure better customer outcomes are delivered across all facets of the business.

This report and action plan has been delivered to the Tower Board. It reinforces the good things we have in place, but also highlighted issues that need further investigation.

Tower takes its position as a challenger brand seriously and sees this position as an opportunity to raise the bar for customers.

The work being undertaken at Tower is centred on disrupting industry norms and making things better for customers by:

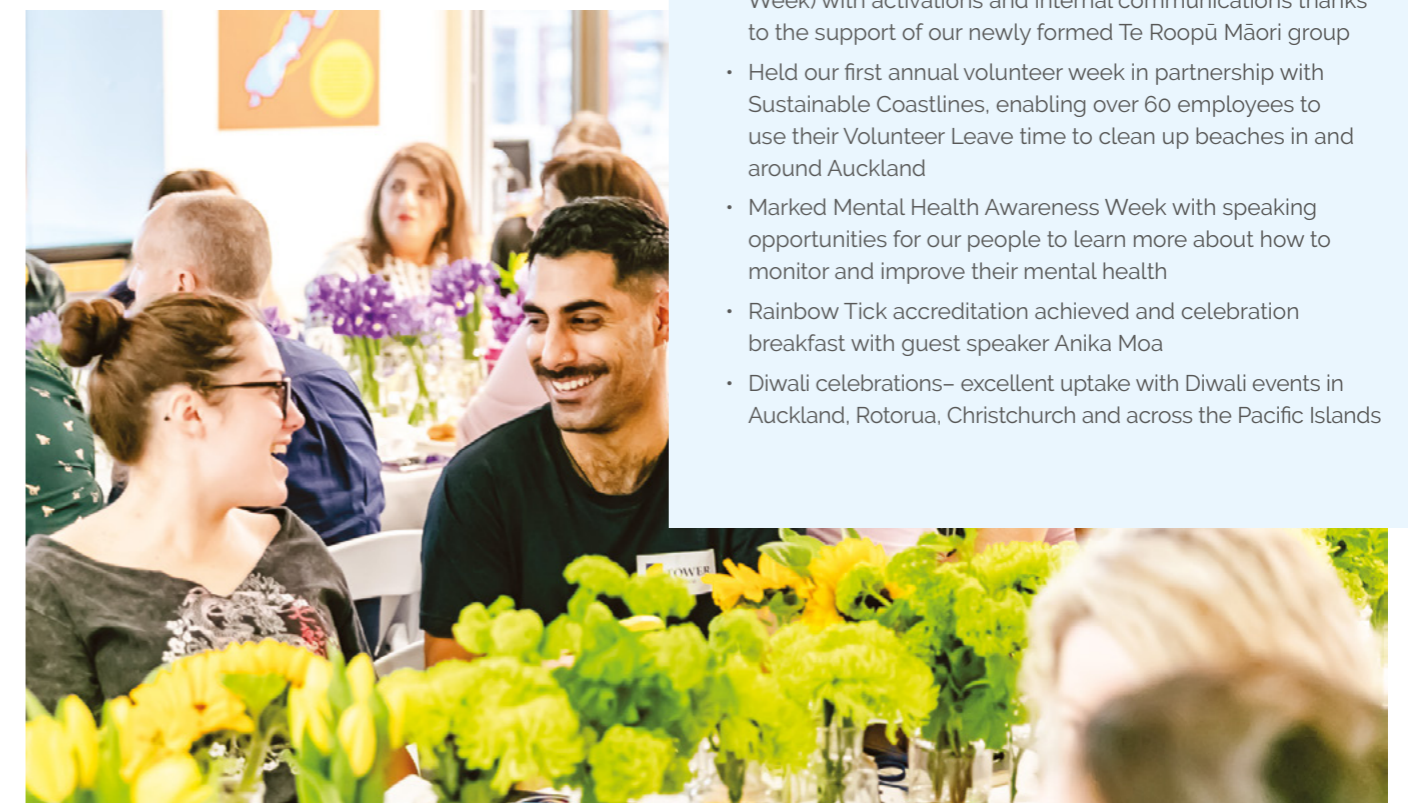
- Simplifying policy wording and coverage to ensure it is easy to understand and in plain English
- Increasing transparency and education on risk and how insurance is priced
- Removing tricky, catch-all questions to give customers certainty
- Delivering amazing claims experiences that remove complexity and worry

These actions, along with others across the business are a core part of Tower's strategy and will deliver better customer outcomes and increased customer trust.

Customers and shareholders should be confident that Tower is committed to improving and creating a better, fairer insurance industry.

Diversity, Inclusion and Belonging are an integral part of Tower's culture. Tower's business is spread across 15 sites in 9 different countries and Tower recognises the value of employees.

Tower believes that having a diverse group of individuals working together helps the company better meet the needs of customers and helps build a high-performance culture. Tower's culture is built on mutual respect, teamwork and diversity of thought and background.



Over the past year, Tower celebrated the diversity of its people through a number of initiatives, including:

- Recognition of importance and meaning of Waitangi Day and Chinese New Year on Workplace
- International Women's Day joint speaking event with guest speaker and Associate Professor Siouxsie Wiles MNZM, a microbiologist and science communicator from Auckland University alongside Kanah Andrews-Nahu, Tower's community brand ambassador and junior NZ weightlifting champion
- Widespread participation in the national event for Gumboot Friday, the 'I Am Hope' mental health awareness campaign
- Significant participation in Pink Shirt Day with pink worn and pink morning teas held to drive awareness about anti-bullying in support of this national campaign
- Influential women leaders took part in a breakfast event to hear insights from Tower board member
- One year celebration of our Lean In circles empowering and connecting people across Tower to help with personal and professional development.
- Tongan, Samoan, Cook Islands and Fijian Language Weeks (from May – October) were recognised with internal communications and activities at sites in NZ and the Pacific
- Participation in national fundraising day for Tower's community sponsorship partner with outstanding uptake by teams who had to profile a Paralympic sport
- Recognition of Te Wiki o Te Reo Māori (Māori Language Week) with activations and internal communications thanks to the support of our newly formed Te Roopū Māori group
- Held our first annual volunteer week in partnership with Sustainable Coastlines, enabling over 60 employees to use their Volunteer Leave time to clean up beaches in and around Auckland
- Marked Mental Health Awareness Week with speaking opportunities for our people to learn more about how to monitor and improve their mental health
- Rainbow Tick accreditation achieved and celebration breakfast with guest speaker Anika Moa
- Diwali celebrations– excellent uptake with Diwali events in Auckland, Rotorua, Christchurch and across the Pacific Islands

Board of Directors



Michael Stiassny

LLB, BCom, FCA, CFInstD
Chairman
Non-Executive Director
Independent
Appointed Director: 12 October 2012

Michael is a Fellow of Chartered Accountants Australia and New Zealand. He has both a Commerce and Law degree from the University of Auckland. He is Chairman of Ngati Whatua Orakei Whai Rawa Limited and is a director of a number of other companies. Michael resides in Auckland, New Zealand.



Graham Stuart

BCom (Hons), MS, FCA
Non-Executive Director
Independent
Appointed Director: 24 May 2012

With over 30 years of senior management experience, Graham has held senior leadership roles with several major corporates, in New Zealand and overseas, the latest being the Sealord Group of which he was Chief Executive Officer for 7 years.

Prior to that he held a number of diverse leadership roles including CEO of Mainland Products, Managing Director of Lion Nathan International, and Chief Financial Officer and Director of Strategy for the Fonterra Co-operative Group.

Graham has a Bachelor of Commerce (First Class Hons) from the University of Otago, a Master of Science from Massachusetts Institute of Technology and is a Fellow of Chartered Accountants Australia and New Zealand. Graham has served on a number of Government bodies including the Food & Beverage Taskforce and the Māori Economic Development Panel.

Graham resides in Auckland, New Zealand.



Steve Smith

BCom, CA, Dip Bus (Finance), CFInstD
Non-Executive Director
Independent
Appointed Director: 24 May 2012

Steve has been a professional Director since 2004. He has over 35 years' business experience, including being a specialist corporate finance partner at a leading New Zealand accountancy firm. He has a Bachelor of Commerce and Diploma in Business from the University of Auckland, is a member of Chartered Accountants Australia and New Zealand and a Chartered Fellow of the Institute of Directors in New Zealand (Inc). Steve is Chairman of Pascaro Investments Ltd, and a Director of Rimu S.A. (Chile) and the National Foundation for the Deaf Inc.

Steve resides in Auckland, New Zealand.



Warren Lee

BCom, CA
Non-Executive Director
Independent
Appointed Director: 26 May 2015

Warren has extensive experience in the international financial services industry. Warren's two most recent executive positions were Chief Executive Officer of the Victorian Funds Management Corporation and Chief Executive Officer, Australia and New Zealand for AXA Asia Pacific Holdings Limited. Warren is currently a non-executive director of MetLife Limited, MyState Limited and Go Hold Limited. He has a Bachelor of Commerce from the University of Melbourne and is a member of Chartered Accountants Australia and New Zealand. Warren resides in Melbourne, Australia.



Wendy Thorpe

BA (French), BBus (Accounting),
Grad Dip, Applied Fin & Inv,
Harvard AMP, FFin, GAICD
Non-Executive Director
Independent
Appointed Director: 1 March 2018

Wendy had an extensive executive career in Financial Services leading technology and operations in insurance and wealth management. Her most recent executive role was as Group Executive, Operations for AMP Ltd, and she was previously Chief Operations Officer and Chief Information Officer for AXA in Australia. Wendy is also Chair of Online Education Services, and a Non-Executive Director of Ausgrid, Peoples' Choice Credit Union, Epworth Healthcare and Very Special Kids. Wendy has a Bachelor of Arts from LaTrobe University, a Bachelor of Business from Swinburne University and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. She completed the Advanced Management Program at Harvard Business School, is a Fellow of the Financial Services Institute of Australasia and a Graduate member of the Australian Institute of Company Directors.

Wendy resides in Melbourne, Australia.



Marcus Nagel

MBA (International Management),
MBA (Banking and Finance)
Non-Executive Director
Not Independent
Appointed Director: 14 January 2019

Marcus has significant insurance industry experience.

For a decade he has performed senior leadership roles for Zurich in Europe and globally. In his last role at Zurich, he served as the Chief Executive Officer of Zurich Germany managing both life insurance and general insurance businesses. He has also held the position of Vice Chairman of the joint venture with ADAC, Germany largest Automotive Club, Chairman of the direct insurer DA Direct and Chairman of the life insurer, Zurich Deutscher Herold.

Prior to that, he also managed the independent financial adviser/broker business for Zurich Global Life.

Marcus holds a Masters Degree in Banking and Finance from Goethe University in Frankfurt, Germany and Master of International Management from the Arizona State University Thunderbird School of Global Management in Arizona, United States of America. Marcus was nominated by Bain Capital Credit LP (Bain Capital) to represent Bain Capital's stake in Tower (Bain Capital hold 19.99% of Tower's ordinary shares) and his appointment was supported by the Tower Board. Marcus resides in Schindellegi, Switzerland.

Consolidated Financial Statements

For the year ended 30 September 2019



Contents

Independent Auditors' Report	23 – 28
Consolidated Income Statement	29
Consolidated Statement of Comprehensive Income	30
Consolidated Balance Sheet	31
Consolidated Statement of Changes in Equity	32
Consolidated Statement of Cash Flows	33
Notes to the Financial Statements	34 – 77

Independent Auditor's Report

For the year ended 30 September 2019



Independent auditor's report

To the shareholders of Tower Limited

We have audited the consolidated financial statements which comprise:

- the consolidated balance sheet as at 30 September 2019;
- the consolidated income statement for the year then ended;
- 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 a summary of accounting policies.

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 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group. These services are assurance services in respect of solvency and regulatory insurance returns and agreed upon procedures in respect of voting at the Annual Shareholders Meeting and a regulatory insurance return. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Independent Auditor's Report

For the year ended 30 September 2019



Our audit approach

Overview

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

Overall Group materiality: \$3.4 million, which represents approximately 1% of premium revenue.

We chose premium revenue as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Group and is a generally accepted benchmark for insurance companies. The 1% is based on our professional judgement, noting that it is also within the range of commonly accepted revenue related thresholds.

We have determined that there are three key audit matters:

- Valuation of outstanding claims
- Valuation of Earthquake Commission (EQC) receivable in respect of Canterbury earthquake claims
- Recoverability of the deferred tax asset arising from tax losses

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall 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.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

Our Group audit focused on the most financially significant subsidiary, which contributes approximately 83% of the Group's premium revenue. We performed audit procedures over material balances and transactions of the non-significant subsidiaries and the consolidation of the Group's subsidiaries.

Independent Auditor's Report

For the year ended 30 September 2019



Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>(1) Valuation of outstanding claims (2019 \$124,060,000, 2018 \$148,976,000)</p> <p>We considered the valuation of outstanding claims a key audit matter because this involves a complex estimation process and significant judgements and assumptions that management make in estimating future claims payments.</p> <p>These include the estimate of claims that have been reported but there is uncertainty over the amount which will be settled and those incurred at the reporting date but not yet reported to the Group. There is generally less information available in relation to these claims and such claims require the use of informed estimates of the quantum of loss. Small changes in assumptions can lead to significant movements in claim reserves. Key actuarial assumptions for non Canterbury claims are inflation rate, discount rate and claims handling expense ratio.</p> <p>Outstanding claims in relation to Canterbury earthquakes have a greater degree of uncertainty and judgement. This mainly arises due to Earthquake Commission (EQC) reporting new claims to the Group which have gone over the \$100,000 statutory liability cap (over cap claims), how damages are allocated between the four major earthquake events, expected claims costs for open claims and estimates of future claims handling cost.</p> <p>Outstanding claims include a risk margin that allows for the inherent uncertainty in the central estimate of the future claim payments. In determining the risk margin, the Group makes judgements about the volatility of each class of business written and the correlation between each division and between different geographical locations.</p>	<p>Historical claims data is a key input to the actuarial estimates. Accordingly, we:</p> <ul style="list-style-type: none"> evaluated the design effectiveness and tested controls over claims processing; assessed a sample of claim case estimates at the year end to check that they were supported by appropriate management assessment and documentation; assessed on a sample basis the accuracy of the previous claim case estimates by comparing with actual amount settled during the year and analysed escalation in the claim case estimate to determine whether it is based on new information available during the year; inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation and approved within delegated authority limits; and tested the integrity of data used in the actuarial models by agreeing the relevant model inputs to source. <p>Together with our actuarial experts, we:</p> <ul style="list-style-type: none"> considered the work and findings of the actuaries engaged by the Group; evaluated the actuarial models and methodologies used by comparing with generally accepted models and methodologies applied in the sector and with the prior year; assessed key actuarial judgements and assumptions and challenged them by comparing with our expectations based on the Group's experience, our own sector knowledge and independently observable industry trends; and

Independent Auditor's Report

For the year ended 30 September 2019



Key audit matter	How our audit addressed the key audit matter
<p><i>Relevant references in the consolidated financial statements.</i></p> <p>Refer to notes B2, B3 and B5 to the consolidated financial statements, which also describes the elements that make up this balance.</p>	<ul style="list-style-type: none"> assessed the risk margin, by comparing to known industry practices. In particular we focused on the assessed level of uncertainty in the central estimate.
<p>(2) Valuation of Earthquake Commission (EQC) receivable in respect of Canterbury earthquake claims (2019 \$69,900,000, 2018 \$68,400,000)</p> <p>We considered the valuation of EQC receivable a key audit matter because significant management judgement is required to estimate expected recoveries from EQC in respect of land and building damage. Management use independent technical and actuarial experts to calculate the amount receivable.</p> <p>This receivable is dependent on the ultimate contribution by the EQC to the land and building damage arising from the Canterbury earthquake events in terms of its statutory liability under the Earthquake Commission Act 1993. The quantum is highly dependent on the agreement with EQC on allocation of liability for damage between these events, in particular the September 2010 and February 2011 events, the quality of information available in respect of the damage to each property, the time taken to settle with EQC and risk associated with litigation.</p> <p><i>Relevant references in the consolidated financial statements</i></p> <p>Refer to notes B3 and E1 to the consolidated financial statements.</p>	<p>Together with our actuarial expert, we:</p> <ul style="list-style-type: none"> assessed management's approach to estimate the EQC receivable; reviewed external legal counsel advice and independent technical experts' conclusions; evaluated the work performed by Tower's actuary and understood the assumptions applied in allocation of cost between the four major Canterbury earthquake events and the risk margin setting process. We compared these assumptions with sector peers and obtained evidence for any significant variances; and considered the range of expected recoveries from which the amount recognised as due from EQC has been determined and assessed whether in the current circumstances a different receivable amount would be appropriate.

Independent Auditor's Report

For the year ended 30 September 2019



Key audit matter	How our audit addressed the key audit matter
<p>(3) Recoverability of the deferred tax asset arising from tax losses (2019 \$24,527,000, 2018 \$30,685,000)</p> <p>The majority of the Group's deferred tax asset arises from past 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 the sufficient continuity of the ultimate shareholders. 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.</p> <p><i>Relevant reference in the consolidated financial statements</i></p> <p>Refer to note D5 to the consolidated financial statements.</p>	<p>Together with our tax experts, we:</p> <ul style="list-style-type: none"> understood the progress made by management in improving the profitability of the business in recent periods, which includes the remediation of the causes of past losses through, amongst other things: <ul style="list-style-type: none"> assessment of the Canterbury earthquakes claims and related reinsurance; other recoveries (assessment of the recoverability of the receivables from EQC); and other expense reduction and income initiatives (in particular the IT transformation programme). compared previous budget results with actual results to assess the reliability of managements forecasts; considered the reasonableness of the assumptions in the FY20 strategic plan on the forecast utilisation of tax losses; and assessed whether the Group is entitled to offset the tax losses against future taxable profits.

Information other than the consolidated financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Independent Auditor's Report

For the year ended 30 September 2019



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 financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-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:

Chartered Accountants
20 November 2019

Auckland

Consolidated Income Statement

For the year ended 30 September 2019

	NOTE	2019 \$000	2018 \$000
Revenue			
Premium revenue	B1	344,995	323,093
Less: Outwards reinsurance expense		(54,975)	(54,251)
Net premium revenue		290,020	268,842
Investment revenue	C1	7,519	7,125
Fee and other revenue		5,818	5,755
Net operating revenue		303,357	281,722
Expenses			
Claims expense		190,699	200,467
Less: Reinsurance and other recoveries revenue		(14,985)	(23,835)
Net claims expense	B2	175,714	176,632
Management expenses	D1	81,084	70,542
Sales commission expenses	D1	20,252	19,488
Impairment of reinsurance receivable	D2	-	22,511
Financing expenses		312	570
Total expenses		277,362	289,743
Profit / (loss) before taxation		25,995	(8,021)
Tax (expense) / benefit	D5	(9,190)	1,295
Profit / (loss) for the year		16,805	(6,726)
Profit / (loss) attributed to:			
Shareholders		16,565	(6,773)
Non-controlling interest		240	47
		16,805	(6,726)
		CENTS	CENTS
Basic and diluted profit / (loss) per share (cents)	F5	4.73	(2.11)

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

Tower Limited

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2019

	NOTE	2019 \$000	2018 \$000
Profit / (loss) for the year		16,805	(6,726)
Other comprehensive profit / (loss)			
Items that may be reclassified to profit or loss			
Currency translation differences		793	42
Items that will not be reclassified to profit or loss			
Gain on asset revaluation	E3	305	434
Deferred income tax relating to asset revaluation	D5	(32)	(81)
Other comprehensive profit net of tax		1,066	395
Total comprehensive profit / (loss) for the year		17,871	(6,331)
Total comprehensive profit / (loss) attributed to:			
Shareholders		17,538	(6,474)
Non-controlling interest		333	143
		17,871	(6,331)

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

Tower Limited

Consolidated Balance Sheet

As at 30 September 2019

	NOTE	2019 \$000	2018 \$000
Assets			
Cash and cash equivalents	C2	67,018	102,001
Receivables	E1	256,295	259,607
Investments	C3	229,172	198,000
Derivative financial assets	C5	-	271
Deferred acquisition costs	D3	23,736	22,595
Property, plant and equipment	E3	9,104	8,510
Intangible assets	E2	74,211	45,042
Current tax assets	D5	13,589	13,831
Deferred tax assets	D5	30,308	36,376
Total assets		703,433	686,233
Liabilities			
Payables	E5	75,907	80,375
Provisions	E6	6,802	5,789
Unearned premiums	B4	187,855	175,551
Outstanding claims & additional risk margin	B5	124,060	148,976
Borrowings	C4	14,931	-
Current tax liabilities	D5	229	174
Deferred tax liabilities	D5	991	589
Total liabilities		410,775	411,454
Net assets		292,658	274,779
Equity			
Contributed equity	F1	447,543	447,543
Accumulated losses		(41,504)	(58,077)
Reserves	F2	(115,182)	(116,155)
Total equity attributed to shareholders		290,857	273,311
Non-controlling interest		1,801	1,468
Total equity		292,658	274,779

The consolidated financial statements were approved for issue by the Board on 20 November 2019.

Michael P Stiasny
Chairman

Graham R Stuart
Director

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

Consolidated Statement of Changes in Equity

For the year ended 30 September 2019

	NOTE	ATTRIBUTED TO SHAREHOLDERS			NON-CONTROLLING INTEREST \$000	TOTAL EQUITY \$000	
		CONTRIBUTED EQUITY \$000	ACCUMULATED (LOSSES) PROFIT \$000	RESERVES \$000			TOTAL \$000
Year Ended 30 September 2019							
At the beginning of the year		447,543	(58,077)	(116,155)	273,311	1,468	274,779
Comprehensive income							
Profit for the year		-	16,565	-	16,565	240	16,805
Currency translation differences		-	-	700	700	93	793
Gain on asset revaluation	E3	-	-	305	305	-	305
Deferred income tax relating to asset revaluation	D5.5	-	-	(32)	(32)	-	(32)
Total comprehensive income		-	16,565	973	17,538	333	17,871
Transactions with shareholders							
Other		-	8	-	8	-	8
Total transactions with shareholders		-	8	-	8	-	8
At the end of the year		447,543	(41,504)	(115,182)	290,857	1,801	292,658
Year Ended 30 September 2018							
At the beginning of the year		382,172	(51,299)	(116,454)	214,419	1,325	215,744
Comprehensive income (loss)							
Profit / (loss) for the year		-	(6,773)	-	(6,773)	47	(6,726)
Currency translation differences		-	-	(54)	(54)	96	42
Gain on asset revaluation	E3	-	-	434	434	-	434
Deferred income tax relating to asset revaluation	D5.5	-	-	(81)	(81)	-	(81)
Total comprehensive income / (loss)		-	(6,773)	299	(6,474)	143	(6,331)
Transactions with shareholders							
Net proceeds of capital raise	F1	65,371	-	-	65,371	-	65,371
Other		-	(5)	-	(5)	-	(5)
Total transactions with shareholders		65,371	(5)	-	65,366	-	65,366
At the end of the year		447,543	(58,077)	(116,155)	273,311	1,468	274,779

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

Consolidated Statement of Cash Flows

For the year ended 30 September 2019

	NOTE	2019 \$000	2018 \$000
Cash flows from operating activities			
Premiums received		343,411	319,329
Interest received		8,141	8,010
Net realised investment gain (loss)		42	(605)
Fee and other income received		5,818	5,285
Reinsurance received		18,421	45,780
Reinsurance paid		(55,968)	(52,327)
Claims expenses		(201,663)	(231,843)
Payments to suppliers and employees		(91,095)	(80,614)
Income tax paid		(2,453)	(2,831)
Net cash inflow from operating activities	C6	24,654	10,184
Cash flows from investing activities			
Net payments for financial assets		(36,665)	(6,815)
Payments for purchase of property, plant and equipment and intangible assets		(37,627)	(19,802)
Disposal of property, plant and equipment and intangible assets		-	73
Net cash (outflow) from investing activities		(74,292)	(26,544)
Cash flows from financing activities			
Gross proceeds from issue of share capital	F1	-	70,838
Cost of capital issuance	F1	-	(5,467)
Facility fees and interest paid		(352)	(734)
Repayment of borrowings		-	(30,000)
Proceeds from borrowings		15,000	-
Payment of non-controlling interest dividends		-	-
Net cash inflow from financing activities		14,648	34,637
Net (decrease) increase in cash and cash equivalents		(34,990)	18,277
Effect of foreign exchange rate changes		7	(152)
Cash and cash equivalents at the beginning of year		102,001	83,876
Cash and cash equivalents at the end of the year	C2	67,018	102,001
Accounting policy			
Tower considers that knowledge of gross receipts and payments of financial assets is not essential to understanding certain activities of Tower based on either: the turnover of these items is quick, the amounts are large, and the maturities are short or the value of the sales are immaterial.			

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

Notes to the Consolidated Financial Statements

For the year ended 30 September 2019

Part A – Introduction

This section provides introductory information that is helpful to an overall understanding of the financial statements, including an explanation of Tower's group structure and the areas of critical accounting judgements and estimates included in the financial statements. It also includes a summary of Tower's financial performance by operating segment.

A1 Reporting Entity and Basis of Preparation

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 45 Queen Street, Auckland, New Zealand.

During the periods presented, the principal activity of the Group was 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 20 November 2019. The entity's owners or others do not have power to amend the financial statements after issue.

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.

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) and also New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for Tier 1 for-profit entities.

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

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

Changes in comparatives

Refer to Note G5 for details of change in comparatives. Changes relate to presentation of certain notes only. There is no change to net assets or the 2018 income statement.

A2 Consolidation

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.

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 consolidated income statement, 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.

A2 Consolidation (continued)

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 New Zealand dollars 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 are recognised in the income statement 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 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.

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

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	COUNTRY INCORPORATED IN	HOLDINGS		NATURE OF BUSINESS
		2019	2018	
Incorporated in New Zealand				
Tower Financial Services Group Limited	NZ	100%	100%	Holding company
Tower Insurance Limited	NZ	100%	100%	General insurance
Tower New Zealand Limited	NZ	100%	100%	Management services
Incorporated Overseas				
Tower Insurance (Cook Islands) Limited	Cook Islands	100%	100%	General insurance
Tower Insurance (Fiji) Limited	Fiji	100%	100%	General insurance
Tower Insurance (PNG) Limited	PNG	100%	100%	General insurance
National Pacific Insurance Limited	Samoa	71%	71%	General insurance
Tower Insurance (Vanuatu) Limited	Vanuatu	100%	100%	General insurance

Notes to the Consolidated Financial Statements

For the year ended 30 September 2019

A3 Critical Accounting Judgements and Estimates

The Group makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key areas where critical accounting estimates and judgements have been applied are noted below.

Canterbury earthquake claims estimation

The valuation of net outstanding claims is an area of significant judgement and estimation. Key assumptions are the expected number and cost of new overcap claims and expected costs, including expected building costs, associated with settling existing open claims. Other elements of judgement are the quantum of closed claims reopening, apportionment of claim costs between the four main earthquake events, future claim management expenses and assessment of the risk margin.

Key elements of judgement included within recoveries estimations are: the collectability of reinsurance recoveries; recoveries from EQC in respect of land damage and building costs; and the assessments of risk margin. The nature of estimation uncertainties, including from those factors listed above, mean that actual claims experience may deviate from reported results.

Refer to Note B3 for further detail on the Canterbury Earthquakes.

EQC recoveries

The valuation of the EQC receivable is an area of significant accounting estimation and judgement. The amount received could be more or less, depending on the allocation of liability for damage, the quality of assessment information, the time taken to settle and the risks involved in litigation, therefore the Directors have taken extensive advice from independent experts in confirming the appropriateness of the valuation recorded.

Refer to Note B3 for further detail.

Deferred taxation

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 Insurance Limited and subsidiaries. If future profits do not occur as expected, or there is a significant change in ownership, Tower may not be able to utilise all of these tax losses.

Refer to Note D5 for further detail.

Capitalised IT development costs

Capitalisation of IT development costs is an area of judgement and estimation. The application of NZ IAS 38 Intangible Assets includes accounting considerations required for capitalisation of IT projects. When applying NZ IAS 38, areas of judgement include consideration of recognition, impairment indicators, economic useful life, and previous Board impairment decisions.

Refer to Note E2 for further details on intangible assets.

Goodwill

Goodwill is an area of significant judgement and estimation. Areas of judgement and subjectivity exist in the assessment of cash generating units and assumptions underlying goodwill impairment testing.

Refer to Note E2 for further details of key assumptions used.

A4 Segmental Reporting

	NEW ZEALAND GENERAL INSURANCE \$000	PACIFIC ISLANDS GENERAL INSURANCE \$000	NEW ZEALAND CORPORATE \$000	TOTAL \$000
Year Ended 30 September 2019				
Revenue				
Premium revenue	285,677	59,318	-	344,995
Less: Outwards reinsurance expense	(37,816)	(17,159)	-	(54,975)
Investment revenue	6,106	930	483	7,519
Fee and other revenue	2,042	1,906	1,870	5,818
Net operating revenue	256,009	44,995	2,353	303,357
Profit before interest, tax, depreciation and amortisation				
Interest expense	-	-	(312)	(312)
Depreciation and amortisation	(1,125)	(473)	(6,574)	(8,172)
Profit (loss) before income tax	15,306	12,129	(1,440)	25,995
Income tax credit (expense)	(5,557)	(4,565)	932	(9,190)
Profit (loss) for the year	9,749	7,564	(508)	16,805
Total assets 30 September 2019	480,694	98,455	124,284	703,433
Total liabilities 30 September 2019	334,809	58,842	17,123	410,774
Acquisition of property, plant and equipment and intangibles	652	1,206	36,343	38,201
Year Ended 30 September 2018				
Revenue				
Premium revenue	266,111	56,982	-	323,093
Less: Outwards reinsurance expense	(38,804)	(15,447)	-	(54,251)
Investment revenue	6,061	14	1,050	7,125
Fee and other revenue	1,967	1,625	2,163	5,755
Total revenue	235,335	43,174	3,213	281,722
Profit (loss) before interest, tax, depreciation and amortisation				
Interest expense	-	-	(570)	(570)
Depreciation and amortisation	(1,027)	(482)	(5,186)	(6,695)
Profit (loss) before income tax	(11,617)	3,482	114	(8,021)
Income tax credit (expense)	2,751	(2,016)	560	1,295
Profit (loss) for the year	(8,866)	1,466	674	(6,726)
Total assets 30 September 2018	480,664	95,072	110,497	686,233
Total liabilities 30 September 2018	345,406	63,224	2,824	411,454
Acquisition of property plant and equipment and intangibles	173	603	19,026	19,802

The impairment of reinsurance receivable of \$22.5m in 2018 was incurred in the New Zealand General Insurance segment.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2019

A4 Segmental Reporting (continued)

Accounting policy

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 (CEO) who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance.

Description of segments and other segment information

Tower operates predominantly in two geographical segments, New Zealand and the Pacific region. New Zealand segment comprised general insurance business written in New Zealand. Pacific Islands segment includes general insurance business with customers in Pacific Islands written by Tower subsidiaries and branch operations. New Zealand Corporate includes head office expenses, financing costs, intercompany eliminations and recharges.

The Group does not derive revenue from any individual or entity that represents 10% or more of the Group's total revenue.

Part B – Revenue and Claims

This section provides information about Tower's insurance related financial performance. Tower operates as a general insurance company and its insurance operations drive its performance and financial position.

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

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

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

B1 Premium Revenue

	2019 \$000	2018 \$000
Gross written premiums	356,767	336,109
Less: Gross unearned premiums	(11,772)	(13,016)
Premium revenue	344,995	323,093

Accounting policy

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract. The proportion of premiums not earned in the income statement at reporting date is recognised in the balance sheet as unearned premiums.

Premiums ceded to reinsurers under reinsurance contracts are recorded as outwards reinsurance expense and are recognised over the period of the reinsurance contract. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment.

B2 Net Claims Expense

	NOTE	2019 \$000	2018 \$000
Canterbury earthquake claims (4 key events)	B3	8,400	10,100
Additional risk margin release	B3	–	(5,000)
Other claims		167,314	171,532
Total net claims expense		175,714	176,632

Accounting policy

Claims expense is recognised when claims are notified. Provision is made for the estimated cost of claims incurred but not settled at balance date, including the cost of claims incurred but not yet reported (IBNR) to the Group.

The estimated cost of claims includes direct expenses incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR claims may not be apparent to the insured until many years after the events giving rise to the claims have happened. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based on statistical analyses of historical experience, which assumes that the development pattern of current claims will be consistent with past experience. Allowance is made for changes or uncertainties which may create distortions in underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Group processes which might accelerate or slow down the development and (or) recording of paid or incurred claims, compared with statistics from previous periods;
- the effects of inflation; and
- the impact of large losses

A component of these estimation techniques is the estimation of the cost of notified but not paid claims. In estimating the cost of these, the Group has regard to the claim circumstances reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Provisions are calculated net of any reinsurance recoveries. Gross provisions are estimated by adding the expected reinsurance recovery to the net provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note B5.

Reinsurance and other recoveries on claims expense are recognised as revenue. Recoveries are measured as the present value of expected future receipts.

B3 Canterbury Earthquakes

As at 30 September 2019 Tower has 109 claims remaining to settle (2018: 163 claims) as a result of earthquakes impacting the Canterbury region during 2010 and 2011.

The table below presents a financial representation of Tower's outstanding claims provision at 30 September 2019 in relation to the four main earthquake events.

Canterbury earthquake insurance liability provisions

	2019 \$000	2018 \$000
Insurance liabilities		
Gross outstanding claims	(46,600)	(67,900)
Additional risk margin	(5,000)	(5,000)
	(51,600)	(72,900)

The Board is actively engaged in monitoring Canterbury earthquake developments. Board process relies on the Appointed Actuary's determination of earthquake ultimate incurred claims estimates and the derivation of estimated outcomes. Recognising relative complexities which exist within remaining open claims, the Appointed Actuary has reviewed each remaining property file with Tower claims staff. This individual claim methodology included review of the latest specialist assessment reports and scope of works to repair or rebuild properties to determine the propensity for future costs to vary. In addition, further provision was made for claims re-opening; claims moving over the EQC cap of \$100,000; claims in litigation and other claim categories.

Given the nature of estimation uncertainties (including those listed above) actual claims experience may still deviate, perhaps substantially, from the gross outstanding claims liabilities recorded as at 30 September 2019. Any further changes to estimates will be recorded in the accounting period when they become known.

Notes to the Consolidated **Financial Statements**

For the year ended 30 September 2019

B3 Canterbury Earthquakes (continued)

Additional risk margin

As at 30 September 2019, the Board has maintained an additional risk margin of \$5.0m (30 September 2018: \$5.0m) over and above the provision of the Appointed Actuary, which is set at the 75th percentile probability of sufficiency. The Board will continue to review this additional risk margin each half year and the \$5.0m is expected to be released once the Canterbury outstanding claims liability has sufficiently run off.

The table below presents a financial representation of Tower's outstanding reinsurance receivables at 30 September 2019 in relation to the four main earthquake events.

Canterbury earthquake reinsurance receivables

	2019 \$000	2018 \$000
Reinsurance recovery receivables	3,900	7,100
Reinsurance recoveries on risk margin	900	800
Receivable from reinsurers	4,800	7,900

EQC recovery receivable

Tower has recognised a receivable of \$69.9m from the EQC (2018: \$68.4m) related to the Canterbury earthquake claims. This receivable is a disputed amount, and is largely the result of differences between the Tower and EQC approaches to allocation of damage to properties across the four Canterbury events.

Tower assesses claims and apportions damage between Canterbury earthquake events on an individual property basis. The allocation process uses a hierarchical approach based on the relative quality and number of claim assessments completed after each of the four main earthquakes. Results from the hierarchical approach are used as an input to the actuarial valuations which estimate the ultimate claims costs.

For each claim to which additional EQC recoveries relate, Tower has allocated recoverable amounts according to the quality of information and evidence available. Claims with primary evidence (e.g. independent expert documentation) have been assessed as having a strong position for recovery. Claims with non-primary evidence (e.g. general documentation like post code analysis or adjacent locations) will have a lower likelihood of recovery.

Tower's approach to allocation is based on extensive advice from independent experts (both external legal advisers and technical experts) including the modelling of damage for properties where primary evidence is very limited or not held. Tower's position is that: (a) there is a portfolio of approximately 3,000 properties in respect of which Tower made payments and where a reallocation is required, and (b) within that portfolio, there are a significant number of properties where part of Tower's contribution ought to have been made by EQC instead.

Tower's estimate of the gross amount receivable from EQC is, based on independent expert review, higher than the reported \$69.9m. The Appointed Actuary has reviewed the independent experts' allocations for reasonableness, and then applied actuarial approaches that recognise the inherent risk and uncertainty in the recovery of the gross amount receivable to determine a central estimate. The Appointed Actuary then applied a risk margin of \$9.4m to arrive at a 75th percentile probability of recovery (2018: \$10.1m).

The resultant valuation is that which is carried in the financial statements, and includes an allowance for anticipated future legal costs. The valuation does not include any allowance for interest and certain other costs that the EQC may be required to pay Tower, which would be additional to the final principal amount for which EQC may be liable.

\$16.9m of the receivable from EQC is payable to reinsurers if the full amount is recovered. This has been allowed for in payables (2018: \$16.4m).

Tower acknowledges that the EQC receivable is an area of significant accounting estimation and judgement. The amount received could be more or less, depending on the allocation of liability for damage between the four events and between EQC and Tower, the quality of assessment information available in respect of each property, the time taken to settle with EQC, and the risks involved in litigation.

While Tower has issued proceedings against the EQC in regards to land damage and is currently seeking to settle the building dispute using an alternative dispute resolution process, there remains a prospect of continued (land recoveries) and new (building recoveries) litigation against the EQC which would take time.

While the Directors have taken extensive advice from independent experts in determining the appropriateness of the valuation recorded, it should be noted that the inherent risk and uncertainty in the recovery of the receivable is such that there remains risk that any amount ultimately recovered may be less than the amount of the receivable carried in the financial statements.

EQC recovery receivable

	NOTE	2019 \$000	2018 \$000
EQC related to closed claims		77,300	74,000
EQC related to open claims		2,000	4,500
Risk margin on EQC receivable		(9,400)	(10,100)
Receivable from EQC		69,900	68,400
EQC payable to reinsurers on closed claims		(18,700)	(17,900)
EQC payable to reinsurers on open claims		(500)	(1,000)
Risk margin on EQC payable to reinsurers		2,300	2,500
EQC payable to reinsurers		(16,900)	(16,400)
Receivable from EQC net of reinsurance		53,000	52,000

Cumulative impact of Canterbury earthquakes

The following table presents the cumulative impact of the four main Canterbury earthquake events on the income statement.

	NOTE	2019 \$000	2018 \$000
Cumulative expenses associated with Canterbury earthquakes:			
Earthquake claims estimate		(916,890)	(905,840)
Reinsurance recoveries including EQC		725,823	723,173
Claim expense net of reinsurance recoveries		(191,067)	(182,667)
Reinsurance expense		(25,045)	(25,045)
Additional risk margin		(5,000)	(5,000)
Cumulative impact of Canterbury earthquakes before tax		(221,112)	(212,712)
Income tax		62,580	60,228
Cumulative impact of Canterbury earthquakes after tax		(158,532)	(152,484)
Recognised in current period (net of tax)			
Net claims expense	B2	(6,048)	(7,272)
Additional risk margin release	B2	–	3,600
Impairment of receivables	D2	–	(15,660)
		(6,048)	(19,332)

The catastrophe reinsurance cover headroom remaining is included in the table below.

	CATASTROPHE REINSURANCE COVER REMAINING	
Date of event	2019 \$000	2018 \$000
June 2011	253,300	255,700
December 2011	486,600	486,900

Tower has exceeded its catastrophe reinsurance limit in relation to the September 2010 and February 2011 events.

Notes to the Consolidated **Financial Statements**

For the year ended 30 September 2019

B3 Canterbury Earthquakes (continued)

Sensitivity analysis – impact of changes in key variables

Net outstanding claims are comprised of several key elements, as described earlier in this note. Sensitivity of net outstanding claims is therefore driven by changes to the assumptions underpinning each of these elements. The impact of changes in significant assumptions on the net outstanding claims liabilities, and hence on Tower's profit, are shown in the table below. Each change in assumption has been calculated in isolation of any other changes in assumptions.

The impact of a change to claims costs is offset by reinsurance where there is reinsurance capacity remaining. The impact will be nil where the change in claims costs is less than the remaining reinsurance capacity. However, if the change in claims costs exceeds the reinsurance capacity then Tower's profit will be impacted by the amount of claims costs in excess of the reinsurance capacity.

The changes in the table below reflect the impact on Tower's profits should that event occur.

	CHANGE VARIABLE	SPLIT BETWEEN EVENTS				FOUR MAIN EARTHQUAKES	
		SEP 2010 \$M	FEB 2011 \$M	JUN 2011 \$M	DEC 2011 \$M	30-SEP-19 \$M	30-SEP-18 \$M
Outstanding claims:							
(i) Change to costs arising from new overcap claims	+ 50%	(1.6)	(2.9)	-	-	(4.5)	(0.9)
	- 50%	1.6	2.8	-	-	4.4	0.9
(ii) Changes to expected claims costs for open claims	+ 20%	(1.5)	(3.6)	-	-	(5.1)	(10.0)
	- 20%	1.5	3.6	-	-	5.1	9.9
Receivables:							
Reinsurance recovery receivables							
(iii) Recoveries from EQC in respect of land damage	+ 20%	0.1	1.2	-	-	1.3	1.6
	- 20%	(0.1)	(1.2)	-	-	(1.3)	(1.6)
(iv) Recoveries from EQC in respect of building costs	+ 20%	7.1	2.1	-	-	9.2	8.8
	- 20%	(7.2)	(2.1)	-	-	(9.3)	(8.8)

- (i) The volume of new overcap claims received from the EQC (i.e. claims above the EQC limit) is a source of uncertainty. This sensitivity is calculated as future new overcaps ultimately being +/- 50% to that currently in the Canterbury earthquake insurance liability provisions.
- (ii) Unexpected development of open claims is also a source of uncertainty. This sensitivity is calculated as the outstanding cost of open claims being +/- 20% to that currently in the Canterbury earthquake insurance liability provisions.
- (iii) & (iv) As outlined in note B3, the EQC Receivable is a source of significant uncertainty. A number of factors could vary the ultimate amount received from EQC including, but not limited to, (a) changes in apportionment of damage across events, and (b) differences in assessment of liability for damage across properties. This sensitivity is calculated as the ultimate amount received from EQC being +/- 20% to that currently carried in the financial statements.

B4 Unearned Premiums

	2019 \$000	2018 \$000
Opening balance	175,551	162,342
Premiums written	356,767	336,109
Premiums earned	(344,995)	(323,093)
Foreign exchange movements	532	193
Closing balance	187,855	175,551

The majority of unearned premiums is a current liability as at 30 September 2019.

Accounting policy

Liability adequacy testing is performed in order to recognise any deficiencies in the income statement arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance conditions. Liability adequacy testing is performed at a portfolio level of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

B5 Other Insurance Disclosures**B5.1 Net claims expense**

	2019			2018		
	RISKS BORNE IN CURRENT YEAR \$000	RISKS BORNE IN PRIOR YEARS \$000	TOTAL \$000	RISKS BORNE IN CURRENT YEAR \$000	RISKS BORNE IN PRIOR YEARS \$000	TOTAL \$000
Gross claims expense						
Direct claims – undiscounted	177,786	12,913	190,699	188,452	12,035	200,487
Movement in discount	-	-	-	(60)	40	(20)
Total gross claims expense	177,786	12,913	190,699	188,392	12,075	200,467
Reinsurance and other recoveries						
Reinsurance and other recoveries – undiscounted	(9,793)	(5,192)	(14,985)	(20,073)	(3,762)	(23,835)
Movement in discount	-	-	-	-	-	-
Total reinsurance recoveries	(9,793)	(5,192)	(14,985)	(20,073)	(3,762)	(23,835)
Net claims expense	167,993	7,721	175,714	168,319	8,313	176,632

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years including those arising due to the Canterbury earthquakes. Refer to Notes B2 and B3.

B5.2 Outstanding claims**(a) Assumptions adopted in calculation of insurance liabilities**

The estimation of outstanding claims as at 30 September 2019 has been carried out by the following Actuaries:

Rick Shaw, B.Sc. (Hons), FIAA, Appointed Actuary; and
John Feyter, B.Sc., FNZSA.

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.

Notes to the Consolidated **Financial Statements**For the **year** ended 30 September 2019

B5 Other Insurance Disclosures (continued)

The following assumptions have been made in determining net outstanding claims liabilities (excluding Canterbury earthquakes):

	2019	2018
Inflation rates varied from	0.0%	0.0%
Inflation rates for succeeding year	0.0%	0.0%
Inflation rates for following years	0.0%	0.0%
Discount rates varied from	0.0%	0.0% – 2.5%
Discount rates for succeeding year	0.0%	0.0% – 2.5%
Discount rates for following years	0.0%	0.0% – 2.5%
Weighted average claims handling expense ratio	7.2%	5.5%
Weighted average risk margin	6.8%	8.6%

Please refer to Note B3 for details on Canterbury earthquakes.

The weighted average expected term to settlement of outstanding claims (except for Canterbury earthquake claims) based on historical trends is:

	2019	2018
Short tail claims within 1 year	within 1 year	within 1 year
Long tail claims in the Pacific Islands	1.0 to 1.8 years	1.0 to 1.8 years

Inflation and discount rate

Insurance costs are subject to inflationary pressures. The valuation implicitly assumes that future inflation will be similar to that experienced in recent years. Nil explicit additional inflation has been assumed. Similarly a nil discount rate has been used.

Claims handling expense

The estimate of outstanding claim liabilities incorporates an allowance for the future cost of administering the claims. This allowance is determined after analysing historical claim related expenses incurred by the classes of business.

Risk margin

The outstanding claim liabilities also include a risk margin that relates to the inherent uncertainty in the central estimate of the future payments.

Risk margins are determined on a basis that reflects the business. Regard is given to the robustness of the valuation models, the reliability and volume of available data, past experience of the insurer and the industry, and the characteristics of the classes of business written.

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

Risk margins are calculated by jurisdiction. The risk margin for all classes when aggregated is less than the sum of the individual risk margins. This reflects the benefit of diversification. The measure of the parameter used to derive the diversification benefit is referred to as correlation, which is adopted with regard to industry analysis, historical experience and actuarial judgement.

The risk margins applied to future claims payments are determined with the objective of achieving 75% probability of sufficiency for both the outstanding claims liability and the unexpired risk liability.

B5 Other Insurance Disclosures (continued)

The following analysis is in respect of the insurance liabilities:

	2019 \$000	2018 \$000
Central estimate of expected present value of future payments for claims incurred	87,017	95,425
Risk margin	11,562	12,936
Additional risk margin – Canterbury	5,000	5,000
Claims handling costs	7,024	6,901
	110,603	120,262
Discount	–	(271)
Net outstanding claims	110,603	119,991

Reconciliation of movements in discounted outstanding claim liabilities

	2019			2018		
	GROSS \$000	REINSURANCE \$000	NET \$000	GROSS \$000	REINSURANCE \$000	NET \$000
Balance brought forward	148,976	(28,985)	119,991	181,156	(33,429)	147,727
Effect of change in foreign exchange rates	489	(368)	121	71	(99)	(28)
Incurred claims recognised in the income statement	190,699	(14,985)	175,714	200,467	(23,835)	176,632
Claims paid and reinsurance recoveries raised	(216,104)	30,881	(185,223)	(232,718)	28,378	(204,340)
Total outstanding claims	124,060	(13,457)	110,603	148,976	(28,985)	119,991

Reconciliation of movements in undiscounted claims to outstanding claim liabilities

	2019			2018		
	GROSS \$000	REINSURANCE \$000	NET \$000	GROSS \$000	REINSURANCE \$000	NET \$000
Long tail outstanding claims	4,460	(79)	4,381	3,461	(80)	3,381
Short tail outstanding claims	119,600	(13,378)	106,222	145,515	(28,905)	116,610
Total outstanding claims	124,060	(13,457)	110,603	148,976	(28,985)	119,991

Accounting policy

Outstanding claims are calculated at the central estimate of the present value of expected future payments allowing for inflation implicit in historical trends. There is no discounting applied. A risk margin is added to the claims provision to recognise the inherent uncertainty of the central estimate and to ensure provision is at least at 75% probability of sufficiency.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs. Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

Notes to the Consolidated **Financial Statements**For the **year** ended 30 September 2019

B5 Other Insurance Disclosures (continued)

(b) Sensitivity analysis

The Group's insurance business is generally short tail in nature. Key sensitivities relate to the volume of claims, in particular for significant events such as earthquakes or extreme weather.

The Group has exposure to historical inwards reinsurance business which is in run off. While this business is not material, it is sensitive to claims experience, timing of claims and changes in assumptions. Movement in these variables does not have a material impact on the performance and equity of the Group.

(c) Future net cash out flows

The following table shows the expected run-off pattern of net outstanding claims:

	2019 \$000	2018 \$000
Expected claim payments		
Within 3 months	46,797	50,771
3 to 6 months	24,430	25,762
6 to 12 months	16,957	17,955
After 12 months	22,419	25,503
Total outstanding claim liabilities	110,603	119,991

B5.3 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:

ULTIMATE CLAIMS COST ESTIMATE	PRIOR \$000	2015 \$000	2016 \$000	2017 \$000	2018 \$000	2019 \$000	TOTAL \$000
At end of incident year		125,260	130,904	139,670	144,337	147,526	
One year later		126,431	129,629	141,577	142,126		
Two years later		126,267	131,713	142,946			
Three years later		127,746	131,446				
Four years later		127,243					
Current estimate of ultimate claims cost		127,243	131,446	142,946	142,126	147,526	
Cumulative payments		(126,781)	(129,768)	(140,951)	(137,420)	(102,854)	
Undiscounted central estimate	33,504	462	1,678	1,995	4,706	44,672	87,017
Claims handling expense							7,024
Risk margin							11,562
Additional risk margin – Canterbury							5,000
Net outstanding claim liabilities							110,603
Reinsurance recoveries on outstanding claim liabilities and other recoveries							13,457
Gross outstanding claim liabilities							124,060

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

B5 Other Insurance Disclosures (continued)

B5.4 Liability adequacy test

Liability adequacy tests are performed for each country to determine whether the unearned premium liability is sufficient to cover the present value of the expected cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claims handling costs and other administration costs relating to the business.

If the unearned premium liability less related deferred acquisition costs exceeds the present value of expected future cash flows plus additional risk margin then the unearned premium liability is deemed to be adequate. The risk margins applied to future claims were determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability using the methodology described above. The unearned premium liabilities as at 30 September 2019 were sufficient for all businesses except Fiji and NPI where small deficits were recognised. The total deficit recognised as a charge against deferred acquisition cost was \$331,000 (2018: sufficient).

	2019 %	2018 %
Central estimate claim % of premium	42.9%	44.9%
Risk margin	10.0%	11.3%

Refer to Note B5.3 for additional information on central estimate and risk margin.

B5.5 Insurer financial strength rating

Tower Insurance Limited has an insurer financial strength rating of 'A-' (Excellent), stable outlook, issued by international rating agency AM Best Company Inc. with an effective date of 8 March 2019.

B5.6 Reinsurance programme

Reinsurance programmes are 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.

B5.7 Assets backing insurance business

The Group has determined that all assets within its insurance companies are held to back insurance liabilities, with the exception of property, plant and equipment and 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 this basis.

B5.8 Underwriting Profit

	2019 \$000	2018 \$000
Gross written premium	356,767	336,109
Gross earned premium	344,995	323,093
Reinsurance expense	(54,975)	(54,251)
Net premium revenue	290,020	268,842
Net claims expense	(175,714)	(176,632)
Management expenses related to underwriting	(77,603)	(68,013)
Sales commission expenses	(20,252)	(19,488)
Underwriting profit	16,451	4,709

Notes to the Consolidated **Financial Statements**For the **year** ended 30 September 2019**Part C – Financial Instruments and Liquidity**

Funds provided by shareholders and collected as premiums are invested by Tower, providing a financial return and also ensuring that Tower's obligations to pay claims and expenses can be met.

This section provides information about Tower's financial instruments, including information about the cash and investments that Tower holds, its approach to managing risk for these financial instruments, and its cash flows.

C1 Investment Revenue

	2019 \$000	2018 \$000
Fixed interest securities		
Interest income	8,141	8,010
Net realised gain (loss)	(262)	146
Net unrealised gain (loss)	(333)	596
Total fixed interest securities	7,546	8,752
Equity securities		
Net unrealised gain (loss)	-	(745)
Total equity securities	-	(745)
Property securities		
Net unrealised gain (loss)	-	-
Total property securities	-	-
Other		
Net realised gain (loss)	304	(751)
Net unrealised gain (loss)	(331)	(131)
Total other	(27)	(882)
Total investment revenue	8,141	8,010
Total net realised gain (loss)	42	(605)
Total net unrealised gain (loss)	(664)	(280)
Total investment revenue	7,519	7,125

Accounting policy

Investment revenue is recognised as follows:

(i) Interest income on fixed interest securities

Interest income is recognised using the effective interest method.

(ii) Fair value gains and losses

Fair value gains and losses on investments are recognised through the income statement in the period in which they arise. The gains and losses from fixed interest and equity securities have been generated by financial assets designated on initial recognition at fair value through profit or loss. Other investment gains and losses have been generated by derivative financial assets and financial liabilities classified at fair value through profit or loss.

C2 Cash and Cash Equivalents

	2019 \$000	2018 \$000
Cash at bank and in hand	34,563	45,986
Deposits at call	31,428	55,561
Restricted cash	1,027	454
Total cash and cash equivalents	67,018	102,001

Accounting policy

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

The average interest rate at 30 September 2019 for deposits at call is 1.74% (2018: 2.25%). There was no offsetting within cash and cash equivalents (2018: nil).

Restricted cash

Tower is a party to the Canterbury Earthquake Shared Property Process – Insurer Contract (SPP) which sets out obligations for insurers and appoints a lead insurer to act on behalf of other insurers with respect to the repair and rebuild of shared properties (known as multi-units). As lead insurer on Canterbury multi-unit repairs or rebuilds, Tower receives cash from other insurance companies as settlement of their obligations under building contracts covered within the SPP. Tower separately holds this cash on behalf of other insurers in a segregated bank account.

At 30 September, Tower was holding \$1.0m (2018: \$0.5m) cash in respect of multi-unit claims as lead insurer on Canterbury claims. This is recognised within Cash and cash equivalents on the balance sheet. Related to this are corresponding amounts being \$0.3m (2018: \$0.2m) recorded within Insurance liabilities for Tower's portion of multi-unit outstanding claims; and \$0.7m (2018: \$0.3m) recorded within Payables as held on behalf of other insurers in respect of SPP claims.

C3 Investment Assets

	2019 \$000	2018 \$000
Fixed interest securities	228,527	197,367
Equity securities	611	599
Property securities	34	34
Total investment assets	229,172	198,000

Notes to the Consolidated **Financial Statements**

For the year ended 30 September 2019

C4 Borrowings

	CURRENCY	INTEREST RATE	ROLLOVER DATE (DRAWN) / MATURITY DATE (UNDRAWN)	FACE VALUE \$000	UNAMORTISED COSTS \$000	CARRYING VALUE \$000	FAIR VALUE \$000
As at 30 September 2019							
Bank facilities (drawn)	NZD	3.60%	11-Oct-19	5,000	-	5,000	5,001
Bank facilities (drawn)	NZD	3.14%	16-Dec-19	5,000	-	5,000	5,000
Bank facilities (drawn)	NZD	3.15%	31-Dec-19	5,000	-	5,000	5,000
Bank facilities (undrawn)	NZD	Variable	27-Mar-23	15,000	(69)	(69)	-
Total borrowings					(69)	14,931	15,001
As at 30 September 2018							
Bank facilities (undrawn)	NZD	Variable	9-Sep-19	50,000	-	-	-
Total borrowings					-	-	-

	2019 \$000	2018 \$000
Analysed as		
Current	14,931	-
Non current	-	-
Total borrowings	14,931	-

Accounting policy

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. The fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

The following table represents the change in borrowings:

	2019 \$000	2018 \$000
Opening balance	-	30,000
Drawdown of credit facility	15,000	-
Repayment of credit facility	-	(30,000)
Closing balance	15,000	-

Standby credit facility

During March 2019, the Company entered into a new \$30.0m cash advance facility with Bank of New Zealand. This new general facility is primarily for the development and acquisition of Tower's information technology platforms, software and related assets. The facility limit will decrease from the initial \$30.0m to \$25.0m on 1 July 2020; to \$20.0m on 1 July 2021; and to \$15.0m on 1 July 2022.

All borrowings are unsecured. They are subject to terms and conditions, including financial covenants, that are normal market practice for facilities of this nature. The Company has fully complied with all covenants during the year ended 30 September 2019.

C5 Financial Instruments**C5.1 Financial instrument categories****Accounting policy**

Financial assets and liabilities are classified in the following categories: at fair value through profit or loss; financial assets at amortised cost; and financial liabilities at amortised cost. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition.

(i) Financial assets at amortised cost

Financial assets at amortised cost are measured initially at fair value plus transaction costs and subsequently at amortised cost using the effective interest method less any impairment. Financial assets within the scope of NZ IFRS 9 are managed to collect contractual cash flows and their contractual terms generate cash flows that are solely payments of principal (and interest, if any).

The Group's financial assets at amortised cost comprise trade and other receivables and cash and cash equivalents (held by the Corporate entities). They are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

(ii) Financial liabilities at amortised cost

Financial liabilities at amortised cost are measured initially at fair value plus transaction costs and subsequently at amortised cost less any impairment. There was no change to this categorisation as a result of the transition to NZ IFRS 9.

The Group's financial liabilities at amortised cost comprise debt facilities and trade and other payables. They are non-derivative financial liabilities with fixed or determinable payments that are not quoted on an active market.

(iii) Financial assets and liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss (i.e. investments) are stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement includes any dividend or interest earned on the financial assets. Assets that are subsequently measured at their fair value through profit or loss are not subject to impairment considerations under the expected credit loss model of NZ IFRS 9.

A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Designation by management takes place when it is necessary to eliminate or significantly reduce measurement or recognition inconsistencies or if related financial assets or liabilities are managed and evaluated on a fair value basis. Tower's financial instruments that are classified at fair value through profit or loss on initial recognition, and which are subsequently re-measured to fair value at each reporting date, are classified on this basis because they back general insurance liabilities and measuring them at fair value significantly reduces a potential measurement inconsistency which would arise if the assets were measured at amortised cost or fair value through other comprehensive income.

All derivatives entered into by the Group are categorised at fair value through profit or loss unless they are designated as hedges.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(v) Derecognition

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Notes to the Consolidated **Financial Statements**

For the year ended 30 September 2019

C5 Financial Instruments (continued)

The analysis of financial assets and liabilities into their categories and classes is set out in the following tables:

	AT AMORTISED COST			AT FAIR VALUE THROUGH PROFIT OR LOSS	
	TOTAL \$000	FINANCIAL ASSETS \$000	FINANCIAL LIABILITIES \$000	FINANCIAL ASSETS \$000	FINANCIAL LIABILITIES \$000
As at 30 September 2019					
Assets					
Cash and cash equivalents	67,018	10,906	-	56,112	-
Trade and other receivables	253,023	253,023	-	-	-
Investments	229,172	-	-	229,172	-
Derivative financial assets	-	-	-	-	-
Total financial assets	549,213	263,929	-	285,284	-
Liabilities					
Trade and other payables	42,146	-	42,146	-	-
Borrowings	14,931	-	14,931	-	-
Total financial liabilities	57,077	-	57,077	-	-

	AT AMORTISED COST			AT FAIR VALUE THROUGH PROFIT OR LOSS	
	TOTAL \$000	FINANCIAL ASSETS \$000	FINANCIAL LIABILITIES \$000	FINANCIAL ASSETS \$000	FINANCIAL LIABILITIES \$000
As at 30 September 2018					
Assets					
Cash and cash equivalents	102,001	27,095	-	74,906	-
Trade and other receivables	255,779	255,779	-	-	-
Investments	198,000	-	-	198,000	-
Derivative financial assets	271	-	-	271	-
Total financial assets	556,051	282,874	-	273,177	-
Liabilities					
Trade and other payables	50,590	-	50,590	-	-
Borrowings	-	-	-	-	-
Total financial liabilities	50,590	-	50,590	-	-

Accounting policy

Cash and cash equivalents held by Tower are financial assets which are within the scope of NZ IFRS 9. The classification has been established based on the assessment of business model and the contractual cash flow characteristics of the cash and cash equivalents held.

Cash and cash equivalents held by Tower's corporate entities are held in order to collect contractual cash flows and give rise to cash flows that are solely payments of principal and interest therefore classified at amortised cost.

Cash and cash equivalents held by Tower's insurance companies are held in order to back general insurance liabilities and meet its obligations and therefore classified at fair value through profit or loss.

C5 Financial Instruments (continued)

C5.2 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Refer below for details of valuation methods and assumptions used for each category of financial assets and liabilities.

(i) Cash and cash equivalents

The carrying amount of cash and cash equivalents reasonably approximates its fair value.

(ii) Financial assets at fair value through profit or loss

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The following fair value measurements are used:

- The fair value of fixed interest securities is based on the maturity profile and price/yield.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

(iii) Financial assets and other financial liabilities held at amortised cost

Carrying values of financial assets, adjusted for impairment values, and carrying values of other financial liabilities held at amortised cost reasonably approximate their fair values.

(iv) Derivative financial assets and liabilities

The fair value of derivative financial assets and liabilities is determined by reference to market accepted valuation techniques using observable market inputs.

Notes to the Consolidated **Financial Statements**For the **year** ended 30 September 2019

C5 Financial Instruments (continued)

The following tables present the Group's assets and liabilities categorised by fair value measurement hierarchy levels.

	TOTAL \$000	LEVEL 1 \$000	LEVEL 2 \$000	LEVEL 3 \$000
As at 30 September 2019				
Assets				
Investment in equity securities	611	-	-	611
Investments in fixed interest securities	228,527	-	228,527	-
Investments in property securities	34	-	34	-
Investments	229,172	-	228,561	611
Derivative financial assets	-	-	-	-
Total financial assets	229,172	-	228,561	611
As at 30 September 2018				
Assets				
Investment in equity securities	599	-	-	599
Investments in fixed interest securities	197,367	-	197,367	-
Investments in property securities	34	-	34	-
Investments	198,000	-	197,401	599
Derivative financial assets	271	-	271	-
Total financial assets	198,271	-	197,672	599

The Level 3 category includes investment in equity securities of \$611,000 (2018: \$599,000). This investment is in unlisted shares of a company which provides reinsurance to Tower. The fair value is calculated based on the net assets of the company from the most recently available financial information, adjusted for market conditions. The following table represents the changes in Level 3 instruments:

	INVESTMENT IN EQUITY SECURITIES	
	2019 \$000	2018 \$000
Opening balance	599	1,412
Total gains and losses recognised in profit or loss	-	(745)
Foreign currency movement	12	(46)
Disposals	-	(22)
Closing balance	611	599

The following table shows the impact of increasing or decreasing the combined inputs used to determine the fair value of the investment by 10%:

	CARRYING AMOUNT \$000	FAVOURABLE CHANGES OF 10%	UNFAVOURABLE CHANGES OF 10%
As at 30 September 2019			
Investment in equity securities	611	61	(61)
As at 30 September 2018			
Investment in equity securities	599	60	(60)

C5 Financial Instruments (continued)

C5.3 Impairment of financial assets

Accounting policy

Financial assets, with the exception of those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. NZ IFRS 9 requires entities to estimate and account for expected credit losses (ECL) for all relevant financial assets not at fair value through profit and loss (FVTPL). The group has adopted and applied the simplified model for ECL on trade receivables. Premium and reinsurance receivables are accounted for in accordance with NZ IFRS 4.

For financial assets carried at amortised cost, the impairment is calculated as a provision for expected credit losses (ECLs). The provision for ECLs is based on the difference between the cash flows due in accordance with the contract and the cash flows that Tower expects to receive. Any shortfall is discounted at an approximation to the asset's original effective interest rate. The assessment of ECLs is performed based on historical credit loss experience adjusted for forward-looking factors specific to debtors and the economic environment.

For all financial assets, other than trade receivables, the carrying amount is reduced by the impairment loss directly. For trade receivables the carrying amount is reduced via a provision account, against which an uncollectible trade receivable is written off.

A trade receivable is deemed to be uncollectible upon receipt of evidence that the Group will be unable to collect the amount. Changes in the carrying amount of the provision account are recognised in the income statement.

A previously recognised impairment loss is reversed when, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was initially recognised.

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are credited against the provision for credit losses and impairment.

C6 Reconciliation of Profit / (Loss) for the Period to Net Cash Flows From Operating Activities

	2019 \$000	2018 \$000
Profit (loss) for the year	16,805	(6,726)
Adjusted for non-cash items		
Depreciation of property, plant and equipment	1,598	1,499
Amortisation of software	6,572	5,195
Impairment of reinsurance receivables	-	21,750
Unrealised loss on financial assets	664	280
Movement on disposal of property, plant and equipment	-	(50)
Change in deferred tax	6,439	(3,404)
	15,273	25,270
Adjusted for movements in working capital (excluding the effects of exchange differences on consolidation)		
Change in receivables	(2,012)	4,907
Change in payables	(6,061)	(13,279)
Change in taxation	297	(722)
	(7,776)	(9,094)
Adjusted for other items classified as investing / financing activities		
Facility fees and interest paid	352	734
	352	734
Net cash inflows from operating activities	24,654	10,184

Notes to the Consolidated **Financial Statements**For the **year** ended 30 September 2019**Part D – Management Expenses and Taxation**

To grow and operate its business, Tower incurs management expenses, including payments to employees, suppliers and commission payments to third parties.

This section includes information about Tower's management expenses and taxation.

D1 Analysis of Expenses

	2019 \$000	2018 \$000
Employee benefits expense ⁽¹⁾	64,653	59,610
Sales commission expense	20,252	19,488
Administration expense	17,509	13,276
Marketing expense	8,770	7,411
Amortisation of software	6,579	5,195
Lease expenses	4,245	3,393
Other expenses	2,436	3,341
Depreciation	1,591	1,499
Auditors fees	600	603
Directors' fees	584	515
Acquisition proposal expenses	–	302
Bad debts written off	52	232
(Gain) on disposal of property, plant and equipment	(20)	(50)
Net change in indirect deferred acquisition costs	(968)	(1,634)
Claims related management expenses reclassified to claims expense ⁽²⁾	(24,947)	(23,151)
Total management and sales expenses	101,336	90,030

(1) Personnel costs are net of capitalised labour costs of \$19.2m (2018: \$10.8m) in relation to internally generated software assets.

(2) Claims handling expenses do not include costs in relation to Kaikoura earthquake or Canterbury earthquake related claims, as these are charged to provisions created in previous years.

D2 Impairment of Reinsurance Receivable

On 28 February 2018, Tower Limited announced it had entered into a settlement agreement with Peak Re regarding an adverse development cover policy entered into in 2015. Under the settlement agreement Tower received \$22.0m of the \$43.75m claimed under the reinsurance contract and all sums claimed in the arbitration proceeding. This has resulted in a write off of the residual amount of \$21.75m. This amount along with associated professional fees of \$0.76m have been recorded in the Consolidated Income Statement as Impairment of reinsurance receivables.

No impairment expense has been recognised in 2019.

D3 Deferred Acquisition Costs

	2019 \$000	2018 \$000
Balance at the beginning of year	22,595	20,961
Acquisition costs during the year	44,977	39,555
Current period amortisation	(43,836)	(37,921)
Total deferred acquisition costs	23,736	22,595
Analysed as:		
Current	23,736	22,595
Non-current	–	–
Total deferred acquisition costs	23,736	22,595

Accounting Policy

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

D4 Operating Leases

	2019 \$000	2018 \$000
As lessee		
Rent payable to the end of the lease terms are:		
Not later than one year	3,025	3,286
Later than one year and not later than five years	6,777	7,701
Later than five years	–	–
	9,802	10,987

Accounting policy

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the services are received over the period of the lease. Operating lease payments represent future rentals payable for office space under current leases. Initial leases were for an average of four years with rental rates reviewed every one to three years.

Notes to the Consolidated **Financial Statements**For the **year** ended 30 September 2019**D5 Tax****Accounting Policy****Current tax**

Current tax is the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted for each jurisdiction. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Income tax expense

The income tax expense is the tax payable on taxable income for the current period, based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

GST

All revenues, expenses and certain assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

Tax consolidation

Tower Limited and its subsidiaries are part of a single consolidated group for New Zealand tax purposes, with the exception of Tower Insurance Limited.

Tax cash flows

Tax cash flows are included in the statements of cash flows on a net basis other than to the extent that the GST is not recoverable and has been included in the expense or asset.

Imputation credit account

The balance of the imputation account at the end of the year is determined having adjusted for imputation credits that will arise from the payment of income tax provided; dividends recognised as a liability; and the receipt of dividends recognised as receivables at the reporting date.

D5 Tax (continued)

D5.1 Tax expense

	2019 \$000	2018 \$000
Current tax	2,757	2,714
Deferred tax	6,407	(3,463)
Under (over) provided in prior years	26	(546)
Total tax expense (benefit)	9,190	(1,295)
The tax expense (benefit) can be reconciled to the accounting profit or loss as follows:		
Profit / (loss) before tax from continuing operations	25,995	(8,021)
Income tax at the current rate of 28%	7,279	(2,246)
Tax effect of:		
Prior period adjustments	26	(546)
Non-deductible expenditure/non-assessable income	(522)	120
Foreign tax credits written off	2,149	1,372
Other	258	5
Total tax expense (benefit)	9,190	(1,295)

D5.2 Current tax assets

	2019 \$000	2018 \$000
Current	1,551	1,575
Non-current	12,038	12,256
Total current tax assets	13,589	13,831

A non-current tax asset of \$12,038,000 is recognised in the financial statements of the Group as at 30 September 2019 in relation to excess tax payments made in previous years (2018: \$12,256,000). Non-current tax assets are expected to be recovered from 2022, as determined by the Board approved operational plan for financial years 2020 to 2023. A current tax asset of \$1,551,000 is recognised in relation to excess tax payments made in the Pacific Islands over and above the estimated tax liabilities for the year (2018: \$1,575,000).

D5.3 Current tax liabilities

Current tax liabilities of \$229,000 relate to taxes payable to off-shore tax authorities in the Pacific Islands (2018: \$174,000).

D5.4 Imputation credits

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

	2019 \$000	2018 \$000
Imputation credits available for use in subsequent reporting periods	271	489

Notes to the Consolidated **Financial Statements**

For the year ended 30 September 2019

D5 Receivables (continued)

D5.5 Deferred tax assets and liabilities

	OPENING BALANCE AT 1 OCTOBER \$000	(CHARGED) CREDITED TO INCOME STATEMENT \$000	(CHARGED) CREDITED TO COMPREHENSIVE INCOME \$000	CLOSING BALANCE AT 30 SEPTEMBER \$000
For the Year Ended 30 September 2019				
Movement in deferred tax assets				
Provisions and accruals	2,841	1,308	-	4,149
Property, plant and equipment	7,826	(142)	-	7,684
Tax losses	30,685	(6,158)	-	24,527
Other	763	(763)	-	-
Total deferred tax assets	42,115	(5,755)	-	36,360
Set-off of deferred tax liabilities pursuant to NZ IAS 12				(6,052)
Net deferred tax assets				30,308
Movement in deferred tax liabilities				
Deferred acquisition costs	(5,739)	(306)	-	(6,045)
Other	(589)	(377)	(32)	(998)
Total deferred tax liabilities	(6,328)	(683)	(32)	(7,043)
Set-off of deferred tax liabilities pursuant to NZ IAS 12				6,052
Net deferred tax liabilities				(991)
For the Year Ended 30 September 2018				
Movement in deferred tax assets				
Provisions and accruals	2,265	576	-	2,841
Property, plant and equipment	7,781	45	-	7,826
Tax losses	26,958	3,727	-	30,685
Other	778	(15)	-	763
Total deferred tax assets	37,782	4,333	-	42,115
Set-off of deferred tax liabilities pursuant to NZ IAS 12				(5,739)
Net deferred tax assets				36,376
Movement in deferred tax liabilities				
Deferred acquisition costs	(5,078)	(661)	-	(5,739)
Other	(299)	(209)	(81)	(589)
Total deferred tax liabilities	(5,377)	(870)	(81)	(6,328)
Set-off of deferred tax liabilities pursuant to NZ IAS 12				5,739
Net deferred tax liabilities				(589)

Recognition of deferred tax assets is a key area of judgement. Management expects to utilise the tax losses against future taxable profits over the next three years. Management had expected to utilise the tax losses against future profits over the following four years as at 30 September 2018.

Deferred tax liabilities have been recognised in respect of temporary differences associated with investments in subsidiaries (2018: nil).

Part E – Other Balance Sheet Items

This section includes information about assets and liabilities not included elsewhere, including receivables, non-current assets, payables and provisions.

E1 Receivables

	NOTE	2019 \$000	2018 \$000
Premium receivables		153,883	141,578
Reinsurance and other recoveries		19,316	35,741
Unearned reinsurance premiums		8,794	8,475
Trade receivables		181,993	185,794
EQC receivables	B3	70,263	69,272
Prepayments		2,572	2,657
Other		1,467	1,884
Total receivables		256,295	259,607

Premium receivables represent net amounts owed to Tower (including GST) by policyholders. The majority of the amounts outstanding are not due.

Accounting policy

All receivables (except for Prepayments and Other) reflect rights arising under insurance and reinsurance contracts as defined in NZ IFRS 4 Insurance Contracts. These are recognised initially at transaction price and subsequently at amortised cost, less provision for impairment. A provision for impairment is established when there is objective evidence that Tower will not be able to collect all amounts due according to the original terms of the receivable.

The table below shows the reconciliation of the allowance for credit losses and impairment of premium receivables at the reporting date.

	2019 \$000	2018 \$000
Opening balance	(646)	(805)
Provisions added during the year	(586)	(208)
Provisions released during the year	136	362
Foreign exchange movements	(4)	5
Closing balance	(1,100)	(646)

Trade and other receivables, including EQC reinsurance recoveries, are included in current assets except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

	2019 \$000	2018 \$000
Analysed as		
Current	183,667	185,133
Non current	72,628	74,474
Total receivables	256,295	259,607

Collectability of trade receivables

Collectability of trade receivables is reviewed on an on-going basis. The allowance for credit losses and impairment in relation to trade receivables is provided for based on estimated recoverable amounts determined by reference to current customer circumstances and past default experience. In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group has provided fully for receivables over 120 days past due. Trade receivables between 60 and 120 days past due are provided for based on estimated irrecoverable amounts.

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also determined using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Group may not receive amounts due to it and these amounts can be reliably measured.

Notes to the Consolidated **Financial Statements**

For the year ended 30 September 2019

E1 Receivables (continued)

Earthquake Commission Receivables

Earthquake Commission receivables included \$69.9m relating to the Canterbury earthquake provision as disclosed in Note B3 (2018: \$68.4m) and \$0.4m relating to the Kaikoura region earthquake (2018: \$0.9m).

E2 Intangible Assets

	SOFTWARE				TOTAL \$000
	GOODWILL \$000	ACQUIRED \$000	INTERNALLY DEVELOPED \$000	UNDER DEVELOPMENT AND WORK IN PROGRESS \$000	
Year Ended 30 September 2019					
Cost:					
Opening balance	17,744	5,382	37,645	22,502	83,273
Additions	-	-	-	36,343	36,343
Disposals	-	(223)	(10,021)	-	(10,244)
Transfers	-	30,289	20,822	(51,111)	-
Transfers to Property, plant and equipment	-	-	-	(647)	(647)
Closing balance	17,744	35,448	48,446	7,087	108,725
Accumulated amortisation:					
Opening balance	-	(4,698)	(33,533)	-	(38,231)
Amortisation charge	-	(1,391)	(5,136)	-	(6,527)
Amortisation on disposals	-	223	10,021	-	10,244
Closing balance	-	(5,866)	(28,648)	-	(34,514)
Net book value					
At cost	17,744	35,448	48,446	7,087	108,725
Accumulated amortisation	-	(5,866)	(28,648)	-	(34,514)
Closing net book value	17,744	29,582	19,798	7,087	74,211
Year Ended 30 September 2018					
Cost:					
Opening balance	17,744	5,097	37,045	4,484	64,370
Additions	-	-	-	19,026	19,026
Disposals	-	-	-	(74)	(74)
Transfers	-	285	600	(885)	-
Transfers to Property, plant and equipment	-	-	-	(49)	(49)
Closing balance	17,744	5,382	37,645	22,502	83,273
Accumulated amortisation:					
Opening balance	-	(4,501)	(28,535)	-	(33,036)
Amortisation charge	-	(197)	(4,998)	-	(5,195)
Closing balance	-	(4,698)	(33,533)	-	(38,231)
Net book value					
At cost	17,744	5,382	37,645	22,502	83,273
Accumulated amortisation	-	(4,698)	(33,533)	-	(38,231)
Closing net book value	17,744	684	4,112	22,502	45,042

E2 Intangible Assets (continued)

Software**Accounting policy**

Application software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the software.

Internally generated intangible assets are recorded at cost which includes all the directly attributable costs necessary to create, produce and prepare the asset 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.

General use computer software	3-5 years
Core operating system software	3-10 years

Software additions includes spend incurred as part of Tower's IT transformation programme, which has implemented a new core insurance platform, enhanced digital integration for customers and improved operational systems in areas such as reinsurance and customer communications. Software additions also includes spend outside of the IT transformation programme, including to extend the life of other IT systems that are not being replaced, develop Tower's data insight tools and upgrade Tower's IT infrastructure.

Impairment testing for software under development

Tower has been carrying out an IT transformation programme during the year ended 30 September 2019 (the Simplification Programme), which has included the development of a new core IT platform, digital enhancements, communications technology and work to extend the useful life of other IT assets. Many of the developments are now in use, and therefore the capitalised assets relating to the completed phases of work have been transferred out of Software Under Development. However at year end, Software Under Development includes some remaining components of the Simplification Programme which are still being developed, as well as work in progress on other less material software projects. Software Under Development is subject to impairment testing. However, as Management cannot practicably differentiate the benefits for components still under development from the benefits for all components of the Simplification Programme, Management has performed an impairment test over all the assets developed or being developed by the Simplification Programme.

In assessing the recoverable amount for these assets, Management has used a value in use basis, with cash flow valuation over a period of 10 years (4 years cash flow projection and 6 years terminal growth) (2018: 5 years), which reflects Management's assessment of the expected useful life for the core system assets derived from the Simplification Programme. The cash flows are derived from the four year projections developed for Tower's most recent operating plans (for the year ended 30 September 2020), which separately identify the additional revenue and expense savings expected to be generated by the Simplification Programme. These assumptions are determined from a variety of sources, including Management's past experience, the comparison of key metrics to industry baselines, the sensitivity of revenues to changes in drivers, and analysis of current expenditure that can be reduced. Management has used a terminal growth rate of 2% for cash flow projections beyond the four year period covered by Tower's operating plans. The valuation used a discount rate of 11% (2018: 12%). No impairment loss has been recognised in the year ended 30 September 2019 (2018: Nil).

Goodwill**Accounting policy**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the entity acquired, at the date of acquisition. Following initial recognition, goodwill on acquisition of a business combination is not amortised but is tested for impairment bi-annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Any impairment is recognised immediately in the income statement.

Impairment testing for goodwill

Goodwill is allocated to the New Zealand general insurance cash generating unit. The carrying amount of goodwill allocated to the cash generating unit is shown below:

	2019 \$000	2018 \$000
Carrying amount of goodwill	17,744	17,744

Notes to the Consolidated **Financial Statements**

For the year ended 30 September 2019

E2 Intangible Assets (continued)

Goodwill is subject to impairment testing at the cash-generating unit level and no impairment loss has been recognised in 2019 as a result of the impairment review (2018: Nil). The recoverable amount of the general insurance business has been assessed with reference to its appraisal value to determine its value in use. A base discount rate of 12.5% was used in the calculation (2018: 13%). Other assumptions used are consistent with the actuarial assumptions in Note B5 in respect of Tower Insurance. The cash flows were projected over the expected life of the policies. The projected cash flows are determined based on past performance and management's expectations for market developments with a terminal growth rate of 2% (2018: 2%). Management considers that the recoverable amount from the general insurance business, as determined by the appraisal value, will exceed the carrying value under a reasonable range of adverse scenarios.

E3 Property, Plant and Equipment

	LAND AND BUILDINGS \$000	OFFICE EQUIPMENT AND FURNITURE \$000	MOTOR VEHICLES \$000	COMPUTER EQUIPMENT \$000	TOTAL \$000
For the Year Ended 30 September 2019					
Cost					
Opening balance	3,404	8,876	1,268	15,010	28,558
Additions	337	562	97	862	1,858
Revaluations	305	-	-	-	305
Disposals	-	(243)	(91)	(2,110)	(2,444)
Foreign exchange movements	36	62	(117)	(122)	(141)
Closing balance	4,082	9,257	1,157	13,640	28,136
Accumulated depreciation					
Opening balance	-	(4,438)	(1,029)	(14,581)	(20,048)
Depreciation	-	(1,018)	(112)	(461)	(1,591)
Disposals	-	240	87	2,109	2,436
Foreign exchange movements	-	(39)	102	108	171
Closing balance	-	(5,255)	(952)	(12,825)	(19,032)
Closing balance					
Cost / revaluation	4,082	9,257	1,157	13,640	28,136
Accumulated depreciation	-	(5,255)	(952)	(12,825)	(19,032)
Net book value	4,082	4,002	205	815	9,104

For the Year Ended 30 September 2018

	LAND AND BUILDINGS \$000	OFFICE EQUIPMENT AND FURNITURE \$000	MOTOR VEHICLES \$000	COMPUTER EQUIPMENT \$000	TOTAL \$000
Cost					
Opening balance	2,948	8,370	1,371	14,804	27,493
Additions	-	513	65	198	776
Revaluations	434	-	-	-	434
Disposals	-	(14)	(165)	(9)	(188)
Foreign exchange movements	22	7	(3)	17	43
Closing balance	3,404	8,876	1,268	15,010	28,558
Accumulated depreciation					
Opening balance	-	(3,530)	(1,083)	(14,100)	(18,713)
Depreciation	-	(958)	(38)	(503)	(1,499)
Disposals	-	15	176	2	193
Foreign exchange movements	-	35	(84)	20	(29)
Closing balance	-	(4,438)	(1,029)	(14,581)	(20,048)
Closing balance					
Cost / revaluation	3,404	8,876	1,268	15,010	28,558
Accumulated depreciation	-	(4,438)	(1,029)	(14,581)	(20,048)
Net book value	3,404	4,438	239	429	8,510

E3 Property, Plant and Equipment (continued)

Accounting policy

Measurement of property, plant and equipment

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 assets' 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.

Computer equipment	3-5 years
Furniture & fittings	5-9 years
Motor Vehicles	5 years
Buildings	50-100 years
Leasehold property improvements	3-12 years

Measurement of land and buildings

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.

Land and buildings are located in Fiji and are stated at fair value. Fair value is determined using an income approach whereby future rental streams are capitalised at a rate appropriate for the type of property and lease arrangement. This value is then adjusted to take into account recent market activity. Valuation was performed as at 11 September 2019 by Rolle Associates, registered valuers in Fiji. There has been no material movement in the valuation between 11 September 2019 and 30 September 2019. Inputs to the valuation of the Fiji property are considered to be based on non-observable market data, thus classified as level 3 in the fair value hierarchy. Inputs include gross rentals per square meter of similar property in the Suva area, recent comparable sales of commercial property in Suva and a capitalisation rate of between 6.0% and 9.6% (2018: between 7.5% and 9.5%).

Had land and buildings been recognised under the cost model the carrying amount would have been \$1,557,733 (2018: \$1,145,000). The revaluation surplus for the period is recorded in other comprehensive income and has no restrictions on the distribution of the balance to shareholders.

E4 Capital Commitments

As at 30 September 2019, the Group has capital commitments of \$0.2m relating to the implementation and delivery of a new ERP system (2018: nil), \$0.9m relating to new IT equipment and hardware (2018: nil), \$0.5m relating to the implementation and delivery of a new insurance policy management system (2018: \$13.9m) and \$0.1m relating to a new automated reinsurance system (2018: nil).

E5 Payables

	2019 \$000	2018 \$000
Trade payables	12,624	16,028
Reinsurance payables	22,394	23,388
Payable to other insurers	725	268
Investment settlement balances	-	5,099
GST payable	18,395	16,272
Other payables	21,769	19,320
Total payables	75,907	80,375
Analysed as:		
Current	59,007	63,975
Non current	16,900	16,400
Total payables	75,907	80,375

The non-current portion of payables relates to payments due to reinsurers in relation to the disputed EQC receivables, refer to Note B3 for further details.

Notes to the Consolidated **Financial Statements**For the **year** ended 30 September 2019

E5 Payables (continued)

Accounting policy

Payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unsettled. Payables are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method.

E6 Provisions

	2019 \$000	2018 \$000
Employee benefits	6,802	5,789
Total provisions	6,802	5,789
Analysed as:		
Current	6,406	5,402
Non current	396	387
Total provisions	6,802	5,789

Accounting policy

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised as the best estimate of future cash flows discounted to present value where the effect is material. Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, annual leave and long service leave.

Part F – Capital and Risk Management

This section provides information about Tower's capital structure and its approaches to managing risk.

F1 Contributed Equity

	2019 \$000	2018 \$000
Opening balance	447,543	382,172
Issue of share capital	–	70,838
Costs of capital raise	–	(5,467)
Total contributed equity	447,543	447,543

Represented by:

Ordinary shares (issued and fully paid)

	2019 NUMBER OF SHARES	2018 NUMBER OF SHARES
Opening balance	337,324,300	168,662,150
Issued shares	–	168,662,150
Total shares on issue	337,324,300	337,324,300

Ordinary shares issued by the Group are classified as equity and are recognised at fair value less direct issue costs. All shares rank equally with one vote attached to each share. There is no par value for each share.

There were no Tower Limited dividend payments during the year ended 30 September 2019 (2018: nil).

F2 Reserves

	2019 \$000	2018 \$000
Foreign currency translation reserve (FCTR)		
Opening balance	(4,397)	(4,343)
Currency translation differences arising during the year	700	(54)
Closing balance	(3,697)	(4,397)
Separation Reserve		
Opening balance	(113,000)	(113,000)
Closing balance	(113,000)	(113,000)
Asset revaluation reserve		
Opening balance	1,242	889
Gain on revaluation	305	434
Deferred tax on revaluation	(32)	(81)
Closing balance	1,515	1,242
Total reserves	(115,182)	(116,155)

Accounting policy**FCTR**

Exchange differences arising on translation of foreign controlled entities and net investment of a foreign entity are taken to the foreign currency translation reserve. The reserve is recognised in profit or loss when the net investment is disposed.

Separation reserve

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.

Asset revaluation reserve

The asset revaluation reserve is used to recognise unrealised gains on the value of land and buildings above initial cost.

F3 Capital Risk Management & Solvency**Solvency requirements**

For the year ending 30 September 2019, and through the comparative period, the Reserve Bank of New Zealand had imposed a license condition that Tower Insurance Limited was required to maintain a minimum solvency margin of at least \$50.0m.

	TOWER INSURANCE LIMITED		TOWER INSURANCE LIMITED GROUP	
	UNAUDITED 2019 \$000	UNAUDITED 2018 \$000	AUDITED 2019 \$000	AUDITED 2018 \$000
Actual solvency capital	155,894	136,476	182,197	156,765
Minimum solvency capital	56,598	58,298	73,276	74,344
Solvency margin	99,296	78,178	108,921	82,421
Solvency ratio	275%	234%	249%	211%

Effective from 31 October 2019, the license condition was amended so that Tower Insurance Limited is required to maintain a minimum solvency margin of at least \$50.0m in respect of all assets and liabilities except for Specified Excluded Assets. Specified Excluded Assets are the assets net of reinsurance in respect of the disputed EQC recoveries, referred to in note B3. Also during October 2019, Tower Insurance Limited issued \$45m of ordinary share capital. If the change to the license condition and the share issue had both applied at 30 September 2019, the net impact would have been a reduction in Tower Insurance Limited's solvency margin by \$7.6m.

Notes to the Consolidated **Financial Statements**

For the year ended 30 September 2019

F3 Capital Risk Management & Solvency (continued)

Capital risk management

The Group's objective when managing capital is to ensure that the level of capital is sufficient to meet the Group's statutory solvency obligations including on a look forward basis to enable it to continue as a going concern in order to meet the needs of its policyholders, to provide returns for shareholders, and to provide benefits for other stakeholders of the Group. The Group's capital resources include shareholders' equity.

	NOTE	2019 \$000	2018 \$000
Tower shareholder equity		290,857	273,311
Standby credit facility (undrawn)	C4	15,000	50,000
Total capital and liquidity resources		305,857	323,311

The Group measures adequacy of capital against the Solvency Standards for Non-life Insurance Business (the solvency standards) published by the Reserve Bank of New Zealand (RBNZ) alongside additional capital held to meet RBNZ minimum requirements and any further capital as determined by the Board. During the year ended 30 September 2019 the Group complied with all externally imposed capital requirements.

The Group holds assets in excess of the levels specified by the various solvency requirements to ensure that it continues to meet the minimum requirements under a reasonable range of adverse scenarios. The Group's capital management strategy forms part of the Group's broader strategic planning process overseen by the Audit and Risk Committee of the Board.

F4 Net Assets per Share

	2019 \$	2018 \$
Net assets per share	0.87	0.81
Net tangible assets per share	0.56	0.57

Accounting Policy

Net assets per share represent the value of the Group's total net assets divided by the number of ordinary shares on issue at the period end. Net tangible assets per share represent the net assets per share adjusted for the effect of intangible assets and deferred tax balances.

Reconciliation to net tangible assets is provided below:

	2019 \$000	2018 \$000
Net assets	292,658	274,779
Less: deferred tax	(29,317)	(35,787)
Less: intangible assets	(74,211)	(45,042)
Net tangible assets	189,130	193,950

F5 Earnings per Share

	2019 \$000	2018 \$000
Profit / (loss) attributable to shareholders	16,565	(6,773)
	2019 NUMBER OF SHARES	2018 NUMBER OF SHARES
Weighted average number of ordinary shares for basic and diluted earnings per share*	350,442,688	321,195,736
	2019 CENTS	2018 CENTS
Basic and diluted (loss) earnings per share*	4.73	(2.11)

* Additional 84,322,958 shares from the fully underwritten pro rata 1 for 4 rights offer, with a shortfall bookbuild (the Rights Offer) was settled in October 2019 (refer to Note G4). The issue price of NZ\$0.56 per share under the Rights Offer represented a 19% discount to the share price of NZ\$0.69 per share as at 15 October 2019, which is date immediately prior to the exercise of rights become available. As a result, 13,118,388 shares issued as part of the Rights Offer were treated as bonus issue which has been adjusted in the weighted average number of ordinary shares on issues in both 2019 and 2018 in accordance with NZ IAS 33. The 2018 basic earnings per shares has been restated to (2.11) cents (2018: (2.20) cents).

There was no dilutive impact on basic earnings per share for 2019 (2018: nil).

Accounting Policy

Basic earnings per share is calculated by dividing the net profit/(loss) attributed to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit/(loss) attributed to shareholders of the Company by the weighted average number of ordinary shares on issue during the year adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

F6 Risk Management

The financial condition and operating results of the Group are affected by a number of key financial and non-financial risks. Financial risks include market risk, credit risk, financing and liquidity risk. The non-financial risks include insurance risk, compliance risk and operational risk.

Tower Limited's objective is to satisfactorily manage these risks in line with the Board approved Group Risk and Compliance policy. Various procedures are put in place to control and mitigate the risks faced by the Group. Business managers are responsible for understanding and managing their risks including operational and compliance risk. The consolidated entity's exposure to all high and critical risks is reported monthly to the Board and quarterly to the Audit and Risk Committee.

The Board has delegated to the Audit and Risk Committee the responsibility to review the effectiveness and efficiency of management processes, internal audit services, risk management and internal financial controls and systems as part of their duties. The Risk and Compliance team is in place in an oversight and advisory capacity and to manage the risk and compliance framework.

Financial risks are generally monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored to ensure that there are no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits.

The Board has responsibility for:

- reviewing investment policies for Tower Limited funds;
- reviewing the Treasury Policy which includes our strategy for investment management and the use of derivatives;
- considering the establishment, adjustment or deletion of limits and counter-party approvals, and the scope of financial instruments to be used in the management of Tower Limited's investments;
- reviewing the appointment of external investment managers;
- monitoring investment and fund manager performance; and
- monitoring compliance with investment policies and client mandates.

These requirements and associated processes are articulated in the Board approved Treasury Policy applicable to Tower Limited which is itself reviewed every two years, with the next review due in May 2020.

Notes to the Consolidated **Financial Statements**

For the year ended 30 September 2019

F6 Risk Management (continued)

F6.1 Insurance risk

The financial condition and operations of the insurance business are affected by a number of key risks including insurance risk, interest rate risk, currency risk, market risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the policies and procedures employed in managing these risks are set out below.

(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

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

The key controls in place to mitigate risks arising from writing insurance contracts include:

- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- monitoring natural disasters such as earthquakes, floods, storms and other catastrophes using models; and
- the use of reinsurance to limit the Group's exposure to individual catastrophic risks.

(b) Concentration of insurance risk

RISK	SOURCE OF CONCENTRATION	RISK MANAGEMENT MEASURES
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection

F6.2 Market risk

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

(i) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not the Group's functional currency. The exposure is not considered to be material.

The Group's principal transactions are carried out in New Zealand dollars and its exposure to foreign exchange risk arises primarily with respect to the Pacific Island insurance business. The Group generally elects to not hedge the capital invested in overseas entities, thereby accepting the foreign currency translation risk on invested capital.

The Group also has foreign exchange risk on payments to suppliers that are denominated in other currencies. Tower may hedge future payments, where appropriate, and provided that the timing and amount of those transactions can be estimated with a reasonable degree of certainty.

The Board sets limits for the management of currency risk arising from its investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to. In accordance with this policy, Tower Insurance does not hedge the currency risk arising from translation of the financial statements of foreign operations other than through net investment in foreign operations.

(ii) Interest rate risk

Interest rate risk is the risk that the value or future value of cash flows of a financial instrument will fluctuate because of changes in interest rates.

Interest rate and other market risks are managed by the Group through strategic asset allocation and approved investment management guidelines that have regard to policyholder expectations and risks and to target surplus for solvency as advised by the Appointed Actuary.

Interest rate risk arises to the extent that there is a mismatch between the fixed interest portfolios used to back outstanding claim liabilities and those outstanding claims. Interest rate risk is managed by matching the duration profiles of investment assets and outstanding claim liabilities.

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The exposure is not considered to be material.

F6.3 Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result of changes in credit risk of that instrument.

The Group's exposure to credit risk is limited to deposits and investments held with banks and other financial institutions, reinsurance receivables from reinsurers, as well as credit exposure to customers or other counterparties. Credit exposure in respect of the Group's New Zealand cash deposit balances is limited to banks with minimum AA- credit ratings. Investments held with banks and financial institutions that are managed by investment managers have a minimum credit rating accepted by the Group of 'A-'. Overall exposure to credit risk is monitored on a Group basis in accordance with limits set by the Board.

F6 Risk Management (continued)

Tower Insurance invests in Pacific regional investment markets through its Pacific Island operations to comply with local statutory requirements and in accordance with Tower Insurance investment policies. These investments generally have low credit ratings representing the majority of the value included in the 'Below BBB' and unrated categories in table F6.3(iii).

(i) Credit risk concentration

Concentration of credit risk exists when the Group enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. Tower Limited manages concentration of credit risk by credit rating, industry type and individual counterparty.

The significant concentrations of credit risk are outlined by industry type below.

	CARRYING VALUE	
	2019 \$'000	2018 \$'000
New Zealand government	9,513	919
Other government agencies	109,834	107,752
Banks	198,831	227,180
Financial institutions	47,266	32,186
Other non-investment related receivables	183,123	187,382
Total financial assets with credit exposure	548,567	555,419

(ii) Maximum exposure to credit risk

The Group's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements, is as follows:

	CARRYING VALUE	
	2019 \$'000	2018 \$'000
Cash and cash equivalents	67,018	102,001
Receivables	253,022	255,780
Investments	228,527	197,367
Derivative financial assets	–	271
Total credit risk	548,567	555,419

(iii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

	CARRYING VALUE	
	2019 \$'000	2018 \$'000
Credit exposure by credit rating		
AAA	111,950	85,321
AA	137,433	180,394
A	25,063	16,484
BBB	–	–
Below BBB	15,102	13,020
Total counterparties with external credit ratings	289,548	295,219
Group 1	172,492	177,302
Group 2	–	–
Group 3	5,997	4,418
Total counterparties with no external credit rating	178,489	181,720
EQC Recovery Receivable	69,900	68,400
Total financial assets neither past due nor impaired with credit exposure	537,937	545,339

Group 1 – Receivables outstanding for less than 6 months

Group 2 – Receivables outstanding for more than 6 months with no defaults in the past

Group 3 – Unrated investments

Notes to the Consolidated **Financial Statements**

For the year ended 30 September 2019

F6 Risk Management (continued)

(iv) Financial assets that would otherwise be past due whose terms have been renegotiated

No financial assets have been renegotiated in the past year (2018: nil).

(v) Financial assets that are past due but not impaired

The Group considers that financial assets are past due if payments have not been received when contractually due. At the reporting date, the total carrying value of past due but not impaired assets held are as follows:

	LESS THAN 30 DAYS \$000	31 TO 60 DAYS \$000	61 TO 90 DAYS \$000	OVER 90 DAYS \$000	TOTAL \$000
As at 30 September 2019					
Reinsurance recoveries receivable	-	-	78	-	78
Outstanding premiums	5,552	3,371	991	638	10,552
Total	5,552	3,371	1,069	638	10,630
As at 30 September 2018					
Reinsurance recoveries receivable	-	27	-	-	27
Outstanding premiums	5,526	1,422	2,641	464	10,053
Total	5,526	1,449	2,641	464	10,080

(vi) Financial assets that are individually impaired

	CARRYING VALUE	
	2019 \$000	2018 \$000
Outstanding premiums	-	-
Total	-	-

F6.4 Financing and liquidity risk

Financing and liquidity risk is the risk that the Group will not be able to meet its cash outflows or refinance debt obligations, as they fall due, because of lack of liquid assets or access to funding on acceptable terms. To mitigate financing and liquidity risk the Group maintains sufficient liquid assets to ensure that the Group can meet its debt obligations and other cash outflows on a timely basis.

Financial liabilities and guarantees by contractual maturity

The table below summarises the Group's financial liabilities and guarantees into relevant maturity groups based on the remaining period to the contractual maturity date at balance date. All amounts disclosed are contractual undiscounted cash flows that include interest payments and exclude the impact of netting agreements.

	CARRYING VALUE \$000	TOTAL CONTRACTUAL CASH FLOWS \$000	LESS THAN ONE YEAR \$000	GREATER THAN ONE YEAR \$000
As at 30 September 2019				
Financial liabilities				
Trade payables	13,350	13,350	13,350	-
Reinsurance payables	22,394	22,394	5,494	16,900
Other payables	6,403	6,358	6,358	-
Borrowings	14,931	14,976	14,976	-
Total	57,078	57,078	40,178	16,900
As at 30 September 2018				
Financial liabilities				
Trade payables	16,296	16,296	16,296	-
Reinsurance payables	23,388	23,388	6,988	16,400
Other payables	10,906	10,906	10,906	-
Total	50,590	50,590	34,190	16,400

F6 Risk Management (continued)

F6.5 Derivative financial instruments

The Group utilises derivative financial instruments to reduce investment risk. Specifically, derivatives are used to achieve cost effective short-term re-weightings of asset class, sector and security exposures and to hedge portfolios, as an economic hedge, when a market is subject to significant short-term risk.

Derivative financial instruments used by the Group include interest rate swaps, foreign exchange forward contracts and foreign exchange options. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair values of interest rate swaps are calculated by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates. The average interest rate is based on the outstanding balances at the start of the financial year.

The table below details the notional principal amounts, fair values and remaining terms of derivatives outstanding as at the reporting date:

	AVERAGE CONTRACTED FIXED INTEREST		NOTIONAL PRINCIPAL AMOUNT		FAIR VALUE	
	2019 %	2018 %	2019 \$000	2018 \$000	2019 \$000	2018 \$000
Less than 1 year	0%	0%	-	23,555	-	271
1 to 2 years	0%	0%	-	-	-	-
2 to 5 years	0%	2%	-	-	-	-
Over 5 years	0%	0%	-	-	-	-
			-	23,555	-	271

F6.6 Sensitivity analysis

The analysis below demonstrates the impact of changes in interest rates, exchange rates and equity prices on profit/(loss) after tax and equity. The analysis is based on changes in economic conditions that are considered reasonably possible at the reporting date. The potential impact is assumed as at the reporting date.

(i) Interest rate

The impact of a 50 basis point change in New Zealand and international interest rates as at the reporting date on profit/(loss) after tax and equity is included in the table below. The sensitivity analysis assumes changes in interest rates only. All other variables are held constant.

	2019 IMPACT ON:		2018 IMPACT ON:	
	PROFIT AFTER TAX \$000	EQUITY \$000	PROFIT AFTER TAX \$000	EQUITY \$000
Change in variables				
+ 50 basis points	(688)	(688)	(696)	(696)
- 50 basis points	761	761	768	768

This analysis assumes that the sensitivity applies to the closing market yields of fixed interest investments. A parallel shift in the yield curve is assumed.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the reporting period included in the analysis.

(ii) Foreign currency

The following tables demonstrate the impact of a 10% movement of currency rates against the New Zealand dollar on profit after tax and equity. The analysis assumes changes in foreign currency rates only, with all other variables held constant. The potential impact on the profit and equity of the Group is due to the changes in fair value of currency sensitive monetary assets and liabilities as at the reporting date.

	2019 IMPACT ON:		2018 IMPACT ON:	
	PROFIT AFTER TAX \$000	EQUITY \$000	PROFIT AFTER TAX \$000	EQUITY \$000
Change in variables				
10% appreciation of New Zealand dollar	438	(3,332)	129	(2,641)
10% depreciation of New Zealand dollar	(535)	3,666	(158)	2,905

The dollar impact of the change in currency movements is determined by applying the sensitivity to the value of the foreign currency assets.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the reporting period included in the analysis.

Notes to the Consolidated **Financial Statements**For the **year** ended 30 September 2019

F6 Risk Management (continued)

(iii) Other price

Other price sensitivity includes sensitivity to unit price fluctuations. Unit price risk is the risk that the fair value of investments in property fund units and international equities held in unit trusts will decrease as a result of changes in the value of these units.

The following tables demonstrate the impact of a 10% movement in the value of property funds and other unit trusts on the profit after tax and equity. The potential impact is assumed as at the reporting date.

	2019 IMPACT ON:		2018 IMPACT ON:	
	PROFIT AFTER TAX \$000	EQUITY \$000	PROFIT AFTER TAX \$000	EQUITY \$000
Change in variables				
+ 10% property funds and other unit trusts	2	2	2	2
- 10% property funds and other unit trusts	(2)	(2)	(2)	(2)

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the two reporting periods included in the analysis.

Part G – Other Disclosures

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

G1 Auditors' Remuneration

	2019 \$000	2018 \$000
Fees paid to Group's auditors:		
Audit of financial statements ⁽¹⁾	528	531
Other assurance related services ⁽²⁾	46	47
Non-assurance advisory related services ⁽³⁾	12	11
Total fees paid to Group's auditors	586	589
Fees paid to subsidiaries' auditors different to Group auditors:		
Audit of financial statements ⁽¹⁾	14	14
Total fees paid to auditors	600	603

(1) Audit of financial statements includes fees for both the audit of annual financial statements and the review of interim financial statements. The audit of Tower Insurance (Vanuatu) Limited was performed by Law Partners (2018: Law Partners).

(2) Other assurance related services includes annual solvency return assurance and Pacific Island regulatory return audits.

(3) Agreed procedures on Pacific Island regulatory return and Annual Shareholders' Meeting procedures.

G2 Transactions With Related Parties

The remuneration of key management personnel during the year was as follows:

	2019 \$000	2018 \$000
Salaries and other short term employee benefits paid	5,720	4,117
Independent director fees	584	515
	6,304	4,573

Accounting policy

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.

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.

There have been no loans made to directors of the Company and other key management personnel of the Group, including their personally related parties (2018: nil).

Key management hold various policies and accounts with Tower Group companies. These are operated in the normal course of business on normal customer terms.

G3 Contingent Assets And Liabilities

The Group may, from time to time, pursue claims through legal processes against other parties during the course of business that give rise to the possibility of an inflow of economic benefits where the outcome is uncertain. These items are judged to be contingent assets. All contingent assets are continually assessed to ensure that when the realisation of income is virtually certain, an appropriate related asset is recognised.

The Group is also 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.

No contingent assets or liabilities are judged to be sufficiently material to require individual disclosure.

G4 Subsequent Events**Purchase of Youi NZ Pty Ltd's Portfolio**

Tower Insurance Limited has entered into an agreement for the purchase of Youi NZ Pty Ltd's insurance portfolio, subject to regulatory approval. Under this agreement, Tower Insurance Limited will acquire Youi NZ's approximately 34,000 inforce policies for a total purchase price of NZ\$13m, plus transaction and migration costs, with Tower policy renewals to be offered as current Youi NZ policies expire. This is subject to regulatory approvals and the acquisition is expected to settle prior to the end of the 2019 calendar year.

Tower Insurance Limited is purchasing the customer relationships (and associated assets and liabilities) and not the systems or processes that Youi NZ uses to run its business. Therefore, the transaction is being treated as the purchase of an intangible asset rather than a business combination. After initial recognition, the cost model will be adopted to measure the asset.

Change in Licence Condition

The Reserve Bank of New Zealand has modified Tower Insurance's licence conditions to remove the disputed EQC receivable from Tower Insurance's solvency calculation to reflect the increased likelihood of litigation and associated delay in receiving the funds. This took effect from 31 October 2019. While the EQC receivable is excluded from the solvency calculations, it remains on the balance sheet at a net \$53.1m (2018: \$52.0m).

Capital Raise

To facilitate the purchase of the Youi NZ portfolio and the change to licence condition noted above, Tower Limited raised \$47.3m capital via a pro-rata renounceable entitlement offer after balance date. Capital was raised at a ratio of 1 new share for every 4 existing shares held at an issue price of NZ\$0.56 (or AUD\$0.54 for eligible Australian shareholders). These funds were received on the 23 October 2019.

Corporate Structure

Tower Limited is giving active consideration to simplifying its corporate structure to make Tower Insurance Limited the listed parent. If this is not feasible Tower Limited has agreed with RBNZ that Tower Insurance Limited will have a majority of directors independent of the listed parent company by 30 September 2020.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2019

G5 Change In Comparatives

Comparative information has been reclassified to achieve consistency with the current year presentation. Changes relate to the presentation of certain notes only. There is no change to net assets or the 2018 profit.

Note Disclosure – Financial Instruments

Within note C5, there has been a reclassification of cash and cash equivalents from financial assets at amortised cost to financial assets at fair value through profit or loss in line with the requirement of NZ IFRS 4 Insurance Contracts. Cash and cash equivalents measured at amortised cost have reduced by \$74.9m, and cash and cash equivalents measured at fair value through profit or loss has increased by \$74.9m. This reclassification has no impact on the cash and cash equivalent balance disclosed in the Consolidated Balance Sheet.

Note Disclosure – Financial Instruments

Within note F6.3 (iii), total counterparties with external credit ratings of AA has been adjusted down by \$2.7m and total counterparties with no external credit rating (Group 3) has been adjusted up by \$2.7m. This is to correct a misclassification in the 2018 amounts.

G6 Impact of Amendments to NZ IFRS

G6.1 New and amended standards adopted

The following new Accounting Standards, the adoption of which had no material financial impact on the Group, are applicable for the current reporting period.

NZ IFRS 9 Financial Instruments

For Tower, NZ IFRS 9 Financial Instruments became effective for the period beginning on 1 October 2018, replacing the existing accounting requirements for financial instruments under IAS 39 Financial Instruments: Recognition and Measurement. NZ IFRS 9 introduces changes to the classification and measurement of financial instruments, replaces the 'incurred loss' impairment model with a new 'expected loss' model when recognising expected credit losses on financial assets, and imposes new general hedge accounting requirements. NZ IFRS 9 specifically excludes from its scope the rights and obligations arising from insurance contracts, as defined under NZ IFRS 4 Insurance Contracts.

Tower has applied NZ IFRS 9 retrospectively, with no material change to the carrying amount of its financial instruments when measured under the requirements of NZ IFRS 9.

Tower's financial instruments that are classified at fair value through profit or loss on initial recognition, and which are subsequently re-measured to fair value at each reporting date, are classified on this basis because they back general insurance liabilities and measuring them at fair value significantly reduces a potential measurement inconsistency which would arise if the assets were measured at amortised cost or fair value through other comprehensive income.

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Tower assesses the expected credit losses on a forward looking basis, and have amended the impairment methodology for subsequent measurement depending on whether there has been a significant increase in credit risk.

The measurement bases of Tower's financial assets and liabilities under NZ IAS 39 and NZ IFRS 9, showing changes in classification of Tower's financial instruments, are as follows:

ASSET/LIABILITY	MEASUREMENT BASIS UNDER NZ IAS 39	MEASUREMENT BASIS UNDER NZ IFRS 9	CARRYING AMOUNT UNDER NZ IAS 39 AND NZ IFRS 9*
Cash and cash equivalents held by corporate entities	Amortised cost	Amortised cost	10,906
Cash and cash equivalents held by insurance companies**	Fair value through profit or loss	Fair value through profit or loss	56,112
Investments	Fair value through profit or loss	Fair value through profit or loss	229,172
Claim recoveries	Amortised cost	Amortised cost	5,097
Derivative financial assets	Fair value through profit or loss	Fair value through profit or loss	0
Trade and other payables	Amortised cost	Amortised cost	34,393
Borrowings	Amortised cost	Amortised cost	14,931

* The reclassifications of the financial instruments on adoption of NZ IFRS 9 did not result in any material changes to carrying amounts.

** Refer to note G5 for changes in comparatives.

G6 Impact of Amendments to NZ IFRS (continued)

G6.1 New and amended standards adopted (continued)

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 Revenue from Contracts with Customers was adopted by the Group from 1 October 2018 and replaces NZ IAS 18 Revenue and related interpretations. NZ IFRS 15 introduces a single model for the recognition of revenue based on when an entity satisfies the contractual performance obligations by transferring a promised good and service to a customer. It does not apply to insurance contracts and financial instruments. Hence the majority of Tower's revenue is not impacted by this change.

The revenue stream that is within the scope of NZ IFRS 15 is disclosed as part of "Fee and other revenue" and relates to the provision of insurance administration activities of \$0.9m (2018: \$0.8m). There has been no material change in the measurement of this revenue stream as the existing recognition and measurement of revenue under the applicable contracts meets the requirements under the new standard. The remaining balance within "Fee and other revenue" relates to reinsurance commission income, which is within the scope of NZ IFRS 4 Insurance Contracts.

G6.2 New and amended standards issued but not yet effective

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 October 2019 or later periods, and the Group has not adopted them early. The Group expects to adopt the following new standards on 1 October after the effective date.

NZ IFRS 16 Leases

NZ IFRS 16 Leases is effective for periods beginning on or after 1 January 2019. Tower will apply the standard for the year ending 30 September 2020 using the modified retrospective approach. Therefore, the cumulative effect of adopting NZ IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings on 1 October 2019, with no restatement of comparative information. The standard replaces the current guidance in NZ IAS 17 Leases. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease, which is recognised on balance sheet, and an operating lease, which is not recognised on the balance sheet. NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a right-of-use asset for most lease contracts. Following adoption of NZ IFRS 16, the treatment of leases for Tower's office buildings, motor vehicles, and other equipment will change. The expected impact of the changes on Tower's financial statements is an increase to assets of approximately \$10.4m, an increase to liabilities of approximately \$12.2m and a decrease to retained earnings of approximately \$1.8m. There will also be some impact on the pattern of expense recognition for leases, which is not expected to be material. This is based on lease commitments and discount rates at 30 September 2019.

NZ IFRS 17 Insurance Contracts

NZ IFRS 17 Insurance Contracts is effective for periods beginning on or after 1 January 2022 (subject to approval of proposed one year delay). Tower will apply the standard for the year ending 30 September 2023. The standard replaces the current guidance in NZ IFRS 4 Insurance Contracts, and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. Tower assessment of the impact of adopting NZ IFRS 17 is ongoing, however it is expected that the majority of Tower's insurance contracts will meet the requirements of the simplified approach. However, there are expected to be significant changes in the presentation of the financial standards and disclosures. Due to the complexity of the requirements within the standard the final impact may not be determined until global interpretations and regulatory responses to the new standard are developed.



Corporate Governance
at Tower Limited (Tower)



This section of the Annual Report provides an overview of the corporate governance principles, policies and processes adopted and followed by Tower's Board

The Board is committed to achieving the highest standards of corporate governance, ethical behaviour, and accountability and has implemented corporate governance practices that are consistent with best practice. Where developments arise in corporate governance, the Board reviews Tower's practices and incorporates change where appropriate.

For the reporting period to 30 September 2019, the Board considers that Tower's corporate governance practices have materially adhered to the NZX Corporate Governance Code (NZX Code). Further information about the extent to which Tower has complied with each of the NZX Code recommendations is set out in Tower's corporate governance statement, available on Tower's website at <https://www.tower.co.nz/investor-centre/corporate-governance/policies>.

The following policies and company documentation are also available on Tower's website (<https://www.tower.co.nz/investor-centre/corporate-governance/policies>):

- Tower Limited Constitution
- Board Charter
- Board Protocols
- Audit & Risk Committee Terms of Reference
- Remuneration & Appointments Committee Terms of Reference
- Director and Executive Remuneration Policy
- Insider Trading and Market Manipulation Policy
- Corporate Disclosure Policy
- External Audit Independence Policy
- Health and Safety Policy
- Code of Ethics Policy
- Diversity Policy

Diversity

The below table provides a quantitative breakdown as to the gender composition of Tower's Directors and Officers

GROUP	2018-2019		2017-2018	
	% BY GROUP	NUMBER	% BY GROUP	NUMBER
Board of Directors				
Male	83%	5	80%	4
Female	17%	1	20%	1
Executive leadership team¹				
Male	56%	5	75%	6
Female	44%	4	25%	2
Senior leadership team²				
Male	68%	19	58%	21
Female	32%	9	42%	15
Employees				
Male	42%	263	41%	241
Female	58%	359	59%	366
Total company³				
Male	44%	287	42%	268
Female	56%	372	58%	366
Total employees		659	634	

¹ 'Executive Leadership Team' includes the Chief Executive Officer, and those employees who report directly to the Chief Executive Officer.

² 'Senior Leadership Team' is the second level of employees below the Chief Executive Officer, who report directly to the Executive Leadership Team.

³ 'Total Company' figures do not include the Board of Directors. Both the 2017-2018 and 2018-2019 figures include Tower's Pacific Island subsidiaries.

Evaluation from the Board on Tower's performance with respect to its diversity policy

The Board developed a new diversity policy in August 2019 which requires the Board to set measurable diversity and inclusion objectives. The new diversity policy can be viewed at <https://www.tower.co.nz/investor-centre/corporate-governance/policies>.

The measurable diversity and inclusion objectives were also set by the Board in August 2019 under the following categories and progress will be reported in respect of FY20:

- Gender diversity
- Age and career progression
- Ethnicity and Pacific and Māori inclusion
- LGBTIQ+ identification and inclusion
- Accessibility

The Board considers Tower has performed well over the past 12 months, in respect of Tower's diversity policy in place at the time of last year's annual report, acknowledging the number of initiatives implemented support of diversity and inclusion, including the achievement of the Rainbow Tick accreditation (as detailed further at page 19 of this annual report and Tower's corporate governance statement).

Board Committees

The Board has the following committees:

Audit and Risk Committee

Members: Graham Stuart (Chair), Michael Stiasny, Steve Smith, Warren Lee, Wendy Thorpe, Marcus Nagel.

Remuneration and Appointments Committee

Members: Michael Stiasny (Chair), Graham Stuart, Steve Smith, Warren Lee, Wendy Thorpe, Marcus Nagel.

Other committees

Tower's Board has the ability to establish additional sub-committees from time to time.

Board and Committee meeting attendance

The following numbers of Board and Committee meetings were held during the year from 1 October 2018 to 30 September 2019:

- Board meetings – 14
- Audit and Risk Committee meetings – 7
- Remuneration and Appointments Committee – 3

The Chief Executive Officer and Chief Financial Officer attend all Board meetings. The Chief Executive Officer, Chief Financial Officer and Chief Risk Officer attend all Audit and Risk Committee meetings. All meetings are attended by an appropriately qualified person who is responsible for taking accurate minutes of each meeting and ensuring that Board procedures are observed.

Director attendance at these meetings is set out below.

2018/2019 Tower Limited directors' attendance record

	TOWER LIMITED BOARD	AUDIT AND RISK COMMITTEE	REMUNERATION AND APPOINTMENTS COMMITTEE
Meetings held (to 30 September 2019)	14	7	3
Michael Stiasny	14	7	3
Steve Smith	14	7	3
Graham Stuart	14	6	3
Warren Lee	14	7	3
Wendy Thorpe	14	7	3
Marcus Nagel*	9	6	2

* Marcus Nagel was appointed on 14 January 2019.

Statutory Disclosures

Remuneration Director Remuneration

The Board's approach is to remunerate directors at a similar level to comparable Australasian companies, with a small premium to reflect the complexity of the insurance and financial services sector. At the Annual Shareholders' Meeting in February 2004 shareholders approved an increase in non-executive director annual remuneration to the current maximum of NZ\$900,000 per annum.

Tower seeks external advice when reviewing Board remuneration. The Remuneration and Appointments Committee is responsible for reviewing directors' fees. Non-executive directors are also paid additional annual fees for sitting on certain Board Committees.

BOARD/COMMITTEE	CHAIR	MEMBER
Base fee – Board of directors	\$130,000	\$78,570
Audit and Risk Committee	\$15,000	\$9,000
Remuneration and Appointments Committee ¹	-	-

¹ The Board determined that from 1 December 2012 no fees would be payable for sitting on the Remuneration and Appointments Committee

Additional fees may be paid to non-executive directors for one-off tasks and/or additional appointments where required.

2018/2019 directors' remuneration and benefits of Tower and its subsidiaries

Amounts in the table below reflect fees paid and accrued for the year ended 30 September 2019.

Fees include base fees and additional fees in the financial year for one-off tasks and additional appointments.

DIRECTORS' REMUNERATION AND BENEFITS OF TOWER LIMITED	
FOR THE YEAR TO 30 SEPTEMBER 2019	FEES (NZ\$)
Michael Stiasny	139,000
Graham Stuart	93,570
Steve Smith	87,570
Warren Lee	87,570
Wendy Thorpe	87,570
Marcus Nagel	69,326

DIRECTORS' REMUNERATION AND BENEFITS OF TOWER LIMITED SUBSIDIARIES	
FOR THE YEAR TO 30 SEPTEMBER 2019	FEES
Alden Godinet ¹	\$7,250
Rodney Reid ¹	\$7,250
Isikeli Tikoduadua ²	\$18,000

1 Fees earned in capacity as director of National Pacific Insurance Limited. NPI fees are paid in Western Samoan Tala.

2 Fees earned in capacity as director of Tower Insurance (Fiji) Limited. Tower Insurance (Fiji) Limited fees are paid in Fijian Dollars.

CEO and senior executive remuneration

The Board's approach to remunerating the Chief Executive Officer and other key executives is to provide market based remuneration packages comprising a blend of fixed and variable remuneration, with clear links between individual and company performance, and reward. The Remuneration and Appointments Committee reviews the remuneration packages of the Chief Executive Officer and other key executives at least annually. This approach is intended to encourage Tower's executives to meet Tower's short and long term objectives.

The Chief Executive Officer, Mr Harding, is remunerated through a combination of fixed base pay, variable performance incentives and contractual entitlements to allowances for travel and accommodation.

The maximum Short Term Incentive (STI) payable to Mr Harding is currently \$500,000 per annum.

The achievement of STI is based on Tower reaching target or stretch criteria on a combination of key financial and non-financial operational performance measures.

The core financial targets are Gross Written Premium and Net Profit After Tax. The Board varies the non-financial targets year to year in line with operational plans to include factors such as risk metrics, staff engagement and customer satisfaction; and specific outcomes for major projects, such as Tower's IT transformation programme.

Mr Harding has been awarded an STI payment of \$260,000 for the year ended 30 September 2019 (52% of achievement criteria) and was awarded an STI of \$280,000 for the year ended 30 September 2018 (56% of achievement criteria).

Mr Harding is not entitled to any Long Term Incentive payments.

The table below sets out the remuneration payments to Mr Harding in the years ended 30 September 2019 and 2018.

FOR THE YEAR TO 30 SEPTEMBER	2018 \$000	2019 \$000
Base salary	800	773
Compensation for changes to contractual terms ¹	300	0
Short term incentive payments ²	280	0
Total remuneration ³	1,380	773

1 Compensation for changes to contractual terms relates to a one-off retention payment to extend Mr Harding's fixed term contract, from December 2019 to December 2020.

2 STI for the year ended 30 September 2019 will be paid in the year ended 30 September 2020. The STI payment made in the year ended 30 September 2019 related to the year ended 30 September 2018. The STI payment in respect of the year ended 30 September 2017 was made in September 2017, and so there were no STI payments in the year ended 30 September 2018.

3 In addition to the above, Mr Harding has an expense allowance for travel and accommodation of \$145,000 for 2019 (2018: \$120,000). Due to timing differences and prepayments, actual amount paid in 2019 was \$217,000 (2018: \$131,000).

Employee remuneration

The table below sets out the number of employees or former employees of Tower, excluding directors and former directors, who received remuneration and other benefits valued at or exceeding \$100,000 for the years ended 30 September 2019 and 2018. Remuneration includes base salary, performance payments and redundancy or other termination payments. The table does not include company contributions of 3% of gross earnings for those individuals who are members of a KiwiSaver scheme. The remuneration bands are expressed in New Zealand Dollars.

FROM	TO	2019	2018
100,000	109,999	19	21
110,000	119,999	18	11
120,000	129,999	18	15
130,000	139,999	11	9
140,000	149,999	10	9
150,000	159,999	8	9
160,000	169,999	6	0
170,000	179,999	2	4
180,000	189,999	6	1
190,000	199,999	5	3
200,000	209,999	3	2
210,000	219,999	3	3
220,000	229,999	6	5
230,000	239,999	2	5
240,000	249,999	1	2
250,000	259,999	2	0
260,000	269,999	2	0
270,000	279,999	2	2
280,000	289,999	2	0
290,000	299,999	0	1
300,000	309,999	5	2
310,000	319,999	1	1
320,000	329,999	0	1
350,000	359,999	1	1
370,000	379,999	0	1
380,000	389,999	0	1
450,000	459,999	0	1
460,000	469,999	0	1
470,000	479,999	1	0
490,000	499,999	0	1
500,000	509,999	1	0
530,000	539,999	1	1
540,000	549,999	0	1
650,000	659,999	1	0
900,000	909,999	0	1
1,590,000	1,599,999	1	0
Total		138	114

Substantial product holders (as at 30 September 2019)

The names and holdings of Tower's substantial product holders based on notices filed with Tower under the Financial Markets Conduct Act 2013 as at 30 September 2019 were:

NAME	TOTAL ORDINARY SHARES ¹
Bain Capital Credit LP	67,464,858
Salt Funds Management Limited	45,223,493
Accident Compensation Corporation	32,621,151
New Zealand Funds Management Limited on behalf of itself and its wholly owned subsidiary New Zealand Funds Superannuation Limited	17,690,793
Westpac Banking Corporation	9,173,589

1 Total ordinary shares held by the substantial product holder is the number of shares disclosed in the latest Substantial Product Holder notice filed with Tower, which may differ from the stated holdings below.

Principal shareholders (as at 28 November 2019)

The names and holdings of the 20 largest registered Tower shareholders as at 28 November 2019 were:

NAME	TOTAL ORDINARY SHARES	%
Dent Issuer Designated Activity Company	84,329,386	19.99
Accident Compensation Corporation	40,874,866	9.69
HSBC Nominees (New Zealand) Limited	37,492,302	8.89
Citibank Nominees (New Zealand) Limited	28,796,506	6.83
BNP Paribas Nominees (NZ) Limited <BPSS40>	23,095,504	5.48
National Nominees Limited	15,607,792	3.70
JBWere (NZ) Nominees Limited <NZ Resident A/C>	14,515,511	3.44
HSBC Nominees (New Zealand) Limited A/C State Street	11,469,088	2.72
Philip George Lennon	7,500,000	1.78
JP Morgan Chase Bank NA NZ Branch - Segregated Clients Acct	6,807,752	1.61
UBS Nominees Pty Limited	5,972,196	1.42
FNZ Custodians Limited <DTA Non Resident A/C>	4,817,279	1.14
New Zealand Permanent Trustees Limited	3,600,000	0.85
FNZ Custodians Limited	3,352,708	0.80
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	3,031,368	0.72
Leveraged Equities Finance Limited	2,525,000	0.60
One Managed Inv't Funds Ltd	2,500,000	0.59
Investment Custodial Services Limited	2,262,989	0.54
Tea Custodian Limited Client Property Trust Account	2,218,782	0.53
BNP Paribas Nominees (NZ) Limited	2,121,821	0.50

Directors' shareholdings

At 28 November 2019, Tower Limited directors held the following interests in Tower Limited shares:

	ORDINARY SHARES
DIRECTOR	BENEFICIAL
Michael Stiasny	494,330
Graham Stuart	125,000
Steve Smith	23,075
Wendy Thorpe	6,250
Warren Lee	45,500
Marcus Nagel	62

Director trading in Tower securities

Directors disclosed the following acquisitions and disposals of relevant interests in Tower securities during the financial year pursuant to section 148 of the Companies Act 1993.

DIRECTOR	DATE OF DISCLOSURE	INTEREST	NUMBER ACQUIRED (DISPOSED)	CONSIDERATION ¹
Wendy Thorpe	23 Oct 2019	Beneficial	1,250	\$675.00 (AUD)
Michael Stiasny	23 Oct 2019	Beneficial	98,866	\$55,364.96
Graham Stuart	23 Oct 2019	Beneficial	25,000	\$14,000.00
Steve Smith	23 Oct 2019	Beneficial	4,615	\$2,584.40
Warren Lee	23 Oct 2019	Beneficial	9,100	\$4,914 (AUD)
Marcus Nagel	14 Jan 2019	Beneficial	50	Acquired pre-directorship
	23 Oct 2019	Beneficial	12	\$6.72

1. Consideration is in New Zealand dollars, unless otherwise specified.

Shareholder analysis

Tower's shares are quoted on both the NZSX and ASX. As at 28 November 2019, 15,719 Tower shareholders held less than A\$500 of Tower shares (i.e. less than a marketable parcel as defined in the ASX Listing Rules), holding a total of 5,691,746 Tower shares.

Total voting securities

In October 2019, Tower raised additional capital through a pro rata renounceable entitlement offer. As at 28 November 2019, Tower had 421,647,258 ordinary shares held by 25,368 holders. By comparison, on 28 November 2018, Tower had 337,324,300 ordinary shares held by 26,090 holders. Tower's ordinary shares each carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney.

The address the telephone number of each office at which a register of Tower securities is kept is set out in the directory at the back of this Annual Report.

Tower Limited Shareholder Statistics (as at 28 November 2019)

HOLDING RANGE	HOLDER COUNT	HOLDER COUNT %	HOLDING QUANTITY (ORDINARY SHARES)	HOLDING QUANTITY %
1 to 1,000	17,890	70.48	7,527,813	1.79
1,001 to 5,000	5,133	20.22	10,619,583	2.25
5,001 to 10,000	845	3.33	6,030,232	1.43
10,001 to 100,000	1,314	5.17	40,258,027	9.55
100,001 and over	201	0.79	357,211,603	84.72
Total	25,383	100	421,647,258	100

Credit rating

Global rating organisation A.M. Best Company issued the following ratings of companies:

Tower Insurance Limited
Financial Strength Rating A- (Excellent)
Issuer Credit Rating a-
Effective 8 March 2019

Tower Limited
Issuer Credit Rating bbb- (Good)
Effective 8 March 2019

Waivers

There were no applications to NZX or ASX for any waivers in the financial year ending 30 September 2019.

Interests register

Tower and its subsidiaries are required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests register for Tower Limited is available for inspection on request by shareholders. Tower's constitution provides that an 'interested' director may not vote on a matter in which he or she is interested unless the director is required to sign a certificate in relation to that vote pursuant to the Companies Act 1993, or the matter relates to a grant of an indemnity pursuant to section 162 of the Companies Act 1993.

General disclosures of interest

During the financial year, Tower's directors disclosed interests, or a cessation of interests (indicated by an asterisk (*)), in the following entities pursuant to section 140 of the Companies Act 1993. No disclosures were made by directors of any other Tower subsidiary.

Any cessation of interest that occurred after 30 September 2019 is indicated by two asterisks (**). Any disclosure of new interests that occurred after 30 September 2019 is indicated by three asterisks (***)

Warren Lee	
MyState Limited and subsidiary companies	Director
MyState Bank Limited	Director
Tasmanian Perpetual Trustees Limited	Director
Go Hold Limited*	Director
Go Blank Limited*	Director
MetLife Insurance Limited*	Director
MetLife General Insurance Limited*	Director
Steve Smith	
Kinrich Trust	Trustee
Kinrich Holdings Limited	Director
Summerlee Investments Limited	Director
Unison Securities Limited	Director
Unison Capital Advisors Limited	Director
Pascaro Investments Limited	Chair
Trebol Investments Limited and subsidiary companies	Director
Rimu SA (Chile) and subsidiary companies	Director
The National Foundation for the Deaf Incorporated	Board Member
Good Soundz Limited	Board Member
Michael Stiasny	
Atapo Corporation Limited ¹	Director
Bengadol Corporation Limited	Director
Frequency Media Group Limited	Director
Emerald Group Limited	Director
Gadol Corporation Limited	Director
Geffen Holdings Limited	Director
Glenogle Trust Limited	Director
Knotser Properties Limited	Director
Michael Spencer Limited	Director
Ngati Whatua Orakei Housing Trustee Limited	Director
Ngati Whatua Orakei Whai Rawa Limited	Chair
Plan B Limited	Director
Poukawa Estate Limited	Director
Queenstown Airport Corporation Limited	Director
Sasha Properties Limited	Director
SB Entertainment Holdings and subsidiary companies	Director
Stride Property Limited ²	Director
Stride Holdings Limited ³	Director
Stride Investment Management Limited ⁴	Director
Ted Kingsway Limited	Director
Financial Markets Authority*	Director
West24 Limited	Director
Whai Rawa GP Limited	Director
Whai Rawa Kainga Development Limited	Director
LPF Group Limited	Director
LPF Litigation Funding No. 28 Limited*	Director
New Zealand Transport Agency*	Chair
MS10 Limited ⁵	Director
Morgan HoldCo Limited ⁶	Director

Vector Limited and subsidiary companies ⁷	Chair
Remuera Investments Limited*	Director
Graham Stuart	
Leroy Holdings Limited	Director
EROAD Limited	Chair
VinPro Limited	Director
NorthWest Healthcare Properties Management Limited	Director
Metro Performance Glass Limited***	Director
Wendy Thorpe	
AMP Bank Limited*	Director
Online Education Services Pty Limited	Chair
Very Special Kids	Director
Epworth Foundation*	Director
Ausgrid Asset Partnership*	Director
Ausgrid Operator Partnership*	Director
Ausgrid Finance Pty Limited*	Director
Ausgrid Management Pty Limited*	Director
Active Stream Pty Limited*	Director
Plus ES Partnership*	Director
Plus ES Management 1 Pty Limited*	Director
Plus ES Management 2 Pty Limited*	Director
Board of Australian Central Credit Union Ltd T/A People's Choice Credit Union***	Director
Marcus Nagel	
NA	

1. Michael Stiasny's directorship of Atapo Corporation Limited ceased on 31 December 2017
2. Michael Stiasny's directorship of Stride Property Limited ceased on 30 August 2018
3. Michael Stiasny's directorship of Stride Holdings Limited ceased on 30 August 2018
4. Michael Stiasny's directorship of Stride Investment Management Limited ceased on 30 August 2018
5. Michael Stiasny's directorship of MS10 Limited commenced 15 November 2017
6. Michael Stiasny's directorship of Morgan Holdco Limited commenced on 3 April 2017
7. Michael Stiasny's directorships of Vector Limited and subsidiary companies ceased on 12 November 2018

Specific disclosures of interest

During the financial year, no subsidiary of Tower entered into any transaction in which directors were interested. Accordingly, no disclosures of interest were made.

Donations

During the financial year ended 30 September 2019, Tower Limited and its subsidiaries did not make any donations.

Tower subsidiary company director disclosures

The following persons held office as directors of subsidiary companies at 30 September 2019. Those who were appointed during the financial year are footnoted.

TOWER SUBSIDIARY COMPANY DIRECTOR DISCLOSURES	
Tower Insurance Limited	Warren Lee, Steve Smith, Michael Stiasny, Graham Stuart, Wendy Thorpe, Marcus Nagel ¹
Tower Financial Services Group Limited	Warren Lee, Steve Smith, Michael Stiasny, Graham Stuart, Wendy Thorpe, Marcus Nagel ¹
The National Insurance Company of New Zealand Limited	Richard Harding, Jeffrey Wright ²
Tower New Zealand Limited	Richard Harding, Jeffrey Wright ²
National Insurance Company (Holdings) Pte Limited	Richard Harding, Isikeli Tikoduadua, Jeffrey Wright, Michelle James and Veilawa Rereiwasaliva ³
Southern Pacific Insurance Company (Fiji) Limited	Richard Harding, Isikeli Tikoduadua, Jeffrey Wright, Michelle James and Veilawa Rereiwasaliva ³
Tower Insurance (Fiji) Limited	Richard Harding, Isikeli Tikoduadua, Jeffrey Wright, Michelle James and Veilawa Rereiwasaliva ³
Tower Insurance (Cook Islands) Limited	Richard Harding, Jeffrey Wright, Michelle James
Tower Insurance (PNG) Limited	Richard Harding, Jeffrey Wright, Michelle James and Jeremy Norton ⁴
National Pacific Insurance Limited	Alden Godinet, Richard Harding, Rodney Reid, Jeffrey Wright and Michelle James
National Pacific Insurance (Tonga) Limited	Alden Godinet, Richard Harding, Rodney Reid, Jeffrey Wright and Michelle James
Tower Insurance (Vanuatu) Limited	Richard Harding, Jeffrey Wright, Michelle James and Stephen Grant Ives ⁵
National Pacific Insurance (American Samoa) Limited	Richard Harding ⁶ , Alden Godinet ⁶ , Rodney Reid ⁶ , Jeffrey Wright ⁶ and Michelle James ⁶

- Marcus Nagel was appointed as director on 14 January 2019.
- Jeffrey Wright was appointed as director on 20 May 2019.
- Veiwala Rereiwasaliva was appointed as director on 19 June 2019.
- Jeremy Norton was appointed as director on 19 June 2019.
- Stephen Grant Ives was appointed as director on 19 June 2019.
- The above named were appointed as directors on 11 December 2018.

No employee appointed as a director of a subsidiary receives any remuneration in their role as a director. The number of employees who receive remuneration of more than \$100,000 is included in the remuneration table on page 83. Auditor fees paid on behalf of Tower and its subsidiaries are disclosed in the financial statements.

Other matters

Indemnity and insurance

In accordance with section 162 of the Companies Act 1993 and Tower's constitution, Tower has provided insurance for and indemnities to, directors and employees of Tower for losses from actions undertaken in the course of their duties.

The insurance includes indemnity costs and expenses incurred to defend an action that falls outside the scope of the indemnity. Particulars have been entered in the Interests Register pursuant to section 162 of the Companies Act 1993.

Limits on acquisition of securities under New Zealand law

Tower undertook to the ASX, at the time it granted Tower a full listing (July 2002), to include the following information in its annual report. Except for the limitations detailed below, Tower securities are freely transferable under New Zealand law.

The New Zealand Takeovers' Code imposes a general rule by which an acquisition of more than 20% of the voting rights in Tower or an increase of an existing holding to 20% or more can only occur in certain permitted ways. These include a full or partial takeover offer in accordance with the Takeovers Code, an acquisition or an allotment approved by an ordinary resolution of shareholders, a creeping acquisition (in defined circumstances) and a compulsory acquisition once a shareholder owns or controls 90% or more of the voting rights in Tower.

The New Zealand Overseas Investment Act and related regulations determine certain investments in New Zealand by overseas persons. Generally the Overseas Investment Office's consent is required if an 'overseas person' acquires Tower shares or an interest in Tower shares of 25% or more of the shares on issue or, if the overseas person already holds 25% or more, the acquisition increases that holding.

The New Zealand Commerce Act is likely to prevent a person from acquiring Tower shares if the acquisition would, or would be likely to, substantially lessen competition in a market.

Corporations Act 2001 (Australia)

Tower is not subject to Chapters 6, 6A, 6B or 6C of the Corporations Act 2001 (Australia) dealing with the acquisition of shares (such as substantial holdings and takeovers).

The Annual Report is signed on behalf of the Board by



Michael Stiasny
Chair



Graham Stuart
Director

Notes





Tower Limited Investor Relations

Telephone: +64 9 369 2000

Email: investor.relations@tower.co.nz

Website: www.tower.co.nz

Registrar

Computershare Investor Services Limited

Freephone within New Zealand: 0800 222 065

Telephone New Zealand: +64 9 488 8777

Freephone within Australia: 1800 501 366

Telephone Australia: +61 3 9415 4083

Email: enquiry@computershare.co.nz

Website: www.investorcentre.com/nz