TOWER Limited,
Level 14, 45 Queen Street,
Auckland 1142, New Zealand
ARBN 088 481 234
Incorporated in New Zealand

20 November 2019

Tower delivers full year profit on the back of solid growth

Full year 2019 highlights

$16.8 million
Reported full year profit

$27.4 million
Underlying profit after tax

9.1%
Increase in core NZ GWP

17,716
Increase in risks in core NZ portfolio

48.8%
Claims ratio improved

40%
Management expense ratio

Three years of improving results and solid growth achieved

Kiwi insurer, Tower Limited (NZX/ASX:TWR), has today announced a full year profit of $16.8 million after tax, a $23.5 million improvement on the same period last year.

These results demonstrate the strength of the business and the strategy in place that has transformed Tower into a company that is vastly different from the one it was four years ago.

Tower Chief Executive Richard Harding says this result has been achieved thanks to a relentless focus on improving the business and delivering something better for customers.

"New Zealand's insurance customers have been conditioned to accept the status quo, but we're challenging this and I'm pleased that customers are noticing and our business is growing," says Harding.

"Sales through our online channels keep on increasing and the recent launch of our new IT platform means we can push harder into the digital space and realise our ambition to be a digital challenger brand.

"The growth we've achieved, and the pending purchase of Youi NZ's insurance portfolio is increasing our market share as more New Zealanders see us as a better, fairer and more transparent option," said Harding.

Mr Harding said that the result is immensely pleasing, but there is still work to do to keep delivering improvements.

"The momentum we've built in the business will be accelerated with the recent launch of our new technology platform, but as always, there's more work to do.

"Our focus now shifts to maximising the new platform, putting new products out into the market, improving productivity and continuing to raise the bar for the way insurers should act," says Harding.

TOWER Limited,
Level 14, 45 Queen Street,
Auckland 1142, New Zealand
ARBN 088 481 234
Incorporated in New Zealand

Detailed features of Tower's 2019 full year result:

- **Reported full year profit**
  - $16.8 million after-tax reported profit
  - $27.4 million after-tax underlying profit
  - $6 million after-tax impact from CEQ provision adjustments
  - Guidance for underlying NPAT in FY20 of $27m - $30m

- **Third consecutive year of strong growth achieved**
  - Gross written premium in core NZ portfolio increased 9.1% on 2018
  - Growth of 17,716 risks in core NZ portfolio

- **Improved claims ratio**
  - Claims costs reduced to 48.8%, a 7.6 point decrease from 56.4% in 2018 thanks to improved pricing, underwriting and benign weather

- **Slight uplift in management expense ratio as IT transformation nears conclusion**
  - Management expense ratio of 40% compared to 39% in 2018

- **New IT platform delivered and launched successfully**
  - Full replacement of core platform delivered and launched, with new business on sale and customer migration underway

ENDS

Richard Harding
Chief Executive Officer
Tower Limited
ARBN 088 481 234 Incorporated in New Zealand

For media queries, please contact:
Nicholas Meseldzija
Head of Corporate Communications
Mobile: +64 21 531 869
Email: Nicholas.meseldzija@tower.co.nz

TOWER LIMITED		
Results for announcement to the market		
Name of issuer	Tower Limited	
Reporting Period	12 months to 30 September 2019	
Previous Reporting Period	12 months to 30 September 2018	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$358,332	7%
Total Revenue	$358,332	7%
Net profit/(loss) from continuing operations	$16,565	N/A
Total net profit/(loss)	$16,565	N/A
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	$0.57
A brief explanation of any of the figures above necessary to enable the figures to be understood	For the 12 months ended 30 September 2019, Tower Limited reported a $23.3m increase in reported profit after tax compared to the 12 months ended 30 September 2018. This was primarily due to the absence of an impairment charge related to the settlement of a reinsurance claim that occurred in the comparative period, and improved weather conditions in the current year. Please refer to 2019 annual results presentation for further information.	
Authority for this announcement		
Name of person authorised to make this announcement	Hannah Snelling, Company Secretary	
Contact person for this announcement	Nicolas Meseldzija, Head of Corporate Affairs and Reputation	
Contact phone number	+64 21 531 869	
Contact email address	nicholas.meseldzija@tower.co.nz	
Date of release through MAP	20 November 2019	

Audited financial statements accompany this announcement.

TOWER

Tower Limited

Consolidated financial statements

for the year ended 30 September 2019

TABLE OF CONTENTS

CONSOLIDATED INCOME STATEMENT

$ thousands For the Year Ended 30 September	Note	2019	2018
Revenue			
Premium revenue	B1	**344,995**	323,093
Less: Outwards reinsurance expense		**(54,975)**	(54,251)
Net premium revenue		**290,020**	**268,842**
Investment revenue	C1	**7,519**	7,125
Fee and other revenue		**5,818**	5,755
Net operating revenue		**303,357**	**281,722**
Expenses			
Claims expense		**190,699**	200,467
Less: Reinsurance and other recoveries revenue		**(14,985)**	(23,835)
Net claims expense	B2	**175,714**	**176,632**
Management expenses	D1	**81,084**	70,542
Sales commission expenses	D1	**20,252**	19,488
Impairment of reinsurance receivable	D2	**-**	22,511
Financing expenses		**312**	570
Total expenses		**277,362**	**289,743**
Profit / (loss) before taxation		**25,995**	(8,021)
Tax (expense) / benefit	D5	**(9,190)**	1,295
Profit / (loss) for the year		**16,805**	**(6,726)**
Profit / (loss) attributed to:			
Shareholders		**16,565**	(6,773)
Non-controlling interest		**240**	47
		16,805	**(6,726)**
Basic and diluted profit / (loss) per share (cents)	F5	**4.73**	(2.11)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$ thousands For the Year Ended 30 September	Note	2019	2018
Profit / (loss) for the year		**16,805**	**(6,726)**
Other comprehensive profit / (loss)			
Items that may be reclassified to profit or loss			
Currency translation differences		**793**	42
Items that will not be reclassified to profit or loss			
Gain on asset revaluation	E3	**305**	434
Deferred income tax relating to asset revaluation	D5	**(32)**	(81)
Other comprehensive profit net of tax		**1,066**	**395**
Total comprehensive profit / (loss) for the year		**17,871**	**(6,331)**
Total comprehensive profit / (loss) attributed to:			
Shareholders		**17,538**	(6,474)
Non-controlling interest		**333**	143
		17,871	**(6,331)**

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

CONSOLIDATED BALANCE SHEET

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

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

Michael P Stiassny
Chairman

Graham R Stuart
Director

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

pwc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributed to shareholders					
$ thousands	Note	Contributed equity	Accumulated (losses) profit	Reserves	Total	Non-controlling interest	Total Equity
Year Ended 30 September 2019							
At the beginning of the year		**447,543**	**(58,077)**	**(116,155)**	**273,311**	**1,468**	**274,779**
Comprehensive income							
Profit for the year		**-**	**16,565**	**-**	**16,565**	**240**	**16,805**
Currency translation differences		**-**	**-**	**700**	**700**	**93**	**793**
Gain on asset revaluation	E3	**-**	**-**	**305**	**305**	**-**	**305**
Deferred income tax relating to asset revaluation	D5.5	**-**	**-**	**(32)**	**(32)**	**-**	**(32)**
Total comprehensive income		**-**	**16,565**	**973**	**17,538**	**333**	**17,871**
Transactions with shareholders							
Other		**-**	**8**	**-**	**8**	**-**	**8**
Total transactions with shareholders		**-**	**8**	**-**	**8**	**-**	**8**
At the end of the year		**447,543**	**(41,504)**	**(115,182)**	**290,857**	**1,801**	**292,658**
Year Ended 30 September 2018							
At the beginning of the year		382,172	(51,299)	(116,454)	214,419	1,325	215,744
Comprehensive income (loss)							
Profit / (loss) for the year		-	(6,773)	-	(6,773)	47	(6,726)
Currency translation differences		-	-	(54)	(54)	96	42
Gain on asset revaluation	E3	-	-	434	434	-	434
Deferred income tax relating to asset revaluation	D5.5	-	-	(81)	(81)	-	(81)
Total comprehensive income / (loss)		-	(6,773)	299	(6,474)	143	(6,331)
Transactions with shareholders							
Net proceeds of capital raise	F1	65,371	-	-	65,371	-	65,371
Other		-	(5)	-	(5)	-	(5)
Total transactions with shareholders		65,371	(5)	-	65,366	-	65,366
At the end of the year		447,543	(58,077)	(116,155)	273,311	1,468	274,779

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

CONSOLIDATED STATEMENT OF CASH FLOWS

$ thousands For the Year Ended 30 September	Note	2019	2018
Cash flows from operating activities			
Premiums received		**343,411**	319,329
Interest received		**8,141**	8,010
Net realised investment gain (loss)		**42**	(605)
Fee and other income received		**5,818**	5,285
Reinsurance received		**18,421**	45,780
Reinsurance paid		**(55,968)**	(52,327)
Claims expenses		**(201,663)**	(231,843)
Payments to suppliers and employees		**(91,095)**	(80,614)
Income tax paid		**(2,453)**	(2,831)
Net cash inflow from operating activities	C6	**24,654**	10,184
Cash flows from investing activities			
Net payments for financial assets		**(36,665)**	(6,815)
Payments for purchase of property, plant and equipment and intangible assets		**(37,627)**	(19,802)
Disposal of property, plant and equipment and intangible assets		**-**	73
Net cash (outflow) from investing activities		**(74,292)**	(26,544)
Cash flows from financing activities			
Gross proceeds from issue of share capital	F1	**-**	70,838
Cost of capital issuance	F1	**-**	(5,467)
Facility fees and interest paid		**(352)**	(734)
Repayment of borrowings		**-**	(30,000)
Proceeds from borrowings		**15,000**	-
Payment of non-controlling interest dividends		**-**	-
Net cash inflow from financing activities		**14,648**	34,637
Net (decrease) increase in cash and cash equivalents		**(34,990)**	18,277
Effect of foreign exchange rate changes		**7**	(152)
Cash and cash equivalents at the beginning of year		**102,001**	83,876
Cash and cash equivalents at the end of the year	C2	**67,018**	102,001

Accounting policy

Tower considers that knowledge of gross receipts and payments of financial assets is not essential to understanding certain activities of Tower based on either: the turnover of these items is quick, the amounts are large, and the maturities are short or the value of the sales are immaterial.

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

NOTES TO THE FINANCIAL STATEMENTS

PART A - INTRODUCTION

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

A1 REPORTING ENTITY AND BASIS OF PREPARATION

Entities reporting

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

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

The financial statements were authorised for issue by the Board of Directors on 20 November 2019. The entity's owners or others do not have power to amend the financial statements after issue.

Statutory base

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

Basis of preparation

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

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

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

Changes in comparatives

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

A2 CONSOLIDATION

Principles of consolidation

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

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

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

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

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

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

A2 CONSOLIDATION (continued)

Foreign currency

(i) Functional and presentation currencies

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

(ii) Transactions and balances

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

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

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

(iii) Consolidation

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

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

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

Subsidiaries

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

Name of company	Country Incorporated in	Holdings 2019	Holdings 2018	Nature of business
Incorporated in New Zealand				
Tower Financial Services Group Limited	NZ	**100%**	100%	Holding company
Tower Insurance Limited	NZ	**100%**	100%	General insurance
Tower New Zealand Limited	NZ	**100%**	100%	Management services
Incorporated Overseas				
Tower Insurance (Cook Islands) Limited	Cook Islands	**100%**	100%	General insurance
Tower Insurance (Fiji) Limited	Fiji	**100%**	100%	General insurance
Tower Insurance (PNG) Limited	PNG	**100%**	100%	General insurance
National Pacific Insurance Limited	Samoa	**71%**	71%	General insurance
Tower Insurance (Vanuatu) Limited	Vanuatu	**100%**	100%	General insurance

NOTES TO THE FINANCIAL STATEMENTS

A3 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Canterbury earthquake claims estimation

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

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

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

EQC recoveries

The valuation of the EQC receivable is an area of significant accounting estimation and judgement. The amount received could be more or less, depending on the allocation of liability for damage, the quality of assessment information, the time taken to settle and the risks involved in litigation, therefore the Directors have taken extensive advice from independent experts in confirming the appropriateness of the valuation recorded.
Refer to Note B3 for further detail.

Deferred taxation

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

This assessment is completed on the basis of the approved strategic plans of Tower Insurance Limited and subsidiaries. If future profits do not occur as expected, or there is a significant change in ownership, Tower may not be able to utilise all of these tax losses.
Refer to Note D5 for further detail.

Capitalised IT development costs

Capitalisation of IT development costs is an area of judgement and estimation. The application of NZ IAS 38 *Intangible Assets* includes accounting considerations required for capitalisation of IT projects. When applying NZ IAS 38, areas of judgement include consideration of recognition, impairment indicators, economic useful life, and previous Board impairment decisions.
Refer to Note E2 for further details on intangible assets.

Goodwill

Goodwill is an area of significant judgement and estimation. Areas of judgement and subjectivity exist in the assessment of cash generating units and assumptions underlying goodwill impairment testing. Refer to Note E2 for further details of key assumptions used.

NOTES TO THE FINANCIAL STATEMENTS

A4 SEGMENTAL REPORTING

$ thousands	New Zealand General Insurance	Pacific Islands General Insurance	New Zealand Corporate	Total
Year Ended 30 September 2019				
Revenue				
Premium revenue	285,677	59,318	-	344,995
Less: Outwards reinsurance expense	(37,816)	(17,159)	-	(54,975)
Investment revenue	6,106	930	483	7,519
Fee and other revenue	2,042	1,906	1,870	5,818
Net operating revenue	**256,009**	**44,995**	**2,353**	**303,357**
Profit before interest, tax, depreciation and amortisation	**16,431**	**12,602**	**5,446**	**34,479**
Interest expense	-	-	(312)	(312)
Depreciation and amortisation	(1,125)	(473)	(6,574)	(8,172)
Profit (loss) before income tax	**15,306**	**12,129**	**(1,440)**	**25,995**
Income tax credit (expense)	(5,557)	(4,565)	932	(9,190)
Profit (loss) for the year	**9,749**	**7,564**	**(508)**	**16,805**
Total assets 30 September 2019	**480,694**	**98,455**	**124,284**	**703,433**
Total liabilities 30 September 2019	**334,809**	**58,842**	**17,123**	**410,774**
Acquisition of property, plant and equipment and intangibles	**652**	**1,206**	**36,343**	**38,201**
Year Ended 30 September 2018				
Revenue				
Premium revenue	266,111	56,982	-	323,093
Less: Outwards reinsurance expense	(38,804)	(15,447)	-	(54,251)
Investment revenue	6,061	14	1,050	7,125
Fee and other revenue	1,967	1,625	2,163	5,755
Total revenue	**235,335**	**43,174**	**3,213**	**281,722**
Profit (loss) before interest, tax, depreciation and amortisation	**(10,590)**	**3,964**	**5,870**	**(756)**
Interest expense	-	-	(570)	(570)
Depreciation and amortisation	(1,027)	(482)	(5,186)	(6,695)
Profit (loss) before income tax	(11,617)	3,482	114	(8,021)
Income tax credit (expense)	2,751	(2,016)	560	1,295
Profit (loss) for the year	**(8,866)**	**1,466**	**674**	**(6,726)**
Total assets 30 September 2018	480,664	95,072	110,497	686,233
Total liabilities 30 September 2018	345,406	63,224	2,824	411,454
Acquisition of property plant and equipment and intangibles	173	603	19,026	19,802

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

A4 SEGMENTAL REPORTING (continued)

Accounting policy

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

Description of segments and other segment information

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

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

PART B - REVENUE AND CLAIMS

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

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

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

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

B1 PREMIUM REVENUE

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

Accounting policy

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

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

NOTES TO THE FINANCIAL STATEMENTS

B2 NET CLAIMS EXPENSE

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

Accounting policy

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

B3 CANTERBURY EARTHQUAKES

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

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

Canterbury earthquake insurance liability provisions

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

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

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

Additional risk margin

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

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

Canterbury earthquake reinsurance receivables

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

EQC recovery receivable

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

B3 CANTERBURY EARTHQUAKES (continued)

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

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

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

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

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

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

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

EQC recovery receivable

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

NOTES TO THE FINANCIAL STATEMENTS

B3 CANTERBURY EARTHQUAKES (continued)

Cumulative impact of Canterbury earthquakes

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

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

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

Date of event	Catastrophe reinsurance cover remaining	
$ thousands	2019	2018
June 2011	**253,300**	255,700
December 2011	**486,600**	486,900

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

NOTES TO THE FINANCIAL STATEMENTS

B3 CANTERBURY EARTHQUAKES (continued)

Sensitivity analysis - impact of changes in key variables

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

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

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

		Split between events				Four main earthquakes	
$ millions	Change variable	Sep 2010	Feb 2011	Jun 2011	Dec 2011	30-Sep-19	30-Sep-18
Outstanding claims:							
(i) Change to costs arising from new overcap claims	+ 50%	**(1.6)**	**(2.9)**	**-**	**-**	**(4.5)**	(0.9)
	- 50%	**1.6**	**2.8**	**-**	**-**	**4.4**	0.9
(ii) Changes to expected claims costs for open claims	+ 20%	**(1.5)**	**(3.6)**	**-**	**-**	**(5.1)**	(10.0)
	- 20%	**1.5**	**3.6**	**-**	**-**	**5.1**	9.9
Receivables:							
Reinsurance recovery receivables							
(iii) Recoveries from EQC in respect of land damage	+ 20%	**0.1**	**1.2**	**-**	**-**	**1.3**	1.6
	- 20%	**(0.1)**	**(1.2)**	**-**	**-**	**(1.3)**	(1.6)
(iv) Recoveries from EQC in respect of building costs	+ 20%	**7.1**	**2.1**	**-**	**-**	**9.2**	8.8
	- 20%	**(7.2)**	**(2.1)**	**-**	**-**	**(9.3)**	(8.8)

(i) The volume of new overcap claims received from the EQC (i.e. claims above the EQC limit) is a source of uncertainty. This sensitivity is calculated as future new overcaps ultimately being +/- 50% to that currently in the Canterbury earthquake insurance liability provisions.

(ii) Unexpected development of open claims is also a source of uncertainty. This sensitivity is calculated as the outstanding cost of open claims being +/- 20% to that currently in the Canterbury earthquake insurance liability provisions.

(iii) & (iv) As outlined in note B3, the EQC Receivable is a source of significant uncertainty. A number of factors could vary the ultimate amount received from EQC including, but not limited to, (a) changes in apportionment of damage across events, and (b) differences in assessment of liability for damage across properties. This sensitivity is calculated as the ultimate amount received from EQC being +/- 20% to that currently carried in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

B4 UNEARNED PREMIUMS

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

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

Accounting policy

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

NOTES TO THE FINANCIAL STATEMENTS

B5 OTHER INSURANCE DISCLOSURES

B5.1 NET CLAIMS EXPENSE

	2019			2018		
$ thousands	**Risks borne in current year**	**Risks borne in prior years**	**Total**	Risks borne in current year	Risks borne in prior years	Total
Gross claims expense						
Direct claims - undiscounted	**177,786**	**12,913**	**190,699**	188,452	12,035	200,487
Movement in discount	**-**	**-**	**-**	(60)	40	(20)
Total gross claims expense	**177,786**	**12,913**	**190,699**	188,392	12,075	200,467
Reinsurance and other recoveries						
Reinsurance and other recoveries - undiscounted	**(9,793)**	**(5,192)**	**(14,985)**	(20,073)	(3,762)	(23,835)
Movement in discount	**-**	**-**	**-**	-	-	-
Total reinsurance recoveries	**(9,793)**	**(5,192)**	**(14,985)**	(20,073)	(3,762)	(23,835)
Net claims expense	**167,993**	**7,721**	**175,714**	168,319	8,313	176,632

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

B5.2 OUTSTANDING CLAIMS

(a) Assumptions adopted in calculation of insurance liabilities

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

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

John Feyter, B.Sc., FNZSA.

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

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

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

Please refer to Note B3 for details on Canterbury earthquakes.

NOTES TO THE FINANCIAL STATEMENTS

B5 OTHER INSURANCE DISCLOSURES (continued)

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

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

Inflation and discount rate

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

Claims handling expense

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

Risk margin

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

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

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

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

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

pwc

B5 OTHER INSURANCE DISCLOSURES (continued)

The following analysis is in respect of the insurance liabilities:

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

Reconciliation of movements in discounted outstanding claim liabilities

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

Reconciliation of movements in undiscounted claims to outstanding claim liabilities

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

Accounting policy

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

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

NOTES TO THE FINANCIAL STATEMENTS

B5 OTHER INSURANCE DISCLOSURES (continued)

(b) Sensitivity analysis

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

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

(c) Future net cash out flows

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

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

B5.3 DEVELOPMENT OF CLAIMS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

B5 OTHER INSURANCE DISCLOSURES (continued)

B5.4 LIABILITY ADEQUACY TEST

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

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

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

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

B5.5 INSURER FINANCIAL STRENGTH RATING

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

B5.6 REINSURANCE PROGRAMME

Reinsurance programmes are structured to adequately protect the solvency and capital positions of the insurance business. The adequacy of reinsurance cover is modelled by assessing Tower's exposure under a range of scenarios. The plausible scenario that has the most financial significance for Tower is a major Wellington earthquake. Each year, as part of setting the coming year's reinsurance cover, comprehensive modelling of the event probability and amount of the Group's exposure is undertaken.

B5.7 ASSETS BACKING INSURANCE BUSINESS

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

Assets backing insurance liabilities are managed in accordance with approved investment mandate agreements on a fair value basis and are reported to the Board on this basis.

B5.8 UNDERWRITING PROFIT

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

NOTES TO THE FINANCIAL STATEMENTS

PART C - FINANCIAL INSTRUMENTS AND LIQUIDITY

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

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

C1 INVESTMENT REVENUE

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

Accounting policy

Investment revenue is recognised as follows:

(i) Interest income on fixed interest securities

Interest income is recognised using the effective interest method.

(ii) Fair value gains and losses

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

NOTES TO THE FINANCIAL STATEMENTS

C2 CASH AND CASH EQUIVALENTS

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

Accounting policy

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

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

Restricted cash

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

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

C3 INVESTMENT ASSETS

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

C4 BORROWINGS

$ thousands	Currency	Interest Rate	Rollover Date (drawn) / Maturity Date (undrawn)	Face Value	Unamortised Costs	Carrying Value	Fair Value
As at 30 September 2019							
Bank facilities (drawn)	NZD	3.60%	11-Oct-19	5,000	-	5,000	5,001
Bank facilities (drawn)	NZD	3.14%	16-Dec-19	5,000	-	5,000	5,000
Bank facilities (drawn)	NZD	3.15%	31-Dec-19	5,000	-	5,000	5,000
Bank facilities (undrawn)	NZD	Variable	27-Mar-23	15,000	(69)	(69)	-
Total borrowings					**(69)**	**14,931**	**15,001**
As at 30 September 2018							
Bank facilities (undrawn)	NZD	Variable	9-Sep-19	50,000	-	-	-
Total borrowings					-	-	-

$ thousands	Note	2019	2018
Analysed as			
Current		**14,931**	-
Non current		**-**	-
Total borrowings		**14,931**	-

Accounting policy

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

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

The following table represents the change in borrowings:

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

Standby credit facility

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

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

C5 FINANCIAL INSTRUMENTS

C5.1 FINANCIAL INSTRUMENT CATEGORIES

Accounting policy

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

(i) Financial assets at amortised cost

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

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

(ii) Financial liabilities at amortised cost

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

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

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

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

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

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

(iv) Offsetting financial instruments

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

(v) Derecognition

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

C5 FINANCIAL INSTRUMENTS (continued)

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

			At amortised cost		At fair value through profit or loss	
$ thousands	**Note**	**Total**	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**
As at 30 September 2019						
Assets						
Cash and cash equivalents		**67,018**	**10,906**	**-**	**56,112**	**-**
Trade and other receivables		**253,023**	**253,023**	**-**	**-**	**-**
Investments		**229,172**	**-**	**-**	**229,172**	**-**
Derivative financial assets		**-**	**-**	**-**	**-**	**-**
Total financial assets		**549,213**	**263,929**	**-**	**285,284**	**-**
Liabilities						
Trade and other payables		**42,146**	**-**	**42,146**	**-**	**-**
Borrowings		**14,931**	**-**	**14,931**	**-**	**-**
Total financial liabilities		**57,077**	**-**	**57,077**	**-**	**-**

			At amortised cost		At fair value through profit or loss	
$ thousands	Note	Total	Financial assets	Financial liabilities	Financial assets	Financial liabilities
As at 30 September 2018						
Assets						
Cash and cash equivalents		102,001	27,095	-	74,906	-
Trade and other receivables		255,779	255,779	-	-	-
Investments		198,000	-	-	198,000	-
Derivative financial assets		271	-	-	271	-
Total financial assets		556,051	282,874	-	273,177	-
Liabilities						
Trade and other payables		50,590	-	50,590	-	-
Borrowings		-	-	-	-	-
Total financial liabilities		50,590	-	50,590	-	-

Accounting policy

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

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

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

pwc

NOTES TO THE FINANCIAL STATEMENTS

C5 FINANCIAL INSTRUMENTS (continued)

C5.2 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

(i) Cash and cash equivalents

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

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

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

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

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

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

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

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

(iv) Derivative financial assets and liabilities

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

C5 FINANCIAL INSTRUMENTS (continued)

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

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

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

	Investment in equity securities	
$ thousands	**2019**	2018
Opening balance	**599**	1,412
Total gains and losses recognised in profit or loss	**-**	(745)
Foreign currency movement	**12**	(46)
Disposals	**-**	(22)
Closing balance	**611**	599

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

$ thousands	Carrying Amount	Favourable changes of 10%	Unfavourable changes of 10%
As at 30 September 2019			
Investment in equity securities	**611**	**61**	**(61)**
As at 30 September 2018			
Investment in equity securities	599	60	(60)

NOTES TO THE FINANCIAL STATEMENTS

C5 FINANCIAL INSTRUMENTS (continued)

C5.3 IMPAIRMENT OF FINANCIAL ASSETS

Accounting policy

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

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

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

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

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

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

C6 RECONCILIATION OF PROFIT / (LOSS) FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

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

NOTES TO THE FINANCIAL STATEMENTS

PART D - MANAGEMENT EXPENSES AND TAXATION

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

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

D1 ANALYSIS OF EXPENSES

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

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

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

D2 IMPAIRMENT OF REINSURANCE RECEIVABLE

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

No impairment expense has been recognised in 2019.

NOTES TO THE FINANCIAL STATEMENTS

D3 DEFERRED ACQUISITION COSTS

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

Accounting Policy

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

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

D4 OPERATING LEASES

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

Accounting policy

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

NOTES TO THE FINANCIAL STATEMENTS

D5 TAX

Accounting Policy

Current tax

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

Deferred tax

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

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

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

Income tax expense

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

GST

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

Tax consolidation

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

Tax cash flows

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

Imputation credit account

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

NOTES TO THE FINANCIAL STATEMENTS

D5 TAX (continued)

D5.1 TAX EXPENSE

$ thousands	Note	2019	2018
Current tax		**2,757**	2,714
Deferred tax		**6,407**	(3,463)
Under (over) provided in prior years		**26**	(546)
Total tax expense (benefit)		**9,190**	(1,295)

The tax expense (benefit) can be reconciled to the accounting profit or loss as follows:

Profit / (loss) before tax from continuing operations		**25,995**	(8,021)
Income tax at the current rate of 28%		**7,279**	(2,246)
Tax effect of:			
Prior period adjustments		**26**	(546)
Non-deductible expenditure/non-assessable income		**(522)**	120
Foreign tax credits written off		**2,149**	1,372
Other		**258**	5
Total tax expense (benefit)		**9,190**	(1,295)

D5.2 CURRENT TAX ASSETS

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

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

D5.3 CURRENT TAX LIABILITIES

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

D5.4 IMPUTATION CREDITS

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

$ thousands	2019	2018
Imputation credits available for use in subsequent reporting periods	**271**	489

pwc

NOTES TO THE FINANCIAL STATEMENTS

D5 TAX (continued)

D5.5 DEFERRED TAX ASSETS AND LIABILITIES

$ thousands	Opening balance at 1 October	(Charged) credited to income statement	(Charged) credited to comprehensive income	Closing balance at 30 September
For the Year Ended 30 September 2019				
Movement in deferred tax assets				
Provisions and accruals	**2,841**	**1,308**	**-**	**4,149**
Property, plant and equipment	**7,826**	**(142)**	**-**	**7,684**
Tax losses	**30,685**	**(6,158)**	**-**	**24,527**
Other	**763**	**(763)**	**-**	**-**
Total deferred tax assets	**42,115**	**(5,755)**	**-**	**36,360**
Set-off of deferred tax liabilities pursuant to NZ IAS 12				**(6,052)**
Net deferred tax assets				**30,308**
Movement in deferred tax liabilities				
Deferred acquisition costs	**(5,739)**	**(306)**	**-**	**(6,045)**
Other	**(589)**	**(377)**	**(32)**	**(998)**
Total deferred tax liabilities	**(6,328)**	**(683)**	**(32)**	**(7,043)**
Set-off of deferred tax liabilities pursuant to NZ IAS 12				**6,052**
Net deferred tax liabilities				**(991)**
For the Year Ended 30 September 2018				
Movement in deferred tax assets				
Provisions and accruals	2,265	576	-	2,841
Property, plant and equipment	7,781	45	-	7,826
Tax losses	26,958	3,727	-	30,685
Other	778	(15)	-	763
Total deferred tax assets	37,782	4,333	-	42,115
Set-off of deferred tax liabilities pursuant to NZ IAS 12				(5,739)
Net deferred tax assets				36,376
Movement in deferred tax liabilities				
Deferred acquisition costs	(5,078)	(661)	-	(5,739)
Other	(299)	(209)	(81)	(589)
Total deferred tax liabilities	(5,377)	(870)	(81)	(6,328)
Set-off of deferred tax liabilities pursuant to NZ IAS 12				5,739
Net deferred tax liabilities				(589)

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

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

NOTES TO THE FINANCIAL STATEMENTS

PART E - OTHER BALANCE SHEET ITEMS

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

E1 RECEIVABLES

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

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

Accounting policy

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

E1 RECEIVABLES (continued)

Collectability of trade receivables

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

Assets arising from reinsurance contracts

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

Earthquake Commission Recievables

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

NOTES TO THE FINANCIAL STATEMENTS

E2 INTANGIBLE ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS

E2 INTANGIBLE ASSETS (continued)

SOFTWARE

Accounting policy

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

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

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

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

IMPAIRMENT TESTING FOR SOFTWARE UNDER DEVELOPMENT

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

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

GOODWILL

Accounting policy

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

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

Any impairment is recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

E2 INTANGIBLE ASSETS (continued)

IMPAIRMENT TESTING FOR GOODWILL

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

$ thousands	**2019**	2018
Carrying amount of goodwill	**17,744**	17,744

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

NOTES TO THE FINANCIAL STATEMENTS

E3 PROPERTY, PLANT AND EQUIPMENT

$ thousands	Land and buildings	Office equipment and furniture	Motor vehicles	Computer equipment	Total
For the Year Ended 30 September 2019					
Cost					
Opening balance	**3,404**	**8,876**	**1,268**	**15,010**	**28,558**
Additions	**337**	**562**	**97**	**862**	**1,858**
Revaluations	**305**	**-**	**-**	**-**	**305**
Disposals	**-**	**(243)**	**(91)**	**(2,110)**	**(2,444)**
Foreign exchange movements	**36**	**62**	**(117)**	**(122)**	**(141)**
Closing balance	**4,082**	**9,257**	**1,157**	**13,640**	**28,136**
Accumulated depreciation					
Opening balance	**-**	**(4,438)**	**(1,029)**	**(14,581)**	**(20,048)**
Depreciation	**-**	**(1,018)**	**(112)**	**(461)**	**(1,591)**
Disposals	**-**	**240**	**87**	**2,109**	**2,436**
Foreign exchange movements	**-**	**(39)**	**102**	**108**	**171**
Closing balance	**-**	**(5,255)**	**(952)**	**(12,825)**	**(19,032)**
Closing balance					
Cost / revaluation	**4,082**	**9,257**	**1,157**	**13,640**	**28,136**
Accumulated depreciation	**-**	**(5,255)**	**(952)**	**(12,825)**	**(19,032)**
Net book value	**4,082**	**4,002**	**205**	**815**	**9,104**
For the Year Ended 30 September 2018					
Cost					
Opening balance	2,948	8,370	1,371	14,804	27,493
Additions	-	513	65	198	776
Revaluations	434	-	-	-	434
Disposals	-	(14)	(165)	(9)	(188)
Foreign exchange movements	22	7	(3)	17	43
Closing balance	3,404	8,876	1,268	15,010	28,558
Accumulated depreciation					
Opening balance	-	(3,530)	(1,083)	(14,100)	(18,713)
Depreciation	-	(958)	(38)	(503)	(1,499)
Disposals	-	15	176	2	193
Foreign exchange movements	-	35	(84)	20	(29)
Closing balance	-	(4,438)	(1,029)	(14,581)	(20,048)
Closing balance					
Cost / revaluation	3,404	8,876	1,268	15,010	28,558
Accumulated depreciation	-	(4,438)	(1,029)	(14,581)	(20,048)
Net book value	3,404	4,438	239	429	8,510

NOTES TO THE FINANCIAL STATEMENTS

E3 PROPERTY, PLANT AND EQUIPMENT (continued)

Accounting policy

Measurement of property, plant and equipment

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

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

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

Measurement of land and buildings

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

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

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

E4 CAPITAL COMMITMENTS

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

E5 PAYABLES

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

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

Accounting policy

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

E6 PROVISIONS

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

Accounting policy

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

NOTES TO THE FINANCIAL STATEMENTS

PART F - CAPITAL AND RISK MANAGEMENT

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

F1 CONTRIBUTED EQUITY

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

Represented by:

Ordinary shares (issued and fully paid)	2019	2018
Opening balance	**337,324,300**	168,662,150
Issued shares	**-**	168,662,150
Total shares on issue	**337,324,300**	337,324,300

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

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

F2 RESERVES

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

Accounting policy

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

pwc

NOTES TO THE FINANCIAL STATEMENTS

F2 RESERVES (continued)

Separation reserve
The separation reserve was created in 2007 at the time of the demerger of the New Zealand and Australian businesses in accordance with a ruling provided by the Australian Tax Office (ATO). It will be carried forward indefinitely as a non-equity reserve to meet the requirements of the ATO.

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

F3 CAPITAL RISK MANAGEMENT & SOLVENCY

Solvency requirements

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

	Tower Insurance Limited		Tower Insurance Limited Group	
	Unaudited	Unaudited	**Audited**	Audited
$ thousands	**2019**	2018	**2019**	2018
Actual solvency capital	**155,894**	136,476	**182,197**	156,765
Minimum solvency capital	**56,598**	58,298	**73,276**	74,344
Solvency margin	**99,296**	78,178	**108,921**	82,421
Solvency ratio	**275%**	234%	**249%**	211%

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

Capital risk management

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

F4 NET ASSETS PER SHARE

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

Accounting Policy

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

Reconciliation to net tangible assets is provided below:

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

F5 EARNINGS PER SHARE

$ thousands	2019	2018
Profit / (loss) attributable to shareholders	**16,565**	(6,773)

Number of shares	2019	2018
Weighted average number of ordinary shares for basic and diluted earnings per share*	**350,442,688**	321,195,736

Cents	2019	2018
Basic and diluted (loss) earnings per share*	**4.73**	(2.11)

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

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

Accounting Policy

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

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

NOTES TO THE FINANCIAL STATEMENTS

F6 RISK MANAGEMENT

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

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

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

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

The Board has responsibility for:

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

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

F6.1 INSURANCE RISK

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

F6 RISK MANAGEMENT (continued)

(b) Concentration of insurance risk

Risk	Source of concentration	Risk management measures
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection

F6.2 MARKET RISK

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

(i) Currency risk

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

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

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

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

(ii) Interest rate risk

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

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

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

(iii) Price risk

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

F6 RISK MANAGEMENT (continued)

F6.3 CREDIT RISK

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

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

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

(i) Credit risk concentration

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

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

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

(ii) Maximum exposure to credit risk

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

$ thousands	Carrying value 2019	Carrying value 2018
Cash and cash equivalents	**67,018**	102,001
Receivables	**253,022**	255,780
Investments	**228,527**	197,367
Derivative financial assets	**-**	271
Total credit risk	**548,567**	555,419

F6 RISK MANAGEMENT (continued)

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

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

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

Group 1 - Receivables outstanding for less than 6 months

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

Group 3 - Unrated investments

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

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

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

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

$ thousands	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
As at 30 September 2019					
Reinsurance recoveries receivable	**-**	**-**	**78**	**-**	**78**
Outstanding premiums	**5,552**	**3,371**	**991**	**638**	**10,552**
Total	**5,552**	**3,371**	**1,069**	**638**	**10,630**

F6 RISK MANAGEMENT (continued)

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

$ thousands	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
As at 30 September 2018					
Reinsurance recoveries receivable	-	27	-	-	27
Outstanding premiums	5,526	1,422	2,641	464	10,053
Total	5,526	1,449	2,641	464	10,080

(vi) Financial assets that are individually impaired

	Carrying value	
$ thousands	**2019**	2018
Outstanding premiums	**-**	-
Total	**-**	-

F6.4 FINANCING AND LIQUIDITY RISK

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

Financial liabilities and guarantees by contractual maturity

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

$ thousands	**Carrying value**	**Total contractual cash flows**	**Less than one year**	**Greater than one year**
As at 30 September 2019				
Financial liabilities				
Trade payables	**13,350**	**13,350**	**13,350**	**-**
Reinsurance payables	**22,394**	**22,394**	**5,494**	**16,900**
Other payables	**6,403**	**6,358**	**6,358**	**-**
Borrowings	**14,931**	**14,976**	**14,976**	**-**
Total	**57,078**	**57,078**	**40,178**	**16,900**
As at 30 September 2018				
Financial liabilities				
Trade payables	16,296	16,296	16,296	-
Reinsurance payables	23,388	23,388	6,988	16,400
Other payables	10,906	10,906	10,906	-
Total	50,590	50,590	34,190	16,400

F6 RISK MANAGEMENT (continued)

F6.5 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

	Average contracted fixed interest		Notional principal amount		Fair value	
	2019	2018	**2019**	2018	**2019**	2018
	%		$ thousands		$ thousands	
Less than 1 year	**0%**	0%	**-**	23,555	**-**	271
1 to 2 years	**0%**	0%	**-**	-	**-**	-
2 to 5 years	**0%**	0%	**-**	-	**-**	-
Over 5 years	**0%**	0%	**-**	-	**-**	-
			-	23,555	**-**	271

F6.6 SENSITIVITY ANALYSIS

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

(i) Interest rate

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

	2019		2018	
	Impact on:		Impact on:	
$ thousands	**Profit / (loss) after tax**	**Equity**	Profit / (loss) after tax	Equity
Change in variables				
+ 50 basis points	**(688)**	**(688)**	(696)	(696)
- 50 basis points	**761**	**761**	768	768

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

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

pwc

F6 RISK MANAGEMENT (continued)

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

	2019		2018	
	Impact on:		Impact on:	
$ thousands	**Profit / (loss) after tax**	**Equity**	Profit / (loss) after tax	Equity
Change in variables				
10% appreciation of New Zealand dollar	**438**	**(3,332)**	129	(2,641)
10% depreciation of New Zealand dollar	**(535)**	**3,666**	(158)	2,905

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

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

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

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

	2019		2018	
	Impact on:		Impact on:	
$ thousands	**Profit after tax**	**Equity**	Profit after tax	Equity
Change in variables				
+ 10% property funds and other unit trusts	**2**	**2**	2	2
- 10% property funds and other unit trusts	**(2)**	**(2)**	(2)	(2)

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

NOTES TO THE FINANCIAL STATEMENTS

PART G - OTHER DISCLOSURES

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

G1 AUDITORS' REMUNERATION

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

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

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

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

G2 TRANSACTIONS WITH RELATED PARTIES

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

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

Accounting policy

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

G3 CONTINGENT ASSETS AND LIABILITIES

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

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

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

G4 SUBSEQUENT EVENTS

Purchase of Youi NZ Pty Ltd's Portfolio

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

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

Change in Licence Condition

The Reserve Bank of New Zealand has modified Tower Insurance's licence conditions to remove the disputed EQC receivable from Tower Insurance's solvency calculation to reflect the increased likelihood of litigation and associated delay in receiving the funds. This took effect from 31 October 2019.

While the EQC receivable is excluded from the solvency calculations, it remains on the balance sheet at a net $53.1m (2018: $52.0m).

Capital Raise

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

Corporate Structure

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

G5 CHANGE IN COMPARATIVES

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

Note Disclosure - Financial Instruments

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

Note Disclosure - Financial Instruments

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

pwc

G6 IMPACT OF AMENDMENTS TO NZ IFRS

G6.1 New and amended standards adopted

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

NZ IFRS 9 Financial Instruments

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

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

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

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

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

Asset/Liability	Measurement basis under NZ IAS 39	Measurement basis under NZ IFRS 9	Carrying amount under NZ IAS 39 and NZ IFRS9*
Cash and cash equivalents held by corporate entities	Amortised cost	Amortised cost	10,906
Cash and cash equivalents held by insurance companies**	Fair value through profit or loss	Fair value through profit or loss	56,112
Investments	Fair value through profit or loss	Fair value through profit or loss	229,172
Claim recoveries	Amortised cost	Amortised cost	5,097
Derivative financial assets	Fair value through profit or loss	Fair value through profit or loss	0
Trade and other payables	Amortised cost	Amortised cost	34,393
Borrowings	Amortised cost	Amortised cost	14,931

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

** Refer to note G5 for changes in comparatives.

G6 IMPACT OF AMENDMENTS TO NZ IFRS

G6.1 New and amended standards adopted (continued)

NZ IFRS 15 Revenue from Contracts with Customers

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

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

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

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

NZ IFRS 16 Leases

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

NZ IFRS 17 Insurance Contracts

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

Independent auditor's report

To the shareholders of Tower Limited

We have audited the consolidated financial statements which comprise:

- the consolidated balance sheet as at 30 September 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of accounting policies.

Our opinion

In our opinion, the accompanying consolidated financial statements of Tower Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 September 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

Our audit approach

Overview

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

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

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

We have determined that there are three key audit matters:

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

Materiality

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

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

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

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
(1) Valuation of outstanding claims (2019 $124,060,000, 2018 $148,976,000)	
We considered the valuation of outstanding claims a key audit matter because this involves a complex estimation process and significant judgements and assumptions that management make in estimating future claims payments. These include the estimate of claims that have been reported but there is uncertainty over the amount which will be settled and those incurred at the reporting date but not yet reported to the Group. There is generally less information available in relation to these claims and such claims require the use of informed estimates of the quantum of loss. Small changes in assumptions can lead to significant movements in claim reserves. Key actuarial assumptions for non Canterbury claims are inflation rate, discount rate and claims handling expense ratio. Outstanding claims in relation to Canterbury earthquakes have a greater degree of uncertainty and judgement. This mainly arises due to Earthquake Commission (EQC) reporting new claims to the Group which have gone over the $100,000 statutory liability cap (over cap claims), how damages are allocated between the four major earthquake events, expected claims costs for open claims and estimates of future claims handling cost. Outstanding claims include a risk margin that allows for the inherent uncertainty in the central estimate of the future claim payments. In determining the risk margin, the Group makes judgements about the volatility of each class of business written and the correlation between each division and between different geographical locations.	Historical claims data is a key input to the actuarial estimates. Accordingly, we: o evaluated the design effectiveness and tested controls over claims processing; o assessed a sample of claim case estimates at the year end to check that they were supported by appropriate management assessment and documentation; o assessed on a sample basis the accuracy of the previous claim case estimates by comparing with actual amount settled during the year and analysed escalation in the claim case estimate to determine whether it is based on new information available during the year; o 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 o tested the integrity of data used in the actuarial models by agreeing the relevant model inputs to source. Together with our actuarial experts, we: o considered the work and findings of the actuaries engaged by the Group; o evaluated the actuarial models and methodologies used by comparing with generally accepted models and methodologies applied in the sector and with the prior year; o assessed key actuarial judgements and assumptions and challenged them by comparing with our expectations based on the Group's experience, our own sector knowledge and independently observable industry trends; and

Key audit matter	How our audit audit addressed the key audit matter
Relevant references in the consolidated financial statements. Refer to notes B2, B3 and B5 to the consolidated financial statements, which also describes the elements that make up this balance.	○ assessed the risk margin, by comparing to known industry practices. In particular we focused on the assessed level of uncertainty in the central estimate.
(2) Valuation of Earthquake Commission (EQC) receivable in respect of Canterbury earthquake claims (2019 $69,900,000, 2018 $68,400,000)	
We considered the valuation of EQC receivable a key audit matter because significant management judgement is required to estimate expected recoveries from EQC in respect of land and building damage. Management use independent technical and actuarial experts to calculate the amount receivable. This receivable is dependent on the ultimate contribution by the EQC to the land and building damage arising from the Canterbury earthquake events in terms of its statutory liability under the Earthquake Commission Act 1993. The quantum is highly dependent on the agreement with EQC on allocation of liability for damage between these events, in particular the September 2010 and February 2011 events, the quality of information available in respect of the damage to each property, the time taken to settle with EQC and risk associated with litigation. *Relevant references in the consolidated financial statements* Refer to notes B3 and E1 to the consolidated financial statements.	Together with our actuarial expert, we: ○ assessed management's approach to estimate the EQC receivable; ○ reviewed external legal counsel advice and independent technical experts' conclusions; ○ evaluated the work performed by Tower's actuary and understood the assumptions applied in allocation of cost between the four major Canterbury earthquake events and the risk margin setting process. We compared these assumptions with sector peers and obtained evidence for any significant variances; and ○ considered the range of expected recoveries from which the amount recognised as due from EQC has been determined and assessed whether in the current circumstances a different receivable amount would be appropriate.

Key audit matter	How our audit audit addressed the key audit matter

(3) Recoverability of the deferred tax asset arising from tax losses (2019 $24,527,000, 2018 $30,685,000)
 	
The majority of the Group's deferred tax asset arises from past tax losses. We considered recoverability of the deferred tax asset a key audit matter because utilisation of the asset is sensitive to the Group's expected future profitability and the sufficient continuity of the ultimate shareholders. Management judgement is involved in forecasting the timing and quantum of future taxable profits, which are inherently uncertain, and whether it is probable the tax losses will be utilised in the foreseeable future.
 	
Relevant reference in the consolidated financial statements
 	
Refer to note D5 to the consolidated financial statements.
	Together with our tax experts, we:
	o understood the progress made by management in improving the profitability of the business in recent periods, which includes the remediation of the causes of past losses through, amongst other things:
	  o assessment of the Canterbury earthquakes claims and related reinsurance;
	  o other recoveries (assessment of the recoverability of the receivables from EQC); and
	  o other expense reduction and income initiatives (in particular the IT transformation programme).
	o compared previous budget results with actual results to assess the reliability of managements forecasts;
	o considered the reasonableness of the assumptions in the FY20 strategic plan on the forecast utilisation of tax losses; and
	o assessed whether the Group is entitled to offset the tax losses against future taxable profits.

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Karen Shires.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
20 November 2019

Auckland

2019 annual results

20 November 2019
Tower Limited

Michael Stiassny
Chairman

Richard Harding
Chief Executive Officer

Jeff Wright
Chief Financial Officer

Chairman's update

Delivering growth and profitability

- Customer-centric focus is providing an exciting platform for growth and delivering improved results
- Impressive growth in underlying profit demonstrates delivery of strategy
- Trajectory will accelerate as we leverage new technology
- Youi acquisition to deliver further growth and scale benefits, with RBNZ application lodged

Focus on conduct and culture and consumer trust continues

- Tower is firmly focussed on delivering good customer outcomes and publicly advocating for increased transparency across insurance industry
- Tower's strategy is centred on customers and takes advantage of low industry trust by offering something better

Solid capital base and commitment to efficient capital management

- Successful completion of capital raise, delivering solid capital base and enabling growth
- Tower's Board has determined that in FY20, Tower will pay a dividend of 50% to 70% of reported NPAT, where prudent to do so

2019 financial year achievements

Richard Harding
Chief Executive Officer

Three years of improving results and solid growth achieved

Solid growth drives $23.5m improvement

- ☑ Continued core NZ growth
- ☑ Strong digital sales continue

Significant improvement in claims ratio

- ☑ Underwriting and pricing improvements delivered
- ☑ Pacific claims returned to long-term norms

Other achievements

- ☑ Pacific profit returns to historic levels
- ☑ Technology transformation launched with positive early signs

Slight uplift in expenses in transition year

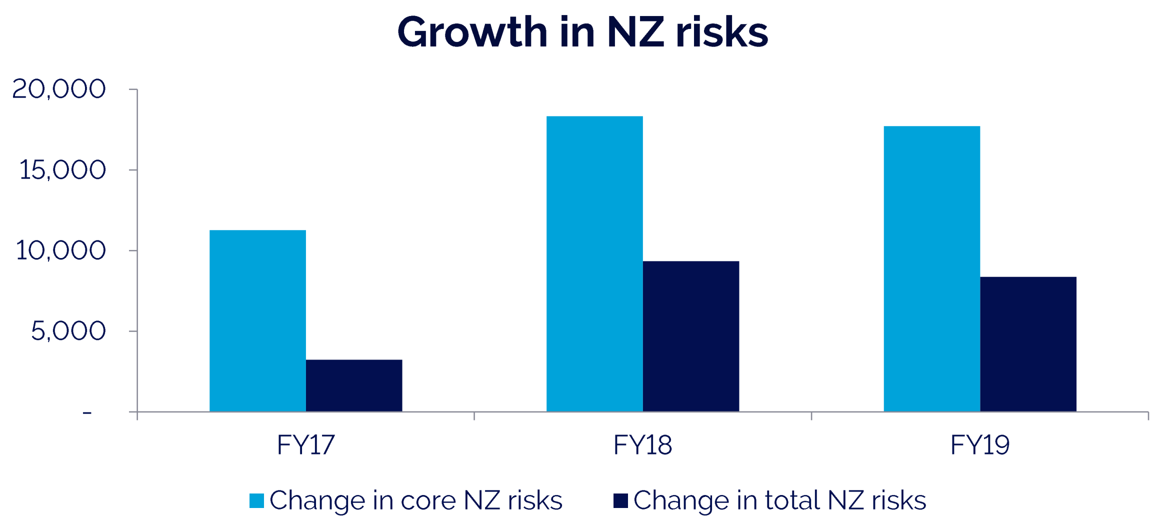
- ☐ Slight uplift in expenses as IT transformation nears conclusion
- ☐ Canterbury continues to progress well, but ongoing new over-cap claims offset positive outcomes

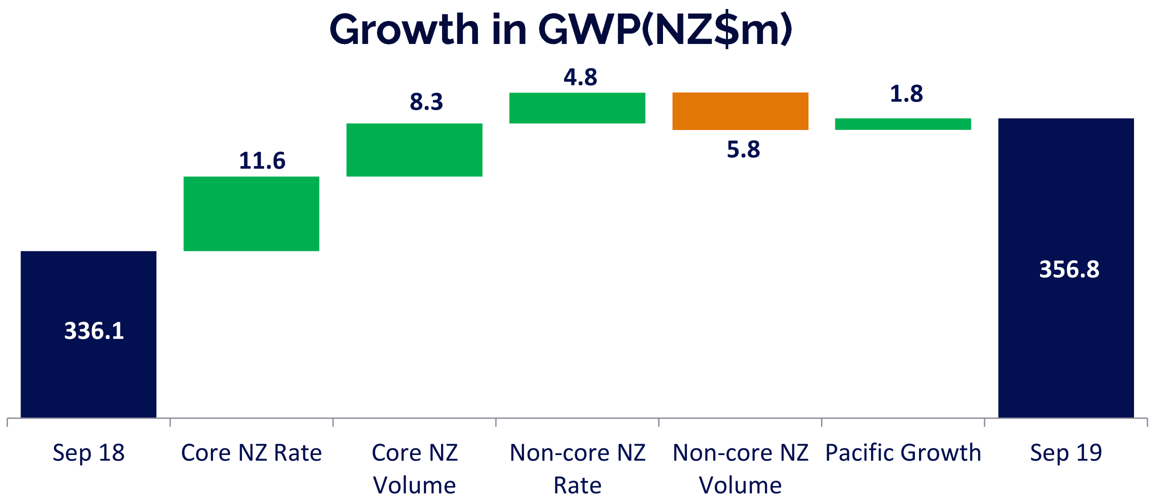
Key metrics	FY19	FY18
Gross written premium (GWP)	$356.8m	$336.1m
Growth in Group GWP	6.1%	7.6%
Growth in GWP in core NZ portfolio [1]	9.1%	11.9%
Increase in risks in core NZ portfolio[1]	17,716	18,192
Claims expenses	$141.6m	$152.2m
Claims expense ratio	48.8%	56.4%
Open Canterbury earthquake claims	109	163
After-tax CEQ provision adjustments	$6.0m	$3.6m
Management expense ratio	40.0%	39.0%
Underlying profit after tax	$27.4m	$13.6m
Reported profit / (loss) after tax	**$16.8m**	**($6.7m)**

1. Core NZ portfolio is the NZ business and excludes ANZ & Kiwibank legacy portfolio

Customers keep choosing Tower

- 9.1% GWP growth in core NZ portfolio
- Total NZ GWP has grown 6.8% through higher volumes and improved rating





- Solid second half with continued growth in core NZ portfolio risk numbers, increasing 17,716 (4.5%) in 2019
- Strong retention continues across all channels
- Profitable Pacific growth continues in line with expectations, returning to historical norms

- GWP growth across all NZ products:
  - NZ House has grown 7.3%
  - NZ Contents has grown 4.8%
  - NZ Motor has grown 12.1%

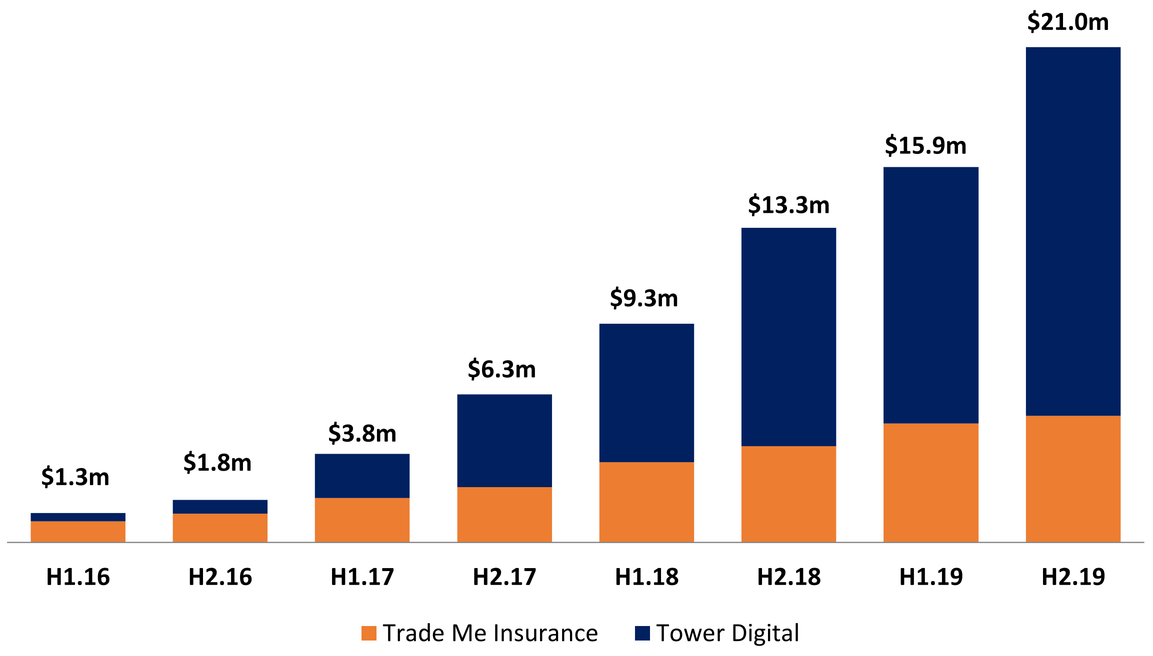
Strong digital sales continue

- **GWP from digital channels remains strong, showing investment in digital is well placed**

- Digital sales continue to increase with over half of all new business sold online in September and October 2019
- Significant improvement in retention through digital channels, up 2.7 percentage points on 2018
- 27% of claims lodged online in September 2019 further evidence of digital transformation
- Continued investment in digital capability with new online claims lodgement portal to launch and ongoing shift to agile operating model

Digital offering is attracting more customers with lower cost to acquire. New IT platform will enable goal of 50 - 70% of all transactions online

GWP by half year through digital channels (NZ$m)



Underwriting excellence

Underwriting excellence driving good customer and business results

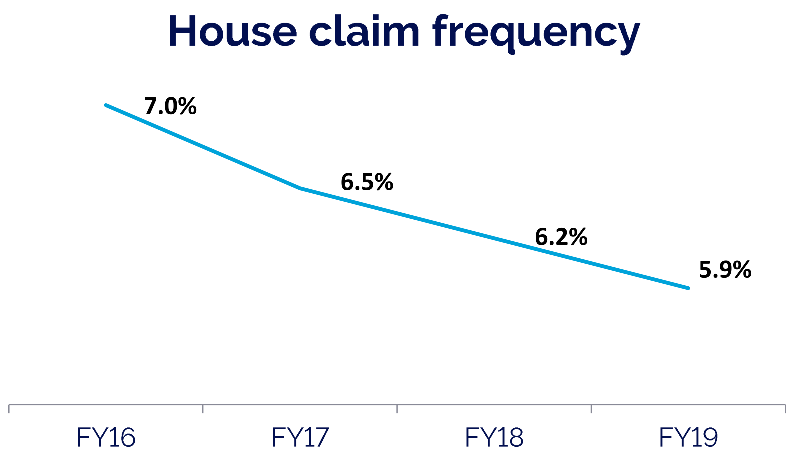
- Reduction in claims costs due to reduced frequency and change in mix of book, along with benign weather
- New products provide clarity and simplicity for customers at claims time

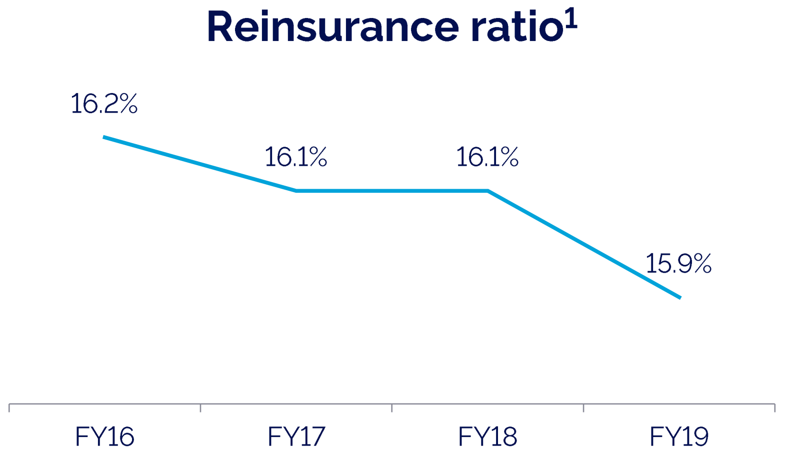
Risk based pricing delivering benefits

- First mover advantage provided 12 month head-start on risk-based pricing approach
- Tower customers now paying fairly for the earthquake risk their property faces
- Work continues to improve pricing approach for other risks, including flood, storm and fire

Improved reinsurance ratio

- Reduction in reinsurance ratio to 15.9% in FY19, from 16.1% in FY18 due to improved underwriting and risk based pricing approach
- FY20 reinsurance structure secured on favourable terms





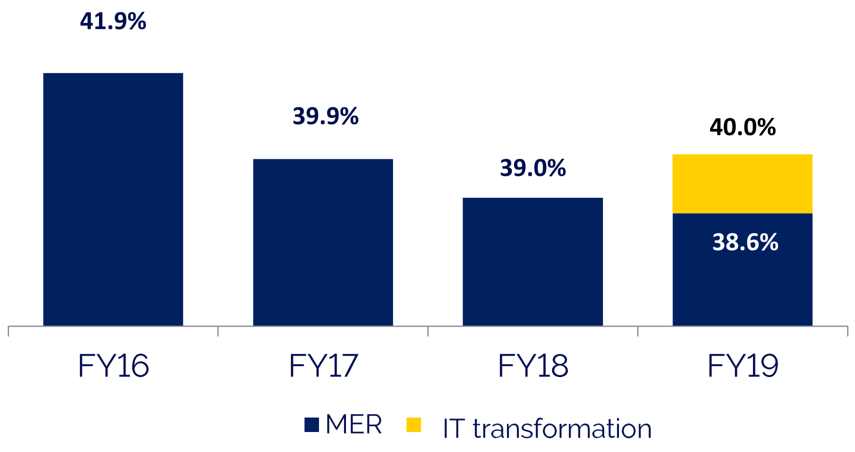
1. FY18 excludes $900k of aggregate top up for additional large event cover (16.4% inclusive)

Building capability while controlling costs

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

- Uplift in management expenses due to:
  - Investment in customer migration process to ensure maximum retention
  - Investment in customer facing teams to manage customer impact
  - Running dual systems as transition year commences
- Implementing new, agile-led, operating model will drive reduction in expenses in second half of FY20
- Continued investment in:
  - Addressing and investing in protection from cyber security risks
  - Acquiring new customers and brand partners
  - Conduct and culture and compliance

Group management expense ratio[1]



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

Continued focus on expenses and digital capability will enable achievement of long term MER target of <35%

IT transformation concluding

- **New IT platform delivered and launched successfully**

Incremental benefits already being seen

- New business on sale with over 10,000 policies sold through new IT platform since May 2019
- New digital functionality provides unique offering for customers, enabling bundled quotes, digital self service and online claims lodgement
- Total cost to deliver core system upgrade is estimated to be $47.6m

Customer migration underway, to be complete by December 2020

- Customer migration has commenced with customers moving to new platform on policy renewal
- Tailored, transparent and customer-focussed migration approach to minimise risk and customer churn

Benefits achieved progressively over FY20, with full benefits achieved from FY21

- FY20 will be a transition year as customers migrate to new platform and dual systems remain in place
- Legacy systems to be decommissioned after customer migration, with full benefits achieved from FY21
- Post finalisation of the IT transformation this quarter, cap-ex for future years will revert to more normalised levels of between $5m - $7m

IT and digital underpins the future

IT transformation will drive growth and continued shift to digital delivery

- Improved, simpler products and real-time, granular pricing capability will drive growth
- Increased digital capability will enable increased sales online and targeting of offers to customers at a lower cost to acquire.
- Introduction of new and improved commercial products, including a new small business offering
- Rapid response to customer trends and input will result in increased speed to delivery and increased innovation

IT transformation enables transition to new operating model and productivity improvements

- Ongoing transition to agile-led operating model enables digital workforce, faster delivery of strategy and lower expense base
- Enables 50 - 70% of all transactions to be conducted online, which along with increased automation and integration will deliver step-change in productivity
- Clear and improved product offering, along with automated fraud detection capability will reduce claims costs

Financial performance

Jeff Wright
Chief Financial Officer

Financial performance
Consolidated Group

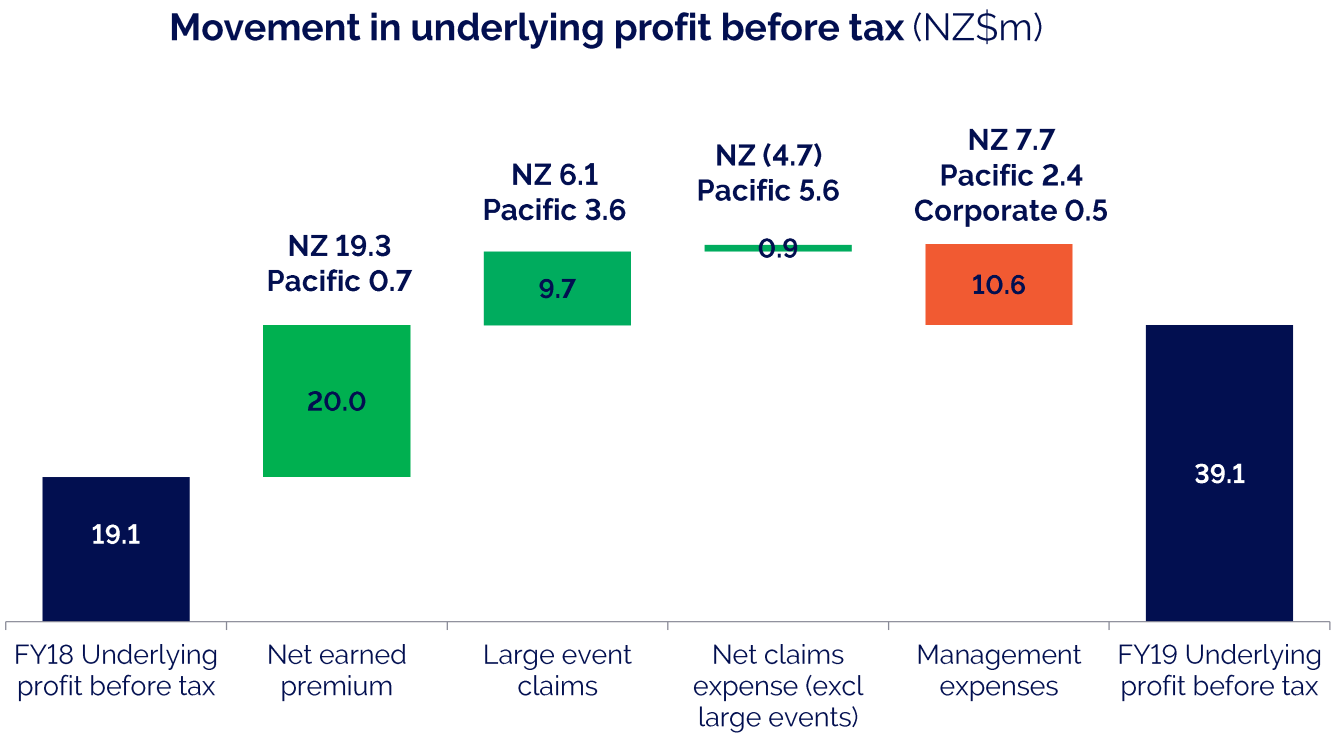
Group profit summary (NZ$m)

$ million	FY 19	FY 18	Change
Gross written premium	356.8	336.1	20.7
Gross earned premium	345.0	323.1	21.9
Reinsurance expense	(55.0)	(53.1)	(1.9)
Net earned premium	**290.0**	**270.0**	**20.0**
Net claims expense	(140.3)	(141.2)	0.9
Large events claims expense	(1.3)	(11.0)	9.7
Management and sales expenses	(116.0)	(105.4)	(10.6)
Underwriting profit	**32.4**	**12.4**	**20.0**
Investment and other revenue	7.0	7.2	(0.2)
Financing costs	(0.3)	(0.6)	0.3
Underlying profit before tax	**39.1**	**19.1**	**20.0**
Income tax expense	(11.6)	(5.5)	(6.1)
Underlying profit after tax	**27.4**	**13.6**	**13.9**
PeakRe settlement	0.0	(16.2)	16.2
Canterbury impact	(6.0)	(3.6)	(2.4)
Foreign tax credits write-off	(1.6)	(1.2)	(0.4)
Simplification programme opex	(1.0)	0.0	(1.0)
Other non-underlying costs	(2.1)	0.7	(2.8)
Reported profit/(loss) after tax	**16.8**	**(6.7)**	**23.5**

- Reported after tax profit of $16.8m, a $23.5m improvement on prior year
- $13.9m improvement in underlying profit after tax to $27.4m
- Strong improvement in GWP of $20.7m, and GEP of $21.9m, reflects continued growth
- Claims ratio, excluding large events, improved 3.9%
- Increase in expenses due to finalisation of IT transformation and requirement to run dual systems during transition year
- 109 open Canterbury Earthquake claims remain as at 30 September 2019
- Canterbury impact of $1.3m after tax in second half due to ongoing receipt of over-caps, with full year impact of $6m after tax

Key ratios	FY 19	FY 18	Change
Reinsurance / gross earned premiums	15.9%	16.4%	0.5%
Claims ratio excluding large events	48.4%	52.3%	3.9%
Claims ratio	48.8%	56.4%	7.6%
Expense ratio	40.0%	39.0%	(1.0%)
Combined ratio	88.8%	95.4%	6.6%

Movement in **underlying profit before tax**



- Net earned premium higher due to growth in core book and new pricing approach
- Growth in risk count has driven growth in claims expenses for NZ, while benign weather alongside a remediation in Fiji and PNG have improved claims ratio in the Pacific
- Only one large event in New Zealand during 2019, reducing claims expense
- Completion of IT transformation contributed to increase in management expenses

Financial performance
New Zealand

New Zealand profit summary (NZ$m)

$ million	FY 19	FY 18	Change
Gross written premium	296.6	277.7	18.9
Gross earned premium	285.7	266.8	18.9
Reinsurance expense	(37.8)	(38.2)	0.4
Net earned premium	**247.9**	**228.6**	**19.3**
Net claims expense	(128.3)	(123.6)	(4.7)
Large events claims expense	(1.1)	(7.2)	6.1
Management and sales expenses	(94.0)	(86.4)	(7.7)
Underwriting profit	**24.4**	**11.4**	**13.0**
Investment and other revenue	5.8	5.4	0.4
Underlying profit before tax	**30.3**	**16.9**	**13.4**
Income tax expense	(8.2)	(4.0)	(4.1)
Underlying profit after tax	**22.1**	**12.8**	**9.3**

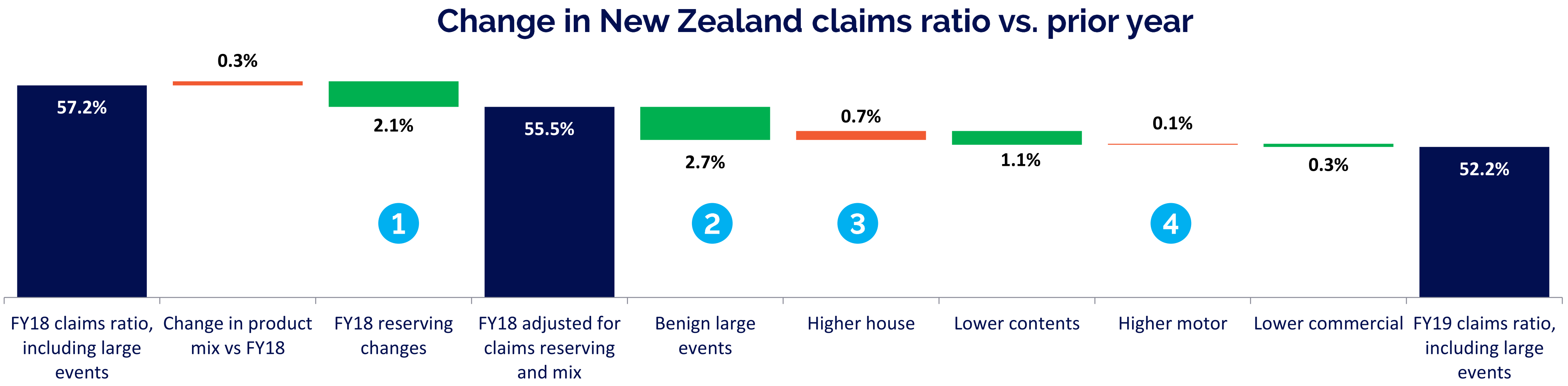
Key ratios	FY 19	FY 18	Change
Claims ratio excluding large events	51.8%	54.1%	2.3%
Claims ratio	52.2%	57.2%	5.0%
Expense ratio	37.9%	37.8%	(0.2%)
Combined ratio	90.1%	95.0%	4.9%

1. Excludes non-underlying items including Canterbury earthquakes and Corporate revenue and expenses

- Underlying profit increased by $9.3m on prior year to $22.1m
- 6.8% increase in GWP a result of customer growth, risk-based pricing approach and strong retention
- Underwriting and pricing improvements, supported by benign weather drove a 5% reduction in claims ratio while the growth in net claims expense is a result of increased risks
- 4.9% reduction in NZ combined operating ratio

Improved NZ claims ratio

- Underwriting and pricing initiatives have delivered significant improvements
- Targeting core insurance activity to offset inflation



1. FY18 results included non-recurring increases to reserves from the prior year (FY17) due to updated reserving methodology
2. Benign weather environment in FY19 has contributed to improved claims ratio. The only large event during the year was the Christchurch Gas Explosion
3. Despite benefits from risk based pricing and benign weather lowering the frequency of house claims in 2019, a higher frequency of large house fires in the second half of FY19 has increased the overall claims ratio in comparison to the previous year
4. Marginally higher NZ Motor claim ratio due to a minor elevation of claims frequency. This was driven by higher windscreen claims over the summer period due to traffic volumes and roadworks in certain regions. Ongoing pricing improvements will help to offset inflation

Note: Pricing changes include increases for higher risk homes, asbestos, higher risk drivers, as well as more granular rating for vehicle categories. Ongoing underwriting improvements include refinements to risk selection criteria and meth contamination policy limits.

Financial performance
Pacific

Pacific profit summary (NZ$m)

$ million	FY 19	FY 18	Change
Gross written premium	60.2	58.4	1.8
Gross earned premium	59.3	56.3	3.0
Reinsurance costs	(17.2)	(14.8)	(2.4)
Net earned premium	**42.2**	**41.4**	**0.7**
Net claims expense	(12.0)	(17.6)	5.6
Large events claims expense	(0.2)	(3.8)	3.6
Management and sales expenses	(18.8)	(16.4)	(2.4)
Underwriting profit	**11.1**	**3.5**	**7.6**
Investment revenue and other revenue	1.1	0.7	0.3
Underlying profit before tax	**12.1**	**4.2**	**7.9**
Income tax expense	(4.4)	(2.0)	(2.4)
Underlying profit after tax	**7.7**	**2.2**	**5.5**

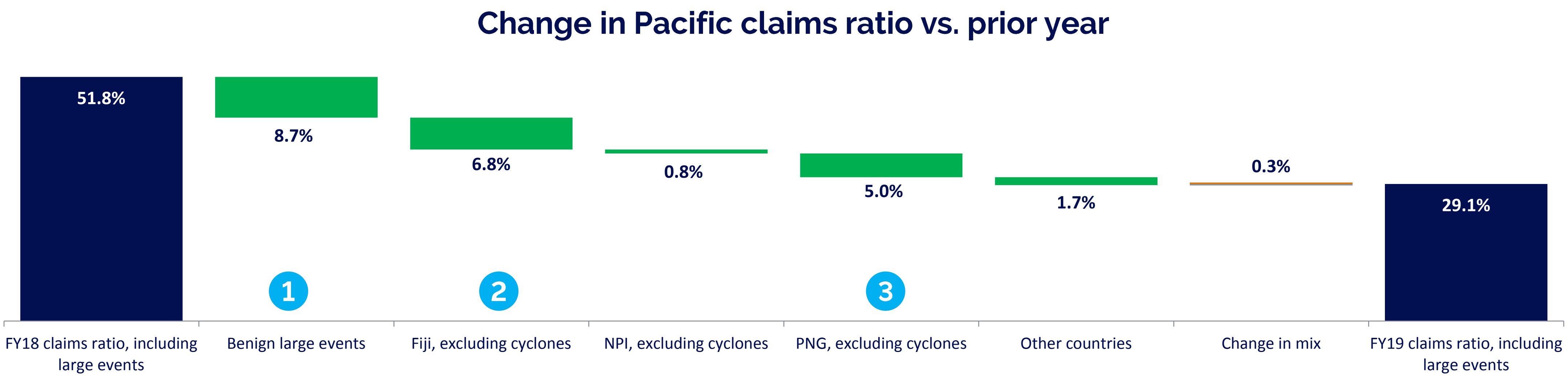
Key ratios	FY 19	FY 18	Change
Claims ratio excluding large events	28.5%	42.6%	14.1%
Claims ratio	29.1%	51.8%	22.7%
Expense ratio	44.7%	39.7%	(5.0%)
Combined ratio	73.8%	91.5%	17.7%

1. Excludes non-underlying items including Canterbury earthquakes and Corporate revenue and expenses

- Underlying profit after tax returns to historic levels, a $5.5m increase on prior year
- Continued profitable growth due to improved pricing and risk selection
- Revenue growth was strongest in Vanuatu (28.5%), Tonga (16.4%) and Cook Islands (8.2%)
- Key markets of Papua New Guinea and Fiji deliver strong profitability with growth in Fiji (2.4%) and PNG (-2.7%) affected by remedial action undertaken, and nationalisation of Compulsory Third Party insurance and workers compensation in Fiji
- Significant improvement in net claims expense and claims ratio due to improved pricing and underwriting, a benign weather environment and fewer commercial fires

Improvements in Pacific

- Improved pricing, underwriting and risk selection is delivering results
- Benign weather across Pacific contributed to improvement



1 Benign weather environment and no large events in FY19 has contributed to improved claims ratio.

2 Cost control initiatives in the Fiji motor book have delivered significant benefits. A better claims experience in house fires has also contributed to a favourable claims ratio.

3 Improvement in portfolio a result of remediation and improved claims management, delivering a lower claims ratio in PNG

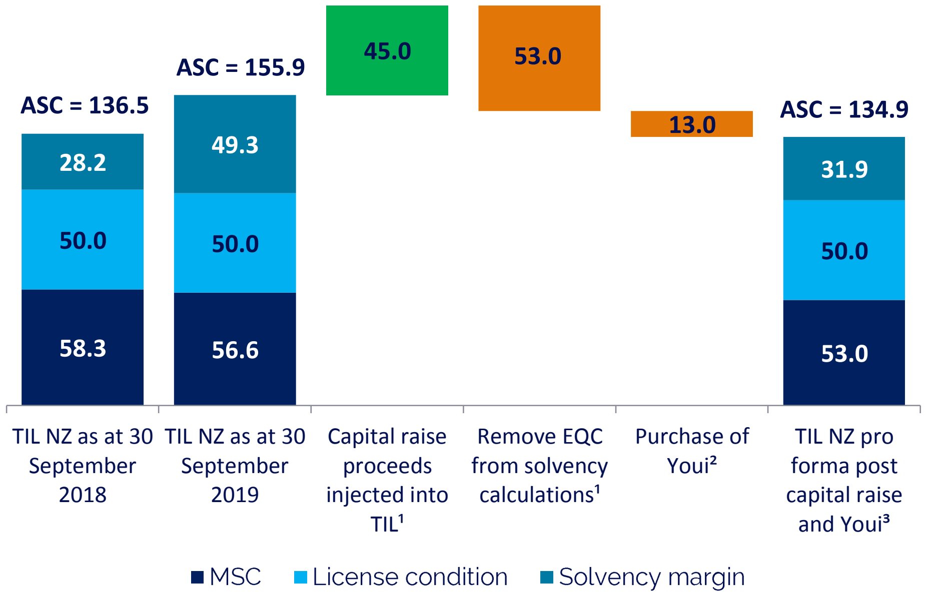
Note: Pricing changes include increases for Fiji Motor, and moving under-priced PNG Commercial Fire to standard rates. Underwriting improvements include the establishment of a centralised Pacific Underwriting team and refined underwriting guidelines for new business and renewals.

Solid solvency position

- **Strong capital position has been maintained and increased**
- **Continued focus on governance, risk, conduct and culture**

- As at 30 September 2019, Tower Insurance Limited (TIL) had $99.3m of solvency margin, which was equivalent to 275% of minimum solvency capital
- $21.1m increase in solvency margin from 30 September 2018, and is $49.3m above RBNZ minimum requirements
- Subsequent to our year end position, our solvency position will change. The agreement with RBNZ to remove EQC recoveries outstanding from our solvency calculation and TIL's acquisition of Youi (pending RBNZ approval) will reduce solvency margin
- Tower Limited has drawn down $15m in FY19 on a new cash advance facility, maturing in March 2023, to fund the completion of IT investment
- Tower Insurance continues giving active consideration to simplifying its corporate structure to make Tower Insurance the listed parent or, if not feasible, ensuring that Tower Insurance Limited will have a majority of directors independent of the listed parent company
- Tower Insurance continues to be confident in the recovery of the EQC receivable (refer to page 29 for further detail), and Tower Insurance's Board and management remain firmly committed to its collection to the maximum extent possible

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



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

The Youi acquisition

- **Tower Insurance purchasing Youi's ~34,000 in-force New Zealand policies**
- **Formal application lodged with RBNZ, completion expected soon**

Delivers growth

- Provides immediate access to customers and GWP growth, solidifies Tower's challenger position in the market, and offers significant retention and cross-sell opportunity with customer-focused offering
- Youi portfolio is well underwritten, with a risk-based approach to pricing and in line with Tower's underwriting excellence approach
- Youi will contribute approximately $2m to Underlying NPAT ($4m pre-amortisation of goodwill) reflecting the pro rata inclusion of 9 months of its full year

Realising scale to deliver shareholder value

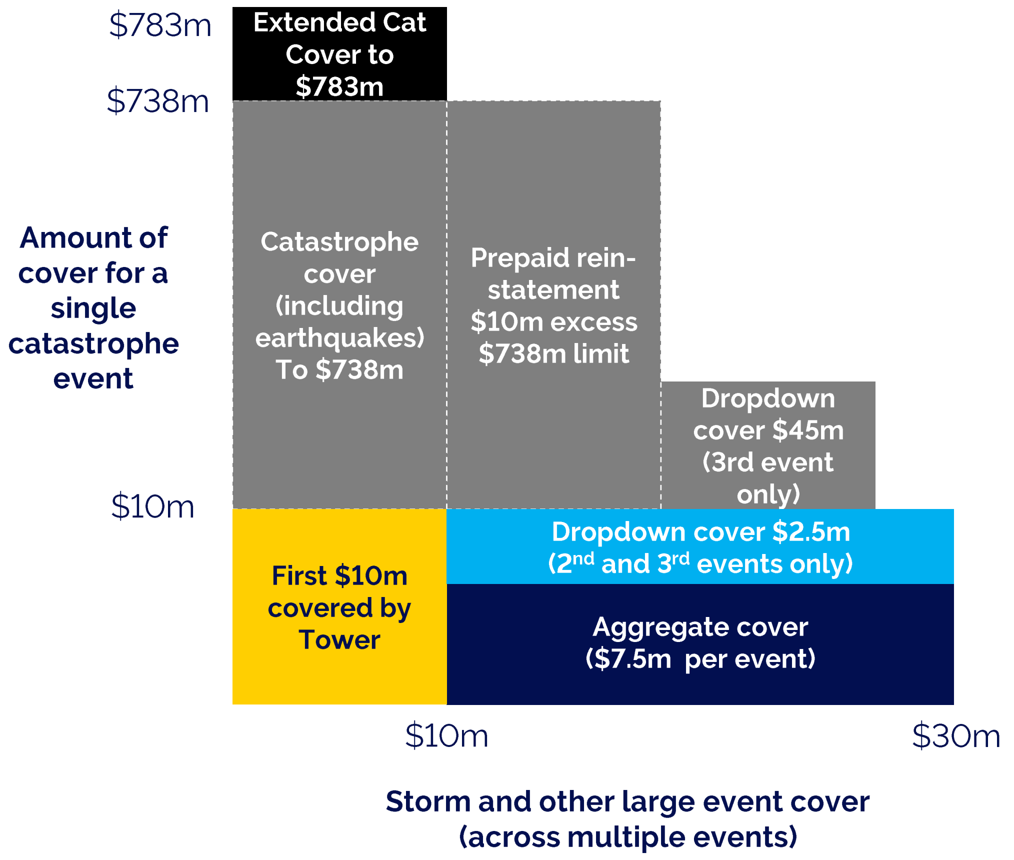
- Planning for integration of the portfolio is now well advanced and will leverage our investment in new technology systems
- Drives shareholder value through realisation of scale benefits, with intention to incorporate the portfolio into Tower's existing reinsurance cover, and management expenses at marginal cost
- Investment will be amortised over a period that matches benefits received from the acquisition
- Expected contribution to Tower over the first 12 months continues to be in line with indication provided to the market in September

Improved reinsurance outcomes

- **Increased protection on favourable terms**
- **Reinvesting savings to reduce exposure and volatility**

  - Increased catastrophe cover from $738m to $783m, providing additional certainty
  - Increased catastrophic event coverage from two events to three
  - Added additional dropdown cover to minimise any potential impacts
  - Tower's exposure to catastrophe limited to $10m per event
  - Tower's exposure to storm and other events capped at $10m, up to a limit of $30m
  - Continued improvement in reinsurance ratio expected

High-level reinsurance structure overview



Future outlook

Richard Harding
Chief Executive Officer

Challenging the market to grow

- **Digital challenger positioning enables achievement of medium-term targets**

Setting up for 2021

FY19

- Complete IT upgrade development
- Keep driving growth
- Deliver underwriting and pricing improvements
- Control expenses and invest in growth

Work complete

FY20

- Migrate customers to new system
- Keep driving growth
- Start deriving benefits from IT upgrade
- Conduct and culture improvements

FY21

- Decommission legacy systems and derive full benefits
- Keep driving growth
- SME and usage based insurance
- Drive Pacific growth and expansion

FY20 financial outlook

- **Solid growth and profitability expected to continue**

- FY20 is a year of transition, as Tower migrates its portfolio to a new IT platform and a suite of simpler products
- Guidance for underlying NPAT in FY20 is \$27m - \$30m, based on the following assumptions:
  - General insurance market conditions remain positive for growth and pricing, allowing GWP growth consistent with FY19, in addition to growth generated by the acquisition of the Youi portfolio
  - Return to long run average large event costs of \$8m per annum pre-tax, compared with FY19 \$1.3m pre-tax.
  - Youi will contribute approximately \$2m to Underlying NPAT (\$4m pre-amortisation of goodwill) reflecting the pro rata inclusion of 9 months of its full year
- FY20 guidance includes a heightened level of management expenses of \$5m - \$7m pre-tax due to the transition to the new IT platform, including:
  - Additional costs of operating an additional IT platform in parallel during the period of transitioning of policies to the new EIS platform and subsequent decommissioning of the old platform
  - Additional resources to ensure effective transitioning of policies to the new EIS platform and to handle the more manual processes on the old platform
- In addition to other productivity gains, the Board expect these costs to be removed from Tower's expense base in the year after migration is completed and, by early FY21, Tower will be operating at or near its target MER of less than 35%
- Tower's Board has determined that in FY20, Tower will pay a dividend of 50% to 70% of reported NPAT, where prudent to do so


Appendices

Reconciliation between **underlying profit after tax** and **reported profit after tax**

$ million	FY 19 underlying profit	Non-underlying items (1)	Claims handling expenses (2)	Corporate costs (3)	Other items (4)	FY 19 reported profit
Gross written premium	356.8					356.8
Gross earned premium	345.0					345.0
Reinsurance expense	(55.0)					(55.0)
Net earned premium	**290.0**	**0.0**	**0.0**	**0.0**	**0.0**	**290.0**
Net claims expense	(141.6)	(12.6)	(21.4)			(175.7)
Management and sales expenses	(116.0)	(2.3)	21.4	3.5	(4.4)	(97.9)
Underwriting profit	**32.4**	**(15.0)**	**0.0**	**3.5**	**(4.4)**	**16.5**
Corporate management expenses	-			(3.5)		(3.5)
Investment and other revenue	7.0	1.9			4.4	13.3
Financing costs	(0.3)					(0.3)
Underlying profit before tax	39.1					
Income tax expense	(11.6)	2.5				(9.2)
Underlying profit after tax	**27.4**					
Canterbury impact	(6.0)	6.0				
Foreign tax credits write-off	(1.6)	1.6				
Simplification programme opex	(1.0)	1.0				
Other non-underlying costs	(2.1)	2.1				
Reported profit after tax	**16.8**	**0.0**	**0.0**	**0.0**	**0.0**	**16.8**

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 2019.

Notes on reconciling items:

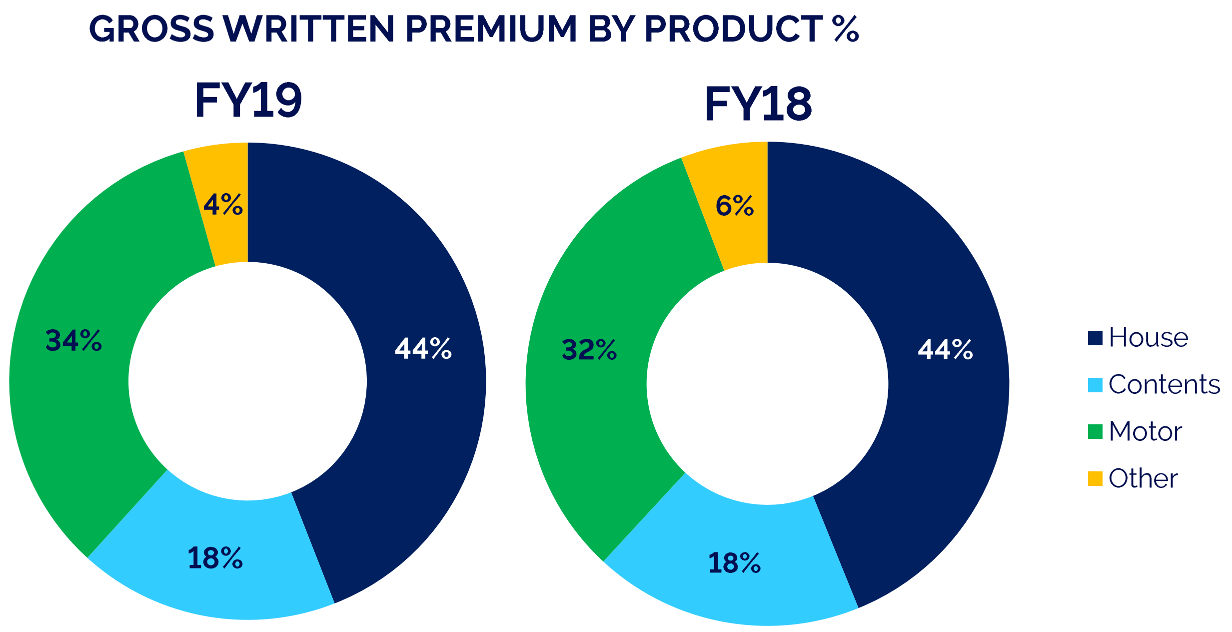
1. Non-underlying items are shown separately in Tower's management reporting, yet included within other lines (depending on the nature of the item) in the financial statements.
2. In Tower's management reporting, indirect claims handling expenses are reported within 'management and sales expenses'. In the financial statements, indirect claims handling expenses are reclassified to 'net claims expense'.
3. Corporate costs are included in management expenses for Tower's management reporting, however are excluded from underwriting profit for statutory reporting.
4. Certain items of revenue are netted off 'management and sales expenses' in Tower's management reporting, and are reclassified to 'other revenue' in the financial statements. This primarily relates to commission received by Tower.

New Zealand revenue

NZ GWP ($m)	FY19	FY18	Change
Core	239.0	219.1	9.1%
Non-core	57.6	58.6	-1.7%
Total NZ business	**296.6**	**277.7**	**6.8%**

Risk counts (000s)	FY19	FY18	Change
Core	408.7	391.0	4.5%
Non-core	82.0	91.3	-10.2%
Total NZ business	**490.7**	**482.3**	**1.7%**

NZ GWP ($m)	FY19	FY18	Change
House	130.7	121.8	7.3%
Contents	52.4	50.0	4.8%
Motor	100.6	89.7	12.1%
Other	12.9	16.1	-20.1%
Total NZ business	**296.6**	**277.7**	**6.8%**



Notes:

1. Tower's 'core' portfolio refers to the NZ business excluding the ANZ Bank and Kiwibank portfolios. The 'non-core' segment refers to the ANZ Bank and Kiwibank portfolios.
2. The term 'risks' refers to an item of property insured, such as a house, motor vehicle, or the contents at a specified address. This is distinguishable from 'policies', as one policy might cover several risks, for example, a commercial motor vehicle policy that covers multiple motor vehicles.

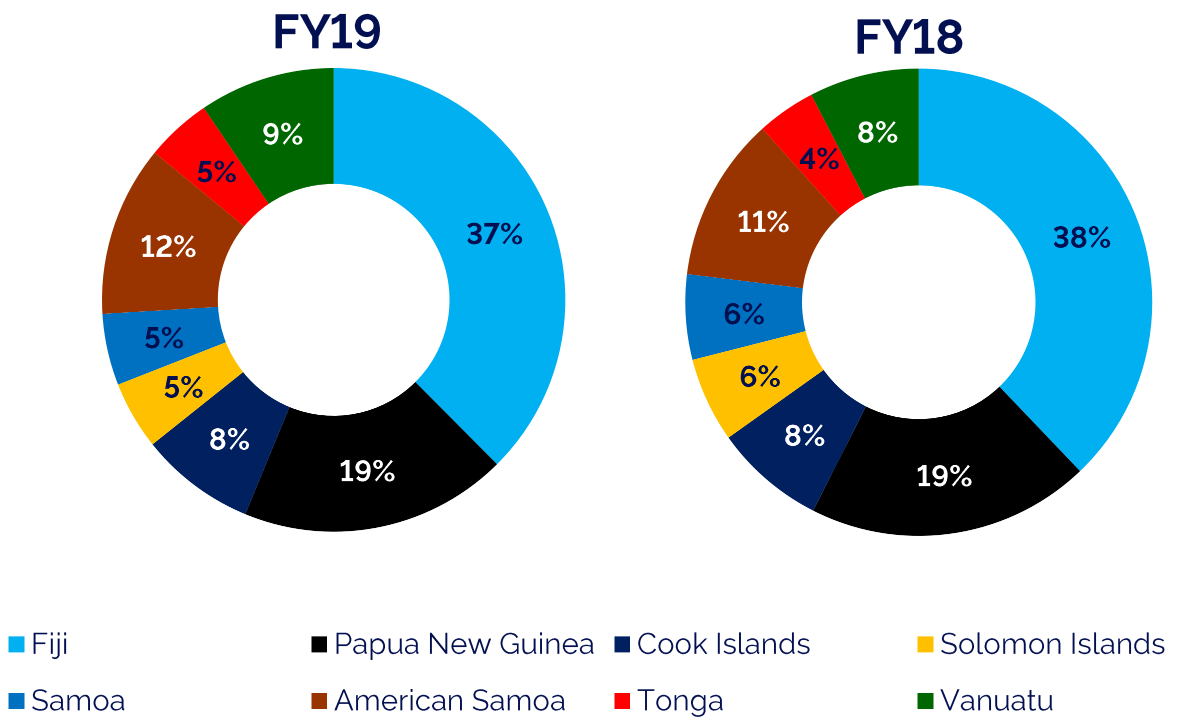
Pacific revenue by country

GROSS WRITTEN PREMIUM (NZ$m)

Country	FY19	FY18	Change
Fiji	22.7	22.1	2.4%
Papua New Guinea	11.1	11.5	-2.7%
Cook Islands	4.9	4.5	8.2%
Solomon Islands	2.9	3.4	-16.4%
Samoa	3.0	3.4	-12.5%
American Samoa	7.2	6.7	7.9%
Tonga	2.8	2.4	16.4%
Vanuatu	5.7	4.4	28.5%
Total	**60.2**	**58.4**	**3.1%**

Fiji normalised	FY19	FY18	Change
Fiji (excl WC)	23.0	21.0	9.3%
Fiji WC	(0.3)	1.1	-127.5%
Total	**22.7**	**22.1**	**2.4%**

Total Pacific (excl WC)	**60.5**	**57.3**	**5.6%**



- Nationalisation of Workers Compensation in Fiji dampened our GWP growth in FY19
- PNG has focused on profitability in FY19 through remediation of its portfolio, NPAT up 622% on FY18

Canterbury earthquakes update

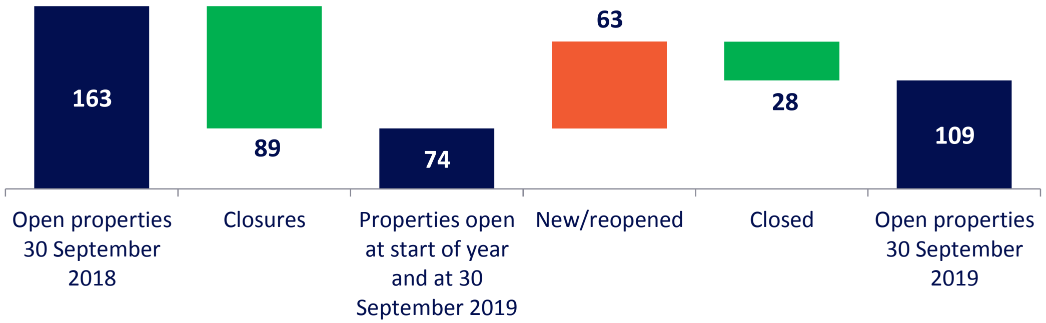
- **Continued progress with 117 claims closed in 2019**
- **95 open claims remain as at 31 October 2019**

- Tower continues to receive higher than expected new over-cap claims from the EQC as a result of past performance, poor workmanship and faulty repairs
- While the number of Canterbury earthquake claims continues to reduce steadily, new over-cap claims from the EQC continue to be a source of upward pressure on valuation
- Additional uncertainty managed through solvency capital held by Tower

Update on EQC receivable

- Tower currently holds a receivable from the EQC with a book value of $69.9m as at 30 September 2019. $16.9m of this receivable is payable to reinsurers, resulting in a net asset of $53m
- Tower continues to be confident in the recovery of this receivable, and Tower's Board and management remain firmly committed to collection of the EQC receivable to the maximum extent possible
- Tower is currently engaged with EQC in an alternative dispute resolution process in regards to the Buildings recovery, however, it is more likely that the dispute will proceed to litigation, which may cause the timing of the recovery to be delayed and may not result in full recovery of the receivable

MOVEMENT IN PROPERTIES



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

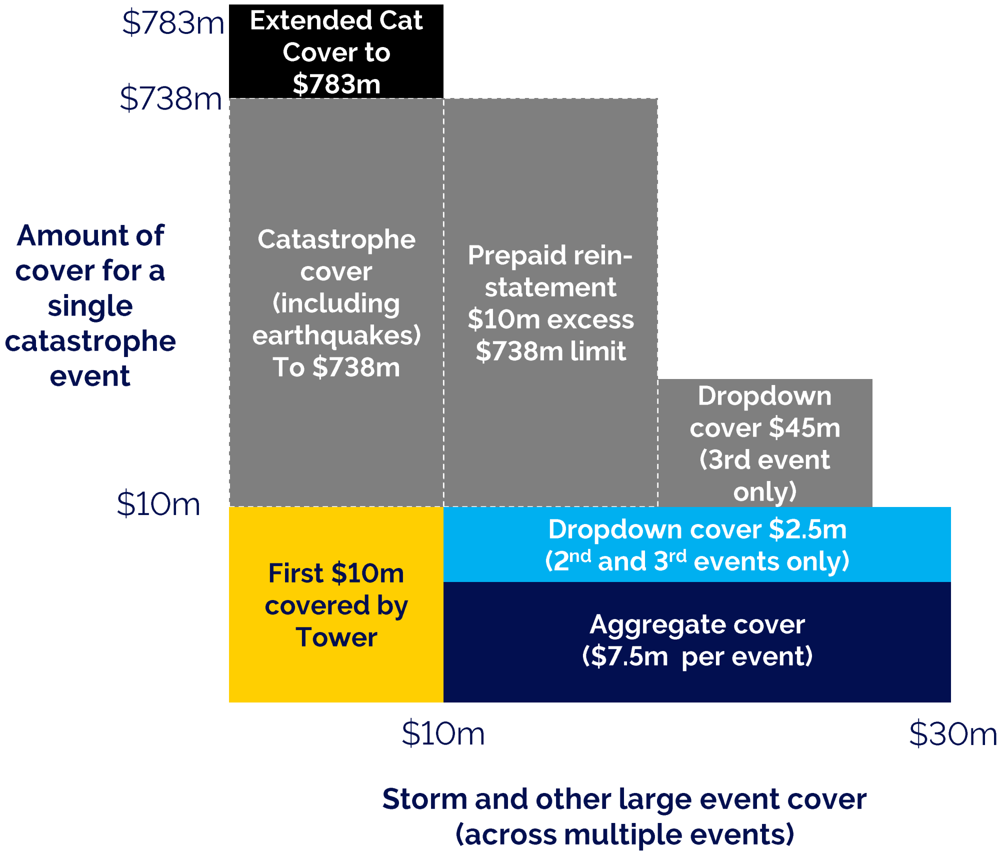
Notes:
1. IBNR ("Incurred but not reported") / IBNER ("Incurred but not enough reported") includes claims handling expenses
2. Ratio of IBNR / IBNER plus risk margin to case estimates

Balance sheet
Tower Group

$ million	30 September 2019	30 September 2018	Movement $	Movement %
Cash & call deposits	67.0	102.0	(35.0)	(34.3%)
Investment assets	229.2	198.2	30.9	15.6%
Deferred acquisition costs	23.7	22.6	1.1	5.1%
Intangible assets	74.2	45.0	29.2	64.8%
Other operational assets	309.4	318.3	(9.0)	(2.8%)
Total assets	**703.5**	**686.2**	**17.3**	**2.5%**
Policy liabilities & insurance provisions	311.9	324.5	(12.6)	(3.9%)
External debt	15.0	0.0	15.0	100.0%
Other operational liabilities	83.9	86.9	(3.0)	(3.5%)
Total liabilities	**410.8**	**411.4**	**(0.6)**	**(0.1%)**
Total equity	**292.7**	**274.8**	**17.9**	**6.5%**

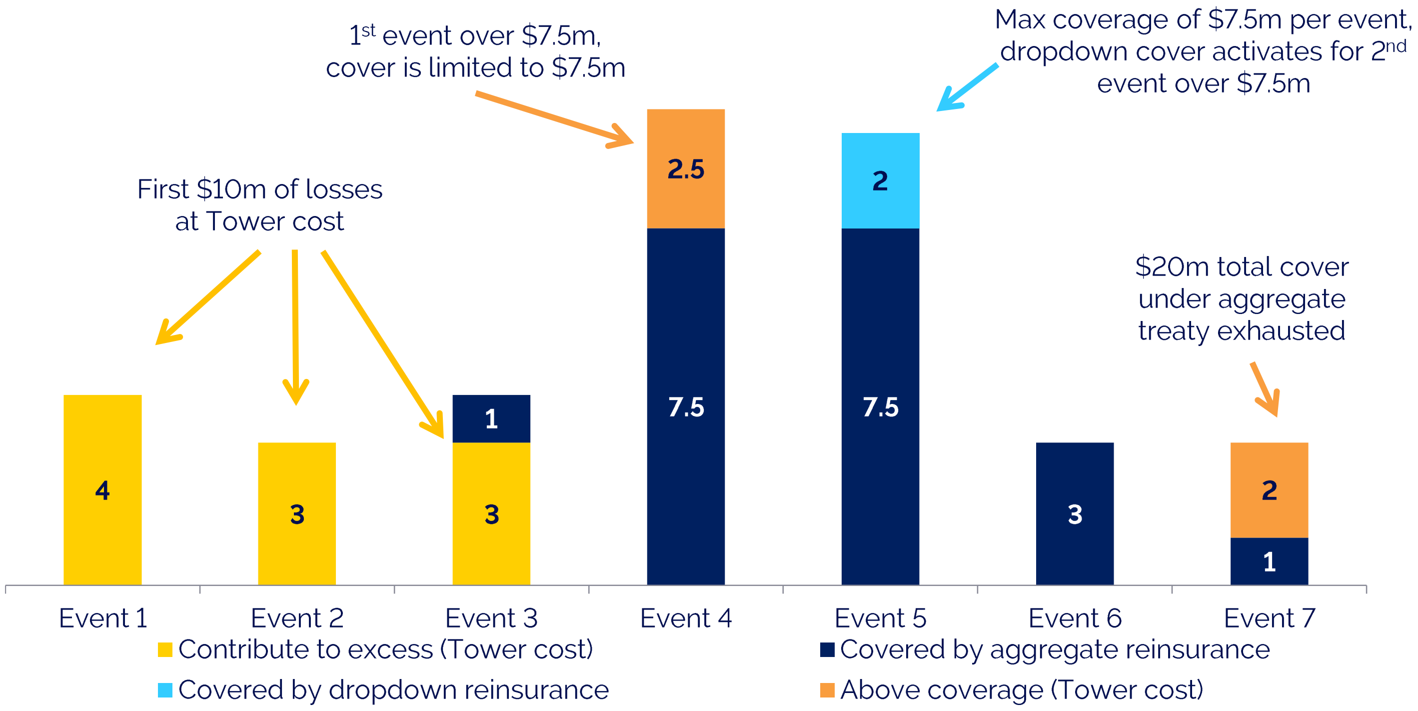
Reinsurance structure overview

High-level reinsurance structure overview



Aggregate cover overview for FY20

- Minimum event size of $1m to qualify, max of $7.5m per event
- $20m cover once $10m excess filled
- No coverage for earthquake in New Zealand
- Drop-down cover for 2nd and 3rd event over $7.5m to bridge gap between aggregate cover and catastrophe cover (including earthquake)



Disclaimer

This presentation has been prepared by Tower Limited to provide shareholders with information on Tower's business. This document is part of, and should be read in conjunction with an oral briefing to be given by Tower. A copy of this webcast of the briefing is available at http://www.tower.co.nz/investor-centre/ It contains summary information about Tower as at 30 September 2019, which is general in nature, and does not purport to contain all information a prospective investor should consider when evaluating an investment. It is not an offer or invitation to buy Tower shares. Investors must rely on their own enquiries and seek appropriate professional advice in relation to the information and statements in relation to the proposed prospects, business and operations of Tower. The data contained in this document is for illustrative purposes only. Past performance is not a guarantee of future performance and must not be relied on as such. The information in this presentation does not constitute financial advice.

Forward looking statements

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

Disclaimer

Neither Tower nor any of its advisers or any of their respective affiliates, related bodies corporate, directors, officers, partners, employees and agents (other persons) makes any representation or warranty as to the currency, accuracy, reliability or completeness of information in this presentation. To the maximum extent permitted by law, Tower and the other persons expressly disclaim any liability incurred as a result of the information in this Presentation being inaccurate or incomplete in any way. The statements made in this presentation are made only as at the date of this presentation. The accuracy of the information in this presentation remains subject to change without notice.

MICHAEL STIASSNY

SLIDE 2: CHAIRMAN'S UPDATE

Good morning and thank you for making the time to join us this morning.

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

I am pleased to open today's call with the news that we have reported a full year profit.

We have long held the view that Tower is undervalued. Today's result reflects the work done to remove legacy issues, refocus and grow the business and implement core insurance fundamentals.

The business has been simplified by identifying a clear strategy and executing it well. Our goal is to recreate a profitable company that delivers shareholder value. We are succeeding.

The business is returning to profitability by continuing to successfully implement its ambitious plan:

- to have New Zealanders and Pacific Islanders see us in a new light, and
- setting the bar for how insurance "should" be.

How the insurance industry "should be" was also the focus of the recent Australian Royal Commission and the RBNZ and FMA conduct and culture review – both of which have made it clear that change is needed.

Tower has taken this to heart and will lead by example. The Board has received and endorsed Tower's conduct and culture review. There are aspects of practice that need further investigation and will be improved. However, the Board is also confident Tower is not starting from a standing stop – a customer-centric approach is embedded in its DNA.

Tower's strategy is focused on making things easier and better for customers, which provides the business with a unique platform on which to rebuild trust.

The Board strongly supports Tower's challenge to the industry to regain the trust of the NZ public and is keen to see all insurers respond to the conduct and culture review with action, not rhetoric.

Interestingly, the conduct and culture review did not take into consideration the impact the EQC's response to the Canterbury earthquakes may have had on public perceptions of the insurance industry.

One suspects it was – and continues to be – significant.

Tower has made no secret of the fact that we believe the system remains fundamentally broken, despite some recent improvements.

A true step change in conduct and culture would see the industry join forces with the Government for an honest and transparent appraisal of the EQC and agreement on a sustainable future model for the agency.

An EQC that delivers fair customer outcomes would have the single greatest impact on restoring New Zealanders' trust in the industry.

On behalf of the Board I'd like to thank Richard, the management team and our frontline staff for their sustained efforts to deliver a strategy that has seen Tower return to profitability.

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

RICHARD HARDING

SLIDE 3: 2019 FINANCIAL YEAR ACHIEVEMENTS TITLE SLIDE

Thank you Michael and good morning everyone.

SLIDE 4: THREE YEARS OF IMPROVING RESULTS AND SOLID GROWTH ACHIEVED

Tower has returned to profit, delivering a full year, reported result of $16.8m. This is a significant achievement and a $23.5m improvement on last year, proof that our strategy is paying off.

Underlying profit after tax increased $13.8 million, to $27.4 million, a result of our relentless focus on improving all aspects of our business.

Over the past four years we have worked to completely transform Tower by fixing the foundations and we are now growing the business by challenging and breaking industry norms. These results demonstrate the inherent strength of the business and the future potential that exists in the Tower brand.

Our determination to deliver something better to customers has been noticed and we continue to deliver solid growth. Gross Written Premium in the core New Zealand portfolio increased by 9.1%, and total GWP reached $356.8 million across New Zealand and the Pacific.

Continued implementation of risk-based pricing along with improved underwriting and a benign weather environment has significantly reduced claims costs.

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

Our Pacific business has returned to historical norms, with solid and profitable growth, improved underwriting and a benign weather environment delivering better results

In the second half an increase to Canterbury provisions resulted in a $1.3 million after-tax expense, bringing the full year impact to $6m. This is principally due to the ongoing receipt of EQC over-cap claims and Jeff will provide more detail on this shortly.

We have successfully delivered and launched our new IT platform. New business is on sale on the new system and customers are now migrating over. As we signalled earlier in the year, operating expenses are slightly higher than previous years as our IT transformation draws to an end.

The successful delivery of our IT platform is an exciting milestone for Tower and we are now well positioned to maximise the benefits and opportunities this system offers.

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

SLIDE 5: CUSTOMERS KEEP CHOOSING TOWER

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

We have added over 17,000 risks to our core New Zealand portfolio over the past year. This level of growth is expected to increase now that we have completed the delivery of our new IT platform.

This continued momentum has driven GWP growth in the core New Zealand portfolio 9.1%, with total GWP in New Zealand growing 6.8%.

GWP is growing across all NZ products, with GWP in:

- NZ House growing 7.3%, with the majority being attributable to rating
- NZ Contents growing 4.8% split between rating and volume, and
- NZ Motor growing 12.1%, with the majority being attributable to volume

This is being achieved through a combination of factors, including:

- Continued execution of risk-based pricing and simpler policies that customers can understand

- Constant refinement of underwriting criteria enabling more granular assessment
- Strong retention through our digital and phone channels, and
- Attracting new, profitable customers with improved and targeted offerings.

The growth we have achieved is the result of offering customers simpler insurance at a fair price. Through this approach we are starting to realise the potential that exists in the Tower brand.

Growth in the Pacific has returned to historical levels and following a number of years of remediation we are now growing sustainably in the region.

Over the coming twelve months we see a positive growth and pricing environment in New Zealand and the Pacific, which will lead to further improved profitability.

SLIDE 6: STRONG DIGITAL SALES CONTINUE

In 2016 we began our digital transformation journey and since then I have consistently said that digital will drive the future growth of Tower.

We have continued to place significant effort into attracting new customers and improving this channel's performance.

Our efforts to become a digital insurer continue to pay dividends, with 51% of new business coming through our digital channels in September 2019, which increased to 53% in October. This compares to less than 10% during 2016.

In the last twelve months we have delivered significant growth, with GWP through digital channels reaching $20m in the second half. This is thanks to continuous improvement of our digital channels.

Our recently improved digital claims lodgement process and innovations like our claims chatbot, Charlie, has resulted in 27% of claims being lodged online in September 2019.

This has been achieved before our new platforms functionality has been turned on and is further proof that our investment in digital channels is well made.

We expect the number of claims lodged online to increase significantly as our new system with its self-service and improved claims capability hits its strides.

Digital remains one of the most crucial, foundations of our business moving forward. It enables differentiation, agility, innovation and growth, and our new platform will accelerate our progress.

SLIDE 7: UNDERWRITING EXCELLENCE

Underwriting and claims are intrinsically linked and sit at the heart of what an insurance company is and does for its customers.

The focus on achieving underwriting excellence is a constant for Tower and continues to play a vital part in the delivery of our strategy.

We have taken significant steps toward achieving our underwriting excellence goal and have

- Implemented better risk selection and underwriting processes
- Continued focus on claims leakage and recoveries
- Launched and continued to refine our plain language products that have won awards and provide clarity to customers and our employees at claims time; and
- implemented new data practices to enable us to accurately monitor our portfolio

This relentless focus on underwriting excellence has helped us shift our portfolio to a more balanced mix and improve claim frequency.

This is particularly noticeable in our NZ house product with sustained improvements in claims frequency over the past four years, a result of clear products and benefits for customers.

18 months ago we led the way with risk-based pricing and removing cross-subsidisation between low and high-risk customers.

Risk based pricing has resulted in the growth of our portfolio in Auckland while also reducing our exposure to high-risk areas by 16%.

Our fairer approach to pricing has also allowed us to grow our exposure by 4% in the larger, low risk areas like Auckland, Hamilton and Taranaki.

Through this process we worked closely with our impacted customers to support them through the change and we have received positive feedback about our open and transparent approach.

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

This has all been achieved under the constraints of the old technology system. As customers migrate onto the new IT platform, we will utilise the improved rating engine, more granular segmentation and pricing approach to drive further growth and underwriting improvements.

It is clear this strategy is working and will continue to deliver growth and reinsurance efficiency in future.

SLIDE 8: BUILDING CAPABILITY WHILE CONTROLLING COSTS

At our half year results we signalled a slight uplift in expenses in the second half as our IT transformation concludes. As you can see, the finalisation of this piece of work has increased our group management expense ratio by 1.4%, which includes increased headcount in our frontline teams, the running of dual systems and the delivery of a tailored customer migration process.

We are investing in the business to drive long term value, and as we've outlined previously, a major component of this is new technology and moving customers to the new platform.

Managing customers through the migration process is one of the most important parts of our technology transformation and we have invested appropriately in our frontline teams, and a tailored customer management approach to reduce risk, maximise retention and manage customer impact.

These costs will continue over the next 12 months as we migrate customers to the new platform. Following this, we expect these costs of between $5m - $7m pre-tax to be removed from our expense base, and along with other productivity gains, we will be operating at or near our target MER of less than 35%.

SLIDE 9: IT TRANSFORMATION CONCLUDING

Just under a year and a half ago we announced our commitment to invest in a new technology platform that will deliver a step change in results.

We have been working at pace to deliver against aggressive timeframes and I am pleased to advise that we have successfully delivered and launched our new platform and the IT transformation is now concluding.

In May this year we launched the first phase which enabled us to sell new business on the new system. It was a core foundation piece of the programme and continues to run well.

Delivery of Phase 2 has now been completed and includes:

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

We started migrating customers to the new platform earlier this month. We are managing risk closely through a ramp-up approach that is working well and nearing full velocity.

Customer migration will be complete by the end of the 2020 calendar year.

Moving around 350,000 customers to a core set of 12 products will deliver significant benefits to our customers and efficiencies in our business.

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

We expect benefits to start being realised over the coming financial year, with full benefits delivered after finalising customer migration and decommissioning legacy systems.

Post finalisation of the IT transformation this quarter, capital expenditure for future years will revert to more normalised levels of between $5m and $7m.

SLIDE 10: IT AND DIGITAL UNDERPINS THE FUTURE

Our IT transformation and the new platform underpin everything we do moving forward as a digital challenger brand.

It will accelerate our growth opportunities by combining our existing data with that of our partners to get a full understanding of our customers and actively targeting niche customer segments with compelling and appropriately priced propositions.

We will improve the customer experience with simpler, improved products, reduced wait times and fully digital self-service capability.

Our operating model is changing in response to our new technology and the type of outcomes we are now delivering. We are shifting our organisation to a more agile way of working that puts customer demand right at the centre.

We are moving away from traditional hierarchical structures and have implemented a platform operating model with three distinct layers. The first layer is the customer one, which interacts with our customers and generates product and service demand into the business.

This is supported by an insurance layer that builds new products, systems and processes to deliver on that customer demand, all of which is underpinned by an efficient business support layer who maintain our core systems and support our people.

Our people will work in cross-functional teams to test, learn and deliver outcomes for customers in short sprints.

This test and learn capability will see us look and act like a digital challenger brand and realise the benefits and opportunity that our new platform offers.

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

It allows us to quickly build products, test them with customers and modify them on an ongoing basis. We can now understand what part of a product customers rely on most and put new, niche offerings into the market.

We will utilise our new capability and functionality to develop a commercial and small business offering and trial usage based insurance. We will be able to do this quickly, by constantly testing and learning along the way.

These teams will drive our push to move 50 - 70% of all transactions online which will deliver better customer outcomes and significant cost savings and productivity gains.

The reduction in number of products from over 400, to just 12 core products, along with automation and moving low value transactions online will also drive improved efficiency.

It is pleasing to have delivered this significant piece of work successfully and with benefits being realised progressively over the coming year, with the full run rate will be achieved in FY21

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

JEFF WRIGHT

SLIDE 11: FINANCIAL PERFORMANCE TITLE SLIDE

Thank you Richard and good morning everyone

SLIDE 12: FINANCIAL PERFORMANCE CONSOLIDATED GROUP

Looking at the consolidated results, we can see that continued growth, improved claims costs and a benign weather environment have all contributed to Tower's pleasing results.

We have continued to deliver solid growth this year, with gross written premium increasing $20.7m and net earned premium increasing $21.9m. At the same time, claims costs have reduced $10.6m with underlying profit after tax improving by $13.9m to $27.4m.

As a result of new over-cap claims from the EQC, we have increased provisions for the potential receipt of further over-caps. This second-half increase resulted in a second-half impact of $1.3m after tax, which resulted in a full year after-tax impact on reported profit of $6m.

In all other respects, the CEQ portfolio is performing well and in line with expectations, with the exception of new over-cap claims from the EQC.

You can see more information on page 29, but at a high level, over the past year we have closed 117 claims, while receiving 45 completely new over-cap claims from the EQC. As of 31 October 2019, 95 CEQ claims remain open.

While we continue to make progress closing these claims, the continued receipt of over-caps from the EQC is frustrating and has hampered our efforts to close out claims once and for all and we continue to push for a permanent fix.

Overall, our reported profit of $16.8 million after tax is a significant improvement, up $23.5 million on the same period last year.

In addition to the strong reported results, our combined ratio has decreased to 88.8%, 6.6 points lower than last year.

SLIDE 13: MOVEMENT IN UNDERLYING PROFIT BEFORE TAX

Slide 13 details the key drivers of the increase in underlying profit before tax from financial year 2018, to financial year 2019.

The strong growth is reflected in the $20m increase in net earned premiums, a combination of growth in our core portfolio and our risk-based pricing approach.

On this slide you can also see the improvement in both large event claims and BAU claims costs.

Growth in our risk count has resulted in an increase in our claims expenses for NZ, but benign weather and remediation across key Pacific portfolios has delivered an overall decrease in claims costs.

As Richard mentioned earlier, management expenses are higher due to the completion of our IT transformation and investment in customer migration.

As you can see, this is a strong result, delivered by an ongoing focus on our strategy.

SLIDE 14: FINANCIAL PERFORMANCE NEW ZEALAND

Our strategy is driving real and strong improvement in our New Zealand business, with positive results across the board showing the strength of the core business.

The majority of growth in Tower's GWP occurred in our NZ markets, with an increase of $18.9m achieved in gross written premium.

A change in mix and more efficient reinsurance is seeing more gross earned premium flow through to net earned premium, with an $19.3m improvement in NEP.

We have improved and stabilised our loss ratio, reducing it 5 points to 52.2%. This is a result of ongoing underwriting excellence, pricing improvements and a benign weather environment.

You can see here that our management expense ratio in New Zealand is flat. This 37.9% includes our additional investment in IT, which highlights our ongoing focus on reducing management costs.

Underlying profit improved $9.3m, to $22.1m, and along with the combined ratio of 90.1% demonstrates the success of the strategy we have in place and the work we are doing.

SLIDE 15: IMPROVED NZ CLAIMS RATIO

New Zealand claims expenses have decreased significantly 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.

Last year we informed you of an adjustment relating to the 2017 financial year which increased our base claims ratio, this was a one-off issue for FY 2018.

While in prior years, we've borne the brunt of severe weather, this year we've benefited from improved weather conditions which have resulted in a 2.7% decrease in our claims ratio.

Our new, simpler products have contributed to a reduction in NZ Contents claim frequency. While our risk-based pricing approach is delivering benefits in NZ house, this has been offset by a higher frequency of large house fires in the second half of FY 2019.

Good weather also means more people out exploring New Zealand and as a result, in our motor portfolio, we have seen an increase in claims frequency.

While our result is pleasing and we have delivered significant improvements, we remain focussed on refining our products and pricing approach to ensure we continue addressing claims costs.

SLIDE 16: FINANCIAL PERFORMANCE PACIFIC

We are pleased to see contributions from our Pacific business return to historic levels.

Vanuatu, Tonga, Samoa, American Samoa and the Cook Islands have returned to growth thanks to additional underwriting, pricing and marketing support for our local teams.

This growth was offset by more disciplined growth in Papua New Guinea, remediation of the Fiji motor portfolio and nationalisation of the Worker's Compensation and Comprehensive Third Party schemes in Fiji.

Overall, Pacific gross written premium was slightly up, increasing to $60.2 million, but quality of business has improved.

A benign weather environment and less commercial fires across the islands have resulted in a significant improvement in claims costs. Total claims costs across the Pacific reduced $9.2 million.

The slight increase in management expenses is primarily due to the continued investment in the Pacific operations centre.

While the overall result for the Pacific is a return to historic norms, we are confident that there remains opportunity in the Pacific business and that it will continue to contribute significantly to group profit.

SLIDE 17: IMPROVEMENTS IN PACIFIC

Having been impacted by a number of severe weather events over the past few years, claims ratios and contributions from our Pacific business have now returned to historic levels.

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

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

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

Our recently launched operation centre in the Pacific has helped bring greater discipline and consistency across the region ensuring we grow within our risk appetite.

SLIDE 18: SOLID SOLVENCY POSITION

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

Tower Insurance consulted with RBNZ to understand likely capital requirements to support the acquisition and on-going business of Youi

NZ, with discussion also covering Tower Insurance's existing solvency capital. This included conversations on Tower Insurance's EQC receivable, which at the time formed part of Tower Insurance's solvency capital

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

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

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

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

SLIDE 19: THE YOUI ACQUISITION

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

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

We have completed a number of steps in this process and a formal application has been lodged with the RBNZ. We are hopeful to receive approval by the end of the year.

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

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

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

SLIDE 20: IMPROVED REINSURANCE OUTCOMES

As Richard said earlier, managing risk is at the heart of what we do as an insurer and a continued focus on underwriting excellence has allowed us to provide increased protection and certainty on favourable terms.

We have taken significant steps to ensure our exposure to large events and the resulting volatility is reduced by reinvesting savings back into our reinsurance programme.

We have:

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

Savings from the improved efficiency of our reinsurance programme will continue to be reinvested and we expect ongoing modest improvements in our reinsurance ratio.

Thank you for listening and I will now hand over to Richard who will provide an update on our strategic plan.

RICHARD HARDING

SLIDE 21: FUTURE OUTLOOK TITLE SLIDE

SLIDE 22: CHALLENGING THE MARKET TO GROW

Over the past four years we have fixed the business and turned Tower around, despite the distractions of takeovers, legacy issues and unprecedented weather events.

We now have a strong base to work from and implementing our strategy that leverages technology and allows us to truly challenge the market.

We now have the clear air necessary to create a company that challenges the traditional insurance industry norms, and uses this differentiation and challenger positioning to drive substantial growth.

Our customers have told us that New Zealand insurers are complacent and lack transparency, which has led to a lack of trust.

We believe that people deserve better.

Our strategy is built on this belief and we are now creating a company that sets the bar for how insurance should be.

It's the right thing to do and it is going to drive industry wide change and deliver growth for Tower.

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

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

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

We will set the bar for how insurance should be.

And you have already seen and heard great evidence of this:

- Our simple policies have won plain English awards, so customers can now easily understand what they're covered for
- We implemented risk-based pricing – so you pay fairly for the specific level of risk your property faces
- We committed to removing the catch-all duty of disclosure question
- And internally we've seen significant shifts in our culture and engagement – our people are passionate about doing things differently and that is delivering these good outcomes

And this is just the start.

Tower is radically different from the company it was four years ago. We are now positioned to take on the New Zealand insurance market and challenge the large incumbent organisation who are slow to adapt.

We are offering customers something better which will drive growth and real value for our shareholders.

SLIDE 23: SETTING UP FOR 2021

Our plan has driven change and transformed the business. The work we have completed over the past few years has set us up well for the future and our focus is now firmly on delivering shareholder value.

The coming 12 months is the transition year that will ensure we deliver the full benefits of the new IT platform from FY21.

As I mentioned earlier, one of our biggest priorities this year is to migrate our 350,000 customer to our new platform, which will be completed by the end of the 2020 calendar year.

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

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

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

We will be able to accelerate growth opportunities, improve customer experience, and combined with our push to move 50 - 70% of all transactions online, deliver significant cost savings and productivity gains.

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

In the Pacific, our new operations centre will support local teams through improved product, pricing and underwriting capability to ensure we grow sustainably.

In short, we will continue to drive our customer centred strategy forward, trying hard to raise the bar for the industry by putting customers first and using our new technology.

Our strategy and the work we are doing are closely aligned with the outcomes of the recent conduct and culture reviews. While we know we're not perfect and there's work to do, we are making progress and working hard to maintain and build trust with our customers and stakeholders

What we have achieved and the plan we have in place sets us up well for the future and will build trust, drive growth and deliver shareholder value.

SLIDE 24: FY20 FINANCIAL OUTLOOK

We are confident in the strength of our strategy and the performance of the underlying business. While FY20 is a year of transition, we expect solid growth and profitability to continue and are providing a guidance for FY20.

Guidance for Tower's underlying NPAT in FY20 is a range of between $27m to $30m, based on the following assumptions:

- General insurance market conditions remain positive for growth and pricing, allowing GWP growth consistent with FY19, in addition to growth generated by the acquisition of the Youi portfolio
- Return to long run average large event costs of $8m per annum pre-tax, compared with FY19 $1.3m pre-tax.
- Youi will contribute approximately $2m to Underlying NPAT ($4m pre-amortisation of goodwill) reflecting the pro rata inclusion of 9 months of its full year

FY20 guidance also includes a heightened level of management expenses of $5m - $7m pre-tax due to the transition to the new IT platform, including:

- Additional costs of operating an additional IT platform in parallel during the period of transitioning of policies to the new EIS platform and subsequent decommissioning of the old platform
- Additional resources to ensure effective transitioning of policies to the new EIS platform and to handle the more manual processes on the old platform

In addition to other productivity gains, the Board expect these costs to be removed from Tower's expense base in the year after migration is completed and, by early FY21, Tower will be operating at or near its target MER of less than 35%

In respect to the 2019 financial year, and as previously advised, no dividend will be paid. Tower's Board has determined that in FY20, Tower will pay a dividend of 50% to 70% of reported NPAT, where prudent to do so

Today's reported profit demonstrates the strength and opportunity that exists in the Tower business.

You can be confident that our strategic plan is solidifying our position as a digital challenger and will deliver you significant long-term value.

Before I ask for questions, I want to thank the Tower Board for their continued support and the Tower team for the effort they have put in and the continuous improvement we have seen as a result.

Thank you.

ENDS