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25 November 2020

Tower Limited FY20 Full Year Results for Announcement to Market

In accordance with NZX Listing Rule 3.5.1 we enclose the following for release to the market in relation to Tower Limited's (NZX/ASX: TWR) FY20 Full Year Results:

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

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

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

ENDS

Authorised by the Board.

Rachael Watene
Company Secretary
Tower Limited
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25 November 2020

Digital and data delivers strong customer and profit growth for Tower

Kiwi insurer Tower Limited (NZX/ASX:TWR) today announced underlying profit excluding large events increased 23% on the prior year to \$34.7m, underlying profit including large events increased 3% on the prior year to \$28.4 million, passing the top end of its guidance.

Tower's reported profit of \$12.3 million, includes the \$9.5 million impact from the recently announced EQC settlement of \$42.1 million. Tower will receive \$42.1m after disbursement to reinsurers and cost which amounts to 76% of the gross carrying value listed in Tower's accounts.

Tower's investment in digital and data has helped the company grow GWP 8% to \$385 million and increase customer numbers by 11% to 300,000.

Tower CEO Blair Turnbull, who joined the company in August 2020, says the company's digital and data strategy is a game changer and is laying the groundwork to fundamentally transform how we deliver insurance in New Zealand and the Pacific.

"New Zealand and the South Pacific are beautiful locations, but there's no doubt we face a few natural perils, like earthquakes and cyclones, which is why insurance is so important" says Turnbull.

"As an insurer it's our job to help get customers back on their feet and the recent flooding in Napier and fires in Lake Ōhau demonstrate the importance of the role we play in communities. But we want to do more than just help customers when they need to claim, we want to support them to avoid accidents.

"We have a significant amount of data and we're investing in innovations that will help customers understand risk, create safer driving habits and get customers to see insurance as a valued part of their life."

Turnbull says that as well as deepening customer relationships, digitisation will continue simplifying insurance and deliver efficiencies.

"Digitisation allows Tower to reach customers in new and exciting ways. As a result of our simplified online processes, two-thirds of new business is now coming through online channels and close to half of all claims are being logged online. Less than a year ago we launched MyTower, a fully online sales and service portal, and since then we've had over 50,000 people register. It's this type of innovation that will set us apart," says Turnbull.

"To help accelerate our digital and data progress, we've entered new partnerships with the likes of the University of Auckland's Science Faculty, Ushur in the US, Amodo in Croatia, as well as existing partners such as Corelogic.

"Digital and data also allows us to reduce our operating ratios, by giving us the tools and insights we need to manage our claims expenses closely. Tower improved its loss ratio from 48% to 46% in FY20 which demonstrates our ability to grow the business while managing claims effectively and without a significant increase in our cost base.

"Following the recent settlement with the EQC, our strong capital base has been further strengthened and we are well placed to accelerate. Our competitors should be left in no doubt that we are here to compete and show Kiwis they can expect more from their insurer."

ENDS



Results for announcement to the market		
Name of issuer	Tower Limited	
Reporting Period	12 months to 30 September 2020	
Previous Reporting Period	12 months to 30 September 2019	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$410,818	10%
Total Revenue	\$410,818	10%
Net profit/(loss) from continuing operations	\$11,892	-28%
Total net profit/(loss)	\$11,892	-28%
Interim/Final Dividend		
Amount per Quoted Equity Security	No dividend has been proposed	
Imputed amount per Quoted Equity Security	N/A	
Record Date	N/A	
Dividend Payment Date	N/A	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$0.56	\$0.56
A brief explanation of any of the figures above necessary to enable the figures to be understood	Revenues increased 10% year-on-year due to the purchase of Youi's New Zealand portfolio and organic growth in the New Zealand business. Net profit reduced by 28% year-on-year due to impairment of EQC receivable based on the settlement agreed on the 24 th of November.	
Authority for this announcement		
Name of person authorised to make this announcement	Rachael Watene, Company Secretary	
Contact person for this announcement	Nicholas Meseldzija, Head of Corporate Communications	
Contact phone number	+64 21 531 869	
Contact email address	nicholas.meseldzija@tower.co.nz	
Date of release through MAP	25 November 2020	

Audited financial statements accompany this announcement.



Tower Limited

Consolidated financial statements

for the year ended 30 September 2020



Consolidated financial statements

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Consolidated statement of comprehensive income

For the year ended 30 September 2020

<i>\$ thousands</i>	Note	30-Sep-20	30-Sep-19
Gross written premium		377,159	356,767
Unearned premium movement		(4,607)	(11,772)
Gross earned premium	2.1	372,552	344,995
Outward reinsurance premium		(58,030)	(55,054)
Movement in deferred reinsurance premium		810	79
Outward reinsurance premium expense		(57,220)	(54,975)
Net earned premium		315,332	290,020
Claims expense		(206,767)	(190,699)
Less: Reinsurance and other recoveries revenue	2.1	25,711	14,985
Net claims expense	2.2	(181,056)	(175,714)
Gross commission expense		(20,947)	(20,252)
Commission revenue	2.1	6,457	3,771
Net commission expense		(14,490)	(16,481)
Underwriting expense	2.3	(87,949)	(77,185)
Underwriting profit		31,837	20,640
Investment income	3.1	5,810	7,519
Investment expense		(466)	(418)
Corporate and other income		288	2,074
Corporate and other expense		(2,967)	(3,508)
Impairment of EQC receivable	2.7	(13,126)	-
Financing and other costs		(1,125)	(312)
Profit before taxation		20,251	25,995
Tax expense	7.1	(7,910)	(9,190)
Profit after taxation		12,341	16,805
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		(1,374)	793
<i>Items that will not be reclassified to profit or loss</i>			
Gain on asset revaluation	5.3	41	305
Deferred income tax relating to asset revaluation	5.3	8	(32)
Other comprehensive (loss)/profit net of tax		(1,325)	1,066
Total comprehensive profit for the year		11,016	17,871
Earnings per share:			
Basic and diluted earnings per share (cents)		2.85	4.73
Profit after taxation attributed to:			
Shareholders		11,892	16,565
Non-controlling interests		449	240
		12,341	16,805
Total comprehensive profit attributed to:			
Shareholders		10,653	17,538
Non-controlling interests		363	333
		11,016	17,871

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

Consolidated balance sheet

As at 30 September 2020

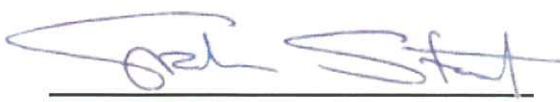
<i>\$ thousands</i>	Note	30-Sep-20	30-Sep-19
Assets			
Cash and cash equivalents	8.1	80,108	62,018
Investments	3.2	237,904	234,172
Receivables	2.7	250,746	247,501
Current tax asset	7.2a	12,892	13,589
Deferred tax asset	7.3a	26,832	30,308
Deferred insurance costs	2.6	34,667	32,530
Right-of-use assets	6.3a(i)	7,211	-
Property, plant and equipment	6.1	10,041	9,104
Intangible assets	6.2	84,954	74,211
Total assets		745,355	703,433
Liabilities			
Payables	2.8	66,600	75,907
Unearned premiums	2.5	203,452	187,855
Outstanding claims	2.4	107,747	124,060
Lease liabilities	6.3a(ii)	8,695	-
Provisions	2.9	9,531	6,802
Current tax liabilities	7.2b	821	229
Deferred tax liabilities	7.3b	1,346	991
Borrowings	5.1	-	14,931
Total liabilities		398,192	410,775
Net assets		347,163	292,658
Equity			
Contributed equity	5.2	492,424	209,990
(Accumulated losses) / Retained earnings		(42,990)	71,059
Reserves	5.3	(104,431)	9,808
Total equity attributed to shareholders		345,003	290,857
Non-controlling interests		2,160	1,801
Total equity		347,163	292,658

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

The financial statements were approved for issue by the Board on 25 November 2020.



Michael P Stiasny
Chairman



Graham R Stuart
Director

Consolidated statement of changes in equity

Year Ended 30 September 2020

\$ thousands	Attributed to Shareholders				Total Equity
	Contributed equity	Retained earnings	Reserves	Non-controlling interest	
Year Ended 30 September 2020					
Balance as at 30 September 2019	209,990	(36,101)	9,808	1,801	185,498
Impact of amalgamation*	-	107,160	-	-	107,160
Balance post amalgamation	209,990	71,059	9,808	1,801	292,658
Adjustment on initial application of NZ IFRS 16	-	(1,333)	-	(4)	(1,337)
Restated balance at beginning of the year	209,990	69,726	9,808	1,797	291,321
Comprehensive income					
Profit for the year	-	11,892	-	449	12,341
Currency translation differences	-	-	(1,288)	(86)	(1,374)
Gain on asset revaluation	-	-	41	-	41
Deferred income tax relating to asset revaluation	-	-	8	-	8
Total comprehensive income	-	11,892	(1,239)	363	11,016
Transactions with shareholders					
Net proceeds of capital raise	45,000	(119)	-	-	44,881
Dividends written off	-	(99)	-	-	(99)
Other	-	44	-	-	44
Cancellation of shares on amalgamation*	(254,990)	254,990	-	-	-
Recognition of shares on amalgamation*	492,424	(379,424)	(113,000)	-	-
Total transactions with shareholders	282,434	(124,608)	(113,000)	-	44,826
At the end of the year	492,424	(42,990)	(104,431)	2,160	347,163
Year Ended 30 September 2019					
Balance as at 30 September 2018	209,990	(53,187)	8,835	1,468	167,106
Impact of amalgamation	-	107,673	-	-	107,673
Restated balance at beginning of the year	209,990	54,486	8,835	1,468	274,779
Comprehensive income					
Profit for the year	-	16,565	-	240	16,805
Currency translation differences	-	-	700	93	793
Gain on asset revaluation	-	-	305	-	305
Deferred income tax relating to asset revaluation	-	-	(32)	-	(32)
Total comprehensive income	-	16,565	973	333	17,871
Transactions with shareholders					
Other	-	8	-	-	8
Total transactions with shareholders	-	8	-	-	8
At the end of the year	209,990	71,059	9,808	1,801	292,658

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

* Refer to note 8.2 for further information.

Consolidated statement of cash flows

For the Year Ended 30 September 2020

<i>\$ thousands</i>	Note	30-Sep-20	30-Sep-19
Cash flows from operating activities			
Premiums received		366,738	343,411
Interest received		7,328	8,141
Fee and other income received		7,345	5,818
Reinsurance and other recoveries received		18,035	25,528
Motor premium refund payments		(5,849)	-
Reinsurance paid		(54,867)	(55,968)
Claims paid		(223,751)	(208,770)
Employee and supplier payments		(94,783)	(91,095)
Income tax paid		(1,317)	(2,453)
Net cash inflow from operating activities		18,879	24,612
Cash flows from investing activities			
Proceeds from sale of interest bearing investments		112,484	73,479
Payments for purchase of interest bearing investments		(117,734)	(115,102)
Payments for purchase of intangible assets		(7,361)	(35,741)
Payments for purchase of customer relationships*		(9,473)	-
Payments for purchase of property, plant & equipment		(3,122)	(1,886)
Net cash outflow from investing activities		(25,206)	(79,250)
Cash flows from financing activities			
Proceeds from share capital issuance		47,300	-
Payments for cost of share capital issuance		(2,419)	-
Repayment of borrowings		(15,000)	-
Proceeds from borrowings		-	15,000
Facility fees and interest paid		(1,115)	(352)
Payment relating to principal element of lease liabilities		(3,070)	-
Net cash inflow from financing activities		25,696	14,648
Net increase (decrease) in cash and cash equivalents		19,369	(39,990)
Effect of foreign exchange rate changes		(1,279)	7
Cash and cash equivalents at the beginning of the year		62,018	102,001
Cash and cash equivalents at the end of the year		80,108	62,018

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

* This represents the net cashflow associated with the purchase of Youi NZ Pty Ltd.'s insurance portfolio. It constitutes the gross purchase price (and associated costs) as disclosed in note 6.2 less the net insurance liabilities Tower absorbed as part of this transaction.

Notes to the consolidated financial statements

1 Overview

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

1.1 About this Report

a. Entities reporting

The financial statements presented are those of Tower Limited (the Company) and its subsidiaries. The Company and its subsidiaries together are referred to in this financial report as Tower or the Group. The address of the Company's registered office is 45 Queen Street, Auckland, New Zealand.

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

The financial statements were authorised for issue by the Board of Directors on 25 November 2020. The entity's owners or others do not have the power to amend the financial statements after issue.

b. Statutory base

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

c. Basis of preparation

The Company is a for profit entity and the financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with International Financial Reporting Standards (IFRS), New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for Tier 1 for-profit entities.

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

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

d. Change in comparatives

Refer to note 8.9 for details of change in comparatives. There is no change to net assets or the 2019 consolidated statement of comprehensive income.

1.2 Consolidation

a. Principles of consolidation

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

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

The results of any subsidiaries acquired during the year are consolidated from the date on which control was transferred to the consolidated entity and the results of any subsidiaries disposed of during the year are consolidated up to the date control ceased.

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

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

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

b. Foreign currency

(i) Functional and presentation currencies

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

(ii) Transactions and balances

In preparing the financial statements of the individual entities, transactions denominated in foreign currencies are translated into 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 impact profit after tax in the consolidated statements of comprehensive income unless the items form part of a net investment in a foreign operation. In this case, exchange differences are taken to the Foreign Currency Translation Reserve and recognised (as part of comprehensive profit) in the statement of comprehensive income and the statement of changes in equity.

(iii) Consolidation

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

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

1.2 Consolidation (continued)

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

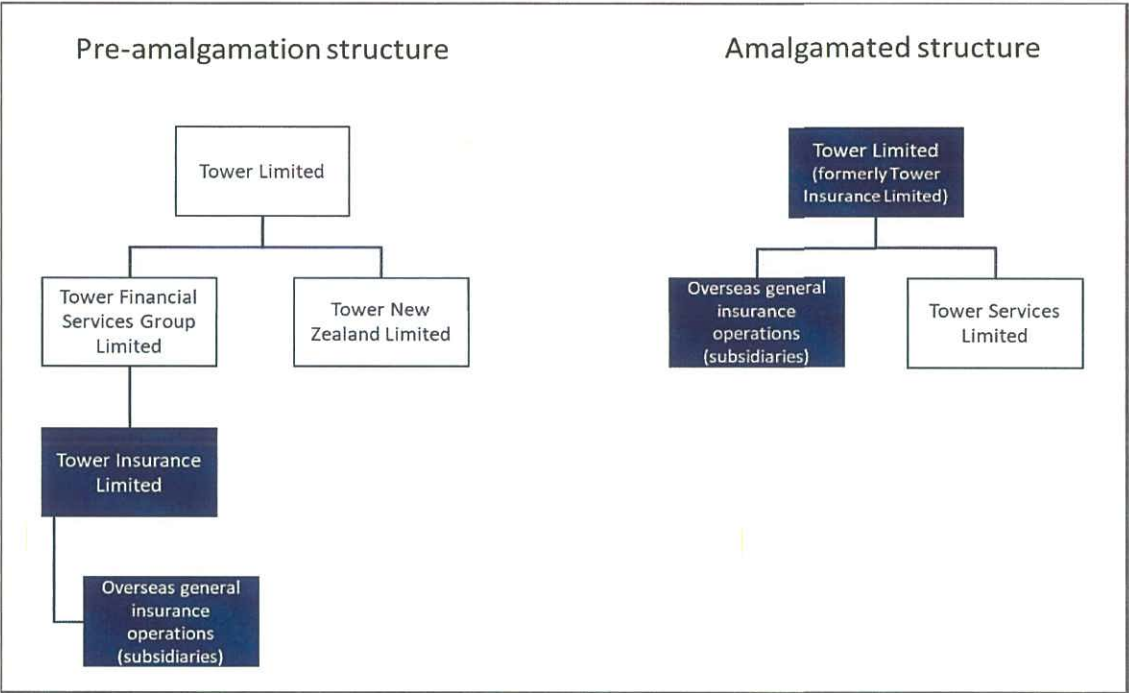
c. Subsidiaries

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

Tower simplified its corporate structure on 30 September 2020 to make Tower Insurance Limited the listed parent. Tower Limited, Tower New Zealand Limited and Tower Financial Services Group Limited undertook a short-form amalgamation into Tower Insurance Limited. In addition, Tower Insurance Limited was renamed Tower Limited. The table below and diagram on the following page illustrates this change and further information is provided in note 8.2.

Name of company	Incorporation	Holdings	
		2020	2019
Parent Company			
New Zealand general insurance operations			
Tower Limited (formerly named Tower Insurance Limited)	NZ	Parent	-
New Zealand holding company			
Tower Limited	NZ	-	Parent
Subsidiaries			
New Zealand general insurance operations			
Tower Insurance Limited	NZ	-	100%
Overseas general insurance operations			
Tower Insurance (Cook Islands) Limited	Cook Islands	100%	100%
Tower Insurance (Fiji) Limited	Fiji	100%	100%
Tower Insurance (PNG) Limited	PNG	100%	100%
National Pacific Insurance Limited ("NPI")	Samoa	71%	71%
Tower Insurance (Vanuatu) Limited	Vanuatu	100%	100%
Management service operations			
Tower Services Limited	NZ	100%	-
Tower New Zealand Limited	NZ	-	100%
Tower Financial Services Group Limited	NZ	-	100%

1.2 Consolidation (continued)



1.3 Critical accounting judgements and estimates

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

- Net outstanding claims note 2.4
- Liability adequacy test note 2.5
- Intangible assets note 6.2
- Deferred taxation note 7.3

COVID-19 Pandemic

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

Balance sheet	Impact
Investments	Investments are carried at fair value and reflect a lower interest rate environment.
Receivables	Immaterial impact. Provision for impairment of premium receivables and "other recoveries" has been updated to include an allowance for increased non-payment.
Right of Use Assets	Immaterial impact. One minor lease was deemed onerous due to a branch office closure in Fiji and was impaired.
Intangible assets	No impact. Tower has assessed that its intangible assets have not been impaired.
Unearned premiums	Immaterial impact. Provision for unearned premium cancellation has been updated to include an allowance for increased non-payment.
Net outstanding claims	Immaterial impact. A small adjustment has been made for delay in the reporting and progressing of claims in the valuation of outstanding claims.
Provisions	Provisions have increased. First, there is a year-on-year increase due to outstanding motor premium refunds. Second, Tower's employee leave balances have increased due to a reduction in leave taken during the year (which Tower is actively managing).

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

In November 2020, the RBNZ relaxed their guidance for dividend payments for New Zealand based insurers. The RBNZ expects that insurers will only make dividend payments if it is prudent for that insurer to do so, having regard to their own stress testing and the elevated risks in the current environment.

1.4 Segmental reporting

a. Operating segments

Tower operates in two geographical segments, New Zealand and the Pacific region. New Zealand comprises the general insurance business underwritten in New Zealand. Pacific Islands comprises the general insurance business underwritten in the Pacific by Tower subsidiaries and branch operations. 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.

b. Financial performance

<i>\$ thousands</i>	New Zealand General Insurance	Pacific Islands General Insurance	New Zealand Corporate	Total
Year Ended 30 September 2020				
Gross written premium	317,478	59,681	-	377,159
Gross earned premium - external	311,671	60,881	-	372,552
Outwards reinsurance expense	(38,774)	(18,446)	-	(57,220)
Net earned premium	272,897	42,435	-	315,332
Net claims expense	(161,695)	(19,361)	-	(181,056)
Net commission expense	(12,027)	(2,463)	-	(14,490)
Underwriting expense	(74,752)	(13,197)	-	(87,949)
Underwriting profit	24,423	7,414	-	31,837
Net investment income	4,265	769	310	5,344
Impairment of EQC receivable	(13,126)	-	-	(13,126)
Other expenses	(286)	62	(3,580)	(3,804)
Profit before tax	15,276	8,245	(3,270)	20,251
Profit after tax	9,907	4,789	(2,355)	12,341
Year Ended 30 September 2019				
Gross written premium	296,598	60,169	-	356,767
Gross earned premium - external	285,677	59,318	-	344,995
Outwards reinsurance expense	(37,816)	(17,159)	-	(54,975)
Net earned premium	247,861	42,159	-	290,020
Net claims expense	(161,071)	(14,643)	-	(175,714)
Net commission expense	(13,585)	(2,896)	-	(16,481)
Underwriting expense	(63,600)	(13,585)	-	(77,185)
Underwriting profit	9,605	11,035	-	20,640
Net investment income	6,574	44	483	7,101
Other expenses	(873)	1,050	(1,923)	(1,746)
Profit before tax	15,306	12,129	(1,440)	25,995
Profit after tax	9,749	7,564	(508)	16,805

1.4 Segmental reporting (continued)

c. Financial position

<i>\$ thousands</i>	New Zealand General Insurance	Pacific Islands General Insurance	New Zealand Corporate	Total
Total assets 30 September 2020	534,487	105,376	105,492	745,355
Total assets 30 September 2019	480,694	98,454	124,285	703,433
Total liabilities 30 September 2020	336,192	61,096	904	398,192
Total liabilities 30 September 2019	334,810	58,842	17,123	410,775

Definition

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

2 Underwriting activities

This section provides information on Tower's underwriting activities.

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

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

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

2.1 Underwriting Revenue

Composition

<i>\$ thousands</i>	30-Sep-20	30-Sep-19
Gross written premium	384,359	356,767
Motor premium refund*	(7,200)	-
Movement in unearned premium liability	(4,607)	(11,772)
Gross earned premium	372,552	344,995
Reinsurance and other recoveries revenue	25,711	14,985
Reinsurance commission	5,242	2,852
Insurance administration services commission	1,215	919
Commission revenue	6,457	3,771
Underwriting revenue	404,720	363,751

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

2.1 Underwriting Revenue (continued)

Recognition and measurement

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

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

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

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

2.2 Net claims expense

Composition

\$ thousands	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	30-Sep-20	30-Sep-19	30-Sep-20	30-Sep-19	30-Sep-20	30-Sep-19
Gross claims expense	201,943	179,649	4,824	11,050	206,767	190,699
Reinsurance and other recoveries revenue	(24,698)	(12,335)	(1,013)	(2,650)	(25,711)	(14,985)
Net claims expense	177,245	167,314	3,811	8,400	181,056	175,714

Recognition and measurement

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

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

2.3 Underwriting expense

Composition

\$ thousands	30-Sep-20	30-Sep-19
People costs	73,821	82,098
People costs classified as a claims handling expense	(28,931)	(24,947)
People costs capitalised during the year	(4,187)	(19,235)
People costs classified as an underwriting expense	40,703	37,916
Technology	16,967	11,871
Amortisation	10,850	6,573
Marketing	8,181	8,770
External fees	7,137	6,639
Miscellaneous	937	4,794
Depreciation*	4,590	1,591
Movement in indirect deferred acquisition costs	(1,416)	(969)
Underwriting expenses	87,949	77,185

* Includes \$2.6m (2019: nil) of depreciation on right-of-use assets. See note 6.3b for further information.

2.4 Net outstanding claims

a. Composition

\$ thousands	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	30-Sep-20	30-Sep-19	30-Sep-20	30-Sep-19	30-Sep-20	30-Sep-19
Central estimate of future cash flows	65,475	64,174	21,236	36,300	86,711	100,474
Claims handling expense	4,151	4,524	1,908	2,500	6,059	7,024
Risk Margin*	4,325	3,762	10,652	12,800	14,977	16,562
Gross outstanding claims	73,951	72,460	33,796	51,600	107,747	124,060
Reinsurance recoveries	(9,643)	(8,657)	(3,246)	(4,800)	(12,889)	(13,457)
Net outstanding claims	64,308	63,803	30,550	46,800	94,858	110,603
Net claim payments within 12 months	56,110	53,084	12,220	35,100	68,330	88,184
Net claim payments after 12 months	8,198	10,719	18,330	11,700	26,528	22,419
Net outstanding claims	64,308	63,803	30,550	46,800	94,858	110,603

* Includes additional \$5.0m (2019: \$5.0m) for the Canterbury earthquake over and above the provision of the Appointed Actuary, which is set at the 75th percentile of sufficiency. The 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.

b. Reconciliation of movements in net outstanding claims liability

\$ thousands	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance brought forward	124,060	(13,457)	110,603	148,976	(28,985)	119,991
Claims expense - current year	209,766	(26,084)	183,682	177,786	(9,793)	167,993
Claims expense - prior year	(2,999)	373	(2,626)	12,913	(5,192)	7,721
Incurred claims recognised in the consolidated statement of comprehensive income	206,767	(25,711)	181,056	190,699	(14,985)	175,714
Claims paid and reinsurance and other recoveries raised	(223,654)	26,444	(197,209)	(216,104)	30,881	(185,223)
Foreign exchange	573	(165)	408	489	(368)	121
Outstanding claims	107,747	(12,889)	94,858	124,060	(13,457)	110,603

2.4 Net outstanding claims (continued)

c. Development of claims

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

<i>\$ thousands</i>							
Ultimate claims cost estimate	Prior	2016	2017	2018	2019	2020	Total
At end of incident year		130,341	139,066	148,684	147,184	158,728	
One year later		129,098	141,049	146,446	144,271		
Two years later		131,176	142,424	146,318			
Three years later		130,928	142,709				
Four years later		130,571					
Ultimate claims cost		130,571	142,709	146,318	144,271	158,728	
Cumulative payments		(129,348)	(141,112)	(144,536)	(138,622)	(113,699)	
Undiscounted central estimate	18,542	1,223	1,597	1,782	5,649	45,029	73,822
Claims handling expense							6,059
Risk margin							9,977
Additional risk margin - Canterbury							5,000
Net outstanding claim liabilities							94,858
Reinsurance recoveries							12,889
Gross outstanding claim liabilities							107,747

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

d. Actuarial information

The estimation of outstanding claims as at 30 September 2020 has been carried out by:

- (i) Geoff Atkins, BA (ActuarDc), FIAA, FIAL, FANZIIF, Appointed Actuary - Canterbury earthquake claims; and
- (ii) John Feyter, B.Sc., FNZSA - all other outstanding claims

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

2.4 Net outstanding claims (continued)

e. Canterbury earthquakes

Cumulative impact of Canterbury earthquakes

As at 30 September 2020, Tower has 59 claims remaining to settle (2019: 109) as a result of the earthquakes impacting the Canterbury region during 2010 and 2011. The following table presents the cumulative impact of the four main Canterbury earthquake events on the consolidated statement of comprehensive income. This excludes the value of EQC recovery receivable related to Canterbury earthquakes (disclosed in note 2.7).

<i>\$ thousands</i>	2020	2019
Earthquake claims estimate	(983,409)	(981,600)
Reinsurance recoveries	741,570	742,199
Claim expense net of reinsurance recoveries	(241,839)	(239,401)
Reinsurance expense	(25,045)	(25,045)
Additional risk margin	(5,000)	(5,000)
Cumulative impact of Canterbury earthquakes before tax	(271,884)	(269,446)
Income tax	76,128	75,445
Cumulative impact of Canterbury earthquakes after tax	(195,756)	(194,001)

Canterbury earthquake impact on profit or loss

<i>\$ thousands</i>	2020	2019
Net claims expense*	2,438	7,139

* Excludes any impact from changes in the value of the EQC receivable.

2.4 Net outstanding claims (continued)

Recognition and measurement

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

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

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

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

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

2.4 Net outstanding claims (continued)

Critical accounting estimates and judgements

Outstanding claims liability (excluding Canterbury Earthquakes)

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

Assumption	2020	2019
Expected future claims development proportion	50.5%	41.3%
Claims handling expense ratio	7.1%	7.3%
Risk margin	7.2%	7.1%

Expected future claims development proportion

This is the proportion of additional claims cost that is expected to be recognised in the future for BAU claims that have already been reported. The assumption is expressed as a proportion of current case estimates for open claims and recognised in the balance sheet as an outstanding claims liability.

Claims handling expense ratio

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

Risk margin

Risk margins are calculated for outstanding claims in each country separately and a diversification benefit is calculated taking into account the uncorrelated effect of random risk. The total risk margin percentage shown is calculated on a weighted average basis.

Canterbury Earthquake outstanding claims liability

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

Assumption	2020	2019
Number of new overcap and new litigated claims	68	88
Average cost of new overcap or new litigated claim	\$107,000	\$106,000
Number of re-opened claims	373	169
Average cost of re-opened claim	\$7,500	\$10,100

New overcap and new litigated claims

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

New litigated claims are existing or future new claims that are referred to either the Insurance Tribunal or the High Court for resolution.

Number of re-opened claims

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

2.4 Net outstanding claims (continued)

f. Sensitivity Analysis

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

Outstanding claims excluding Canterbury earthquake

\$ thousands	Movement in assumption	Impact on profit or loss	
		2020	2019
Expected future claims development	+ 10%	1,771	1,522
	- 10%	(1,771)	(1,522)
Claims handling expense ratio	+ 10%	415	448
	- 10%	(415)	(448)
Risk margin	+ 10%	431	370
	- 10%	(431)	(370)

Canterbury earthquake outstanding claims

\$ thousands	Movement in assumption	Impact on profit or loss	
		2020	2019
Number of new overcap or new litigated claims	+ 35%	(2,560)	(3,260)
	- 35%	2,560	3,260
Change in average cost of a new overcap or new litigated claim	+ 20%	(1,460)	(1,860)
	- 20%	1,460	1,860
Number of reopened claims	+ 35%	(980)	(600)
	- 35%	980	600
Change in average cost of a reopened claim	+ 20%	(560)	(340)
	- 20%	560	340

2.5 Unearned premium liability

Reconciliation

<i>\$ thousands</i>	2020	2019
Opening balance	187,855	175,551
Premiums written during the year	377,159	356,767
Premiums earned during the year	(372,552)	(344,995)
Unearned premium movement	4,607	11,772
Unearned premium balance purchased*	12,003	-
Foreign exchange movements	(1,013)	532
Unearned premium liability	203,452	187,855

* Unearned premium balance acquired through the purchase of customer relationships (see note 6.2). As at 30 September 2020 this had reduced to \$1.2m representing \$10.8m premium earned during the year.

The majority of unearned premiums is a current liability as at 30 September 2020 and is presented net of cancellation provisions.

Recognition and measurement

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

Adequacy of unearned premium liability

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

If the present value of expected future net claims including a risk margin (central estimate net claims) exceeds the unearned premium liabilities adjusted for deferred reinsurance premium relating to future business not yet written (adjusted unearned premium) the unearned premium liability is deemed deficient. This deficiency is immediately recognised in profit or loss. In recognising the deficiency, Tower will first write down any related intangible assets and then deferred acquisition costs before recognising an unexpired risk liability.

The unearned premium liabilities as at 30 September 2020 were sufficient across all businesses except for Fiji, NPI and Vanuatu (2019: Fiji and NPI) where small deficits were recognised. The total deficit recognised as a charge against deferred acquisition cost was \$440,000 (2019: \$331,000).

%	2020	2019
Central estimate net claims as a % of unearned premium liability	44.5%	42.9%
Risk margin as a % of net claims	10.2%	10.0%

Critical accounting estimates and judgements

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

2.6 Deferred insurance costs

Reconciliation

<i>\$ thousands</i>	Deferred acquisition costs		Deferred outwards reinsurance expense		Deferred insurance costs	
	2020	2019	2020	2019	2020	2019
Balance brought forward	23,736	22,595	8,794	8,475	32,530	31,070
Costs deferred	42,136	44,977	15,396	14,763	57,532	59,740
Amortisation expense	(40,661)	(43,805)	(14,586)	(14,683)	(55,247)	(58,488)
Foreign exchange movements	9	(31)	(157)	239	(148)	208
Closing balance	25,220	23,736	9,447	8,794	34,667	32,530

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

Recognition and measurement

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

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

2.7 Receivables

Composition		
<i>\$ thousands</i>	2020	2019
Gross premium receivables	171,041	154,983
Provision for impairment	(1,383)	(1,100)
Premium receivable	169,658	153,883
BAU reinsurance recoveries	15,105	8,604
Canterbury earthquake reinsurance recoveries	3,246	5,615
Other recoveries	5,262	5,097
Reinsurance and other recoveries	23,613	19,316
Canterbury earthquake	52,883	69,900
Kaikoura earthquake	-	363
EQC receivable	52,883	70,263
Prepayments	2,664	2,572
Miscellaneous receivables	1,928	1,467
Receivables	250,746	247,501
Receivable within 12 months	250,746	174,873
Receivable in greater than 12 months	-	72,628
Receivables	250,746	247,501

Recognition and measurement

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

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

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

EQC recovery receivable related to Canterbury earthquakes

On 24 November 2020, Tower Limited entered into a settlement agreement with EQC regarding the recovery of claims costs related to the 2010 and 2011 Christchurch Earthquakes. Under the settlement agreement Tower will receive \$53.6m of the \$70.3m gross recovery receivable recognised as of 30 September 2020. This has resulted in a write-off of the residual amount of \$16.7m.

The write off amount has been increased by expected costs to recover the receivable of \$0.7m in legal costs and offset by an adjustment to the EQC related reinsurance payable of \$4.3m (note 2.8). This results in an impairment expense of \$13.1m and an EQC receivable carrying value of \$52.9m (2019: \$69.9m).

2.8 Payables

Composition

<i>\$ thousands</i>	30-Sep-20	30-Sep-19
Trade payables	13,527	12,624
GST payable	20,519	18,395
EQC receivable payable to reinsurers	10,741	16,900
EQC & Fire Service levies payable	11,068	11,332
Reinsurance premium payable	3,414	5,494
Other	7,331	11,162
Payables	66,600	75,907
Payable within 12 months	66,600	59,007
Payable in greater than 12 months	-	16,900
Payables	66,600	75,907

Recognition and measurement

Payables are stated at the fair value of the consideration to be paid in the future inclusive of GST. GST payable represents the net amount payable to the respective tax authorities.

2.9 Provisions

Composition

<i>\$ thousands</i>	30-Sep-20	30-Sep-19
Annual leave and other employee benefits	6,901	6,802
Customer premium refunds	2,422	-
Other	208	-
Provisions	9,531	6,802
Payable within 12 months	9,157	6,406
Payable in greater than 12 months	374	396
Provisions	9,531	6,802

Recognition and measurement

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

2.10 Assets backing insurance liabilities

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

3 Investments

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

3.1 Investment income

<i>\$ thousands</i>	30-Sep-20	30-Sep-19
Interest income	7,328	8,141
Net realised (loss)/gain	(1,277)	42
Net unrealised loss	(241)	(664)
Investment income	5,810	7,519

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

Recognition and measurement

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

3.2 Investments

<i>\$ thousands</i>	30-Sep-20	30-Sep-19
Fixed interest investments	237,298	233,527
Equity investment	572	611
Property investment	34	34
Investments	237,904	234,172

Recognition and measurement

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

Purchases and sales of investments are recognised at the date which Tower commits to buy or sell the assets (i.e. trade date). Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

3.3 Fair value hierarchy

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

Level 1	Fair value is calculated using quoted prices in active markets. Tower currently does not have any Level 1 investments.
Level 2	Investment valuations are based on direct or indirect observable data other than quoted prices included in Level 1. Level 2 inputs include: (1) quoted prices for similar assets or liabilities; (2) quoted prices for assets or liabilities that are not traded in an active market; or (3) other observable market data that can be used for valuation purposes. Tower investments included in this category include government and corporate debt where the market is considered to be lacking sufficient depth to be considered active and part ownership of a property that is rented out to staff.
Level 3	Investment valuation is based on unobservable market data. Tower's equity investment in the unlisted reinsurance company Pacific Re is the only investment in this category. Tower agreed to sell the investment to a third party in November 2020 at the carrying value reflected above.

<i>\$ thousands</i>	Level 1	Level 2	Level 3	Total
As at 30 September 2020				
Fixed interest investments	-	237,298	-	237,298
Equity investment	-	-	572	572
Property investment	-	34	-	34
Investments	-	237,332	572	237,904

As at 30 September 2019				
Fixed interest investments	-	233,527	-	233,527
Equity investment	-	-	611	611
Property investment	-	34	-	34
Investments	-	233,561	611	234,172

There have been no transfers between levels of the fair value hierarchy during the current financial period (30 September 2019: nil).

4 Risk Management

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

4.1 Risk management overview

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

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

- (i) Gives clear concise guidance to management of parameters for risk taking.
- (ii) Embeds risk management into strategic and decision-making processes.
- (iii) Facilitates risk to be managed at all levels of the organisation through a structured process to identify risk, and the allocation of clear, personal responsibility for management of identified risks by assigned risk owners.

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

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

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

- (i) First line: Operational management has ownership, responsibility and accountability for directly identifying, assessing, controlling and mitigating key risks which prevent them from achieving business objectives.
- (ii) Second Line: Tower's Risk and Compliance Functions are responsible for developing and implementing effective risk and compliance management processes; providing advisory support to the first line of defence and constructively challenging operational management and risk and obligation owners to ensure positive assurance.
- (iii) Third line: Internal Audit is responsible and accountable for providing an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework. Internal audit, along with other groups such as external audit, report independently to the Board and/or the Audit Committee.

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

4.2 Strategic risk

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

- (i) Monitoring and managing performance against Board approved plan and targets
- (ii) Board leading an annual strategy and planning process which considers our performance, competitor positioning and strategic opportunities
- (iii) Identifying and managing emerging risks using established governance processes and forums

4.3 Insurance risk

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

a. Underwriting risk

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

- (i) Use of comprehensive management information systems and actuarial models to price products based on historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes, trended forward to recognise anticipated changes in claims patterns after making allowance for other costs incurred by the Group.
- (ii) Passing elements of insurance risk to reinsurers. Tower's Board determines a maximum level of risk to be retained by the Group as a whole.
Tower's reinsurance programme is structured to adequately protect the solvency and capital positions of the insurance business. The adequacy of reinsurance cover is modelled by assessing Tower's exposure under a range of scenarios. The plausible scenario that has the most financial significance for Tower is a major Wellington earthquake. Each year, as part of setting the coming year's reinsurance cover, comprehensive modelling of the event probability and amount of the Group's exposure is undertaken.
- (iii) Underwriting limits are in place to enforce appropriate risk selection criteria and pricing with specific underwriting authorities that set clear parameters for the business acceptance.

4.3 Insurance risk (continued)

b. Concentration risk

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

- (i) Geographic concentration risk - Tower purchases a catastrophe reinsurance programme to protect against a modelled 1-in-1000 years whole of portfolio catastrophe loss. In addition it takes out additional aggregate reinsurance cover for large events which fall outside the catastrophe reinsurance programme and tends to cover weather events in New Zealand and across the Pacific.
- (ii) Product concentration risk - Tower's business is weighted towards the NZ general insurance market where its risks are concentrated in house insurance (Home & Contents) and motor insurance. Tower limits its exposure through proportionate reinsurance arrangements. The table below illustrates the diversity of Tower's operations.

Gross written premium (%)	2020			2019		
	NZ	Pacific	Total	NZ	Pacific	Total
Home	51%	4%	55%	51%	4%	55%
Motor	30%	5%	35%	29%	5%	34%
Commercial	1%	6%	7%	2%	5%	7%
Liability	1%	0%	1%	1%	0%	1%
Workers compensation	0%	1%	1%	0%	1%	1%
Other	0%	1%	1%	1%	1%	2%
Total	83%	17%	100%	83%	17%	100%

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

c. Reserving risk

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

4.4 Credit risk

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

a. Investment and treasury

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

- (i) New Zealand cash deposits that are internally managed are limited to banks with a minimum Standard & Poor's (S&P) AA- credit rating.
- (ii) Cash deposits and investments that are managed by external investment managers are limited to counterparties with a minimum S&P A- credit rating.
- (iii) Tower Insurance holds deposits and invests in Pacific regional investment markets through its Pacific Island operations to comply with local statutory requirements and in accordance with Tower Insurance investment policies. These deposits and investments generally have low credit ratings representing the majority of the value included in the 'Below BBB' and unrated categories in the table below. This includes deposits and investments with Australian bank subsidiaries that comprise 83% (2019: 66%) of "not rated" category.

\$ thousands	Cash and Cash Equivalents		Fixed Interest Investments		Total	
	2020	2019	2020	2019	2020	2019
AAA	-	-	106,805	111,950	106,805	111,950
AA	55,478	47,585	90,859	89,735	146,337	137,320
A	-	-	29,737	8,027	29,737	8,027
BBB	-	-	-	-	-	-
Below BBB	5,409	2,898	3,456	11,892	8,865	14,790
Not rated	19,221	11,535	6,441	11,923	25,662	23,458
Total	80,108	62,018	237,298	233,527	317,406	295,545

b. Reinsurance

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

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

4.4 Credit risk (continued)

\$ thousands	Reinsurance on:					
	Outstanding claims		Paid claims		Total	
	2020	2019	2020	2019	2020	2019
AAA	-	-	-	-	-	-
AA	6,738	5,052	3,490	185	10,228	5,237
A	6,106	8,215	1,986	572	8,092	8,787
BBB	-	-	-	-	-	-
Below BBB	-	-	-	-	-	-
Not rated	29	190	2	6	31	196
Total	12,873	13,457	5,478	763	18,351	14,220

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

\$ thousands	Not due	Past due				Total
		1 month	1 to 2 months	2 to 3 months	Over 3 months	
As at 30 September 2020						
Reinsurance recoveries on paid claims	5,379	-	-	-	99	5,478
As at 30 September 2019						
Reinsurance recoveries on paid claims	685	-	-	78	-	763

c. Premium receivable

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

\$ thousands	Not due*	Past due				Total
		1 month	1 to 2 months	2 to 3 months	Over 3 months	
<i>As at 30 September 2020</i>						
Net premium receivable	162,935	3,705	1,992	986	40	169,658
<i>As at 30 September 2019</i>						
Net premium receivable	143,331	5,552	3,371	991	638	153,883

* this includes premiums that are less than 30 days outstanding (which are owed but not past due) of \$7.1m (2019: \$5.6m).

4.5 Market risk

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

a. Currency risk

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

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

Operational currency risk impacts profit and generally arises from:

- (i) Procurement of goods and services denominated in foreign currencies. Tower may enter into hedges for future transactions, using authorised instruments, provided that the timing and amount of those future transactions can be estimated with a reasonable degree of certainty.
- (ii) Investment assets managed by the external investment manager that are denominated in foreign currencies. Tower's Board set limits for the management of currency risk based on prudent asset management practice. Regular reviews are conducted to ensure that these limits are adhered to.

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

\$ thousands	Direct impact on equity		Impact on profit or loss	
	2020	2019	2020	2019
New Zealand Dollar - USD				
Currency strengthens by 10%	(407)	(271)	17	30
Currency weakens by 10%	497	331	(20)	(37)
New Zealand Dollar - Fijian Dollar				
Currency strengthens by 10%	(1,350)	(1,229)	(73)	(74)
Currency weakens by 10%	1,650	1,502	90	90
New Zealand Dollar - PNG Kina				
Currency strengthens by 10%	(1,078)	(965)	57	39
Currency weakens by 10%	1,318	1,180	(70)	(48)

4.5 Market risk (continued)

b. Interest rate risk

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

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

Fixed-interest investments are measured at fair value through profit or loss. Movements in interest rates impact the fair value of interest-bearing financial assets and therefore impact profit or loss (there is no direct impact on equity). The impact of a 0.5% increase or decrease in interest rates on fixed interest investments is shown below (holding everything else constant). The assumption made for 0.5% decrease in interest rates is that the lower bound is capped at 0% as negative rates on fixed interest investments are highly unlikely.

\$ thousands	Impact on profit or loss	
	2020	2019
Interest rates increase by 0.5%	(921)	(690)
Interest rates decrease by 0.5%	750	765

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

4.6 Liquidity risk

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

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

\$ thousands	Net outstanding claims liability		Cash and Investments	
	2020	2019	2020	2019
Floating interest rate (at call)	-	-	80,108	62,018
Within 3 months	32,943	46,797	36,982	16,306
3 to 6 months	15,140	24,430	53,797	48,467
6 to 12 months	20,246	16,957	55,352	50,266
After 12 months	26,529	22,419	91,167	118,488
Total	94,858	110,603	317,406	295,545

4.7 Capital management risk

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

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

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

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

a. Regulatory solvency capital

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

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

During the year ended 30 September 2020 the Group complied with all externally imposed capital requirements (2019: complied).

The RBNZ requires that Tower maintain a minimum solvency margin of at least \$50.0m (2019: \$50.0m). Tower Limited's group and parent solvency margin are illustrated in the table below.

\$ thousands	2020*		2019	
	Parent	Group	Parent	Group
Actual solvency capital	150,451	181,214	155,894	182,197
Minimum solvency capital	52,342	65,728	56,598	73,276
Solvency margin	98,110	115,485	99,296	108,921
Solvency ratio	287%	276%	275%	249%

* The solvency figures presented above for 2020 are based on the new amalgamated structure that came into effect 30 September 2020 whereas those for 2019 represent those of Tower Insurance Limited. The solvency margin reduced by \$2.5m at 30 September 2020 for the Parent and Group as a result of the amalgamation.

Tower's license condition was amended during the year (effective 31 October 2019) where the net EQC receivable (2020: \$42.1m; 2019: \$53.0m) is specifically excluded from the calculation of solvency. As a result Tower issued \$45m of ordinary share capital on 31 October 2019. 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.

The solvency presented as of 30 September 2020 does not reflect any possible change to the license condition as a result of the commercial settlement of the EQC receivable on 24 November 2020.

4.7 Capital management risk (continued)

b. Capital composition

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

<i>\$ thousands</i>	2020	2019
Total shareholder equity	345,003	290,857
Standby credit (facility)	-	15,000
Total	345,003	305,857

c. Financial strength rating

Tower Limited has an insurer financial strength rating of 'A- (Excellent)' and a long-term issuer credit rating of "a-" as affirmed by international rating agency AM Best Company Inc. with an effective date of 2 October 2020.

This rating has been calculated for the amalgamated entity.

4.8 Operational risk

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

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

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

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

4.9 Regulatory and compliance risk

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

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

4.10 Conduct risk

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

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

There is robust governance in place to oversee Tower's conduct risk management programme including reporting to the Board, Executive Committees and monthly conduct working groups with representatives from across Tower.

4.11 Cyber risk

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

Tower's approach to Cyber risk is to proactively identify, protect against, monitor for and respond to those cyber threats seen to be targeting the organisation. Tower has identified the top cyber risks facing it and there is a programme of work in place to deliver risk reduction initiatives to bring those risks within Tower's risk appetite. A dedicated security function is responsible for providing ongoing management of security technical controls, operational tasks and processes across the organisation.

An Information Security Governance Forum meets on a quarterly basis to set the security policy direction, to review security programme risk reduction progress and overall security function effectiveness.

5 Capital Structure

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

5.1 Borrowings

During September 2020 Tower repaid the total amount drawn down under the cash advance facility agreement of \$15.0m. At the same time, it reached agreement with Bank of New Zealand to bring forward the expiry date of the agreement to 30 September 2020 (2019: 27 March 2023).

Total borrowing costs for the year were \$0.8m (2019: \$0.3m), none of which were capitalised.

5.2 Contributed equity

<i>\$ thousands</i>	30-Sep-20	30-Sep-19
Opening balance	209,990	209,990
Issue of share capital ⁽ⁱ⁾	45,000	-
Cancellation of shares on amalgamation ⁽ⁱⁱ⁾	(254,990)	-
Recognition of shares on amalgamation ⁽ⁱⁱ⁾	492,424	-
Total contributed equity	492,424	209,990
<i>Represented by:</i>		
Opening balance	211,107,758	211,107,758
Issued shares ⁽ⁱ⁾	45,000,000	-
Cancellation of shares on amalgamation ⁽ⁱⁱ⁾	(256,107,758)	-
Recognition of shares on amalgamation ⁽ⁱⁱ⁾	421,647,258	-
Total shares on issue	421,647,258	211,107,758

(i) On 24 September 2019 the prior Tower Limited invited its eligible shareholders to subscribe to a rights issue of 1 new share for every 4 existing shares held at the record date on 2 October 2019 at a price of NZD0.56 (or AUD0.54) for each new share. The issue was fully subscribed on 23 October 2019. Subsequent to this, on 31 October 2019 the Company issued \$45m of new capital to its immediate shareholder, Tower Financial Services Group Limited.

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

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

5.3 Reserves

<i>\$ thousands</i>	30-Sep-20	30-Sep-19
Opening balance	(3,697)	(4,397)
Currency translation differences arising during the year	(1,288)	700
Foreign currency translation reserve	(4,985)	(3,697)
Opening balance	1,515	1,242
Gain on revaluation	41	305
Deferred tax on revaluation	8	(32)
Asset revaluation reserve	1,564	1,515
Capital reserve	11,990	11,990
Opening balance	-	-
Impact of amalgamation	(113,000)	-
Separation reserve	(113,000)	-
Reserves	(104,431)	9,808

Recognition and measurement

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

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

On 30 September 2020, the Company was amalgamated with other Tower entities, as described in note 8.2. On this date, the separation reserve was recognised. The separation reserve was originally created in the prior Tower Limited in 2007 at the time of the demerger of the New Zealand and Australian businesses in accordance with a ruling provided by the Australian Tax Office (ATO). It will be carried forward indefinitely to meet the requirements of the ATO.

5.4 Net tangible assets per share

<i>\$ dollars</i>	30-Sep-20	30-Sep-19
Net tangible assets per share	0.56	0.56

Net tangible assets per share have been calculated using the net assets as per the balance sheet adjusted for intangible assets (including goodwill) and deferred tax assets divided by total shares on issue. Net tangible assets per share as at 30 September 2019 has been calculated using the number of ordinary shares of the prior Tower Limited as at that date.

5.5 Earnings per share

	30-Sep-20	30-Sep-19
Profit attributable to shareholders (\$ thousands)	11,892	16,565
Weighted average number of ordinary shares for basic and diluted earnings per share (number of shares)	417,172,654	350,442,688
Basic and diluted earnings per share (cents)	2.85	4.73

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

6 Other balance sheet items

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

6.1 Property, plant and equipment

Composition:

30 September 2020

<i>\$ thousands</i>	Land and buildings	Office equipment & furniture	Motor vehicles	Computer equipment	Total
Composition:					
Cost	4,035	8,599	1,748	15,622	30,004
Accumulated depreciation	-	(5,610)	(665)	(13,688)	(19,963)
Property, plant and equipment	4,035	2,989	1,083	1,934	10,041
Reconciliation:					
Opening balance	4,082	4,002	205	815	9,104
Depreciation	-	(1,048)	(205)	(751)	(2,004)
Additions	-	31	1,211	2,004	3,246
Revaluations	41	-	-	-	41
Disposals	-	21	(125)	(130)	(234)
Foreign exchange movements	(88)	(17)	(3)	(4)	(112)
Closing Balance	4,035	2,989	1,083	1,934	10,041

30 September 2019

Composition:

Cost	4,082	9,257	1,157	13,640	28,136
Accumulated depreciation	-	(5,255)	(952)	(12,825)	(19,032)
Property, plant and equipment	4,082	4,002	205	815	9,104
Reconciliation:					
Opening balance	3,404	4,438	239	429	8,510
Depreciation	-	(1,018)	(112)	(461)	(1,591)
Additions	337	562	97	862	1,858
Revaluations	305	-	-	-	305
Disposals	-	(3)	(4)	(1)	(8)
Foreign exchange movements	36	23	(15)	(14)	30
Closing Balance	4,082	4,002	205	815	9,104

6.1 Property, plant and equipment (continued)

Recognition and measurement

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

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

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

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

6.2 Intangible assets

a. Amounts recognised in the balance sheet

30 September 2020

<i>\$ thousands</i>	Goodwill	Software	Customer Relationships*	Total
Composition:				
Cost	17,744	98,351	14,222	130,317
Accumulated amortisation	-	(43,379)	(1,984)	(45,363)
Intangible Assets	17,744	54,972	12,238	84,954
Reconciliation:				
Opening balance	17,744	56,467	-	74,211
Amortisation	-	(8,866)	(1,984)	(10,850)
Additions	-	7,534	14,222	21,756
Disposals	-	(43)	-	(43)
Transfers	-	(120)	-	(120)
Closing Balance	17,744	54,972	12,238	84,954

30 September 2019

Composition:				
Cost	17,744	90,981	-	108,725
Accumulated amortisation	-	(34,514)	-	(34,514)
Intangible Assets	17,744	56,467	-	74,211
Reconciliation:				
Opening balance	17,744	27,298	-	45,042
Amortisation	-	(6,527)	-	(6,527)
Additions	-	36,343	-	36,343
Disposals	-	-	-	-
Transfers	-	(647)	-	(647)
Closing Balance	17,744	56,467	-	74,211

*Tower purchased Youi NZ Pty Ltd.'s insurance portfolio in December 2019. The transaction is treated as an intangible asset as Tower purchased the customer relationships (and associated assets and liabilities) and not Youi NZ's business systems or processes. The amount capitalised includes the price paid for the portfolio and associated acquisition costs.

6.2a Amounts recognised in the balance sheet (continued)

Recognition and measurement

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

Application software and customer relationships are recorded at cost less accumulated amortisation and impairment.

Application software is amortised on a straight line basis over the estimated useful life of the software. Customer relationships are amortised over the estimated useful life in accordance with the pattern of economic benefit consumption.

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

The useful lives for each category of intangible assets with a finite life are as follows:

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

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

b. Impairment testing

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

(i) Software and customer relationships

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

There were no indications of impairment during the year and therefore these assets were not tested for impairment (2019: no indications).

Critical accounting estimates and judgements

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

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

6.2b Impairment testing (continued)

(ii) Goodwill

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

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

Tower undertook an annual impairment review and no loss has been recognised in 2020 as a result (2019: nil). COVID-19 impacts were taken into account when performing the review.

Critical accounting estimates and judgements

The recoverable amount of the general insurance business is assessed with reference to its appraisal value, which is a common practice for insurance companies. A base discount rate of 10.5% was used in the calculation (2019: 12.5%). The cash flows are in line with the FY21 - FY23 operational plan (2019: FY20 - FY22) and longer term profitability is assumed to continue at 2% per annum. The projected cash flows are determined based on past performance and management's expectations for market developments with a terminal growth rate of 2% (2019: 2%).

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

6.3 Leases

a. Amounts recognised in the Balance Sheet

(i) Right of use assets

<i>\$ thousands</i>	Office space	Motor vehicles	2020
Composition:			
Cost	9,619	53	9,672
Accumulated depreciation	(2,430)	(31)	(2,461)
Right of use assets	7,189	22	7,211
Reconciliation:			
Opening balance	10,097	86	10,183
Depreciation	(2,518)	(68)	(2,586)
Additions	961	4	965
Disposals	(1,249)	-	(1,249)
Revaluations	(96)	-	(96)
Impairment	(27)	-	(27)
Net foreign exchange movements	21	-	21
Right of use assets	7,189	22	7,211

Recognition and measurement

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

6.3a Amounts recognised in the Balance Sheet (continued)

(ii) Lease liabilities

<i>\$ thousands</i>	2020
Composition:	
Current	2,721
Non-current	5,974
Lease liabilities	8,695
Due within 1 year	2,721
Due within 1 to 2 years	2,584
Due within 2 to 5 years	3,534
Due after 5 years	418
Discount	(562)
Lease liabilities	8,695

Recognition and measurement

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

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

b. Amounts recognised in the consolidated statement of comprehensive income

<i>\$ thousands</i>	Classification	2020
Depreciation and impairment	Underwriting expense & corporate and other expenses	(2,598)
Interest expense	Finance costs	(369)
Gain on disposal	Underwriting expense	167
Lease expense		(2,800)

c. Amounts recognised in the consolidated statement of cash flows

<i>\$ thousands</i>	2020
Total cash outflow for lease principal payments	(3,070)

7 Tax

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

7.1 Tax expense

Composition

<i>\$ thousands</i>	2020	2019
Current tax	3,621	2,757
Deferred tax	4,340	6,407
Adjustments in respect of prior years	(51)	26
Tax expense	7,910	9,190

Reconciliation of prima facie tax to income tax expense

<i>\$ thousands</i>	2020	2019
Net profit before tax	20,251	25,995
Prima facie tax expense at 28% (2019: 28%)	5,670	7,279
Adjustments in respect of prior years	(51)	26
Tax effect of non-deductible expenses and non-taxable income	788	(522)
Foreign tax credits written off	1,127	2,149
Other	376	258
Tax expense	7,910	9,190

Recognition and measurement

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

7.2 Current tax

a. Current tax asset

<i>\$ thousands</i>	2020	2019
Excess tax payments related to prior periods*	12,038	12,038
Excess tax payments/tax payable related to current period**	854	1,551
Current tax assets	12,892	13,589

*Expected to be recovered from 2022 as per the Board approved operational plan for 2021 to 2024.

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

7.2 Current tax (continued)

b. Current tax liability

The current tax liability balance of \$821k (2019: \$229k) relates to taxes payable to offshore tax authorities in the Pacific Islands.

Recognition and measurement

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

7.3 Deferred tax

a. Deferred tax asset

Composition

<i>\$ thousands</i>	2020	2019
Tax losses recognised	25,720	24,527
Property, plant and equipment	3,304	7,684
Provisions and accruals	3,882	4,149
Recognised in profit or loss	32,906	36,360
Right of use impact	501	-
Recognised in comprehensive profit or loss	33,407	36,360
Set-off of deferred tax liabilities pursuant to NZ IAS 12	(6,575)	(6,052)
Deferred tax asset	26,832	30,308

Reconciliation of movements

<i>\$ thousands</i>	2020	2019
Opening balance	36,360	42,115
IFRS 16 adoption	501	-
Movements recognised in consolidated statement of comprehensive income	(3,454)	(5,755)
Deferred tax asset pre NZ IAS 12 set off	33,407	36,360

7.3 Deferred tax (continued)

b. Deferred tax liability

Composition

<i>\$ thousands</i>	2020	2019
Deferred acquisition costs	(6,588)	(6,045)
Other*	(911)	(560)
Recognised in profit or loss	(7,499)	(6,605)
Asset revaluation	(422)	(438)
Recognised in comprehensive profit or loss	(7,921)	(7,043)
Set-off of deferred tax liabilities pursuant to NZ IAS 12	6,575	6,052
Deferred tax liability	(1,346)	(991)

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

Reconciliation of movements

<i>\$ thousands</i>	2020	2019
Opening balance	(7,043)	(6,328)
Movements recognised in consolidated statement of comprehensive income	(886)	(683)
Movements recognised in equity	8	(32)
Deferred tax liability pre NZ IAS 12 set off	(7,921)	(7,043)

7.4 Imputation credits

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

<i>\$ thousands</i>	2020	2019
Imputation credits available for use in subsequent reporting periods	271	271

Recognition and measurement

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

At the reporting date, the Group has recognised a deferred tax asset in respect of its unused tax losses of \$92.2m (2019: \$87.6m).

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

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

Critical accounting judgements and estimates

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

This assessment is completed on the basis of the approved strategic plans of Tower Limited and subsidiaries. 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.

8 Other information

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

8.1 Notes to the Consolidated Cash Flow Statement

Composition

<i>\$ thousands</i>	30-Sep-20	30-Sep-19
Cash at bank	61,892	34,563
Deposits at call	18,071	26,428
Restricted cash	145	1,027
Cash and cash equivalents	80,108	62,018

The average interest rate at 30 September 2020 for deposits at call is 0.47% (2019: 1.44%).

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

Profit for the year	12,341	16,805
Adjusted for non-cash items		
Depreciation of property, plant and equipment	2,004	1,598
Depreciation, impairment and disposals of right-of-use assets	2,432	-
Amortisation of intangible assets	10,850	6,573
Fair value losses on financial assets	1,518	622
Change in deferred tax	8,005	6,439
Adjusted for movements in working capital		
Change in receivables	(2,659)	(2,012)
Change in payables	(15,313)	(6,061)
Change in taxation	(1,414)	297
Adjusted for financing activities		
Facility fees and interest paid	1,115	352
Net cash inflows from operating activities	18,879	24,612

8.2 Entity amalgamation

The financial statements presented are the consolidated financial statements comprising Tower Limited previously Tower Insurance Limited (the Company) and its subsidiaries (together, Tower, or the Group).

On 30 September 2020, Tower Insurance Limited was amalgamated by way of a short form amalgamation under the Companies Act 1993 with its ultimate parent, Tower Limited (the prior Tower Limited); its parent, Tower Financial Services Group Limited; and another subsidiary of Tower Limited, Tower New Zealand Limited. Tower Insurance Limited has continued as the amalgamated company, and changed its name to Tower Limited as part of the amalgamation.

As a result of the amalgamation, all of Tower Limited's subsidiaries and operations which were previously sitting outside of Tower Insurance Limited were brought into the Group.

The Company and Group have accounted for the amalgamation using the predecessor value method, which they have applied retrospectively. Consequently, unless otherwise stated the comparatives presented are for what was, in the prior year, the Tower Limited consolidated group, except for equity and reserves, which are of Tower Insurance Limited.

8.3 Related party disclosures

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

<i>\$ thousands</i>	30-Sep-20	30-Sep-19
Salaries and other short term employee benefits paid	4,736	5,720
Independent director fees	624	584
Related party remuneration	5,360	6,304

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

Definition

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

8.4 Auditor's remuneration

<i>\$ thousands</i>	30-Sep-20	30-Sep-19
Audit of financial statements ⁽¹⁾	550	528
Other assurance services ⁽²⁾	46	46
Non-assurance agreed procedures ⁽³⁾	12	12
Total fees paid to Group's auditors	608	586
Fees paid to subsidiaries' auditors different to Group auditors:		
Audit of financial statements ⁽⁴⁾	15	14
Auditors remuneration	623	600

⁽¹⁾ Audit of financial statements includes fees for both the audit of annual financial statements and the review of the interim financial statements. This also includes the fees for the audits of subsidiaries. PwC Fiji and PwC PNG provide audit opinions on the financial statements of Tower Insurance (Fiji) Limited and Tower Insurance (PNG) Limited, where the majority of the work is performed by the group auditor.

⁽²⁾ Other assurance 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.

⁽⁴⁾ The audit of Tower Insurance (Vanuatu) Limited was performed by Law Partners (2019: Law Partners).

8.5 Contingent liabilities

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

The Group has no other contingent liabilities.

8.6 Subsequent events

EQC Receivable (adjusting event)

On 24 November 2020 Tower Limited entered into a commercial agreement with EQC, for a settlement value of \$53.6m relating to the EQC receivable.

The commercial settlement agreement provides Tower Limited evidence of the EQC receivable's recoverable value as at the end of the reporting period, and therefore Tower Limited has adjusted the amounts recognised in the FY20 financial statements, along with updating the relevant disclosures in the financial statements to reflect the commercial settlement agreement.

The adjustment for the EQC receivable's recoverable value for the commercial settlement agreement is primarily reflected as an impairment expense within the Statement of comprehensive income, and a reduction to the EQC receivable's carrying value on the Balance sheet. Tower holds an associated reinsurance payable, which is directly related to the amount of EQC costs recovered. The reinsurance payable has been adjusted to reflect the decrease in reinsurance payable as a result of the settlement agreement.

The result of the commercial settlement is a reduction in net profit after tax to Tower of \$9.5m.

Large events (non-adjusting event)

Tower limited have had two large events subsequent to the balance date: (i) Lake Ōhau fires (\$6.0m provided); and Napier floods (\$3.0m - \$4.0m preliminary estimate). The impacts of both events will be reflected in FY21 reporting.

8.7 Capital commitments

As at 30 September 2020, Tower has capital commitments of \$0.4m (2019: \$0.2m) related to the implementation and delivery of a new ERP system, \$0.1m (2019: \$0.1m) relating to a new automated reinsurance system, and \$0.2m (2019: nil) relating to general use computer software. Total capital commitments for 2020 are \$0.7m (2019: \$1.7m).

8.8 Impact of new accounting standards

a. Issued and effective

Context

The Group adopted NZ IFRS 16 *Leases* during the period. NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard replaced the guidance in NZ IAS17 *Leases*, and was effective from 1 October 2019 for Tower.

NZ IFRS 16 requires lessees to recognise a right-of-use asset and a corresponding lease liability reflecting future lease payments for most lease contracts. The standard allows exemptions for short-term leases (less than 12 months) and for leases on low value assets. The main impact of the new standard was on leases which were previously classified as operating leases, being predominantly office building and motor vehicle related leases.

Accounting policy change

As a result of the adoption of NZ IFRS 16, Tower has recognised depreciation expense on right-of-use assets, on a straight line basis over the lease term, and interest expense on lease liabilities.

Tower applied the standard using the modified retrospective approach. The cumulative effect of adopting NZ IFRS 16 was recognised as an adjustment to the opening balance of retained earnings on October 1 2019, with no restatement of comparative information.

The modified retrospective approach allows entities to use a number of practical expedients on adoption of the new standard, of which Tower elected to use the following:

- (i) Not to apply NZ IFRS 16 for short-term leases
- (ii) apply a single discount rate to the portfolio of leases with reasonably similar characteristics;
- (iii) use hindsight in determining the lease term where the contract contains options to extend or terminate a lease; and
- (iv) rely on an assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application.

Impact of accounting policy change

The impact of the adoption of NZ IFRS 16 Tower's balance sheet as at 1 October 2019 is shown in the table below. There was also an immaterial impact on the pattern of expense recognition.

<i>\$ thousands</i>	2020
Right-of-use assets	10,183
Lease liabilities	(11,982)
Deferred tax asset	462
Retained earnings	(1,337)

8.8 Impact of new accounting standards (continued)

Tower's weighted average incremental borrowing rate at the transition date was 3.60%.

The table below presents a reconciliation of the operating lease commitments as disclosed in the Group's 30 September 2019 financial statements, to the lease liability recognised on transition date:

<i>\$ thousands</i>	2020
Operating lease commitment - 30 September 2019	9,802
Impact of reassessment of lease terms under NZ IFRS 16	3,281
Impact of discounting future lease payments at the weighted average incremental borrowing rate	(997)
Other (including short-term leases not recognised as a lease liability)	(104)
Lease liability recognised on transition date - 1 October 2019	11,982

b. Issued and not yet effective

NZ IFRS 17 *Insurance Contracts* is effective for periods beginning on or after 1 January 2023 (subject to approval of proposed one year delay). Tower will apply the standard for the year ending 30 September 2024. 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 has started a programme with dedicated resource to assess the impact of adopting NZ IFRS 17 and to project manage the transition to the new standard. 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.

8.9 Change in comparatives

Tower has reclassified certain items from prior year's financial statements to conform to the current year's presentation basis. The key changes are listed below.

a. Consolidated statement of comprehensive income - presentation changes

The Income statement and statement of comprehensive income have been merged into a combined consolidated statement of comprehensive income to simplify financial performance presentation. In addition, the consolidated statement of comprehensive income has been redesigned to disclose the underwriting result for the reporting period. This has resulted in some classification changes. There was no impact to 2019 profit as a result of these changes.

8.9 Change in comparatives (continued)

b. Consolidated statement of cash flows - presentation changes

A number of changes have been made to the presentation of the consolidated statement of cash flows. First, cash flows related to the sale and purchase of interest bearing investments are now shown on a gross basis (previously it was disclosed on a net basis). Second, cash flows from the purchase of intangible assets and property, plant and equipment are shown separately (previously combined). Third, cash received from non-reinsurance recoveries have been included with reinsurance recoveries received as opposed to being netted off in claims paid - as a result, claims paid and reinsurance and other recoveries have both increased by \$7.1m in 2019. Finally, net realised investment gains was moved from operating activities cash flows (reducing by \$42,000 in 2019) to investment cash flows (increasing by \$42,000 in 2019).

c. Consolidated balance sheet - presentation changes

Deferred outwards reinsurance costs have been combined with deferred acquisition costs to show a combined deferred insurance cost. Previously, deferred reinsurance costs were grouped with receivables (which reduced by \$8.8m in 2019 to reflect the change in classification).

d. Credit risk (note 4.4) Investment and Treasury credit ratings - Reclassification

Some cash and investments balances in 2019's credit exposure by credit rating table were incorrectly classified and have been reclassified in the current year. The reclassification has resulted in a \$0.1m decrease in balances categorised under "AA" credit rating, \$17.0m decrease in balances categorised under "A" credit rating, \$0.3m decrease in balances categorised under "Below BBB" credit rating and \$17.4m increase in balances categorised under "Not rated". The net impact resulting from these reclassifications is nil.

e. Consolidated balance sheet - Reclassification between cash and cash equivalents and investments

Within the consolidated balance sheet, \$5.0m of term deposits with maturity dates greater than 3 months from the date of acquisition have been reclassified from cash and cash equivalents to investments per NZ IAS 7 *Statement of Cash Flows*.

Changes for internal consistency have also been made to the consolidated cash flow statement, Note 3.2 Investments, Note 3.3 Fair value hierarchy, Note 4.4(a) Investment and treasury credit risk, Note 4.5(b) Market risk - interest risk, Note 4.6 Liquidity risk and Note 8.1 Notes to the consolidated cash flow statement.



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 2020;
- 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 significant 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 2020, 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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group. 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.

Key audit matters

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

Description of the key audit matter	How our audit addressed the key audit matter
<p>(1) Valuation of outstanding claims (2020: \$107,747,000, 2019: \$124,060,000)</p> <p>We considered the valuation of outstanding claims a key audit matter because this involves an estimation process combined with significant judgements and assumptions made by management to estimate future claims cash outflows.</p> <p>The outstanding claims liability includes a central estimate of the future cash outflows relating to claims incurred, as at and prior to the reporting date, and the expected costs of handling those claims. There is uncertainty over the amount that reported claims and claims incurred at the reporting date but not yet reported to the Group will ultimately be settled at. The estimation process relies on the quality of underlying claims data and the use of informed estimates to determine the quantum of the ultimate loss.</p> <p>Key actuarial assumptions applied in the valuation of outstanding claims (excluding Canterbury earthquakes) include:</p> <ul style="list-style-type: none"> • expected future claims development proportion; and • claims handling expense ratios. <p>Outstanding claims in relation to the Canterbury earthquakes have a greater degree of uncertainty and judgement. This mainly arises due to the Earthquake Commission (EQC) reporting new claims to the Group which have gone over the \$100,000 statutory liability cap (over cap claims), new litigation claims, reopening of closed claims, expected claims costs for open claims and estimates of future claims management expenses.</p> <p>Changes in assumptions can lead to significant movements in the outstanding claims.</p> <p>The outstanding claims liability includes a risk margin that allows for the inherent uncertainty in the central estimate of future claim cash outflows. In determining the risk margin, the Group makes judgements about the volatility of each class of business written and the correlation between each division and between</p>	<p>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 to the actual amount settled during the year and analysed any escalation in the claim case estimate to determine whether such escalation was based on new information available during the year; • inspected a sample of claims paid during the year to confirm that they 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, such as claims data, 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, and any changes to them, by comparing with generally accepted models and methodologies applied in the sector; • assessed key actuarial judgements and assumptions and challenged them by comparing with our expectations based on the Group's experience, our own sector knowledge and independently observable industry trends (where applicable), taking into consideration COVID-19 impacts; • assessed the risk margin, by comparing known industry practices. In particular we focused on the assessed level of uncertainty in the central estimate; and

<p>different geographical locations. The Directors include an additional \$5 million risk margin in respect of the Christchurch earthquake claims.</p> <p><i>Relevant references in the consolidated financial statements.</i></p> <p>Refer to note 2.4, which also describes the elements that make up this balance.</p>	<ul style="list-style-type: none"> considered the Directors' \$5 million Christchurch earthquake additional risk margin with reference to the inherent uncertainty in the remaining Christchurch earthquake claims and its consistency with prior periods.
<p>(2) Valuation of EQC recovery receivable related to the Canterbury earthquakes (2020: \$52,883,000, 2019: \$69,900,000)</p> <p>The EQC recovery receivable relates to amounts paid by the Group for land and building damage arising from the Canterbury earthquake events in respect of EQC's statutory liability under the Earthquake Commission Act 1993. The EQC and the Group were in disagreement on the quantum of damage paid by the Group on EQC's behalf with the Group having commenced litigation in respect of this matter.</p> <p>We considered the valuation of the EQC recovery receivable to be a key audit matter because significant management judgement was required to estimate the expected recoveries from the EQC in respect of land and building damage.</p> <p>However, on 24 November 2020, the Group and the EQC agreed to settle all amounts outstanding for \$53,600,000 (excluding GST) resulting in the Group impairing the previously recorded receivable and reducing the amounts payable to reinsurers by \$13,126,000 (before tax). The settlement, being agreed after the end of the financial reporting period, but before the financial statements were authorised for issue, provides evidence of conditions that existed at the end of the reporting period and therefore is an adjusting event under the accounting standards. The financial statements have been adjusted to reflect the agreed settlement.</p> <p><i>Relevant references in the consolidated financial statements</i></p> <p>Refer to note 2.7 to the consolidated financial statements.</p>	<p>We understood how the Group had determined their initial estimate of the receivable at 30 September 2020 by:</p> <ul style="list-style-type: none"> reviewing reports of the experts engaged by the Group and holding discussions with them to understand the legal and technical arguments and judgements considered in the estimation of the receivable; testing on a sample basis the claims detail used in the experts' calculations to the Group's claim records and with the data used in previous years to estimate the receivable; and holding discussions with management and the Directors to understand the progress of the litigation and of any discussions with the EQC about possible settlement. <p>Following the agreement of a settlement on 24 November 2020 between the Group and the EQC, we reviewed the signed settlement agreement, confirmed this was an adjusting event as defined in the accounting standards and ensured the financial statements appropriately reflected the settlement agreed, including the disclosure thereof.</p>

(3) Recoverability of the deferred tax asset arising from tax losses

(2020: \$25,720,000 2019: \$24,527,000)

The majority of the Group's deferred tax asset arises from tax losses. We considered recoverability of the deferred tax asset a key audit matter because utilisation of the asset is sensitive to the Group's expected future profitability and sufficient continuity of the ultimate shareholders.

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.

Relevant reference in the consolidated financial statements

Refer to note 7.3 to the consolidated financial statements.

Together with our tax experts, we:

- understood the progress made by management in improving the profitability of the business in recent periods;
- compared the previous management budget with actual results to assess the reliability of management's forecasts;
- considered the reasonableness of the assumptions in the FY21 operational plan on the forecast utilisation of tax losses; and
- assessed the Group's ability to maintain sufficient continuity of the ultimate shareholders and its entitlement to offset the tax losses against future taxable profits.

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: \$3.7 million, which represents approximately 1% of gross earned premium.

We chose gross earned premium 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.

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

- Valuation of outstanding claims
- Valuation of EQC recovery receivable related to the Canterbury earthquakes
- 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 mostly focused on the Company, which contributes approximately 84% of the Group's gross earned premium. We performed audit procedures over material balances and transactions of the non-significant subsidiaries and the consolidation of the Group's subsidiaries.

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, if other information is included in the annual report, 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.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

<https://www.xrb.govt.nz/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:

A handwritten signature in black ink, appearing to read 'Priyanka Haselopas', written in a cursive style.

Chartered Accountants
25 November 2020

Auckland

24 November 2020

The Directors
Tower Limited

Dear Directors

Review of Actuarial Information contained in the financial statements

As required by Section 78 of IPSA the Appointed Actuary, Geoff Atkins of Finit Consulting, has reviewed the actuarial information contained in, or used in the preparation of, the financial statements at 30 September 2020. Geoff Atkins and Finit have no relationship with or interest in Tower other than being a provider of actuarial services.

I prepared the actuarial valuation of liabilities remaining from the Canterbury Earthquakes and reviewed the actuarial valuations of insurance liabilities for the New Zealand business and the Pacific Islands businesses. I reviewed the other actuarial information as specified by IPSA in Section 77, including the solvency calculations for the financial statements. The EQC recovery receivable related to the Canterbury Earthquakes does not form part of the actuarial information at the balance date; the valuation of this asset is the responsibility of the Board.

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

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

In my opinion the company has maintained a solvency margin in excess of the minimum required as at 30 September 2020.

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

Yours sincerely



Geoff Atkins
Appointed Actuary



Anagha Pasche

Fellows of the New Zealand Society of Actuaries

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Tel +61 2 8252 3300
Level 7, 68 Harrington Street
The Rocks, NSW 2000

Melbourne
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Level 3, 30 Collins Street
Melbourne, VIC 3000

Auckland
Tel +64 9 306 7700
Level 5, 79 Queen Street
Auckland 1010



Tower 2020 full year results

25 November 2020



Agenda

1



Chairman's update

Michael Stiasny, Chairman

2



Business update

Blair Turnbull, Chief Executive Officer

3



FY20 financial performance

Jeff Wright, Chief Financial Officer

4



Looking forward – Q&A

Blair Turnbull, Chief Executive Officer

Chairman's update

Continued growth and momentum

- New CEO, Blair Turnbull, joined Tower in August 2020
- Underlying profit increased on prior year
- Results at top end of guidance, supported by solid growth
- Accelerated push into digital and data

Leading through COVID-19

- Dedicated team and support programme in place to help customers
- \$7.2m being refunded to customers for lower claims due to COVID-19
- Tower has demonstrated strong resilience, navigating the challenges of COVID-19 well
- Pacific operations maintained full service despite widespread lockdowns

Strong and well capitalised

- Strong capital position and solvency margin
- Settlement of EQC receivable removes legacy issue and further improves capital position
- Removal of regulatory complexity through amalgamation
- Following updated RBNZ guidance to the industry, Tower intends to resume dividend payments in FY21, subject to market conditions and consideration of growth opportunities

Business update

Blair Turnbull, Chief Executive Officer

A journey of continued focus and streamlining

2015–2019

TRANSFORMATION AND RE-PLATFORM

Product rationalisation
Christchurch recovery
Investment in cloud-based platform

2010–2014

STREAMLINED GENERAL INSURER

From composite to mono-line insurer
Sold health, investments and life businesses

2020 +

GROWTH AND INNOVATION

Relentless focus on the customer
Customer and profit growth
Focused businesses
Leading digital and data capability

THREE DISTINCT BUSINESSES WITH END-TO-END ACCOUNTABILITY

Tower Direct – Flagship portfolio performing strongly
Partnerships – Leading, scalable partnership offering
Pacific – Digitisation will drive efficient growth

Delivering consistent growth in profitability

UNDERLYING NPAT
excl. large events

\$34.7m

+ 23% on prior year

UNDERLYING NPAT
incl. large events

\$28.4m

+ 3% on prior year

COMBINED RATIO

88.5%

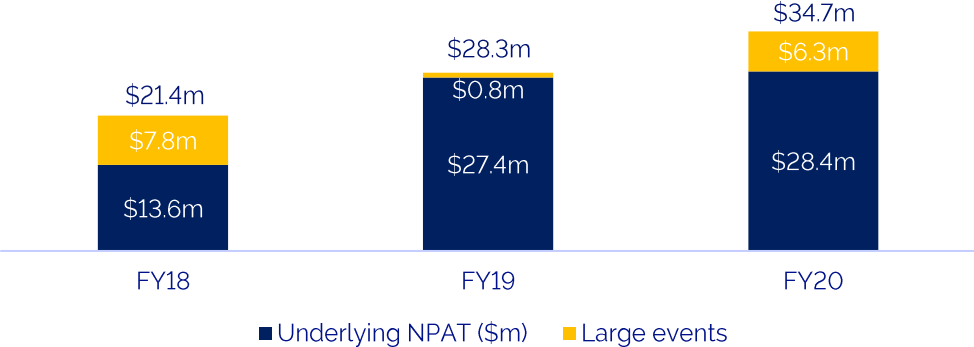
In line with prior year

REPORTED PROFIT

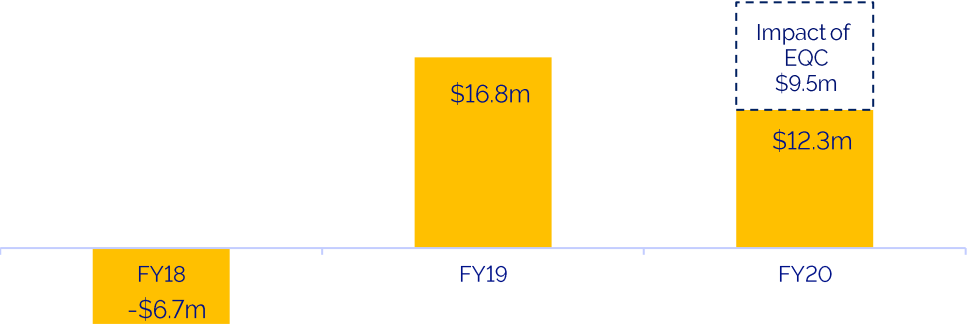
\$12.3m

Impacted by EQC receivable

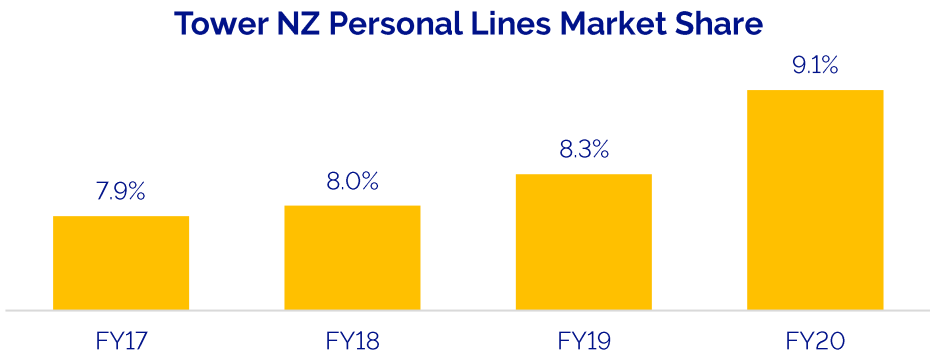
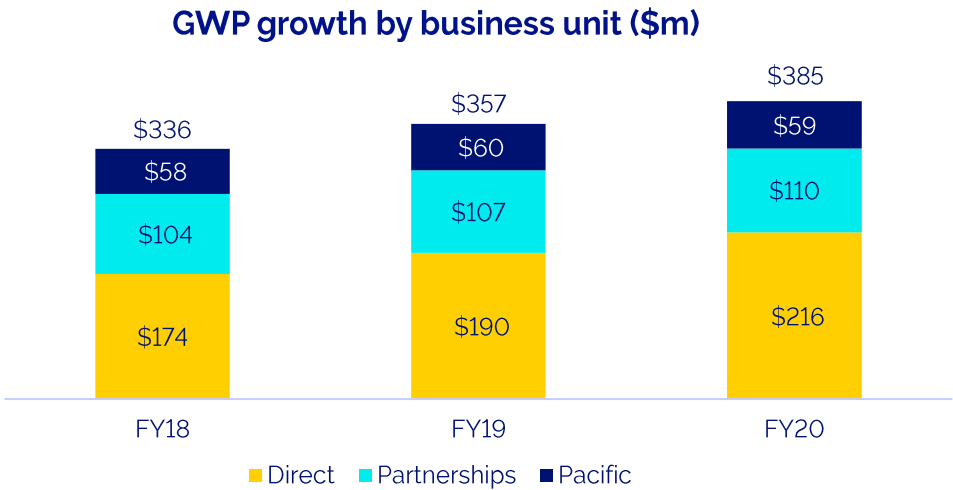
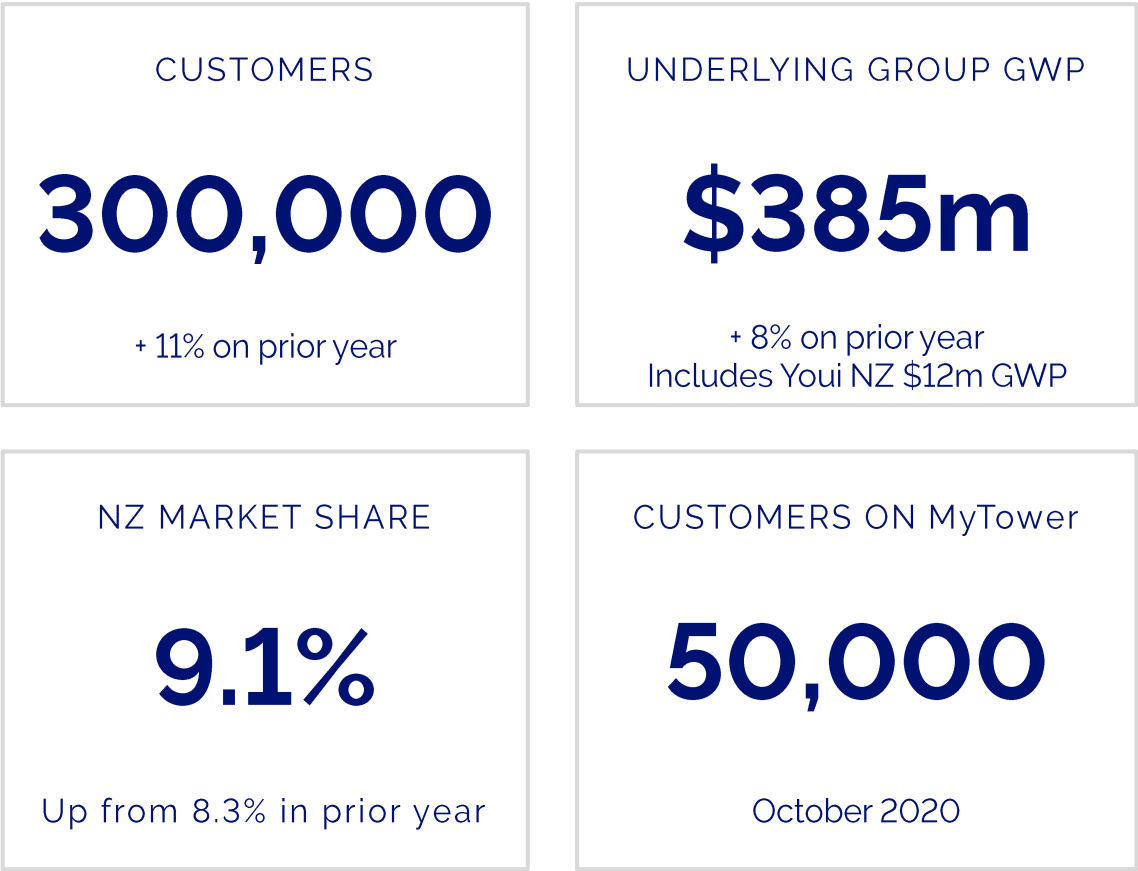
Underlying NPAT



Reported profit



Strong growth in customers and premium



Disciplined claims management improved through digitisation

CLAIMS RATIO EXCL.
LARGE EVENTS

46%

2% better than prior year

CLAIMS LODGED ONLINE IN
SEPTEMBER 2020

45%

27% in September 2019

AVG. MOTOR CLAIM
COST

\$1,600

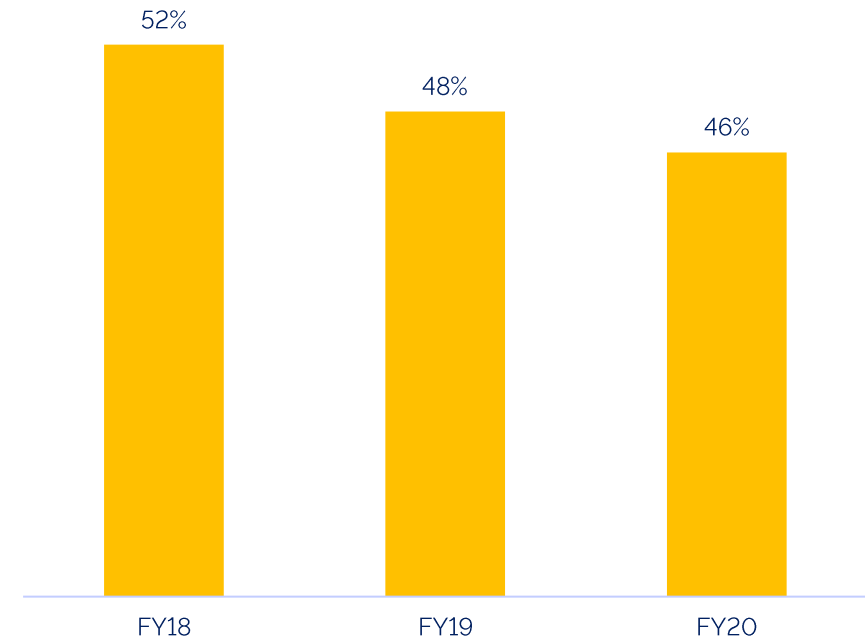
+ 6% on prior year

SIMPLE HOUSE CLAIMS

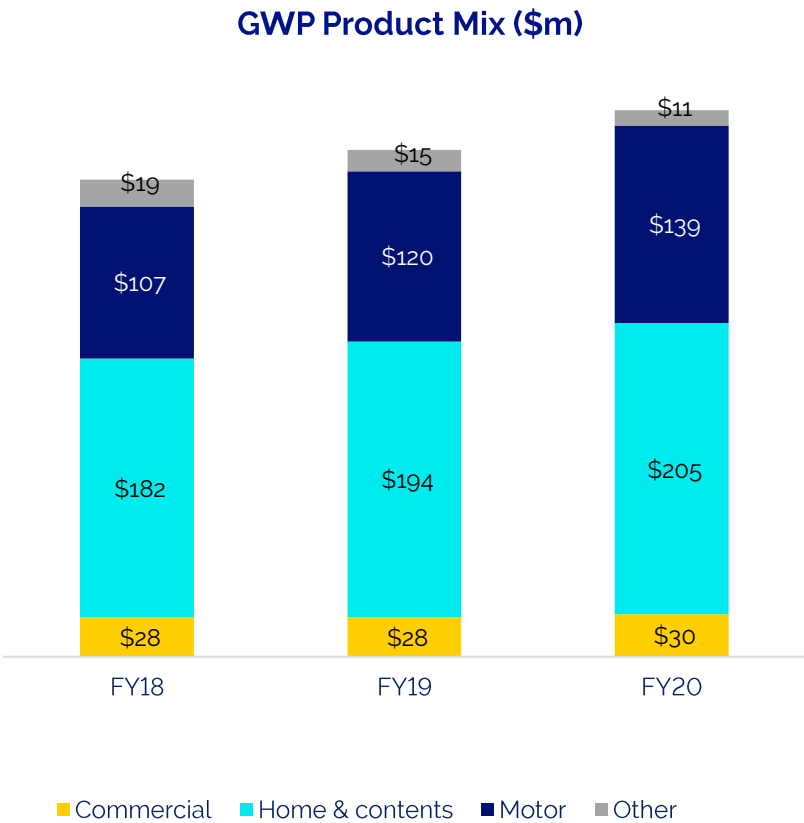
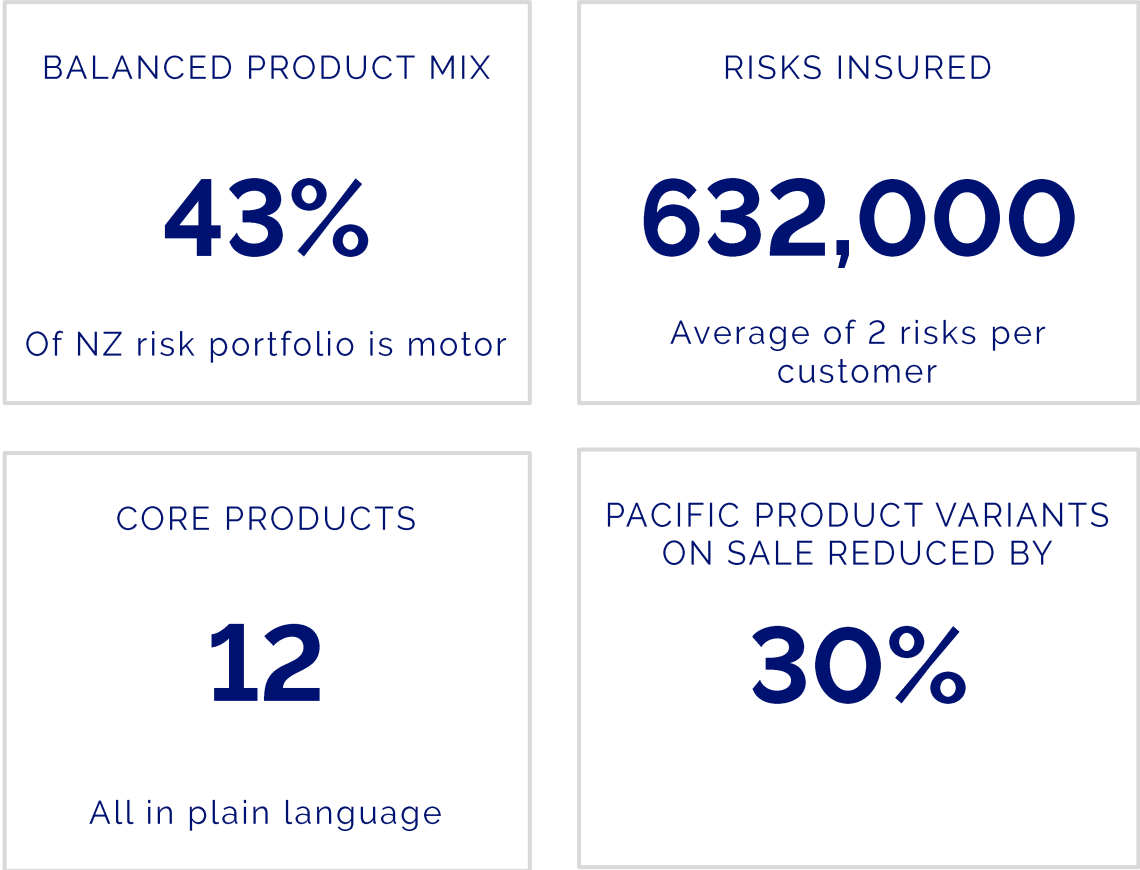
20%

Straight to builder in FY20

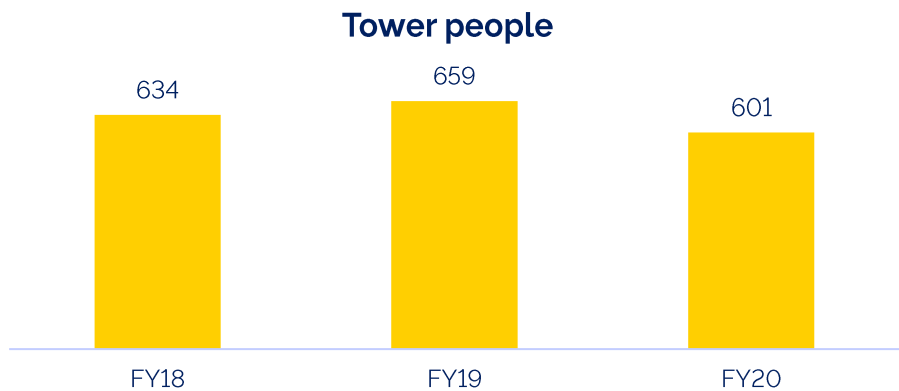
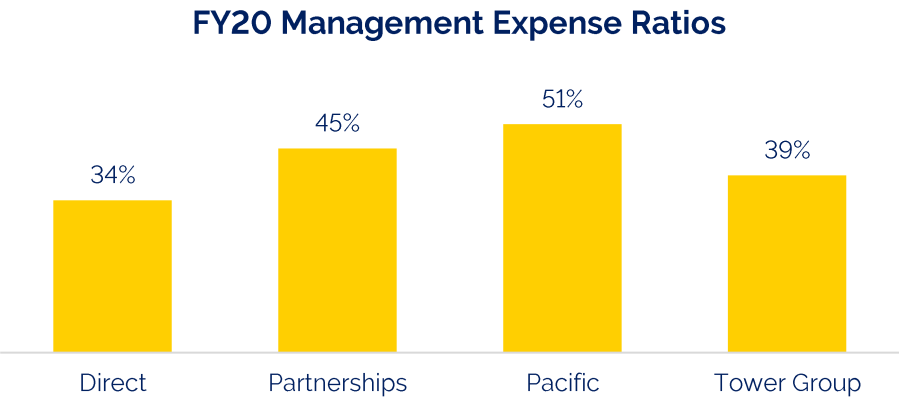
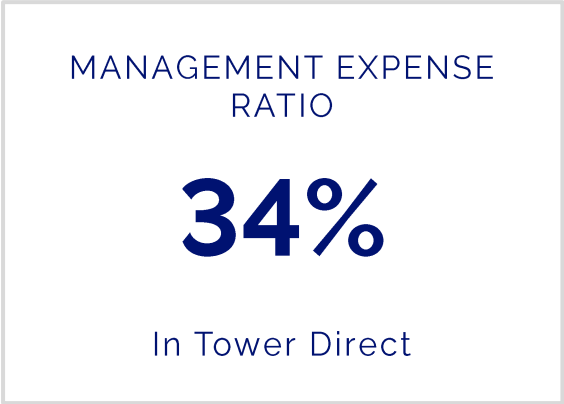
Claims ratio excl. large events



Product, pricing and underwriting enhanced through data



MER improving while continuing to invest and simplify



Investing in digital platform for efficiency and scalability

TECHNOLOGY RELEASES
IN FY20

117

2.4 x more than prior year

CUSTOMERS MIGRATED
TO EIS

90%

Tower Direct

WORKLOADS MOVED TO
THE CLOUD

70%

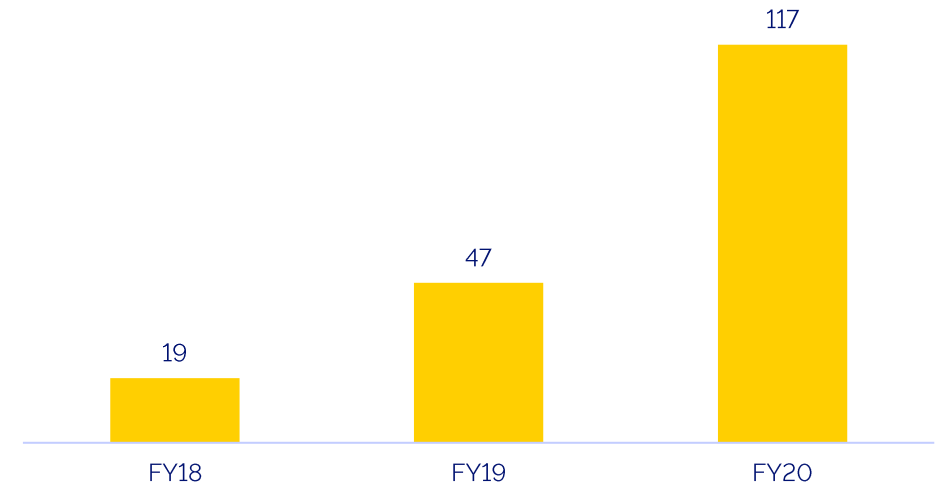
Since January 2019

CORE ADMIN LEGACY
SYSTEMS DECOMMISSIONED

4

6 remaining, 4 to be
decommissioned in FY21

Technology system releases per year



- Foundational partnerships in place with EIS, Ushur, CoreLogic, Microsoft

Strong capital and solvency position

TOWER LIMITED SOLVENCY
MARGIN (PARENT)

287%*

\$48m* capital above regulatory
minimums

FINANCIAL STRENGTH
RATING RECONFIRMED

A-

Following amalgamation

EQC RECEIVABLE SETTLED

\$42.1m

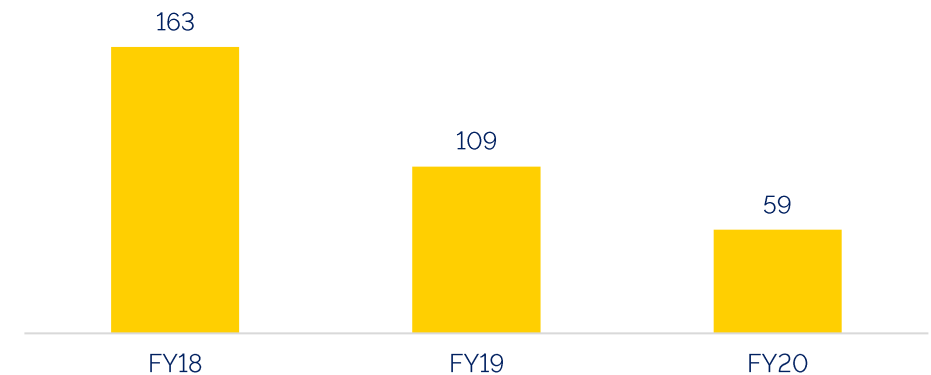
After disbursement to reinsurers

CHRISTCHURCH EQ CLAIMS

59

Open claims at 30 September

Open Canterbury Earthquake claims



- Settlement of EQC receivable removes legacy issue and further improves capital position
- \$15m BNZ credit line paid and closed
- Tower intends to resume dividend payments in FY21, subject to market conditions and consideration of growth opportunities

Managing through Covid-19, demonstrated resilience

REFUNDING CUSTOMERS

\$7.2M

REMOTE WORKING
CAPABILITY

100%

Staff able to work from home

STAFF ON SAME DESKTOP
SYSTEMS

100%

KEY OPERATIONS CENTRES

3

Auckland, Rotorua, Suva

SUPPORTING OUR PEOPLE

- Agile working environment with digital collaboration
- Ongoing wellbeing support

HELPING OUR CUSTOMERS

- Dedicated hardship team providing case-by-case customer support
- MyTower to support online self-service

READY TO RESPOND

- New operating model enables flexible workforce across three core offices

BUSINESS INTERRUPTION INSURANCE

- Tower policies only provide Business Interruption in relation to physical events, like fire, burglary or flood in the Pacific

FY20 financial performance

Jeff Wright, Chief Financial Officer



Group underlying financial performance

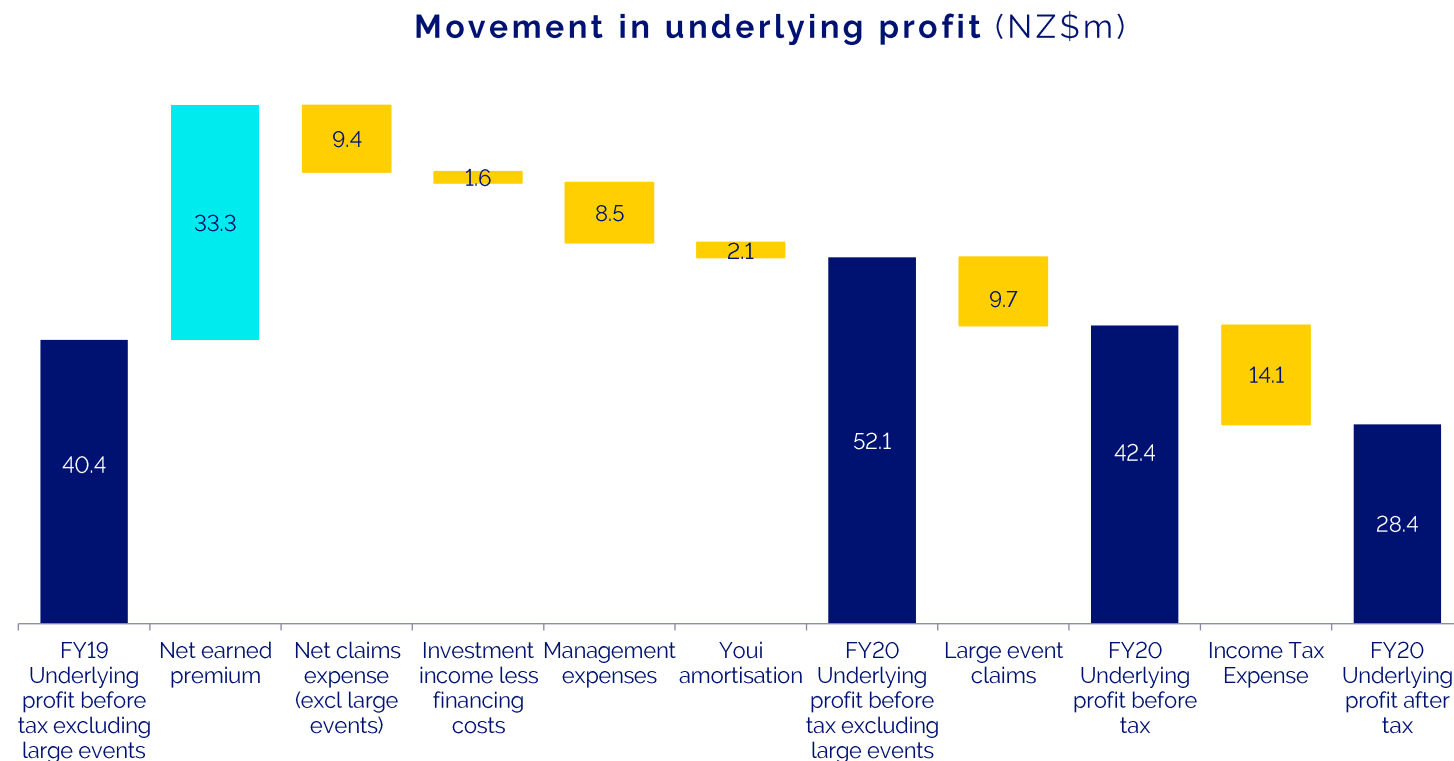
\$ million	FY20	FY19	Change
Gross written premium	385.1	356.8	28.4
Gross earned premium	380.5	345.0	35.5
Reinsurance expense	(57.2)	(55.0)	(2.2)
Net earned premium	323.3	290.0	33.3
Net claims expense	(149.7)	(140.3)	(9.4)
Large events claims expense	(9.7)	(1.3)	(8.4)
Management and sales expenses	(126.6)	(116.0)	(10.6)
Underwriting profit	37.2	32.4	4.8
Investment and other revenue	6.4	7.0	(0.7)
Financing costs	(1.1)	(0.3)	(0.8)
Underlying profit before tax	42.4	39.1	3.4
Income tax expense	(14.1)	(11.6)	(2.4)
Underlying profit after tax	28.4	27.4	0.9
EQC receivable write down	(9.5)	0.0	(9.5)
Canterbury impact	(2.7)	(6.0)	3.3
Restructure costs	(1.7)	0.0	(1.7)
Foreign tax credits write-off	0.0	(1.6)	1.6
Simplification programme opex	(0.8)	(1.0)	0.2
Other non-underlying costs	(1.4)	(2.1)	0.7
Reported profit/(loss) after tax	12.3	16.8	(4.5)

- Reported NPAT of \$12.3m, impacted by EQC settlement write off
- Underlying NPAT before large events of \$34.7m is an increase of 23% on FY19
- Improvement in key metrics of claims ratio excluding large events and expense ratio
- Combined Ratio further improves to 88.5%
- \$7.2m customer refund is included in net claims expense

Key ratios	FY20	FY19	Change
Claims ratio excluding large events	46.3%	48.4%	2.1%
Claims ratio	49.3%	48.8%	(0.5%)
Expense ratio	39.2%	40.0%	0.8%
Combined ratio	88.5%	88.8%	0.3%

Movement in underlying profit

- Net earned premium (NEP) higher due to Youi acquisition, and growth in Tower Direct and Tower Partnerships GWP
- Large event claims well above prior year as a result of weather events in NZ and Pacific
- While net claims expenses increased, it was proportionally lower than the increase in NEP than prior year
- Increased technology expenses during platform migration, including EIS and Youi amortisation expense



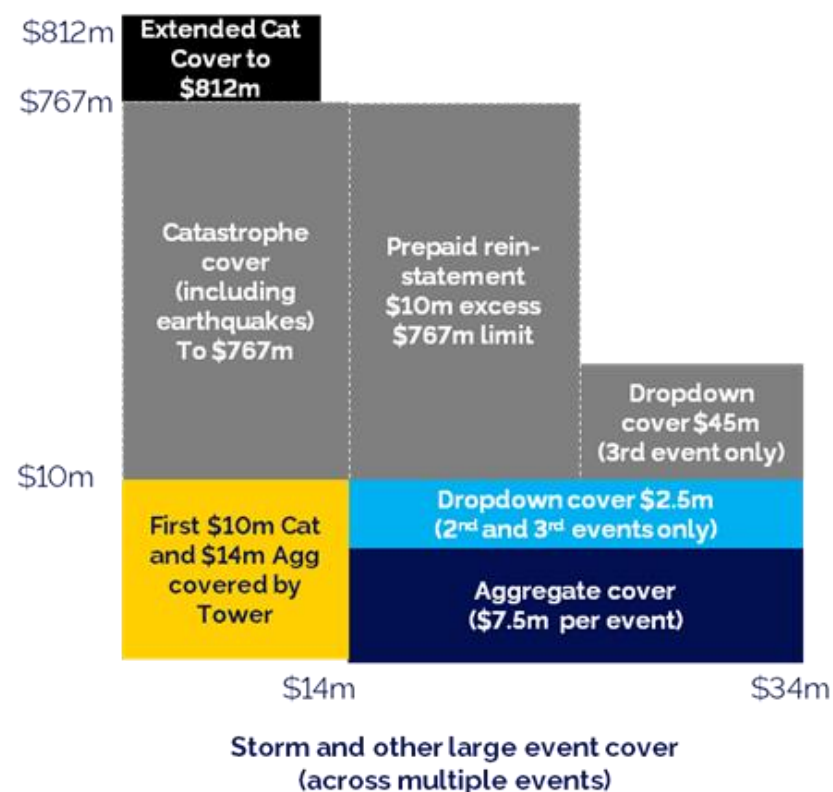
\$800m reinsurance programme increases resilience

- Tropical Cyclone Harold and the Timaru Hailstorm resulted in FY20 large event claims increasing \$8.4m on the prior year to \$9.7m
- Provision for Lake Ōhau fires of \$6m in FY21
- Preliminary estimates for Napier floods to result in \$3-\$4m impact on FY21 results

FY21 REINSURANCE RENEWAL

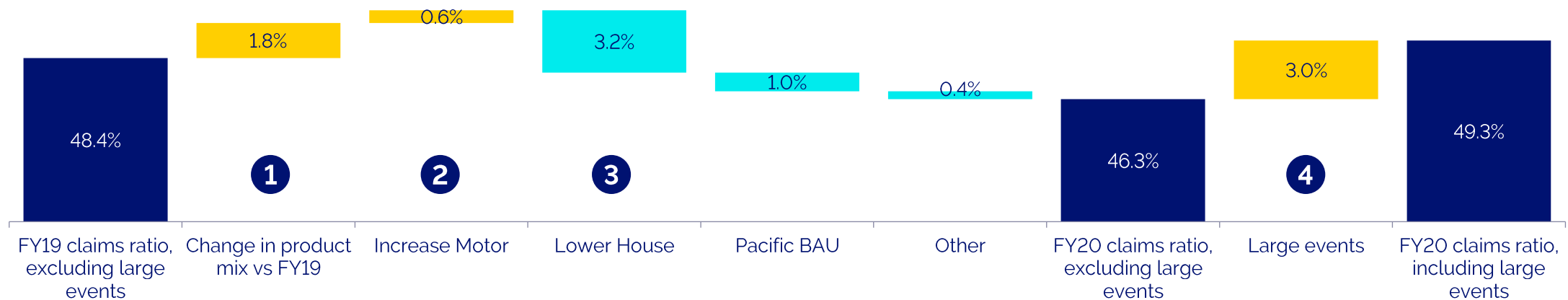
- Increase in catastrophe cover from \$783m to \$812m
- Pre-paid reinstatements in place to provide additional protection
- Catastrophe renewed on 'risk adjusted' flat pricing
- \$20m aggregate cover maintained at lower cost, but higher excess of \$14m

High-level reinsurance structure overview



Continued focus on improving claims ratio

Change in claims ratio vs. prior year

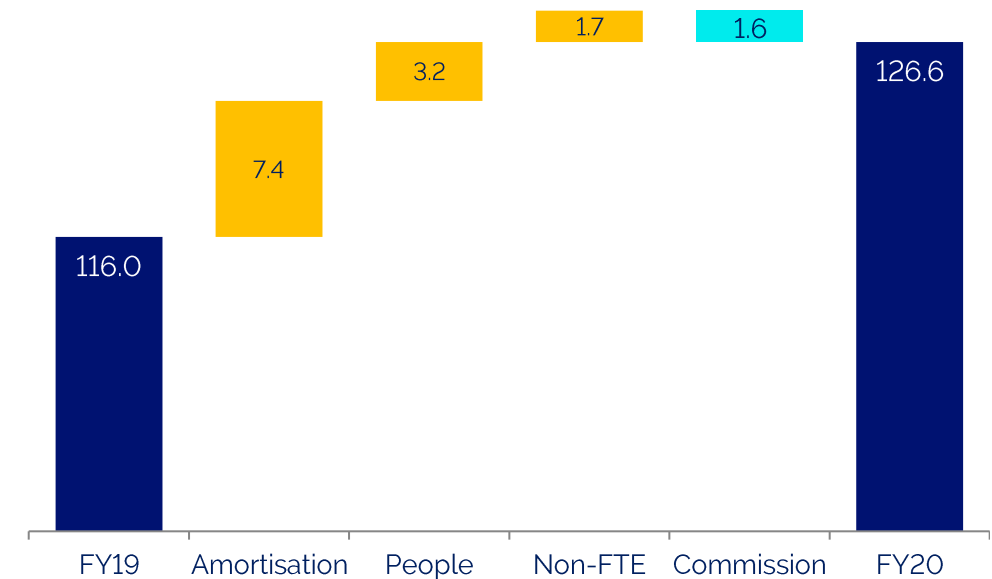


- 1** Increase in mix of motor policies, relative to lower loss ratio products, contributed an increase in the claims ratio.
- 2** Higher average cost of claims driven by increasing technological changes in vehicles as well as supply chain pressures starting to be seen from COVID-19.
- 3** The FY20 seasonal impact of house fires is below previous years.
- 4** \$9.7m of large events were incurred in FY20 (vs \$1.3m in FY19). Timaru Hailstorm and Northland Floods totalling \$4.5m (net of reinsurance) in New Zealand, and Cyclone Harold \$5.2m (net of reinsurance) in Pacific.

Continued discipline on management expenses

- FY20 Management Expense Ratio improved 1% on the prior year, down to 39%
- FY20 management expenses of \$126.6m include the cost of running EIS in addition to existing systems
- Tower Direct now almost fully on the digital platform, with the lowest MER of the three businesses
- Shift of Tower Partnerships and Tower Pacific to the digital platform underway
- Digital platform allows fast and efficient aggregation of additional portfolios of business
- Amortisation expense increased due to: (i) Youi acquisition, (ii) implementation of the lease standard IFRS16, and (iii) EIS digital platform

Movement in management expenses (NZ\$m)



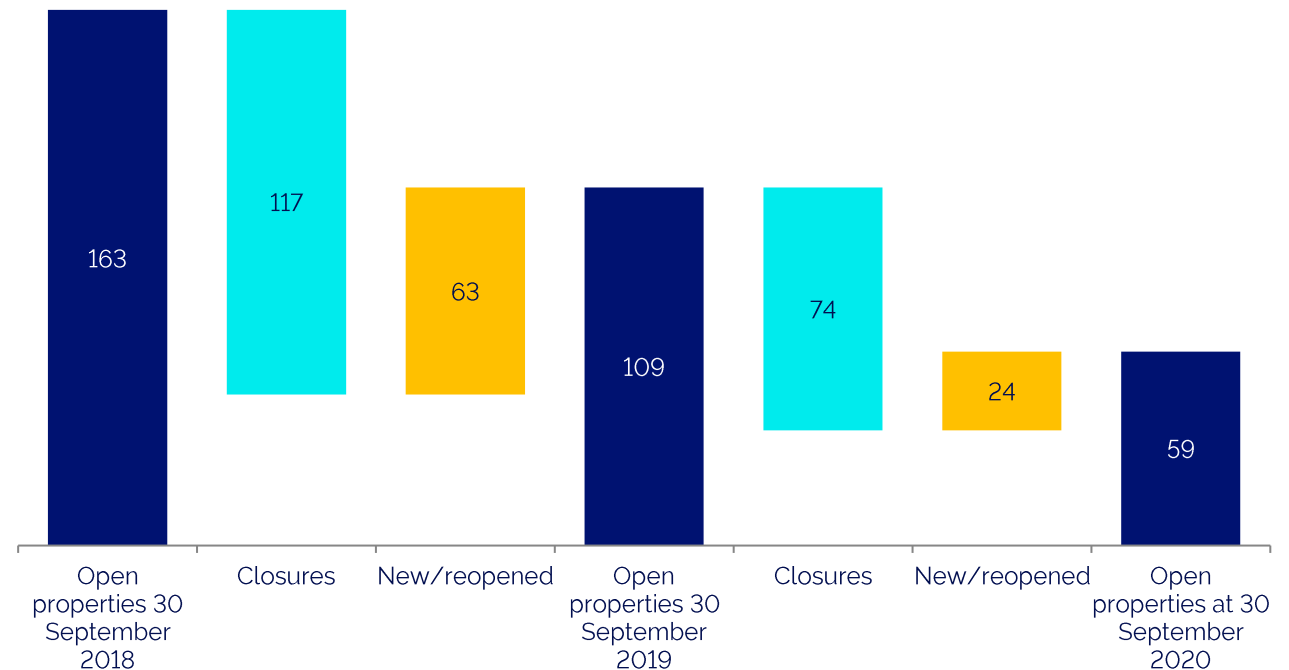
Over 15,000 Christchurch EQ claims now settled

- The pace of new overcaps and reopened claims slowed during the second half of 2020
- Finalisation of claims also slowed during the second half of 2020, impacted in part by COVID-19 restrictions

Settlement of EQC receivable

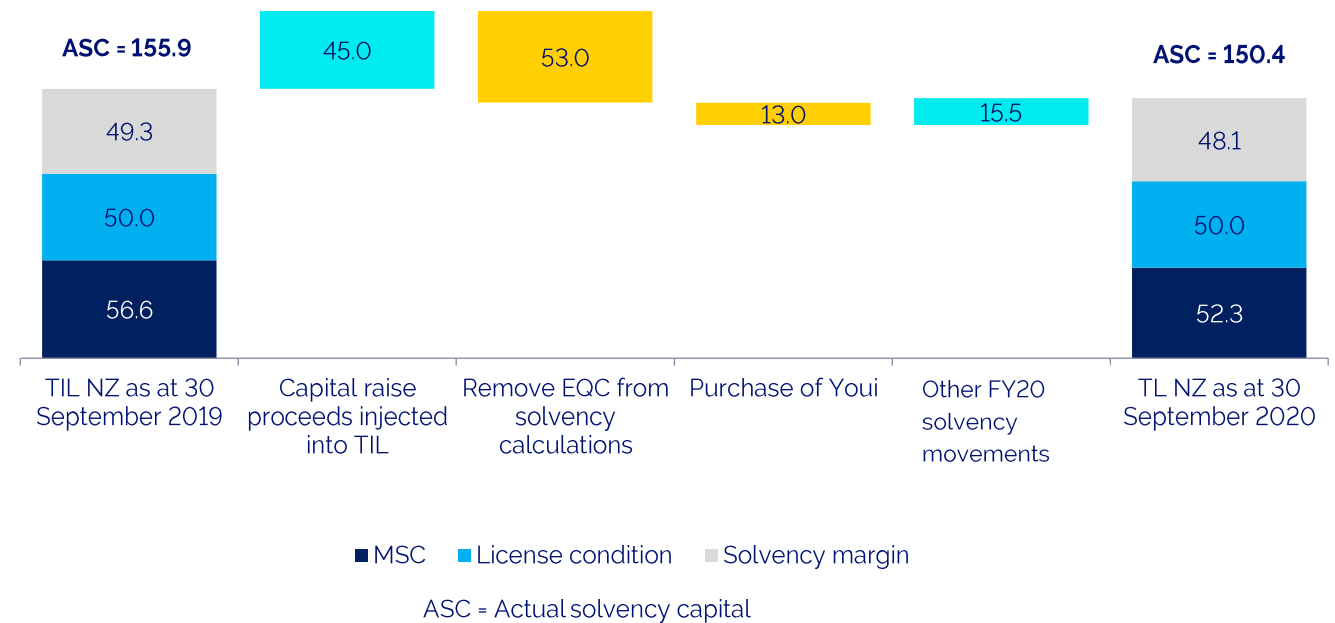
- Tower to receive \$42.1m after disbursement to reinsurers
- Write off of residual amount resulted in an impact of approximately \$9.5m on NPAT
- Removal of legacy issue a significant milestone

Open Canterbury Earthquake Claims



Solid solvency position and simplified structure

- At 30 September 2020, Tower Limited New Zealand had \$98m of solvency margin, \$48m above the RBNZ licence condition
- Actual solvency capital of \$150.4m is equivalent to 287% of minimum solvency capital
- Tower's financial strength was reconfirmed at A- (excellent) following the amalgamation
- BNZ loan to Tower Limited finalised on amalgamation with Tower Insurance Limited



Looking forward

Blair Turnbull, Chief Executive Officer



A good result and an exciting future

Tower's results this year are good and at the top end of expectations. We've achieved this despite some unprecedented headwinds and challenges.

As we start to move into a new era of Tower though, the business will look and behave differently.

To be clear, we don't just want to be a smaller version of a big global insurer. That is not the path we choose.

At Tower, we're choosing a direction that leads to higher growth through a relentless focus on our customers.

We're more determined than ever, more energised than ever, and over the coming months we'll be demonstrating that we're far more dynamic than ever before.

OUR SOUTHERN STAR

To deliver beautifully simple and rewarding experiences

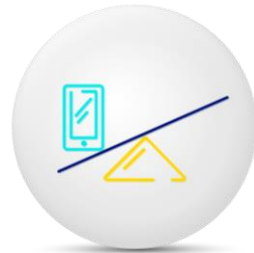
(that our customers rave about – every time)

Clear and focused strategic priorities

GROW AND INNOVATE



**Relentless focus
on customer
relationships**



**Leverage digital and
data everywhere**



**Partner wherever
possible**

BUILD FINANCIAL STRENGTH AND CAPABILITY

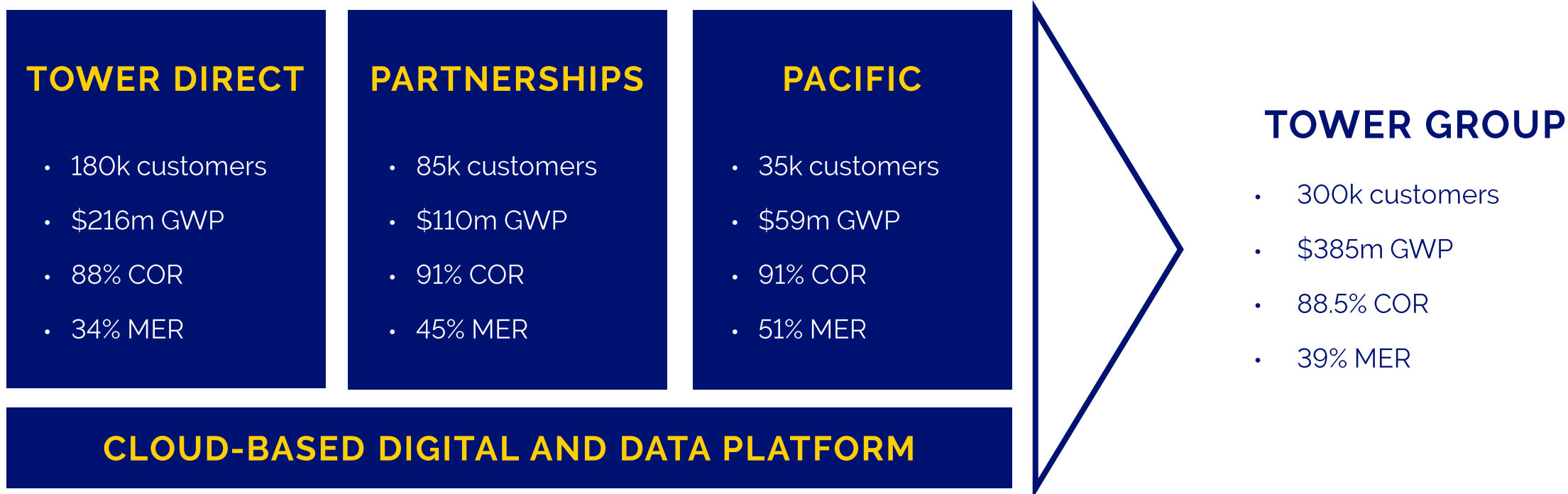


**Embracing agile
and talent**



**Maintain a strong
capital and solvency
structure**

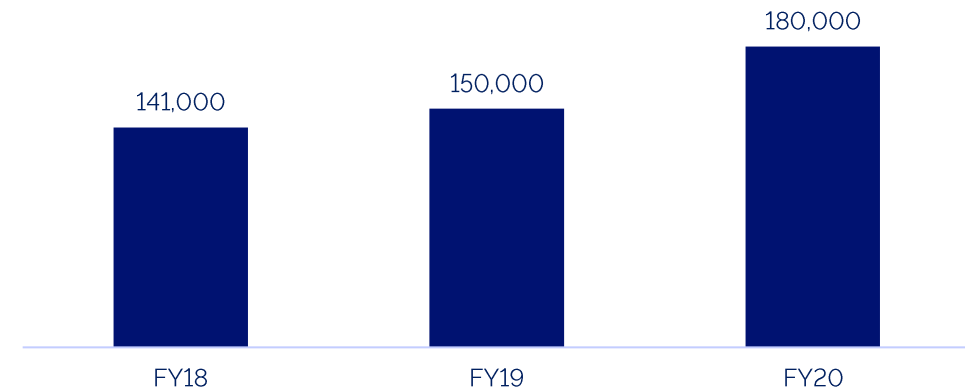
Three focused businesses: Direct, Partnership & Pacific



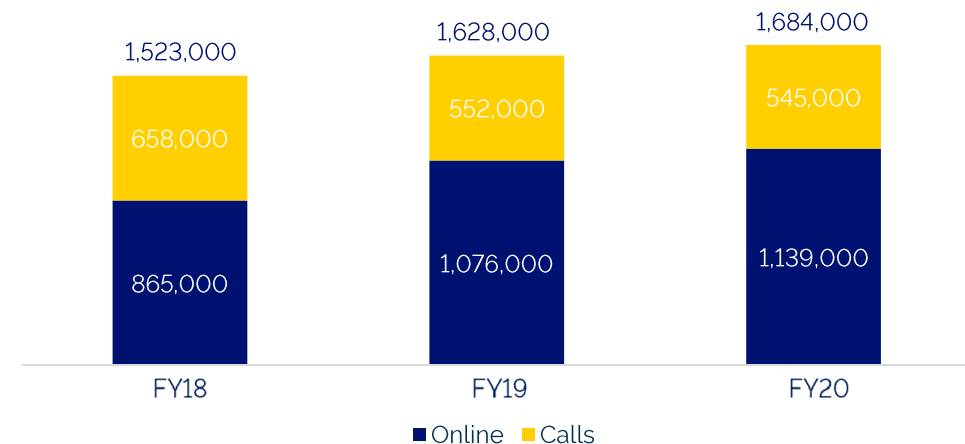
Growing our leading Tower Direct business

- Growing our Direct business where we have leading digital, data and innovative propositions
- 58% of new business online, service transactions conducted online 30% of the time
- Digital platform supports lower MER at 34%, which will further improve as we scale
- Youi migration almost complete, proven model to acquire additional books
- Automated campaigns and service notifications, such as weather warnings and WOF notices
- \$216m GWP, up 13% on prior year
- Retention consistent at 82%

Tower Direct customers



Customer touchpoints



Investing in Partnerships and the Pacific

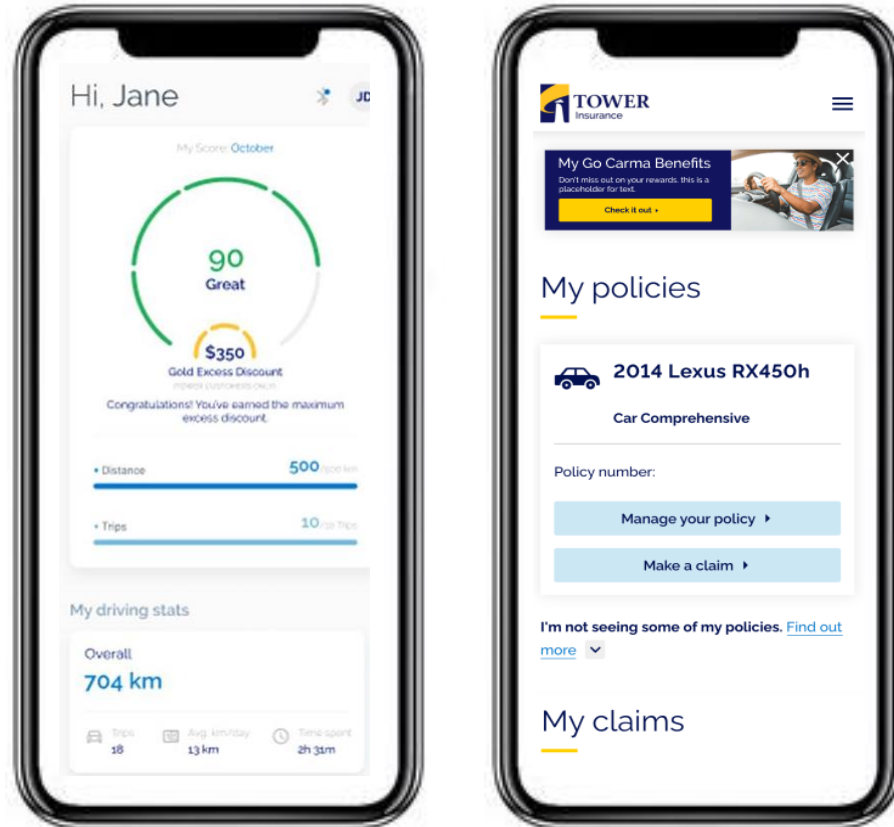
Tower Partnerships well positioned for growth

- New platform enables fast and scalable partnership support
- TSB & Trade Me customer migration to new cloud EIS platform well underway
- \$110m GWP, up 3% on prior year
- Strong retention at 84%

Transforming Pacific business while improving margins

- New tech platform key to providing a sustainable Pacific business
- Fiji motor on new platform launching in Dec 2020
- Product rationalisation to reduce products by 30% to 362 products
- Mitigating volatility by reducing commercial exposure and focusing on personal lines
- Pacific business contributes 15% of GWP

Investing in technology, innovation and a sustainable environment



INNOVATIVE PROPOSITIONS

- Expanding product range with Marine and Pet to deepen customer relationships
- Developing risk-adjusted personalised pricing to include flooding

DIGITAL AND DATA PLATFORM

- Auckland University Science Faculty partnership
- EQC agency agreement signed to manage claims on behalf of EQC following natural disasters

SUSTAINABLE ENVIRONMENT

- Sustainable Business Council member
- Carbon audit to reduce footprint
- Development of climate action plan, including transparent climate reporting

FY21 guidance

	FY20 Actual	FY21 Guidance Based on FY20 large events (\$9.7m)
Underlying NPAT	\$28.4m	Exceeding 5% on FY20

- Two key areas we are focusing on to achieve this guidance are GWP growth of 5% or more, and continued improvement in our management expense ratio

Summary – a good result and an exciting future

- ✓ Sound strategy and demonstrated resilience in overcoming challenges of COVID-19
- ✓ Well capitalised with strong balance sheet and solvency margins
- ✓ Focus remains on accelerating growth and innovation through a relentless focus on customers
- ✓ Continue to invest in digital and data platform to drive efficiency and support growth
- ✓ Intention to resume dividends in FY21, with consideration of growth opportunities
- ✓ Analyst day planned for March 2021

Questions

Appendix

Reconciliation between underlying profit after tax and reported profit after tax

\$ million	FY20 underlying profit	Non- underlying items (1)	Impairment of receivable (2)	GWP reclassificatio ns (3)	Other Reclassificati ons (4)	FY20 reported profit
Gross written premium	\$385.1	-	-	\$(8.0)	-	\$377.2
Gross earned premium	\$380.5	-	-	\$(8.0)	-	\$372.6
Reinsurance expense	\$(57.2)	-	-	-	-	\$(57.2)
Net earned premium	\$323.3	-	-	\$(8.0)	-	\$315.3
Net claims expense	\$(149.7)	\$(3.7)	-	\$7.2	\$(25.2)	\$(171.3)
Large events claims expense	\$(9.7)	-	-	-	-	\$(9.7)
Management and sales expenses	\$(126.6)	\$(4.7)	-	-	\$28.9	\$(102.4)
Underwriting profit	\$37.2	\$(8.4)	-	\$(0.8)	\$3.8	\$31.8
Corporate management expenses	-	-	-	-	\$(2.9)	\$(2.9)
Investment and other revenue	\$6.4	\$0.1	-	-	\$(0.9)	\$5.6
Impairment of EQC receivable	-	-	\$(13.1)	-	-	\$(13.1)
Financing costs	\$(1.1)	-	-	-	-	\$(1.1)
Underlying profit before tax	\$42.4	\$(8.3)	\$(13.1)	\$(0.8)	\$0.0	\$20.3
Income tax expense	\$(14.1)	\$2.3	\$3.7	\$0.2	-	\$(7.9)
Underlying profit after tax	\$28.4	\$(6.0)	\$(9.5)	\$(0.5)	\$0.0	\$12.3
Canterbury impact	\$(2.7)	\$2.7	-	-	-	-
Impairment of EQC receivable	\$(9.5)	-	\$9.5	-	-	-
Restructure provision	\$(1.7)	\$1.7	-	-	-	-
Simplification programme opex	\$(0.8)	\$0.8	-	-	-	-
Other non-underlying items	\$(1.4)	\$0.8	-	\$0.5	\$(0.0)	\$(0.0)
Reported profit after tax	\$12.3	-	-	-	-	\$12.3

Underlying and reported profit:

- “Underlying profit” does not have a standardised meaning under Generally Accepted Accounting Practice (GAAP). Consequently it may not be comparable to similar measures presented by other reporting entities and is not subject to audit or independent review.
- Tower uses underlying profit as an internal reporting measure as management believes it provides a better measure of Tower’s underlying performance than reported profit, as it excludes large or non-recurring items that may obscure trends in Tower’s underlying performance, and is useful to investors as it makes it easier to compare the Tower’s financial performance between periods.
- Tower has applied a consistent approach to measuring underlying profit in the current and comparative periods.
- “Reported profit after tax” is calculated and presented in accordance with GAAP and is taken from Tower Limited’s audited financial statements for the year ended 30 September 2020.

- 1) Non-underlying items are shown separately in Tower’s underlying reporting, yet included within other lines (depending on the nature of the item) in the financial statements.
- 2) Premium refunds that were offset against GWP in the statutory reported results but were treated as non-underlying.
- 3) Reclassification of claims handling expenses from management expenses to net claims expense; reclassification of corporate costs from underwriting profit to underlying profit; reclassification of forex movements to management and sales expenses.
- 4) In Tower’s management reporting, indirect claims handling expenses are reported within ‘management and sales expenses’. In the financial statements, indirect claims handling expenses are reclassified to ‘net claims expense’. Corporate costs are included in management expenses for Tower’s management reporting, however are excluded from underwriting profit for statutory reporting.

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Slide 3 – Chairman's update – Michael Stiassny

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

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

The transformation we embarked on five years ago has seen the Tower business turn around and deliver continued profit growth.

In an uncertain world, where many businesses are now having to pivot, our digital-first strategy has positioned Tower well. Tower has emerged from the initial response to the pandemic strong and resilient, demonstrated by the continued improvement in results over the past year.

While no company is immune to the ongoing challenges presented by COVID-19, the insurance industry is inherently resilient, and the team have guided Tower well. Our reported results are at the top end of our guidance and provide a strong base for continued investment in growth.

Our new IT platform continues to deliver benefits for both customers and the business. And with new CEO Blair Turnbull joining us, we are ready to embark on our next ambitious phase.

Our strategic direction – which is serving us well – does not change. Our relentless focus on customers and driving our digital and data programme forward remains vital for us as we continue to disrupt insurance industry norms. But the speed of change ... our momentum ... is accelerating.

[PAUSE]

Tower's response to COVID-19 focused on putting customers and people first. Dedicated teams supported those people suffering hardship and we were the first general insurer to refund customers, to the tune of \$7.2 million, for the lower claims due to the COVID-19 lockdown.

I'd like to pay tribute to the Tower team who have led the business so well through COVID-19. Our investment in digital has enabled our people to work remotely when needed and has allowed us to maintain full operations, despite numerous lockdown periods.

[PAUSE]

Yesterday we announced that we entered into a settlement agreement with the Earthquake Commission regarding an outstanding receivable resulting from the Canterbury Earthquakes.

Under the settlement agreement Tower will receive \$42.1m after disbursement to reinsurers and costs. The write off of the residual amount will result in an impact of approximately \$9.5m on our FY20 reported net profit.

In recent years we have progressively been removing legacy risks from the business and removing this significant piece is an important milestone and provides the management team with clear air to move the business forward and accelerate.

The Board determined that reaching this settlement agreement gives certainty to you, our shareholders who will be pleased to see this risk removed from our business.

This further increases the strength of our capital position and provides us with a solid foundation to keep driving the business forward, innovating and ultimately delivering growth.

Tower's Board and management team remain strongly committed to paying dividends and to the efficient management of capital.

Earlier this year, the Reserve Bank of New Zealand advised the financial sector to protect solvency positions and preserve capital in light of the COVID-19 disruption and uncertain economic outlook.

The RBNZ has more recently updated their guidance thanks to a stronger than expected economy and recovery from COVID-19.

While no dividend will be paid for FY20, Tower intends to resume dividend payments in FY21, subject to market conditions and the careful consideration of any growth opportunities that may arise.

This year, we also amalgamated multiple entities to further simplify the business and remove complexity and additional administration.

This change had no impact on our shareholders, insurance licence, or to our customers, but is another important step in creating the Tower of the future.

[PAUSE]

On behalf of the Board I'd like to welcome and thank Blair, the management team and our frontline teams for their resilience and sustained focus on delivering good outcomes for customers and improving profitability.

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

Slide 4 – Business update title slide – Blair Turnbull

Kia ora and thank you Michael.

A warm welcome to everyone joining us today. I am delighted to be here sharing with you a very good set of Full Year 2020 results, which have been

achieved while navigating a very challenging year for us all. As well as updating you on the past year, I would also like to take this opportunity to give you a high-level overview of Tower's plans to continue growing and innovating in the future.

Slide 5 – A journey of continued focus and streamlining

There is no doubt that Tower has had quite the journey.

From over a decade ago we transitioned from a composite insurer with multiple lines of business to a mono-line, general insurer, this was an important first step in creating the Tower of today.

Then, around five years ago we embarked on a significant transformation programme to modernise the business from its multiple legacy systems with complex product offerings, while also dealing with the aftermath of the Canterbury earthquakes.

The transformation has been successful, with the implementation of a new cloud-based technology platform, rationalised product set and migration of customers onto the platform close to complete.

This transformation has delivered improved results each year, and today we are well-placed to accelerate our strategy, driving for higher growth and increased innovation.

The next step in our journey is a logical one – it's the same path we've been on, but faster, more focused, more energetic and more creative.

Perhaps one of the most symbolic recent shifts is the creation of three new businesses, Direct, Partnership and Pacific, each with end-to-end accountability.

I will talk to this in more detail later, but the key to our success is leveraging our new cloud-based, scalable digital and data platform for our flagship Tower Direct business and also our Partnerships and Pacific businesses.

Let's now turn to a summary of our Full Year 2020 results.

Slide 6 – Delivering consistent growth in profitability

When you exclude the impact of large events, you can see that our underlying business is performing strongly, up 23% on the prior year to \$34.7 million. We are growing the business while closely managing claims, underwriting and operating expenses.

Importantly, underlying NPAT has just surpassed the top end of our guidance, at \$28.4 million and our combined operating ratio is steady at 88.5%, demonstrating the strength of our core insurance fundamentals.

The EQC settlement is an important step forward for us, allowing us to focus fully on driving growth and value. Reported profit is \$12.3 million, including the \$9.5 million impact from the EQC settlement of \$42.1 million.

This is a good set of results for Tower and demonstrates our ability to deliver consistent growth and profitability.

Slide 7 – Strong growth in customers and premium

A continued focus on customers and building a compelling digital offering has seen our customer numbers increase to 300,000, up 11% on the prior year.

This growth in customer numbers has driven a strong GWP result of \$385 million, up 8% on the prior year and this has also helped to increase our market share in NZ Personal lines to 9.1%, up from 8.3% in the prior year.

Thanks to more effective and efficient marketing, we have seen steady increases in the number of people visiting us online. This combined with competitive pricing, plain language products and self-service offering, is driving customer growth. Our task is to further engage with our customers to build deeper relationships by leveraging data and providing more personalised offers.

Our self-service portal, MyTower, has passed the 50,000 registration mark, which is a significant achievement given it launched less than a year ago. Its growth highlights the increasing importance of easy online access and customers being comfortable with transacting online to purchase insurance and make claims.

Migration of our Tower Direct customers to our new platform is almost complete. We are also well underway with the migration of our Youi NZ customers, both of which are achieving strong retention rates. Youi NZ contributed around \$12.6m in GWP to our total of \$385m.

Youi was a first test of our digital and data platform capability to on-board customers effectively and efficiently, and it has been very successful. We now have a proven, scalable blueprint to migrate other books and we will continue to seek value-accretive, bolt-on acquisitions.

Slide 8 – Disciplined claims management improved through digitisation

Claims sits at the very heart of everything we do and it's a core insurance fundamental alongside underwriting, product and pricing.

Over the past 12 months we have taken significant steps forward in improving the way we underwrite business, which is delivering improving results. Key actions include:

- Continued focus on claims leakage and recoveries
- Refinement of our plain language products that provide clarity to customers at claims time
- Implementation of new data practices to support risk selection and to enable us to more accurately monitor our portfolio
- Refinement of our online claims capability that has seen 45% of our claims lodged online in September, up from 27% at the same time last year
- And the launch of straight through claims processes that enable low value, low risk claims straight through to our suppliers, enabling us to reduce costs and customer wait times.

The result of all of this work is an ongoing improvement in our claims ratio excluding large events to 46%, 2% better than the prior year.

We are seeing some inflation in our motor book, but we are managing this closely through ongoing product and pricing reviews and supplier engagement. This inflation is mostly due to a higher number of expensive cars being on the road, with increased levels of technology in windscreens and bumper bars.

Slide 9 – Product, pricing and underwriting enhanced through data

Tower is focussed on creating a risk portfolio that is well balanced and profitable. In New Zealand, almost two thirds of our new business is motor, which brings the total percent of motor on our book to 43% of all risks.

A key strategic priority to support our growth and innovation is to deepen our customer relationships and increase the number of policies they hold with us. On average, each of our customers insure two risks with us.

Rationalisation of our products from hundreds of variations to a core set of 12 is now complete for New Zealand and is delivering a consistent, simple and rewarding experience. We are now undertaking a similar process in our Pacific business with reduction of product variations by 30%.

Complexity drives cost into the business and slows our delivery down. We remain vigilant to mitigating it at every opportunity.

Slide 10 – MER maintained while continuing to invest and simplify

Our Tower Direct business is our best example of what can be achieved through a new generation insurance business.

In Tower Direct, nearly all the work is completed on the cloud, which delivers significant efficiencies and sees us operating at a management expense ratio of 34%, versus our overall Tower expense ratio of 39%.

This continued digital and data push has seen us increase the effectiveness of our marketing, where we have reduced our cost to acquire a customer to 13% of net earned premium, 2% lower than the prior year.

While our business has grown, our people numbers have reduced to 601 with the focus now on evolving new skill sets in key areas like digital data, while also supporting flexible, remote working.

Slide 11 – Investing in digital platform for efficiency and scalability

Our digital platform is transforming and enabling agility in the way we do business and engage with our customers.

Core to this capability is our agile cadence – our ability to make improvements and put these live quickly. We have more than doubled the number of digital releases in the past year to 117. Over 90% of all Tower Direct customers are

now on our EIS cloud-based platform and over 70% of our workloads are now cloud-based.

Four legacy systems have been decommissioned in the past six months, with another four to be decommissioned in the coming year, leaving us with only two to complete beyond that.

This consistency of systems and use of the cloud means that all team members are now on the same operating systems, enabling sharing of work across locations to drive efficiency. We are now leveraging our Pacific hub in Fiji to support claims and service operations for NZ Direct and Partnerships. This supports work-load flexibility, demand spikes and a lower cost to serve.

Slide 12 – Strong capital and solvency position

Tower is a strong and sound business.

Yesterday's announcement on settling the EQC receivable further strengthens our position while also removing a legacy issue from the business.

Currently, we have significant capital above regulatory minimums and following amalgamation our financial strength ratings have been confirmed.

Canterbury Earthquake claims have reduced significantly, with more than 100 claims closed in the last two years. Jeff will provide a further update on this, but it shows that this period of legacy risks is almost at an end.

In the past six months we have also repaid and closed our \$15 million BNZ credit line, so we have no outstanding borrowings.

This puts us in a strong position to resume dividends in 2021, subject to market conditions and the consideration of any growth opportunities that may arise.

Slide 13 – Managing through Covid-19, demonstrated resilience

Like all businesses around the world, we are also navigating a COVID-19 world, and it is pleasing to see the resilience demonstrated by Tower and the team.

Following the initial lockdown, we moved quickly to enable 100% of our workforce to operate remotely. This capability is still in place, so we are ready to respond to any future changes.

As I mentioned earlier, all of our team are now working from the same operating system, ensuring that all locations can assist with workloads in the event of further lockdowns.

Our response for customers has also been in place for a number of months now. We have a dedicated hardship team who are providing case-by-case customer support.

Importantly, we were the first general insurer to refund our motor customers for lower claims due to the COVID-19 level four lockdown. Proactively refunding our customers for a service they were not using was absolutely the right thing to do.

I will now hand over to Jeff who will take you through our detailed financial results.

Slide 14 – FY20 financial performance title slide – Jeff Wright

Thank you Blair and good morning everyone.

Slide 15 – Group financial performance

Looking at the consolidated results, we can see that continued growth was a key driver of Tower's full year results. This growth was offset by the impacts of

Cyclone Harold and the Timaru Hailstorm, along with lower investment income.

We have continued to deliver solid growth, with gross written premium increasing \$28.4 million compared the same period last year. Claims costs excluding large events rose \$9.4 million due to the growth in risks. Underlying profit after tax increased slightly to \$28.4 million thanks to these improving key metrics.

The Canterbury Earthquake portfolio is performing in line with expectations in most areas. The after tax strengthening \$2.7m for FY20 represents the lowest annual increase since 2014. Along with the settlement of the EQC receivable, this is a clear sign that we are nearing the end of the impacts of the Canterbury earthquakes.

Our reported profit of \$12.3 million after tax was impacted by the EQC settlement and is \$4.5 million lower than the prior year.

The motor refund of \$7.2 million related to the Covid-19 lockdown is included in Claim Expenses in this slide. In the financial statements, it is deducted from GWP, as per the reconciliation in the appendices.

Slide 16 – Movement in underlying profit before tax

Slide 16 details the key drivers of underlying profit before tax from financial year 2019, to financial year 2020.

The solid growth is reflected in the \$33.3 million increase in net earned premium, a combination of growth in our core portfolio and our risk-based pricing approach.

On this slide you can also see the impact of large events at \$9.7 million. While our net claims expenses increased \$9.4 million, this is proportionally lower than the increase in NEP.

Management expenses are higher due to the completion of our IT transformation and investment in customer migration, along with the amortisation of the Youi NZ portfolio.

Slide 17 – \$800m reinsurance programme increases resilience

Managing risk is at the heart of what we do as an insurer and our reinsurance programme provides certainty and protection.

In November 2019, a large hailstorm hit Timaru, causing claims expenses of \$4.7m. \$2m of this was recovered from reinsurance which resulted in a before-tax impact of \$2.7m.

In April 2020, Tropical Cyclone Harold caused widespread damage in the Pacific Islands. While Vanuatu & Tonga were most impacted, we also received claims in Solomon Islands and Fiji, and this impacted results by \$8m before tax.

Our total large event expense for FY20 is \$9.7m before tax. This is \$1.7m more than the \$8m large event assumption in Tower's FY20 market guidance.

Already this year we have experienced two large events and our thoughts are with everyone in these communities who have been impacted.

A before-tax provision of \$6 million is in place for the Lake Ōhau fires.

And preliminary estimates for the recent Napier floods show an impact on our FY21 results of between \$3 million and \$4 million before tax.

Our reinsurance programme for FY21 provides increased catastrophe cover of \$812 million, secured on flat pricing and similar excess.

Our aggregate insurance programme was maintained at a lower cost, but with a higher excess of \$14 million.

This means that some exposure to large events remains until the total excess of large events reaches \$14 million.

Slide 18 – Continued focus on improving claims ratio

Our claims ratio has improved over the past 12 months with a number of underwriting and pricing initiatives helping to offset inflation.

As you can see on this slide, there are four key factors that have contributed to this positive result.

The increase in mix of motor policies, relative to lower loss ratio products, contributed an increase in the claims ratio.

\$9.7m of large events were incurred in FY20 compared to \$1.3 million in FY19. The Timaru Hailstorm and Northland Floods totalled \$4.5 million net of reinsurance, and Cyclone Harold cost \$5.2 million net of reinsurance.

The higher average cost of claims is being driven by increasing technological changes in vehicles as well as supply chain pressures starting to be seen from COVID-19.

While it is pleasing to have improved our claims ratio, we remain focussed on refining our products and pricing approach to ensure we continue addressing claims costs.

Slide 19 – Continued discipline on management expenses

Tower's group expense ratio improved one percent on the prior year, thanks to continued growth and close management of expenses.

The main contributor to increased actual expenses was the amortisation of:

- the Youi NZ portfolio acquisition
- the EIS digital platform, and
- implementation of the lease standard IFRS16

You will notice slightly higher people costs, which was due to the increased resources required to manage customers through the migration and product rationalisation process. This resource will now shift toward growth as we move forward.

Our new cloud-based tech platform will ensure we can keep growing at scale. The proven model of Tower Direct, which Blair will address in more detail shortly, is our blueprint for the future and this year we are shifting our Partnerships and Pacific businesses to work in this way, on our digital platform.

Our new platform supports the efficient aggregation of other books of business, similar to the Youi NZ portfolio, and will continue driving growth and scale benefits.

Slide 20 – Over 15,000 Christchurch EQ claims now settled

The Canterbury Earthquakes resulted in significant issues for customers and insurers and we are now nearing the final stages of the Canterbury earthquake impacts.

We have settled over 15,000 claims and at year end had less than 60 remaining. As of today, the number is less than 50.

Pleasingly, the pace of new over-caps and reopened claims slowed during the second half of 2020. However, the finalisation of claims also slowed during this period. This is due in part by COVID-19 restrictions, and also because the remaining claims are the most complex.

We continue making good progress and our focus remains on achieving fair and efficient settlements for our customers.

As we have already mentioned today, settlement of the EQC receivable is a significant milestone for us, and a clear demonstration that the legacy risks are being removed from Tower's business.

Slide 21 – Solid solvency position and simplified structure

Tower is in a strong capital position.

At 30 September 2020, Tower Limited New Zealand had \$98m of solvency margin. This is \$48m above the \$50m minimum solvency margin required under the RBNZ licence condition.

During the year, we also amalgamated several corporate entities to remove complexity from our business. Our financial strength was reconfirmed at A- (excellent) following the amalgamation.

The \$15 million BNZ loan to Tower Limited was also finalised on amalgamation with Tower Insurance Limited.

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

Slide 22 – Looking forward title slide – Blair Turnbull

Thank you Jeff.

Slide 23 – A good result and an exciting future

Tower's results this year are good and at the top end of expectations. We've achieved this despite some unprecedented headwinds and challenges.

As we start to move into a new era of Tower though, the business will look and behave differently.

To be clear, we don't just want to be a smaller version of a big global insurer. That is not the path we choose.

At Tower, we're choosing a direction that leads to higher growth through a relentless focus on our customers.

We're more determined than ever, more energised than ever, and over the coming months we'll be demonstrating that we're far more dynamic than ever before.

Slide 24 – Our Southern star

All of this work is being guided by our southern star, or our guiding common purpose.

It is our purpose to deliver beautifully simple and rewarding experiences that our customers rave about, every time.

Slide 25 – Clear and focused strategic priorities – building for growth and innovation

We have a clear and focused set of strategic priorities.

We will relentlessly focus on our customers, deepening our relationships through rewards, new products and other offerings that make sense and drive value.

We will take our new cloud-based platform and leverage its full capability through the use of data and digital to attract more customers and partners to Tower.

And importantly, we will find the best people to partner with and to get their help to keep innovating and delivering.

These three pillars will contribute significantly to our higher growth and innovation ambitions.

We also need to grow the capability of our business. Tower is a great place to work and we want to keep attracting the best people to come and work for us, so that we keep innovating and leading the way.

Our shift to agile is well underway and this regular cadence of delivery has seen us move forward in leaps and bounds.

And importantly, we are committed to maintaining a strong capital and solvency structure, demonstrating we are a strong and stable business that delivers value for shareholders.

Slide 26 – Three focused businesses: Direct, Partnership & Pacific

Our leading, cloud-based digital and data platform enables us to adapt and grow at scale, while achieving consistency and efficiency across our back office.

When I joined Tower, I could see that there was an opportunity to surface this platform differently for our core customer groups, Direct, Partnerships and Pacific.

As a result, three new business units have been created, each with end-to-end accountability for driving growth and reducing costs.

As you can see, our Tower Direct business is growing strongly and affords our best expense and operating efficiencies. It operates almost fully on our new platform and is an example of what Partnerships and the Pacific will begin to look like going forward.

Slide 27 – Growing our leading Tower Direct business

The Tower Direct business is our flagship model. Moving forward, our focus here is around digital, data and innovation to attract and convert more customers.

- We are simplifying the purchase journey by automating the process
- We are partnering with data providers, so customers only need to answer a few questions
- We're delivering new innovations and propositions, such as a new safe driving app that we will be launching to the market shortly
- And at every opportunity we are promoting MyTower, a full online sales and service platform that has over 50,000 registered users.

Slide 28 – Investing in Partnerships and the Pacific

We are now well underway with the migration of Trade Me and TSB customers to our new platform, all of which will contribute to an ongoing push to improve the customer experience, drive growth and reduce expenses.

This year, our focus is on securing mutually beneficial partnerships that drive significant growth for this part of the business.

In the Pacific, our business remains steady with GWP consistent for the past three years.

The Pacific business generates 15% of our group GWP, so plays an important role in our performance, but has historically suffered from complexity and remediation issues.

We are well advanced on rationalising our product set and remediation work is mostly complete.

We are now processing NZ customer claims from our Suva office, providing capacity overflow and business continuity options for New Zealand.

But more importantly, before Christmas we will begin selling our new motor product in Fiji on our cloud-based digital platform. Customers will be able to purchase and manage their motor policies online through MyTower, just as they do in New Zealand.

This is a significant achievement and once complete, will act as a blueprint for our remaining product lines Pacific countries.

Slide 29 – Investing in technology, innovation and a sustainable environment

We will leverage our leading tech platform to accelerate growth and innovation.

As I mentioned earlier, new products will enable us to deepen our relationships with customers and in the coming weeks we will be launching a new marine product and following that, an innovative pet product.

We are also expanding our risk-adjusted pricing, to ensure that every quote is tailored to the customer and the pricing accurately reflects the individual risk. The next step is to include flood risk, which will launch in the first half of 2021.

Data is what fuels our new tech platform and a recently signed partnership with the University of Auckland's Science faculty will further help us leverage the skills and knowledge of bright minds to help us tackle insurance problems and opportunities.

The recent agreement with EQC, to act as their agent following natural disasters, will ensure we have all the data we need to put things right for customers as quickly as possible after an event. It's a new, proactive and partner-based way forward, that will deliver better outcomes for customers.

And importantly, this year we will develop and report on a carbon action plan. We are currently commencing a carbon audit and by this time next year, we will be able to demonstrate the steps we have taken to reduce our carbon footprint and develop transparent climate reporting.

These are all important parts of our strategy to ensure that our customers rave about us every time, and we keep delivering growth and value for our shareholders.

Slide 30 – FY21 guidance

While we continue to operate in an uncertain environment due to COVID-19, we understand the market appreciates receiving guidance and we have provided this detail to help you understand the shifts we are trying to achieve.

In FY21, Underlying NPAT will exceed 5% on FY20, assuming the same large event experience as FY20.

Two key areas we are focusing on to achieve this are GWP growth of 5% or more, and continued improvement in our management expense ratio.

Slide 31 – Summary – a good result and an exciting future

As you can see, we have delivered a good result and what lies ahead is exciting.

Looking forward, our focus is on

- Driving higher growth through a relentless focus on customers
- Continuing to leverage digital and data platform to drive efficiency and acquire growth
- A commitment to delivering shareholder value.

As Michael mentioned earlier, it is our intention to resume dividends in FY21, with careful consideration given to market conditions and any growth opportunities that present.

We will be holding an analyst day in March 2021 and we look forward to talking to you in more detail on our strategy to accelerate momentum.

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