



TOWER LIFE (N.Z.) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2012

TOWER LIFE (N.Z.) LIMITED
FINANCIAL STATEMENTS
For the year ended 30 September 2012

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TOWER LIFE (N.Z.) LIMITED
DIRECTORS REPORT
For the year ended 30 September 2012

The Directors of TOWER Life (N.Z.) Limited present their report and financial statements of the Group for the year ended 30 September 2012.

During the year the Group undertook its principal activity of providing life insurance services and investment management.

The after tax profit for the year was \$4,417k (2011: \$3,156k). Shareholders' equity at the end of the year totals \$26,893k (2011: \$28,936k). Directors consider the state of affairs of the Group to be satisfactory.

No disclosure has been made in respect of Section 211 (1)(a) and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with section 211 (3) of the Act.

The Group has arranged Directors' liability insurance for directors and officers of the Company and its related companies which ensures that generally directors and those officers will incur no monetary losses as a result of actions undertaken by them in the course of their duties. Such insurance arrangements exclude certain actions such as the incurring of penalties or fines that may be imposed for breaches of the law.

The Directors in office at the date of this report are: R. Flannagan, M. Boggs, B. Walsh.

The Directors wish to thank all staff for their loyalty, application and support during the year.

The Board of Directors of TOWER Life (N.Z.) Limited authorised these financial statements, for issue on the 28 November 2012.

For and on behalf of the Board:

Director:



Date:

28-11-12

Director:



Date:

28-11-12

TOWER LIFE (N.Z.) LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
For the year ended 30 September 2012

		Group		Company	
		2012	2011	2012	2011
	Note	\$000	\$000	\$000	\$000
Premium revenue from insurance contracts		30,575	30,518	30,575	30,518
Less: reinsurance expense		(8,492)	(10,354)	(8,492)	(10,354)
Net premium revenue	4	22,083	20,164	22,083	20,164
Investment revenue	5	97,139	40,617	98,106	40,617
Net operating revenue		119,222	60,781	120,189	60,781
Claim expense		56,213	60,198	56,213	60,198
Less: reinsurance recoveries revenue		(6,032)	(8,625)	(6,032)	(8,625)
Net claims expense	6	50,181	51,573	50,181	51,573
Increase / (decrease) in policy liabilities	7	33,662	(11,689)	33,662	(11,689)
Management and sales expenses	8	11,786	12,608	11,702	12,608
Net claims and operating expenses		95,629	52,492	95,545	52,492
Profit before taxation		23,593	8,289	24,644	8,289
Income tax expense	9	(19,176)	(5,133)	(19,187)	(5,133)
Total continuing profit and comprehensive income		4,417	3,156	5,457	3,156

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

TOWER LIFE (N.Z.) LIMITED
BALANCE SHEETS
As at 30 September 2012

		Group		Company	
		2012	2011	2012	2011
	Note	\$000	\$000	\$000	\$000
Assets					
Cash and cash equivalents	20	4,560	15,926	2,194	15,926
Receivables	10	30,537	29,665	29,607	29,665
Intercompany receivables	23	88	1,402	77	1,402
Financial assets at fair value through profit or loss	17	625,870	613,882	546,836	613,882
Derivative financial assets	17	91,026	69,106	91,026	69,106
Liabilities ceded under reinsurance	16	13,470	13,813	13,470	13,813
Prepaid tax assets	9(B)	-	10,684	-	10,684
Policyholder loans		4,925	4,862	4,925	4,862
Investment in subsidiaries	11	-	-	94,266	-
Deferred tax asset	9(C)	11,703	-	-	-
Total assets		782,179	759,340	782,401	759,340
Liabilities					
Payables	12	3,185	3,041	2,367	3,041
Intercompany payables	23	978	2,069	978	2,069
Derivative financial liabilities	17	46	1,903	46	1,903
Employee provisions		94	45	94	45
Current tax liabilities		1,738	4,195	1,738	4,195
Insurance liabilities	13	6,297	6,676	6,297	6,676
Deferred tax liability	9(C)	1,020	770	1,020	770
Life insurance contract liabilities	16	714,452	683,621	714,452	683,621
Life investment contract liabilities	16	27,476	28,084	27,476	28,084
Total liabilities		755,286	730,404	754,468	730,404
Net assets		26,893	28,936	27,933	28,936
Equity					
Contributed equity	14	10,000	10,000	10,000	10,000
Retained earnings	15	16,893	18,936	17,933	18,936
Total equity		26,893	28,936	27,933	28,936

The financial statements were approved for issue by the Board on 28 November 2012.


Rob Flannagan
Director


Michael Boggs
Director

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

TOWER LIFE (N.Z.) LIMITED
STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 September 2012

Group

	Note	Attributed to shareholders		
		Contributed equity \$000	Retained earnings \$000	Total equity \$000
Year ended 30 September 2012				
At the beginning of the year		10,000	18,936	28,936
Comprehensive income				
Profit for the year		-	4,417	4,417
Total comprehensive income		-	4,417	4,417
Transactions with shareholders				
Dividends paid	23	-	(6,460)	(6,460)
Total transactions with shareholders		-	(6,460)	(6,460)
At the end of the year		10,000	16,893	26,893
Year ended 30 September 2011				
At the beginning of the year		10,000	15,780	25,780
Comprehensive income				
Profit for the year		-	3,156	3,156
Total comprehensive income		-	3,156	3,156
At the end of the year		10,000	18,936	28,936

Company

	Note	Attributed to shareholders		
		Contributed equity \$000	Retained earnings \$000	Total equity \$000
Year ended 30 September 2012				
At the beginning of the year		10,000	18,936	28,936
Comprehensive income				
Profit for the year		-	5,457	5,457
Total comprehensive income		-	5,457	5,457
Transactions with shareholders				
Dividends paid		-	(6,460)	(6,460)
Total transactions with shareholders		-	(6,460)	(6,460)
At the end of the year		10,000	17,933	27,933
Year ended 30 September 2011				
At the beginning of the year		10,000	15,780	25,780
Comprehensive income				
Profit for the year		-	3,156	3,156
Total comprehensive income		-	3,156	3,156
At the end of the year		10,000	18,936	28,936

The above statements of changes in equity should be read in conjunction with the accompanying notes.

TOWER LIFE (N.Z.) LIMITED
STATEMENTS OF CASH FLOWS
For the year ended 30 September 2012

		Group		Company	
		2012	2011	2012	2011
	Note	\$000	\$000	\$000	\$000
Cash flows from operating activities					
Premiums received		30,556	31,135	30,556	31,135
Reinsurance revenue		6,557	10,505	6,557	10,505
Interest received		17,228	18,106	17,212	18,106
Dividends received		1,997	2,502	25,649	2,502
Investment income		48,951	21,334	41,832	21,334
Payments to policyholders		(60,052)	(69,609)	(60,052)	(69,609)
Reinsurance payments		(8,103)	(11,473)	(8,103)	(11,473)
Payments to suppliers and employees		(24,007)	(34,169)	(23,133)	(34,169)
Net cash inflow/(outflow) from operating activities	20	13,127	(31,669)	30,518	(31,669)
Cash flows from investing activities					
Net payments for financial assets		(21,422)	33,978	(37,790)	33,978
Cash from acquisition of subsidiary		3,389	-	-	-
Net cash inflow/(outflow) from investing activities		(18,033)	33,978	(37,790)	33,978
Cash flows from financing activities					
Payment of dividends		(6,460)	-	(6,460)	-
Net cash outflow from financing activities		(6,460)	-	(6,460)	-
Net (decrease)/increase in cash and cash equivalents		(11,366)	2,309	(13,732)	2,309
Cash and cash equivalents at beginning of year		15,926	13,617	15,926	13,617
Cash and cash equivalents at end of year		4,560	15,926	2,194	15,926

The above statements of cash flows should be read in conjunction with the accompanying notes.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied to all the periods presented, unless otherwise stated.

TOWER Life (N.Z.) Limited (the Company) is a profit-oriented company incorporated in New Zealand under the New Zealand Companies Act 1993. The Company is an issuer under the Financial Reporting Act 1993. The Company and its subsidiaries together are referred to in this financial report as the Group, or the consolidated entity. The address of its registered office is 22 Fanshawe Street, Auckland, New Zealand.

The financial report of the Company and the Group has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). It complies with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for profit-oriented entities.

The principal activity of the TOWER Life (N.Z.) Limited Group is providing life insurance and investment management.

Compliance with International Financial Reporting Standards (IFRS)

The financial statements and notes of TOWER Life (N.Z.) Limited comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a fair value basis with any exceptions noted in the accounting policies below.

The Company's owners or others do not have the power to amend the financial statements after they have been authorised for issue.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 September 2012 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the consolidated entity has control, being the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

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

The acquisition of controlled entities is accounted for using the acquisition method of accounting. The share of net assets of controlled entities attributable to minority interests is disclosed separately in the balance sheet, income statement and statement of comprehensive income.

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

INVESTMENT IN SUBSIDIARIES

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes directly attributable costs of investment.

PRINCIPLES UNDERLYING THE CONDUCT OF LIFE INSURANCE BUSINESS

The life insurance operations of the Group comprise the selling and administration of contracts which are classified as either life insurance contracts or life investment contracts. Contracts that include both investment and insurance elements are separated into these two elements and reported accordingly.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the life insurer, and the financial risks are substantially borne by the life insurer. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held. While the underlying assets are registered in the name of the life insurer and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the investment performance. The life insurer derives fee income from the administration of investment-linked policies.

Participating policy owner benefits, both vested and unvested, are treated as expenses when incurred and liabilities until paid.

SPECIFIC ACCOUNTING POLICIES

(A) PREMIUM REVENUE

(i) Life insurance contracts

Premiums on life insurance contracts are separated into their revenue and deposit components. Where it is not practicable to split out the two components all premiums have been recognised as revenue. Where policies provide for the payment of amounts of premiums on specific due dates, such premiums are recognised as revenue when due. Unpaid premiums are recognised as revenue only during the days of grace or where secured by the surrender values of the policies concerned. Other premiums are recognised as revenue on a cash received basis.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Life investment contracts

Under life investment contracts the life companies receive deposits from policyholders which are then invested on behalf of the policyholders. No premiums are recognised as revenue. Fees deducted from members' accounts are accounted for as fee revenue.

(B) FEE AND OTHER REVENUE

Fee revenue on investment contracts and other services provided by the Group is recognised in the period the services are provided.

(C) INVESTMENT REVENUE

Investment revenue is recognised as follows:

(i) Dividends and distributions

Revenue is recognised on an accrual basis when the right to receive payment is established.

(ii) Property income

Property income is recognised on an accrual basis.

(iii) Interest income

Interest income is recognised using the effective interest method.

(iv) Fair value gains and losses

Fair value gains and losses on financial assets at fair value through profit or loss are recognised through the statement of comprehensive income in the period in which they arise.

(D) CLAIMS EXPENSE

(i) Life insurance contracts

Claims are recognised when the liability to a policyholder under a life insurance contract has been established or upon notification of the insured event. Claims are separated into their expense and withdrawal components. Claims on risk business are treated as an expense and are recognised when a liability to the policyholder is established.

(ii) Life investment contracts

There is no claims expense in respect of investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Other claim amounts are similar to withdrawals and as such do not relate to the provision of services or the bearing of risk. Accordingly, they are not expenses and are treated as movements in life insurance contract liabilities.

(E) BASIS OF EXPENSE APPORTIONMENT

All operating expenses in respect of life insurance or life investment contracts have been apportioned between policy acquisition, policy maintenance and investment management expenses with regard to the objective when incurring the expense and the outcome achieved.

The apportionment process is adopted by applying the following methodology:

(i) Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned.

(ii) Commission expenses that cannot be allocated to a class of business, for example volume bonuses, are apportioned on the basis of new business and renewal commissions of each class, allowing for limits implied by the basis of adviser remuneration.

(iii) Investment expenses are apportioned to the classes of business on the mean balance of assets under management.

(iv) Other expenses that cannot be allocated to a particular class of business are apportioned to classes of business based on appropriate cost drivers, including number of new policies issued and related premiums, number of new units issued, mean balance of assets under management, average number of policies in-force and time and activity based allocations.

(F) POLICY ACQUISITION COSTS

(i) Life insurance contracts

The actuary, in determining the life insurance contract liabilities, takes account of the deferral and future recovery of acquisition costs which are capitalised by way of movement in life insurance contract liabilities, then amortised over the period in which they will be recoverable.

(G) OUTWARDS REINSURANCE

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract.

(H) REINSURANCE RECOVERIES

Reinsurance recoveries are recognised as revenue. Amounts recoverable are assessed in accordance with the terms of the reinsurance contracts, which is in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) TAXATION

(i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by 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).

(ii) 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.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(iii) Tax consolidation

The Company is part of the TOWER tax consolidated Group of which TOWER Limited is the head entity. All members of the tax consolidated group are jointly and severally liable for the tax liabilities of the Group.

(iv) 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.

(v) Life Insurance tax

From 1 July 2010, life insurers have been subject to a new tax regime. Two tax bases are maintained; the shareholder base which is subject to tax on life risk products (premiums less claims) and net investment income from shareholder funds, and the policyholder base which is subject to tax on net investment income from policyholder funds. The life insurer pays tax on both bases at the prevailing corporate tax rate of 28% (2011: 30%). As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

Transitional provisions are included in the new regime which effectively maintains the historical tax treatment for most policies in force on 30 June 2010 for a period of time (five years in most cases). Under the previous tax regime, the life office base was subject to tax on investment income less expenses plus underwriting income, and tax was calculated on the policyholder base as benefits accrued to policyholders under the policies. The life insurer paid tax on the higher of the two bases at the company tax rate applying at the time.

(vi) 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.

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

(J) FOREIGN CURRENCY

(i) Functional and presentation currencies

Items included in the financial statements of the Group are presented in the currency of the primary economic environment in which the entity operates. The Group's statements are presented in New Zealand dollars and rounded off to the nearest thousand dollars.

(ii) Transactions and balances

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 statement of comprehensive income.

(K) CASH AND CASH EQUIVALENTS

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. Bank overdrafts are shown within cash and cash equivalents on the balance sheet if the net position is an asset due to TOWER Group's right to offset overdrafts within its banking facility.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) ASSETS BACKING INSURANCE BUSINESS

The Group has determined that all assets of the life insurance company are assets backing the policy liabilities of the life insurance business including life insurance contract liabilities and life investment contract liabilities.

As these assets are managed under the Group's Risk Management Statement on a fair value basis and are reported to the Board on this basis, they have been measured at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as follows:

- cash assets and bank overdrafts are carried at face value which approximates fair value;
- shares, fixed interest securities, options and units in trusts listed on stock exchanges are valued at the quoted bid price of the instrument at balance sheet date;
- unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable traded investments at balance date;
- unlisted unit trusts are recorded at fund managers' quoted redemption prices; and,
- receivables are carried at amortised cost less any impairment, which is the approximately equal to fair value as they are settled within a short period.

(M) IMPAIRMENT OF NON FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested bi-annually for impairment. Assets with a finite useful life are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use.

For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(N) BUSINESS ACQUISITIONS

Identifiable assets acquired and liabilities assumed in a business combination are measured at fair value at acquisition date with any excess of cost over the fair value of the net assets acquired recognised as goodwill on the balance sheet. If there is negative goodwill then this is recognised directly in the statement of comprehensive income.

(O) DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

All purchases and sales of financial assets classified at fair value through profit or loss that require delivery within the timeframe established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date the Group commits to purchase or sell the assets. Loans and receivables are recognised at settlement date, which is the date that the assets are delivered or received.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. Loans and receivables are measured initially at fair value plus transactions costs and subsequently at amortised cost using the effective interest method less any impairment.

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

Financial assets at fair value through profit or loss comprise of financial assets that are either held for trading or designated on initial recognition at fair value through profit or loss. 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.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income includes any dividend or interest earned on the financial assets.

Derivatives are categorised as held for trading unless they are designated as hedges. All derivatives entered into by the Group are classified as held for trading as the Group does not apply hedge accounting.

(iii) Fair value

The fair value of the Group's financial assets and liabilities that are measured at fair value is determined based on available market prices or using appropriate valuation methods if these are not traded in an active market. Financial instruments carried at fair value are categorised into the three level fair value hierarchy based on significance of inputs used in the measurement. Level 1 includes inputs of quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 3 includes inputs for the assets or liabilities that are not based on observable market data.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(P) POLICYHOLDER LOANS

Loans made to policyholders are recognised initially at fair value. The corresponding policy surrender value is held as collateral for the loans in case of non-payment and consequently the Group's exposure to bad debt risk is negligible. Interest is receivable on the loans at the applicable rates.

(Q) IMPAIRMENT OF FINANCIAL ASSETS

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. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

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 an allowance account, against which an uncollectible trade receivable is written off.

A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Group will be unable to collect the amount. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income.

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 statement of comprehensive income 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 allowance account.

(R) PAYABLES

These amounts 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 net of transaction costs and subsequently measured at amortised cost using the effective interest method.

(S) PROVISIONS

Provisions are only 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 at the best estimate of future cash flows discounted to present value where the effect is material.

(T) EMPLOYEE ENTITLEMENTS

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, but excludes share-based payments. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided up to the balance date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities which have terms to maturity approximating the terms of the related liability.

(U) CAPITAL GUARANTEES

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the statement of comprehensive income. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

(V) LIFE INSURANCE LIABILITIES

The Group's life insurance liabilities are split between life insurance contracts and life investment contracts. Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4 Insurance Contracts. Life investment contracts are accounted for in accordance with NZ IAS 18 Revenue and NZ IAS 39 Financial Instruments: Recognition and Measurement.

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no insurance risk, but which give rise to a financial asset and/or liability under NZ IAS 39. Contracts that contain a discretionary participating feature are also classified as life insurance contracts.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Life investment contract liabilities

These contracts are designated at inception as at fair value through profit or loss and subsequently measured at fair value with any change in value being recognised in the statement of comprehensive income. Fair value is the current value of units plus investment fluctuation reserves subject to a minimum of current surrender value.

The Group designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising gains or losses on different basis.

(ii) Life insurance contract liabilities

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS).

Under MoS the excess of premium received over claims and expenses, 'the profit margin', is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder 'the service', hence the term Margin on Services.

Life insurance contract liabilities are determined using either the projection method or accumulation method as referred to in note 16. Under the projection method the policy liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future. When the benefits under the life insurance contract liability are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate on those assets. Where the benefits are not linked to the performance of the backing assets, a risk free discount rate is used. The risk free discount rate is determined by the Chief Actuary based on the zero coupon swap rates, depending on the nature, structure and term of the contract liabilities.

The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date.

(W) CASH FLOWS

The statements of cash flows present the net cash flows for financial assets. TOWER Life (N.Z.) Limited Group considers that knowledge of gross receipts and payments is not essential to understanding the activities of the Group and it is considered acceptable to report only the net cash flows for these items. This is based on the fact that 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.

(X) CONTRIBUTED EQUITY

Ordinary shares issued by the Group are classified as equity and are recognised at fair value less direct issue costs.

(Y) BUSINESS COMBINATION

Identifiable assets acquired and liabilities assumed in business combination are measured at fair value at acquisition date with any excess of cost over the fair value of the net assets acquired recognised as goodwill on the balance sheet. If there is any negative goodwill this is recognised directly in the statement of comprehensive income.

(Z) COMPARATIVES

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current year.

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group makes estimates and assumptions 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. The key areas where critical accounting estimates are applied are noted below.

(A) POLICY LIABILITIES

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Company shares experience on mortality, morbidity, persistency and investment results with its customers, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 16.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(B) ASSETS ARISING FROM REINSURANCE CONTRACTS

Assets arising from reinsurance contracts are also computed 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 Company may not receive amounts due to it and these amounts can be reliably measured.

(C) TAXATION

The Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant management judgement is required in determining the worldwide provision for income taxes. There are some transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on its understanding of tax law in each relevant jurisdiction. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. 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, together with future tax planning strategies.

3. IMPACT OF AMENDMENTS TO NZ IFRS

(A) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

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 2012 or later periods, and the Group has not early adopted them. The Group expects to adopt the following new standards on 1 October after the effective date.

- NZ IFRS 9 'Financial Instruments' (effective from 1 January 2015). The standard partly replaces NZ IAS 39 and introduces requirements for classifying and measuring financial assets and liabilities. The Group is in the process of evaluating the potential effect of this standard.
- NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013). The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The standard is not expected to have a material impact on the financial statements.
- NZ IFRS 10 'Consolidated Financial statements' (effective from 1 January 2013). The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in NZ IAS 27 Consolidated and Separate Financial Statements. The standard is not expected to have a material impact on the financial statements.
- NZ IFRS 12 'Disclosure of Interests in Other Entities' (effective from 1 January 2013). The standard requires extensive disclosure of information that enables users of the financial statements to evaluate the nature of, and risks associated with, interests in other entities. The Group is in the process of evaluating the potential effect of this standard.

(B) Standards, amendments and interpretations to existing standards effective 2012 or early adopted by the Group.

The Group has early adopted the following new and amended IFRS's as of the 1 October 2011:

- NZ IAS 24, 'Related party disclosures' (effective from 1 January 2011). The revised standard amends the definition of a related party. The revised standard has not resulted in any additional disclosures.
- FRS 44, 'New Zealand additional disclosures' (effective from 1 July 2011). This standard amends multiple standards to harmonise NZ IFRS with IFRS and Australian Accounting Standards. The amendments have not had a material impact on the financial statements.
- Improvements to NZ IFRS 2010 includes various amendments effective for periods beginning on or after 1 January 2011. The amendments have not had a material impact on the financial statements.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

4. PREMIUM REVENUE

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Life insurance premiums	30,595	30,541	30,595	30,541
Life investment premiums	345	396	345	396
Total life premiums	30,940	30,937	30,940	30,937
Less: Deposits recognised as an increase in policy liabilities	(365)	(419)	(365)	(419)
Life insurance contract premiums recognised as revenue	30,575	30,518	30,575	30,518
Reinsurance ceded	(8,492)	(10,354)	(8,492)	(10,354)
Total net premium revenue	22,083	20,164	22,083	20,164

5. INVESTMENT REVENUE

Fixed interest securities ⁽¹⁾				
Interest income	17,228	18,105	17,212	18,105
Net realised gain	2,661	1,467	2,661	1,467
Net unrealised (loss)/gain	(1,495)	454	(1,472)	454
	18,394	20,026	18,401	20,026
Equity securities ⁽¹⁾				
Dividend income	1,998	2,501	25,649	2,501
Net realised gain/(loss)	5,336	(3,075)	(1,770)	(3,075)
Net unrealised gain/(loss)	16,558	(9,256)	1,001	(9,256)
	23,892	(9,830)	24,880	(9,830)
Property securities ⁽¹⁾				
Property income	1,781	2,072	1,781	2,072
Net realised gain	11,258	426	11,258	426
Net unrealised (loss)/gain	(9,906)	1,631	(9,906)	1,631
	3,133	4,129	3,133	4,129
Other ⁽²⁾				
Other investment income	191	72	191	72
Net realised gain	27,088	18,617	27,075	18,617
Net unrealised gain	24,441	7,603	24,426	7,603
	51,720	26,292	51,692	26,292
Total investment revenue				
Total investment revenue	21,198	22,750	44,833	22,750
Total net realised gain	46,343	17,435	39,224	17,435
Total net unrealised gain	29,598	432	14,049	432
	97,139	40,617	98,106	40,617

⁽¹⁾ The income and loss in these categories has been generated by financial assets designated on Initial recognition at fair value through profit or loss.

⁽²⁾ Other investment gains have been generated by derivative financial assets and financial liabilities classified as held for trading at fair value through profit or loss

6. CLAIMS EXPENSE

Life insurance claims	56,312	68,346	56,312	68,346
Life investment contract payments	3,361	3,238	3,361	3,238
Total life claims and payments	59,673	71,584	59,673	71,584
Less: Withdrawals recognised as a decrease in policy liabilities	(3,460)	(11,386)	(3,460)	(11,386)
Life insurance claims recognised as expense	56,213	60,198	56,213	60,198
Less: Reinsurance recoveries revenue	(6,032)	(8,625)	(6,032)	(8,625)
Total net claims expense	50,181	51,573	50,181	51,573

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

7. MOVEMENT IN POLICY LIABILITIES

	Group and Company	
	2012	2011
	\$000	\$000
Increase/(decrease) in life insurance contract liabilities	31,254	(10,855)
Increase/(decrease) in life investment contract liabilities	2,408	(834)
Increase/(decrease) in policy liabilities	33,662	(11,689)

8. MANAGEMENT AND SALES EXPENSES

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Life insurance contracts				
Policy maintenance expenses:				
Commission	2,437	2,421	2,437	2,421
Other maintenance expenses	5,871	6,039	5,871	6,039
Investment management expenses	3,199	3,911	3,199	3,911
Total life insurance expenses	11,507	12,371	11,507	12,371
Life investment contracts				
Policy maintenance expenses:				
Commission	39	11	39	11
Other maintenance expenses	156	226	156	226
Total life investment expenses	195	237	195	237
Other non-life expenses	84	-	-	-
Total management and sales expenses	11,786	12,608	11,702	12,608

No audit fees were paid by the Group to its auditors during the year (2011: nil). TOWER New Zealand Limited paid all fees for audit services provided to the Group for the year ended 30 September 2012.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

9. TAXATION

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
(A) CURRENT TAX EXPENSE				
Analysis of taxation expense				
Current taxation	18,388	8,219	18,390	8,219
Deferred taxation	271	(3,015)	280	(3,015)
Under provided in prior years	517	(71)	517	(71)
Income tax expense for the year	19,176	5,133	19,187	5,133
Income tax expense attributed to policyholders	17,522	4,798	17,522	4,798
Income tax expense attributed to shareholders	1,654	335	1,665	335
	19,176	5,133	19,187	5,133

The tax expense recognised can be reconciled to the accounting profit as follows:

Profit before taxation	23,593	8,289	24,644	8,289
Income tax at the current rate of 28% (2011: 30%)	6,606	2,487	6,900	2,487
Taxation effect of non deductible expenses / non-assessable revenue:				
Life insurance companies permanent differences	17,748	6,354	17,748	6,354
Change in tax rates	-	(55)	-	(55)
Recognition of prior period current tax	517	(71)	517	(71)
Non taxable Policyholder Australasian equity (gains)/losses	(5,708)	3,055	916	3,055
Release of deferred tax liability on Policyholder Australasian equity (gains)/losses	-	(2,917)	-	(2,917)
Non deductible losses/ (income) from PIEs	(120)	1,387	(120)	1,387
Benefit of imputation credits received	(374)	(517)	(6,998)	(517)
Adjustment to value of prepaid tax assets	-	(4,590)	-	(4,590)
Other	507	-	224	-
Income tax expense	19,176	5,133	19,187	5,133

In May 2010 legislation was passed to reduce the company tax rate from 30% to 28%. This was effective for the Group from 1 October 2011.

The Group taxation expense includes both tax on shareholder profits and on returns attributed to policyholders. The allocation of tax expense between shareholders and policyholders has been disclosed in the statement of comprehensive income.

(B) PREPAID TAX ASSETS

The prepaid tax asset has been fully utilised during the year ended 30 September 2012 to meet policyholders' current tax liabilities.

Analysed as:

Current	-	4,217	-	4,217
Non current	-	6,467	-	6,467
	-	10,684	-	10,684

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

9. TAXATION (CONTINUED)

(C) DEFERRED TAX ASSETS AND LIABILITIES

Group	Opening balance at 1 October \$000	Assets/ liabilities held for sale \$000	Charged/ (credited) to income statement \$000	Acquired on acquisition of subsidiary \$000	Closing balance at 30 September \$000
2012					
Movements in deferred tax assets					
Tax losses	-	-	26	11,677	11,703
Total deferred tax assets	-	-	26	11,677	11,703
Movements in deferred tax liabilities					
Unrealised gains	699	-	175	-	874
Receivables	71	-	75	-	146
Total deferred tax liabilities	770	-	250	-	1,020
Net deferred tax	(770)	-	(224)	11,677	10,683
2011					
Movements in deferred tax assets					
Provisions and accruals	21	-	(21)	-	-
Total deferred tax assets	21	-	(21)	-	-
Movements in deferred tax liabilities					
Unrealised gains	3,806	-	(3,107)	-	699
Receivables	-	-	71	-	71
Total deferred tax liabilities	3,806	-	(3,036)	-	770
Net deferred tax	(3,785)	-	3,015	-	(770)

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

9. TAXATION (CONTINUED)

Company	Opening balance at 1 October \$000	Assets/ liabilities held for sale \$000	Charged/ (credited) to income statement \$000	Closing balance at 30 September \$000
2012				
Movements in deferred taxation liabilities				
Unrealised gains	699	-	175	874
Receivables	71	-	75	146
Total deferred tax liabilities	770	-	250	1,020
Net deferred tax	(770)	-	(250)	(1,020)
2011				
Movements in deferred taxation assets				
Provisions and accruals	21	-	(21)	-
Total deferred tax assets	21	-	(21)	-
Movements in deferred taxation liabilities				
Unrealised gains	3,806	-	(3,107)	699
Receivables	-	-	71	71
Total deferred tax liabilities	3,806	-	(3,036)	770
Net deferred tax	(3,785)	-	3,015	(770)
	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Net deferred tax				
Expected to crystallise in the next 12 months	2,881	(770)	(1,020)	(770)
Not expected to crystallise in the next 12 months	7,802	-	-	-
	10,683	(770)	(1,020)	(770)

(D) IMPUTATION CREDIT ACCOUNT

TOWER Limited, the ultimate parent company of the Group, holds an imputation credit account as the representative member of the TOWER consolidated tax group to which the Group belongs.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

10. RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Reinsurance receivable	1,998	2,523	1,998	2,523
Outstanding premiums and trade receivables	26,270	25,886	26,270	25,886
Unsettled investment sales	622	595	622	595
Other	1,647	661	717	661
Total receivables	30,537	29,665	29,607	29,665
Analysed as:				
Current	8,892	7,362	7,962	7,362
Non current	21,645	22,303	21,645	22,303
	30,537	29,665	29,607	29,665

11. INVESTMENT IN SUBSIDIARIES

	Company	
	2012	2011
	\$000	\$000
Investments in controlled entities at cost	94,266	-

TOWER Life (N.Z.) Limited owns 100% holding in TAM International Trust Income Fund (2011: 52%). TAM International Trust Income Fund is a unitised investment fund with a balance date of 30 September. Refer to note 27 for additional information.

12. PAYABLES

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Trade payables	816	-	-	-
Reinsurance payables	1,232	843	1,232	843
Other payables	1,116	2,010	1,114	2,010
Unsettled investment purchases	21	188	21	188
Total payables	3,185	3,041	2,367	3,041
Analysed as:				
Current	3,185	3,041	2,367	3,041
	3,185	3,041	2,367	3,041

13. INSURANCE LIABILITIES

	Group and Company	
	2012	2011
	\$000	\$000
Outstanding claims – life	6,297	6,676
	6,297	6,676
Analysed as:		
Current	6,297	6,676
Non-current	-	-
	6,297	6,676

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

14. CONTRIBUTED EQUITY

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Ordinary share capital				
Fully paid	10,000	10,000	10,000	10,000
Represented by:	Number of shares	Number of shares	Number of shares	Number of shares
	000's	000's	000's	000's
Ordinary shares	10,000	10,000	10,000	10,000

All shares rank equally with one vote attached to each share.

15. RETAINED EARNINGS

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Retained earnings				
Balance at 1 October	18,936	15,780	18,936	15,780
Net profit for the year	4,417	3,156	5,457	3,156
Dividends paid (\$0.65 per share)	(6,460)	-	(6,460)	-
Closing balance at 30 September	16,893	18,936	17,933	18,936

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

16. LIFE INSURANCE BUSINESS

(A) POLICY LIABILITIES

	Group and Company	
	2012	2011
	\$000	\$000
Life insurance contract liabilities		
<i>Value of policy liabilities – Projection Method</i>		
Future policy benefits	569,657	501,823
Future bonuses	122,385	158,914
Future expenses	52,319	46,862
Future profit margins	31,244	40,405
Future premiums	(107,586)	(111,352)
	668,019	636,652
<i>Value of policy liabilities – Accumulation Method</i>		
Future policy benefits	10,488	9,449
Unvested policy benefits	22,475	23,707
Net policy liabilities - life insurance contracts	700,982	669,808
Reconciliation of movements in life insurance contract policy liabilities		
Gross life insurance liabilities at 1 October	683,621	699,504
Increase/(decrease) in liabilities ceded under reinsurance	(343)	3,097
Increase/(decrease) in life insurance contract liabilities recognised in the income statement	31,254	(10,855)
Deposits recognised as an increase in policy liabilities	20	23
Withdrawals recognised as a decrease in policy liabilities	(99)	(8,148)
Gross life insurance liabilities at 30 September	714,452	683,621
Life investment contract liabilities		
<i>Value of policy liabilities – Accumulation Method</i>		
Future policy benefits	27,476	28,084
Gross policy liabilities - life investment contracts	27,476	28,084
Reconciliation of movements in investment contract policy liabilities		
Gross life investment contract liabilities at 1 October	28,084	31,759
Increase/(decrease) in life investment contract liabilities recognised in the income statement	2,408	(834)
Deposits recognised as an increase in policy liabilities	345	397
Withdrawals recognised as a decrease in policy liabilities	(3,361)	(3,238)
Gross life investment contract liabilities at 30 September	27,476	28,084
Total gross policy liabilities	741,928	711,705

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

16. LIFE INSURANCE BUSINESS (CONTINUED)

	Group and Company	
	2012	2011
	\$000	\$000
Liabilities ceded under reinsurance		
Balance at 1 October	13,813	10,716
Movement in income statement	(343)	3,097
Balance at 30 September	13,470	13,813
Net policy liabilities	728,458	697,892
Gross policy liabilities analysed as:		
Current	23,042	19,320
Non current	718,886	692,385
	741,928	711,705
Liabilities ceded under reinsurance analysed as:		
Current	7,256	3,183
Non current	6,214	10,630
	13,470	13,813

The Company has designated life investment contract liabilities at fair value through profit or loss. The impact on the fair value of these liabilities resulting from changes in credit risk recognised during the year is nil (2011: nil), except where the fair value of investment assets backing these liabilities is impacted by changes in credit risk. Any such impact on the investment assets is reflected in the movement in the fair value of these contracts.

(B) ANALYSIS OF LIFE INSURANCE AND LIFE INVESTMENT CONTRACT RESULTS

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Life insurance contracts				
Planned profit margins	3,916	3,905	3,916	3,905
Experience loss	(1,462)	(1,367)	(422)	(1,367)
Capitalised loss recognition	198	(372)	198	(372)
Other movement	-	-	-	-
Investment earnings on assets in excess of policy liabilities of life companies	1,504	718	1,504	718
Operating profit after tax attributable to shareholders arising from life insurance contracts	4,156	2,884	5,196	2,884
Life investment contracts				
Planned profit margins	25	47	25	47
Experience profit	236	225	236	225
Operating profit after tax attributable to shareholders arising from life investment contracts	261	272	261	272

All operating profit after tax arising from life insurance and life investment contracts is attributed to the shareholders.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

(C) SOLVENCY REQUIREMENTS OF LIFE FUNDS

Separate to policy liabilities recognised in the balance sheet, the life insurance funds maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance company.

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standard for Life Insurance Business published by the Reserve Bank of New Zealand. In 2011 the solvency requirement was assessed in accordance with Professional Standard No. 5.01 'Solvency Reserving for Life Insurance Business' issued by the New Zealand Society of Actuaries. The new solvency requirements issued by the Reserve Bank of New Zealand, was introduced under the new Insurance (Prudential Supervision) Act 2010 enacted on the 7 September 2010. The new standard requires an increase in the amount of capital to be held, as a result the solvency margin as at 30 September 2012 is lower than the excess assets shown as at 30 September 2011.

The minimum equity required to be retained to meet solvency requirements over and above the policy liabilities is shown below. The shareholder equity retained in each of the life insurance funds exceeds these minimum.

		2012
		\$000
		<hr/>
Actual Solvency Capital		12,415
Minimum Solvency Capital		11,494
Solvency Margin		<hr/> 921 <hr/>
		 2011
		\$000
		<hr/>
Solvency requirement	A	695,743 <hr/>
Represented by:		
Policyholder liabilities		674,191
Other liabilities		18,700
Solvency reserve	B	2,852
Solvency requirement		<hr/> 695,743 <hr/>
Assets available to meet solvency reserve:	C	52,643
less solvency reserve	B	2,852
Excess assets above required		<hr/> 49,791 <hr/>
Coverage of required solvency reserve	C/B	18.46

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

16. LIFE INSURANCE BUSINESS (CONTINUED)

(D) SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS – LIFE INSURANCE

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2012. The Chief Actuary, John Feyter, BSc, FNZSA, FIA has calculated policy liabilities for the Group. The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

This note summarises the assumptions made and the methods adopted for the calculation of policy liabilities and solvency requirements.

(a) Policy liabilities

Policy liabilities for the Company have been determined in accordance with Professional Standard No.3 "Determination of Life Insurance Policy Liabilities" issued by the New Zealand Society of Actuaries. This standard requires that policy liabilities be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins as services are provided to policyholders.

Valuation of policy liabilities

Policy liabilities comprise the amount required to pay the expected future benefits and expenses after receiving expected future premiums and investment earnings.

The value of policy liabilities may also include a component for profit margins on existing business that will be earned as services are provided to policy owners over the time the relevant policies are held with the Group.

The Group incurs costs in selling new policies. Any costs not recovered by specific charges received from the policy owner at inception are normally deferred. New business selling costs (or acquisition costs) related to the acquisition of new business are deferred as long as the underlying policies are expected to be profitable. Where costs are deferred, they are recovered from premiums or charges receivable in the future.

Methods used to value policy liabilities

(i) Projection method

The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, expenses) plus profit margins to be released in future periods, to establish the value of policy liabilities. The value of expected future premiums is deducted from the value of expected benefit and expense payments to arrive at the obligation to policy owners.

(ii) Accumulation method

The accumulation method is only used if the results are not materially different from the projection method. Under the accumulation method for risk policies the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported. For investment policies, the policy liability is determined as the policy account balance including accrued interest to the balance date, plus investment fluctuation reserves subject to a minimum of the current surrender value.

Methods used

Where the policy liability is determined by the projection method, actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called 'profit carriers'. The profit carriers adopted for the major product groups are shown in the table below:

MAJOR PRODUCT GROUPS	METHOD	PROFIT CARRIERS (for business valued using projection method)
Traditional participating	Projection	Cost of supportable bonus
Traditional non-participating, renewal and level term and mortgage repayment insurance	Projection	Expected death claims
Annuities	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance	Projection	Expected claims
Non-participating investment account	Accumulation	
Group risk insurances and renewable insurances	Accumulation	

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16. LIFE INSURANCE BUSINESS (CONTINUED)

(b) Disclosure of assumptions

The following table summarises the key assumptions used in the calculation of policy liabilities, together with notes on any significant changes in the assumptions:

REQUIRED ASSUMPTION	BASIS OF ASSUMPTION (By product group)	ASSUMPTIONS
Discount rates for participating business	As the value of benefits is contractually linked to the performance of assets, a discount rate based on the market return on the asset backing policy liabilities is used. The discount rate assumed in calculating policyholder liabilities was derived from the expected long term average rates of return for the assets pool backing this business, based on the benchmark asset mix. Discount rates assumed are net of taxation and investment expense.	The discount rates used are as follows: September 2012 3.1% net of tax September 2011 4.7% net of tax
Discount rates for non-participating life insurance contracts	Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on swap rates, depending on the nature structure and term of the contract liabilities. Discount rates are assumed net of investment management expenses.	The discount rates used, net of tax are as follows: Risk Business (discount rates net of tax) September 2012 2.7% September 2011 4.4% Annuities (discount rates net of tax) September 2012 2.6% September 2011 3.0%
Inflation	Benefit indexation is before allowance for the proportion of policyholders who take up indexation.	Benefit Indexation September 2012 2.0% September 2011 2.0% Expense inflation September 2012 2.0% September 2011 2.0%
Future expenses	Future maintenance expenses have been set based on experience analyses conducted by the various companies as well as the actuaries' expectations of future expense levels. Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.	Per policy expenses Participating Business: September 2012 \$50 p.a. September 2011 \$97 p.a. Risk business: September 2012 \$55 p.a. September 2011 \$153 to \$225 p.a. Annuities: September 2012 \$55 p.a. September 2011 \$68 p.a.
Rates of taxation	Rates of taxation have been assumed to remain as under current legislation or legislation substantively enacted at the valuation date. Risk policy liabilities have been calculated on a gross of tax basis. As such there is no allowance for tax within those policy liabilities (excluding GST). GST has been allowed for at the current rate applicable.	The corporate tax rate used is September 2012 28.0% September 2011 30.0% GST rate: September 2012 15.0% September 2011 15.0%

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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16. LIFE INSURANCE BUSINESS (CONTINUED)

Mortality – participating business	Mortality assumption is based on NZ97 table adjusted for company experience. No changes were made to assumptions at September 2012	<p>Factors applied to NZ97:</p> <p>September 2012 46% to 77%</p> <p>September 2011 46% to 77%</p>
Mortality – risk products	Mortality assumption is based on NZ07 table adjusted for company experience. No changes were made to assumptions at September 2012.	<p>Factors applied to NZ07:</p> <p>September 2012 20.6% to 61.2% for non smokers. Additional loading for smokers.</p> <p>September 2011 20.6% to 61.2% for non smokers. Additional loading for smokers.</p>
Mortality – annuities	Mortality assumption is based on PML80C10 table projected to 1994 and adjusted for company experience. Factors were applied to take into account both historical (from 1994) and prospective mortality improvement. A small change was made at September 2011 to increase mortality improvement factors for middle ages.	<p>Historical and Future Improvement factors</p> <p>September 2012 1% to 3% p.a. depending on age and</p> <p>September 2011 1% to 3% p.a. depending on age and</p>
Disability income	Standard morbidity tables (CIDA) adjusted for company experience. Specific company experience is used for certain wholesale schemes.	<p>September 2012 CIDA85 adjusted</p> <p>September 2011 CIDA85 adjusted</p>
Discontinuances	Assumed discontinuance rates vary by sub-grouping within a class and vary according to the length of time tranches of business have been in-force and other relevant factors. There has been no material change to discontinuance rates as at September 2012.	<p>Annual discontinuance rates for main risk product lines:</p> <p>September 2012 0% to 13.5% p.a.</p> <p>September 2011 0% to 13.5% p.a.</p> <p>In both years additional discontinuances were assumed for ages over 65 years.</p>
Surrender values	Surrender values are based on current practice.	
Rates of future supportable participating benefits	<p>Assumed future supportable bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business.</p> <p>Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. The rate of shareholder participation assumed is 25% of the value of bonuses distributed to participating policyholders subject to policy conditions.</p> <p>Additional policy bonuses will emerge from the assets representing policyholders' unvested benefits.</p>	<p>Future supportable bonus rates as at percentage of Sum Assured:</p> <p>September 2012 0.2% to 1.3%</p> <p>September 2011 0.65% to 2.1%</p> <p>Future supportable bonus rates as a percentage of Reversionary Bonus:</p> <p>September 2012 0.5% to 0.6%</p> <p>September 2011 1.1% to 1.9%</p> <p>Future terminal bonus:</p> <p>September 2012 10.6% to 34.3%</p> <p>September 2011 6.4% to 30.1%</p>

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

16. LIFE INSURANCE BUSINESS (CONTINUED)

Effect of changes in actuarial assumptions during the reporting period

The liabilities for life insurance contracts include the value of future profit margins that are to be released over future reporting periods. The impact of assumption changes on non participating business are absorbed by the future profit margins, provided sufficient future margins exist, such that there is no change in the contract liability in the current period.

For participating business, the impact of assumption changes is absorbed by the value of future supportable bonus. The current period contract liability is impacted by the change in cost of current period supportable bonus.

The impact of the assumption changes in the current period on future profit margins in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at the valuation date) are shown below.

Where the value of future profit margins are insufficient to absorb the assumption changes, the resulting losses are recognised in the current year via a change in the contract liability. These losses may be reversed in subsequent periods should experience improve.

The life insurance contract liability calculations include the use of published market yields, such as government bond and swap rates. The changes in these yields do not represent actuarial assumption changes and they impact both life insurance contract liabilities and asset values as at the balance date.

The impact of assumption changes for life insurance contracts made during the year is shown below.

Company	Change in future shareholder profit margins	Change in next financial year's shareholder planned profit	Change in current period contract liability	Change in current period shareholder profit
2012	\$000	\$000	\$000	\$000
Assumption change				
Mortality and morbidity	-	-	-	-
Expenses	4,882	15	(1,201)	201
2011				
Assumption change				
Mortality and Morbidity	(388)	(45)	372	(372)
Expenses	1,468	135	29	(6)

(c) Sensitivity analysis

Sensitivity analysis is conducted to quantify the exposure to risk of change in the key underlying variables.

<u>Variable</u>	<u>Impact of movement in underlying variable</u>
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Company will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims costs and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming temporarily or totally and permanently disabled and, in the case of temporary disablement, the duration which they remain temporarily disabled. Higher than expected incidence and duration would increase claim costs, reducing profit and shareholder equity.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

16. LIFE INSURANCE BUSINESS (CONTINUED)

Discontinuance The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and shareholder equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.

Market risk For benefits which are not contractually linked to the underlying assets, the Company is exposed to market risk.

The valuations included in the reported results are calculated using certain assumptions about these variable as disclosed above. The movement in any key variable will impact the performance and equity of the Company. The table below describes how the change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit or loss and equity net of reinsurance to changes in assumptions.

Variable	Change in following financial year's shareholder profit and equity net of reinsurance			
	2012		2011	
	+ 10%	- 10%	+ 10%	- 10%
Company	\$000	\$000	\$000	\$000
Mortality	(227)	227	(219)	219
Morbidity claims costs	(157)	157	(166)	166
Annuitant mortality	188	(188)	175	(175)
Lapses and surrenders	94	(94)	80	(80)
Renewal expenses	(390)	390	(282)	282

The impact from changes to interest rates has been reflected in note 18(F).

(d) Life insurance risk

The life insurance business of the Company involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders. Financial risks involving the Company are in note 17.

Key objectives in managing insurance risk are;

- (i) To ensure sound business practices are in place for underwriting risks and claims management;
- (ii) To achieve a target return on capital that is invested in order to take on insurance risk;
- (iii) To ensure solvency and capital requirements are met.

Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Chief Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

(i) Underwriting management procedures

Underwriting is managed by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Company provides appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies are underwritten on the merits of an employee group as a whole, subject to certain limits for individual members.

(ii) Claim management procedures

Claims are managed through a dedicated claims team, with appropriate training and development of staff to ensure procedures are adhered to. Claims are managed to ensure timely and correct payment in accordance with policy conditions. Claims experience is reviewed regularly and appropriate actuarial reserves are established.

(iii) Reinsurance management procedures

The Company holds appropriate reinsurance arrangements to limit exposure to individual and catastrophe risks. All reinsurance arrangements are approved by the Chief Actuary.

(iv) Terms and conditions of life insurance contracts

The nature of the terms of the insurance contracts written by the Company is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cash flows are dependent.

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16. LIFE INSURANCE BUSINESS (CONTINUED)

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability including renewable term)	Guaranteed benefits paid on death, permanent and temporary disablement or maturity that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities
Life annuity contracts	These policies provide a guaranteed regular income for the life of the insured in return for an initial single premium.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, benefit inflation, expenses and market earnings on assets backing the liabilities
Traditional life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a defined initial guaranteed sum assured that is payable on death. The guarantee amount is increased throughout the duration of the policy by the addition of bonuses annually that once added are not removed. An additional (terminal) bonus is payable on claims paid as a result of death or maturity. Terminal bonus amounts are not guaranteed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to policyholders via bonuses.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities
Investment account contracts with discretionary participating features	The gross value of the premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early termination. On certain contracts withdrawals can be deferred over limited time periods.	Fees, lapses, expenses and market earnings on assets backing the liabilities

(e) Concentration of insurance risk

The Company aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographical locations for the individual and group risk business. The Company uses reinsurance to limit the insurance risk exposure for any one individual. The group risk business unit offers insurance in respect of groups of employees. The Company is exposed to a greater risk of loss from events affecting a location where groups of insured employees work. The Company has purchased catastrophe reinsurance to limit the exposure from any one group event.

(f) Liquidity risk and future net cash outflows

The table below shows the estimated timing of future cash outflows resulting from life insurance contract liabilities. This includes estimated future claims offset by expected future premiums and reinsurance recoveries. All values are discounted to the valuation date.

	Total \$000	Less than one year \$000	One to two years \$000	Two to three years \$000	Three to five years \$000	Over five years \$000
Company						
30 September 2012	585,642	35,357	32,590	31,347	56,863	429,485
30 September 2011	559,385	36,394	33,982	31,276	57,412	400,321

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

17. FINANCIAL INSTRUMENTS CATEGORIES

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

Group	Total \$000	Loans and Receivables	Fair value through profit or loss	
		\$000	Designated \$000	Held for trading \$000
As at 30 September 2012				
Financial assets				
Cash and cash equivalents	4,560	4,560	-	-
Reinsurance recoveries receivable	1,998	1,998	-	-
Outstanding premiums and trade receivables	26,270	26,270	-	-
Unsettled investments sale	622	622	-	-
Related party receivable	88	88	-	-
Other receivables	1,305	1,305	-	-
Loans on policy	4,925	4,925	-	-
Derivative financial assets	91,026	-	-	91,026
Investment in listed equity securities	93,181	-	93,181	-
Investments in fixed interest securities	485,049	-	485,049	-
Investments in property securities	47,640	-	47,640	-
Total financial assets	756,664	39,768	625,870	91,026
As at 30 September 2011				
Financial assets				
Cash and cash equivalents	15,926	15,926	-	-
Reinsurance recoveries receivable	2,523	2,523	-	-
Outstanding premiums and trade receivables	25,886	25,886	-	-
Unsettled investments sale	596	596	-	-
Related party receivable	1,402	1,402	-	-
Other receivables	278	278	-	-
Loans on policy	4,862	4,862	-	-
Derivative financial assets	69,106	-	-	69,106
Investment in listed equity securities	177,219	-	177,219	-
Investments in fixed interest securities	357,566	-	357,566	-
Investments in property securities	79,097	-	79,097	-
Total financial assets	734,461	51,473	613,882	69,106

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

17. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

Company	Total \$000	Loans and Receivables	Fair value through profit or loss	
		\$000	Designated \$000	Held for trading \$000
As at 30 September 2012				
Financial assets				
Cash and cash equivalents	2,194	2,194	-	-
Reinsurance recoveries receivable	1,998	1,998	-	-
Outstanding premiums and trade receivables	26,270	26,270	-	-
Unsettled investments sale	622	622	-	-
Related party receivable	77	77	-	-
Other receivables	375	375	-	-
Loans on policy	4,925	4,925	-	-
Derivative financial assets	91,026	-	-	91,026
Investment in listed equity securities	83,844	-	83,844	-
Investments in fixed interest securities	415,352	-	415,352	-
Investments in property securities	47,640	-	47,640	-
Total financial assets	674,323	36,461	546,836	91,026
As at 30 September 2011				
Financial assets				
Cash and cash equivalents	15,926	15,926	-	-
Reinsurance recoveries receivable	2,523	2,523	-	-
Outstanding premiums and trade receivables	25,886	25,886	-	-
Unsettled investments sale	596	596	-	-
Related party receivable	1,402	1,402	-	-
Other receivables	278	278	-	-
Loans on policy	4,862	4,862	-	-
Derivative financial assets	69,106	-	-	69,106
Investment in listed equity securities	177,219	-	177,219	-
Investments in fixed interest securities	357,566	-	357,566	-
Investments in property securities	79,097	-	79,097	-
Total financial assets	734,461	51,473	613,882	69,106

TOWER LIFE (N.Z.) LIMITED
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17. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

Group	Fair value through profit or loss			Financial liabilities at amortised cost
	Total	Designated	Held for trading	
As at 30 September 2012				
Financial liabilities				
Trade payables	816	-	-	816
Reinsurance payables	1,232	-	-	1,232
Unsettled investment purchases	21	-	-	21
Related party payables	978	-	-	978
Other payables	526	-	-	526
Derivative financial liabilities	46	-	46	-
Life investment contract liabilities	27,476	27,476	-	-
Total financial instruments	31,095	27,476	46	3,573
As at 30 September 2011				
Financial liabilities				
Reinsurance payables	843	-	-	843
Unsettled investment purchases	188	-	-	188
Related party payables	2,069	-	-	2,069
Other payables	1,194	-	-	1,194
Derivative financial liabilities	1,903	-	1,903	-
Life investment contract liabilities	28,084	28,084	-	-
Total financial instruments	34,281	28,084	1,903	4,294
Company				
As at 30 September 2012				
Financial liabilities				
Reinsurance payables	1,232	-	-	1,232
Unsettled investment purchases	21	-	-	21
Related party payables	978	-	-	978
Other payables	524	-	-	524
Derivative financial liabilities	46	-	46	-
Life investment contract liabilities	27,476	27,476	-	-
Total financial instruments	30,277	27,476	46	2,755
As at 30 September 2011				
Financial liabilities				
Reinsurance payables	843	-	-	843
Unsettled investment purchases	188	-	-	188
Related party payables	2,069	-	-	2,069
Other payables	1,194	-	-	1,194
Derivative financial liabilities	1,903	-	1,903	-
Life investment contract liabilities	28,084	28,084	-	-
Total financial instruments	34,281	28,084	1,903	4,294

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION

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. The Group's objectives and policies in respect of insurance risks are disclosed in notes 16, while the managing of financial and other non financial risks are set out in the remainder of this section.

The Group's objective is to satisfactorily manage these risks in line with the ultimate parent company's (TOWER Limited) Board approved Group risk and compliance framework policy. Various procedures are put in place to identify, mitigate and monitor 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 TOWER Limited Group Audit and Compliance Committee (GACC).

The Board has delegated to the TOWER Limited Group Audit and Compliance Committee the responsibility to review the effectiveness and efficiency of management processes, group risk management and internal financial controls and systems as part of their duties. The TOWER Limited Risk and Compliance team is in place in an oversight and advisory capacity and to manage the risk 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 delegated to the TOWER Limited Investment Committee the responsibility for:

- reviewing investment policy for shareholder and policyholder funds;
- reviewing the risk management policy and statements in respect of investment management, including the derivative policy;
- 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's investments;
- reviewing the appointment of external investment managers;
- monitoring investment and fund manager performance; and
- monitoring compliance with investment policies and client mandates.

(A) MARKET RISK

Market risk is the risk of change in the fair value of financial instruments from fluctuations in the 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.

The impact of reasonable possible changes in market risk on the Group shareholders' profit and equity is included in (F) below.

(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 Group generally elects to not hedge the capital invested in overseas entities, thereby accepting the foreign exchange translation risk on invested capital.

The TOWER Limited Investment Committee 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, the Group does not hedge the currency risk arising from translation of the financial statements of foreign operations.

The Group enters into forward foreign exchange contracts in accordance with its investment policies as economic hedges of foreign currency exposure in investments in international equities through its holdings in international equities funds. The main foreign currencies exposure of the funds is to Australian and US dollars, Japanese Yen, Euro and British Pounds. The notional amounts and contractual cash flows of these derivatives are included in (E) below.

(ii) Interest rate risk

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

The Board is responsible for the management of the interest rate risk arising from external borrowings. As at 30 September 2012 there were no interest rate swaps in place in relation to external borrowings (2011: Nil). The Group manages interest rate risk arising from its interest bearing investments in accordance with TOWER Limited Investment Committee approved policies.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Life insurance

Interest rate risk and other market risks arise in life insurance to the extent that there is a mismatch between the policyholder liabilities and assets backing those liabilities. These mismatches could impact current period operating profits.

The primary areas of mismatch for the Group's life insurance business are:

- For non-participating life insurance contracts, the mismatch between risk free discount rates used in the policy liability calculations and the backing asset values.
- For a portion of the life investment contract business, the mismatch between the value of the financial instrument liabilities (including the discount rates used in their calculation, if applicable) and the backing asset values.

Interest rate and other market risks are managed by the Group through a strategic asset allocation policy and an investment management policy that has regard to policyholder expectations and risks and to target surplus solvency as advised by the Chief Actuary.

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The Group is exposed to price risk because of its investments in publicly traded equity securities and other unit trusts.

Price risk is managed by diversification of the investment portfolio, which is done in accordance with the limits set by investment mandates and monitored by the TOWER Limited Investment Committee.

(B) 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 in 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 as well as credit exposure to trade customers or other counterparties. For banks and financial institutions the minimum credit rating accepted by the Group is 'A'. Independent ratings are used for customers that are rated by rating agencies. For customers with no external ratings, internally developed minimum credit quality requirements are applied, which take into account customers' financial position, past experience and other relevant factors. Overall exposure to credit risk is monitored on group basis in accordance with limits set by the TOWER Limited Board.

The Group has no significant exposure to credit risk.

(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 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.

	Group Carrying value		Company Carrying value	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
New Zealand government	29,704	18,620	5,641	18,620
Other government agencies	74,878	110,390	74,878	110,390
Banks	465,296	307,241	416,556	307,241
Financial institutions	5,211	2,941	5,211	2,941
Other non-investment related receivable	16,623	16,759	16,623	16,759
Other industries	24,043	20,791	23,853	20,791
Intercompany receivables	88	1,402	77	1,402
Total financial assets with credit exposure	615,843	478,144	542,839	478,144

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18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(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:

	Group		Company	
	Carrying value		Carrying value	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Cash and cash equivalents	4,560	15,926	2,194	15,926
Reinsurance recoveries receivable	1,998	2,523	1,998	2,523
Outstanding premiums and trade receivables	14,002	13,641	14,002	13,641
Unsettled investments sale	622	596	622	596
Loans and receivables	3,834	3,352	3,644	3,352
Financial assets at fair value through profit or loss	485,049	357,566	415,352	357,566
Derivative financial assets	91,026	69,106	91,026	69,106
Interest receivable	14,664	14,032	13,924	14,032
Intercompany receivables	88	1,402	77	1,402
Total credit risk	615,843	478,144	542,839	478,144

(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:

Credit exposure by credit rating

AAA	249,998	123,109	203,624	123,109
AA	315,460	265,905	289,031	265,905
A	10,483	219	10,483	219
Total counterparties with external credit rating by Standard and Poor's	575,941	389,233	503,138	389,233
Group 1	13,158	14,236	12,956	14,236
Group 1A	88	1,402	77	1,402
Group 2	-	-	-	-
Group 3	22,990	69,525	23,001	69,525
Total counterparties with no external credit rating	36,236	85,163	36,034	85,163
Total financial assets neither past due nor impaired with credit exposure	612,177	474,396	539,172	474,396

Group 1 - trade debtors outstanding for less than 6 months

Group 1A - intercompany receivable

Group 2 - trade debtors (more than 6 months) with some defaults in the past

Group 3 - unrated investments

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

None of the financial assets that are fully performing have been renegotiated in the past year (2011: Nil).

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(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 of carrying value of past due but not impaired assets held by the Group is as follows:

Group	Past due but not impaired				Total \$000
	Less than 31 days \$000	30 to 60 days \$000	61 to 90 days \$000	Over 90 days \$000	
As at 30 September 2012					
Reinsurance recoveries receivable	623	441	476	458	1,998
Outstanding premiums and trade receivables	-	652	584	433	1,669
Total	623	1,093	1,060	891	3,667
As at 30 September 2011					
Reinsurance recoveries receivable	1,348	359	277	539	2,523
Outstanding premiums and trade receivables	-	84	493	648	1,225
Total	1,348	443	770	1,187	3,748
Company					
As at 30 September 2012					
Reinsurance recoveries receivable	623	441	476	458	1,998
Outstanding premiums and trade receivables	-	652	584	433	1,669
Total	623	1,093	1,060	891	3,667
As at 30 September 2011					
Reinsurance recoveries receivable	1,348	359	277	539	2,523
Outstanding premiums and trade receivables	-	84	493	648	1,225
Total	1,348	443	770	1,187	3,748

(vi) Financial assets that are individually impaired

There were no assets that were individually impaired (2011: Nil).

For policies with a surrender or investment value, outstanding premiums are supported by the underlying assets invested. When outstanding premiums reach the value of the surrender or investment value, the assets are realised and offset against the outstanding debt. Policies with no surrender value are lapsed when outstanding premiums exceed a set value and the outstanding premiums are written off. The secured balance for the year ended 30 September 2012 is \$28,778,387 (2011: 29,491,346).

(C) 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 treasury function maintains sufficient liquid assets to ensure that the Group can meet its debt obligations and other cash outflows on a timely basis.

(i) 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 at the balance date to the contractual maturity date. All amounts disclosed are contractual undiscounted cash flows that include interest payments and exclude the impact of netting agreements.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Group	Carrying value \$000	Total contractual cash flows \$000	Less than one year \$000	On demand \$000
As at 30 September 2012				
Financial liabilities and guarantees				
Trade payable	816	816	816	-
Reinsurance payable	1,232	1,232	1,232	-
Unsettled investment purchases	21	21	21	-
Derivative financial liabilities	46	5,417	5,417	-
Life investment contract liabilities	27,476	27,476	-	27,476
Funds invested guarantee	880	880	-	880
Intercompany payables	978	978	978	-
Other payables	526	526	526	-
Total financial liabilities and guarantees	31,975	37,346	8,990	28,356
As at 30 September 2011				
Financial liabilities and guarantees				
Reinsurance payable	843	843	843	-
Unsettled investment purchases	188	188	188	-
Derivative financial liabilities	1,903	91,417	91,417	-
Life investment contract liabilities	28,084	28,084	-	28,084
Funds invested guarantee	958	958	-	958
Intercompany payables	2,069	2,069	2,069	-
Other payables	1,194	1,194	1,194	-
Total financial liabilities and guarantees	35,239	124,753	95,711	29,042
Company				
As at 30 September 2012				
Financial liabilities and guarantees				
Reinsurance payable	1,232	1,232	1,232	-
Unsettled investment purchases	21	21	21	-
Derivative financial liabilities	46	5,417	5,417	-
Life investment contract liabilities	27,476	27,476	-	27,476
Funds invested guarantee	880	880	-	880
Intercompany payables	978	978	978	-
Other payables	524	524	524	-
Total financial liabilities	31,157	36,528	8,172	28,356
As at 30 September 2011				
Financial liabilities and guarantees				
Reinsurance payable	843	843	843	-
Unsettled investment purchases	188	188	188	-
Derivative financial liabilities	1,903	91,417	91,417	-
Life investment contract liabilities	28,084	28,084	-	28,084
Funds invested guarantee	958	958	-	958
Intercompany payables	2,069	2,069	2,069	-
Other payables	1,194	1,194	1,194	-
Total financial liabilities	35,239	124,753	95,711	29,042

⁽¹⁾ Please see note 18(E) for total cash flows for forward foreign exchange contracts

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value of financial instruments traded in active markets is based on quoted market prices at balance date. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Valuation techniques used to value life investments contract liabilities are described in note 16. Refer below for details of valuation methods used for each remaining category of financial assets and liabilities.

The carrying amounts of all financial assets and liabilities reasonably approximate their fair values.

The following methods and assumptions were used by the Group in estimating the fair values of financial instruments.

(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 and held for trading

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted price at the reporting date.

(iii) Loans and receivables and other financial liabilities held at amortised cost

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

(iv) Derivative financial liabilities

The fair value of derivative financial liabilities is determined by reference to the quoted market price of the underlying equity securities.

Financial instruments that are measured in the balance sheet at fair value (excluding short term amounts held at a reasonable approximation of fair value), are categorised by the following fair value measurement hierarchy levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 - Inputs for that asset or liability that are not based on observable market data (i.e. unobservable inputs)

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

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Group	Total \$000	Level 1 \$000	Level 2 \$000
As at 30 September 2012			
Assets			
Derivative financial assets	91,026	-	91,026
Investment in equity securities	93,180	45,148	48,032
Investments in fixed interest securities	485,048	-	485,048
Investments in property securities	47,640	-	47,640
Total financial assets	716,894	45,148	671,746
Liabilities			
Derivative financial liabilities	46	-	46
Life investment contract liabilities	27,476	-	27,476
Total financial liabilities	27,522	-	27,522
As at 30 September 2011			
Assets			
Derivative financial assets	69,106	-	69,106
Investment in equity securities	177,219	48,008	129,211
Investments in fixed interest securities	357,566	-	357,566
Investments in property securities	79,097	-	79,097
Total financial assets	682,988	48,008	634,980
Liabilities			
Derivative financial liabilities	1,903	-	1,903
Life investment contract liabilities	28,084	-	28,084
Total financial liabilities	29,987	-	29,987
Company			
	Total \$000	Level 1 \$000	Level 2 \$000
As at 30 September 2012			
Assets			
Derivative financial assets	91,026	-	91,026
Investment in equity securities	83,844	45,148	38,696
Investments in fixed interest securities	415,352	-	415,352
Investments in property securities	47,640	-	47,640
Total financial assets	637,862	45,148	592,714
Liabilities			
Derivative financial liabilities	46	-	46
Life investment contract liabilities	27,476	-	27,476
Total financial liabilities	27,522	-	27,522
As at 30 September 2011			
Assets			
Derivative financial assets	69,106	-	69,106
Investment in equity securities	177,219	48,008	129,211
Investments in fixed interest securities	357,566	-	357,566
Investments in property securities	79,097	-	79,097
Total financial assets	682,988	48,008	634,980
Liabilities			
Derivative financial liabilities	1,903	-	1,903
Life investment contract liabilities	28,084	-	28,084
Total financial liabilities	29,987	-	29,987

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The Group does not hold any Level 3 investment assets.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for remaining financial instruments.

(E) 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 and foreign exchange forward contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured 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.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

The table below details the notional principal amounts (amounts used to calculate payments made on swap contracts), fair values and remaining terms of interest rate swap contracts outstanding as at reporting date:

	Average contracted fixed		Notional principal amount		Fair value	
	2012	2011	2012	2011	2012	2011
	%	%	\$000	\$000	\$000	\$000
Less than 1 year	-	4.2%	-	2,000	-	12
over 5 years	7.3%	6.2%	360,588	367,450	91,026	69,094
			360,588	369,450	91,026	69,106

Foreign exchange forward contracts are settled on a gross basis. All contracts mature within 12 months of the reporting date and their carrying values reasonably approximate undiscounted cash flows because the impact of discounting is not significant.

Company	Total contractual cash flows \$000	Less than one year \$000
As at 30 September 2012		
Forward foreign exchange contracts		
Outflow	(62,948)	(62,948)
Inflow	63,173	63,173
As at 30 September 2011		
Forward foreign exchange contracts		
Outflow	(91,417)	(91,417)
Inflow	89,514	89,514

(F) SENSITIVITY ANALYSIS

The analysis below demonstrates the impact of changes in interest rates, exchange rates and equity prices on the Group's shareholder profit 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 the Group's profit 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.

Group	2012 Impact on		2011 Impact on	
	profit after tax \$000	equity \$000	profit after tax \$000	equity \$000
<i>Change in variables</i>				
+50 basis points	(835)	(835)	(1,033)	(1,033)
-50 basis points	887	887	1,033	1,033
Company				
<i>Change in variables</i>				
+50 basis points	(814)	(814)	(1,033)	(1,033)
-50 basis points	866	866	1,033	1,033

TOWER LIFE (N.Z.) LIMITED
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For the year ended 30 September 2012

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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.

The impact of changes in market interest rates presented here excludes insurance contract liabilities, which are also affected by the changes in market interest rates that determine the discount rates applicable to these contracts.

The table below provides a sensitivity analysis in respect of changes in interest rates as applied to insurance contract liabilities. A combined effect is necessary to appreciate the sensitivity of the Group's profit to movements in interest rates.

Group and Company	2012		2011	
	Impact on		Impact on	
	profit after	equity	profit after	equity
	tax		tax	
	\$000	\$000	\$000	\$000
<i>Change in variables</i>				
<i>+50 basis points</i>	657	657	710	710
<i>-50 basis points</i>	(689)	(689)	(710)	(710)

Sensitivity to interest rates has been assessed by reference to internal investigations of the movement in insurance contract liabilities to movements in discount rates consistent with that used for internal management reporting.

(ii) Foreign currency

The table below demonstrates the impact of a 10% movement of currency rates against the New Zealand dollar on the Group's shareholder 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.

Group	2012		2011	
	Impact on		Impact on	
	profit after	equity	profit after	equity
	tax		tax	
	\$000	\$000	\$000	\$000
<i>Change in variables</i>				
<i>10% appreciation of New Zealand dollar</i>	13	13	(56)	(56)
<i>10% depreciation of New Zealand dollar</i>	(13)	(13)	56	56
Company				
<i>Change in variables</i>				
<i>10% appreciation of New Zealand dollar</i>	26	26	(56)	(56)
<i>10% depreciation of New Zealand dollar</i>	(26)	(26)	56	56

The dollar impact of the change in currency movements is determined by applying the sensitivity to the value of the unhedged international 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) Equity price

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The Group holds all of its equities at fair value through profit or loss.

The table below demonstrates the impact of a 10% movement in New Zealand equities on the profit after tax and equity of the Group. The potential impact is assumed as at the reporting date. The analysis below excludes investment linked business, which is disclosed in note 26. Investment linked business can be excluded because any asset movement will flow through to the policyholder.

TOWER LIFE (N.Z.) LIMITED
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For the year ended 30 September 2012

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Group and Company	2012		2011	
	Impact on		Impact on	
	profit after tax \$000	equity \$000	profit after tax \$000	equity \$000
<i>Change in variables</i>				
+10% in New Zealand equities	44	44	68	68
-10% in New Zealand equities	(44)	(44)	(68)	(68)

The dollar impact of the change in New Zealand equities is determined by applying the sensitivity to the value of New Zealand equities.

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.

(iv) 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 Group holds all of its investments in property securities, international equities and other unit trusts at fair value through profit or loss.

The table below demonstrates the impact of a 10% movement in the value of property funds, international equities and other unit trusts on the profit after tax and equity of the Group. The potential impact is assumed as at the reporting date.

Group	2012		2011	
	Impact on		Impact on	
	profit after tax \$000	equity \$000	profit after tax \$000	equity \$000
<i>Change in variables</i>				
+10% property funds and other unit trusts	245	245	847	847
-10% property funds and other unit trusts	(245)	(245)	(847)	(847)
+10% in International equities	45	45	197	197
-10% in International equities	(45)	(45)	(197)	(197)
Company				
<i>Change in variables</i>				
+10% property funds and other unit trusts	245	245	847	847
-10% property funds and other unit trusts	(245)	(245)	(847)	(847)
+10% in International equities	34	34	197	197
-10% in International equities	(34)	(34)	(197)	(197)

International equity assets are held via a unit trust which invests in a number of different countries. The sensitivity for each individual country is small so a breakdown by country has not been provided.

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.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

19. CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to ensure that the Group's level of capital is sufficient to enable it to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders of the Group.

The Group's capital resources include ordinary equity.

	Group	
	2012	2011
	\$000	\$000
Total shareholders equity	26,893	28,936
Total capital resources	26,893	28,936

The Group measures adequacy of their capital against published capital standards. The Group applies the Solvency Standards for Life Insurance Business and Non-life Insurance Business ("the solvency standards") published by the Reserve Bank of New Zealand.

From 31 December 2012 the Group will be required to retain the \$5,000,000 fixed capital under the solvency standards.

From 31 December 2012 the Group will be required to maintain a solvency margin of \$0. From this date actual solvency capital as determined under the solvency standards should be at or above the minimum solvency capital level. The amount retained as minimum solvency capital is shown in Note 16 (C).

During the year ended 30 September 2012 the Group complied with all externally imposed capital requirements.

The Group is required to hold assets in excess of the levels specified by the various standards so as to ensure that they continue 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 Group Audit and Compliance Committee.

20. CASH AND CASH EQUIVALENTS

(A) RECONCILIATION OF CASH AT THE END OF THE YEAR

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Cash at bank and in hand	2,060	1,412	(306)	1,412
Deposits at call	2,500	14,514	2,500	14,514
Total cash and cash equivalents	4,560	15,926	2,194	15,926

The effective interest rate for deposits at call is 3.0% (2011: 3.0%) and the balances primarily mature within three months of balance date.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

20. CASH AND CASH EQUIVALENTS (CONTINUED)

(B) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Profit attributable to shareholders	4,417	3,156	5,457	3,156
Add/(less) non cash items				
Unrealised loss/(gain) on investments	(29,598)	7,171	(14,049)	7,171
Decrease in deferred tax balances	240	(3,015)	250	(3,015)
Change in life insurance and life investment contract liabilities	30,567	(22,820)	30,567	(22,820)
	1,209	(18,664)	16,768	(18,664)
Add/(less) movements in working capital relating to operating activities				
Decrease in receivables	1,612	3,244	671	3,244
Decrease in payables	(2,339)	(34,180)	(606)	(34,180)
(Increase)/decrease in taxation	8,228	14,775	8,228	14,775
	7,501	(16,161)	8,293	(16,161)
Net cash inflows/(outflows) from operating activities	13,127	(31,669)	30,518	(31,669)

21. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at reporting date (2011: Nil). The Group is occasionally subject to claims and disputes as a commercial outcome of conducting its insurance and investment businesses. 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.

22. CAPITAL COMMITMENTS

The Group has no capital commitments at reporting date (2011: \$nil).

23. TRANSACTIONS WITH RELATED PARTIES

The Group is a wholly owned subsidiary of TOWER Health & Life Limited. The ultimate owner is TOWER Limited.

TOWER Limited Group holds a number of equity securities portfolios across a large number of New Zealand and overseas entities. A significant part of these investments are held by TOWER Life (NZ) Limited for the purposes of meeting the requirements of the life insurance business of the Group. These portfolios are managed by specialist investment managers within TOWER.

(A) RELATED PARTY BALANCES AND TRANSACTIONS

Related party receivable and payable balances of TOWER Life (N.Z.) Limited at the reporting date were as follows and are payable on demand:

Related party	2012 \$000	2011 \$000	Nature of Relationship	Type of Transactions
Group and Company				
TOWER Health & Life Limited	(350)	(437)	Parent	Operating expenses
TOWER Asset Management Limited	(4)	(1,037)	Fellow subsidiary	Operating expenses
TOWER Managed Funds Limited	77	1,402	Fellow subsidiary	Operating expenses
TOWER Managed Funds Limited	(549)	(549)	Fellow subsidiary	Operating expenses
TOWER New Zealand Limited	(75)	(46)	Fellow subsidiary	Operating expenses
Additional Group intercompany asset				
TOWER Asset Management Limited	11	-	Fellow subsidiary	Investment management fees

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

23. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

TOWER Life (N.Z.) Limited enters into transactions with its related parties in the normal course of business. Transactions during the year included partial settlement of intercompany balances and intercompany dividends as shown below:

Related party	2012	2011		
Company	\$000	\$000	Nature of Relationship	Type of Transactions
TOWER Health & Life Limited	(6,460)	-	Parent	Dividend
TOWER Health & Life Limited	(504)	(515)	Fellow subsidiary	Operating expenses
TOWER Asset Management Limited	(3,034)	(3,655)	Fellow subsidiary	Investment management fees
TOWER Managed Funds Limited	(1,548)	(1,624)	Fellow subsidiary	Operating expenses
TOWER New Zealand Limited	(2,907)	(2,426)	Fellow subsidiary	Operating expenses
TOWER New Zealand Limited	-	920	Fellow subsidiary	Loan/Advance
TOWER Limited	(10,548)	(6,637)	Ultimate parent	Tax losses

(B) KEY MANAGEMENT PERSONNEL COMPENSATION

TOWER New Zealand Limited and TOWER Health & Life Limited paid all key management personnel compensation on behalf of TOWER Life (N.Z.) Limited for the year ended 30 September 2012.

(C) LOANS TO KEY MANAGEMENT PERSONNEL

There have been no loans made to directors of the Group and other key management personnel of the Group, including their personally related parties (2011: Nil).

(D) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management also hold various policies and accounts with TOWER Life (N.Z.) Limited companies. These are operated in the normal course of business on normal customer terms.

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

24. DISCLOSURES ON ASSET RESTRICTIONS AND MANAGED ASSETS

Restrictions on assets

Investments and other assets held in each of the life insurance companies can only be used to meet the liabilities and expenses of that company, to acquire investments to further the business of the company or as distributions to shareholders. Distributions may be made to shareholders only when regulatory capital requirements are met and sufficient equity remains for the ongoing operation of the business.

25. GUARANTEED RETURNS ON FUNDS INVESTED – LIFE INSURANCE COMPANIES

The Group guarantees capital contributed by policyholders together with any declared dividends for the following funds.

At balance date the policy liabilities of these funds were:

	Group and Company	
	2012	2011
	\$000	\$000
VITAL	880	958
Total	880	958

26. INVESTMENT LINKED AND NON-INVESTMENT LINKED BUSINESS

	Group			
	2012		2011	
	Investment linked	Non- investment linked	Investment linked	Non- investment linked
	\$000	\$000	\$000	\$000
Investment assets	27,476	740,347	28,084	715,375
Other assets	-	13,470	-	13,814
Policyholder liabilities	(27,476)	(714,452)	(28,084)	(683,621)
Other liabilities	-	(12,472)	-	(16,632)
Net assets	-	26,893	-	28,936
Retained earnings	-	16,893	-	18,936
Net premium revenue	-	22,083	-	20,164
Investment revenue	3,177	93,962	(193)	40,812
Net claims expense	-	(50,181)	-	(51,574)
Other operating expenses	(183)	(11,603)	(238)	(12,371)
Change in policyholder liabilities	(2,408)	(31,254)	834	10,855
Operating profit before taxation	586	23,007	403	7,886
Taxation expense	(325)	(18,851)	(131)	(5,002)
Operating profit after taxation	261	4,156	272	2,884

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

26. INVESTMENT LINKED AND NON-INVESTMENT LINKED BUSINESS (CONTINUED)

	Company			
	2012		2011	
	Investment linked	Non- investment linked	Investment linked	Non- investment linked
	\$000	\$000	\$000	\$000
Investment assets	27,476	740,569	28,084	715,375
Other assets	-	13,470	-	13,814
Policyholder liabilities	(27,476)	(714,452)	(28,084)	(683,621)
Other liabilities	-	(11,654)	-	(16,632)
Net assets	-	27,933	-	28,936
Retained earnings	-	17,933	-	18,936
Net premium revenue	-	22,083	-	20,164
Investment revenue	3,177	94,929	(193)	40,812
Net claims expense	-	(50,181)	-	(51,574)
Other operating expenses	(183)	(11,519)	(238)	(12,371)
Change in policyholder liabilities	(2,408)	(31,254)	834	10,855
Operating profit before taxation	586	24,058	403	7,886
Taxation expense	(325)	(18,862)	(131)	(5,002)
Operating profit after taxation	261	5,196	272	2,884

Investment revenue allocated to policyholders was \$3,177,000 (2011: \$193,000).

27. BUSINESS COMBINATION

On 24 September 2012, TOWER Life (N.Z.) Limited moved from 52% to 100% ownership of the units in TAM International Income Fund (the Fund), a unitised equity investment trust.

The Fund is held for the benefit of policyholders, and reported revenues of (\$967,000) and a net loss of (\$1.04 million) during the 6 day period from 24 September 2012 to 30 September 2012. If the increase in units held to 100% had occurred on 1 October 2011, revenues from the Fund would have been \$19.2m and profit would have been \$19.8m.

No cash was paid as part of the consideration for the additional ownership. Control was attained through the withdrawal of funds by the remaining members.

The assets and liabilities arising from the acquisition are as follows:

	Fair Value \$000	Acquirees carrying amount \$000
Cash and cash equivalents	3,389	3,389
Receivables	1,856	1,856
Financial assets at fair value through profit and loss	161,669	161,669
Other assets - intercompany receivable	11	11
Deferred tax asset	11,693	11,693
Total assets	178,618	178,618
Payables	84,352	84,352
Total liabilities	84,352	84,352
Net assets	94,266	94,266

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

28. IMPACT OF CHRISTCHURCH EARTHQUAKES

For the year ended 30 September 2011, costs incurred from the impact of the Christchurch earthquakes amounted to \$750,000 (net of reinsurance) after taxation and have been expensed in the 30 September 2011 financial statements. The Group, which has a Catastrophe cover, did not incur additional cost other than normal claim expenses. There are no costs incurred for the year ended 30 September 2012.

29. SUBSEQUENT EVENTS

There were no events subsequent to balance date that require adjustment or disclosure within the financial statements (2011: nil).



Independent Auditors' Report to the shareholder of TOWER Life (N.Z.) Limited

Report on the Financial Statements

We have audited the financial statements of TOWER Life (N.Z.) Limited ("the Company") on pages 4 to 50, which comprise the balance sheets as at 30 September 2012, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 September 2012 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, TOWER Life (N.Z.) Limited or any of its subsidiaries other than in our capacities as auditors and providers of other assurance, taxation and advisory services. These services have not impaired our independence as auditors of the Company and the Group.





Independent Auditors' Report

TOWER Life (N.Z.) Limited

Opinion

In our opinion, the financial statements on pages 4 to 50:

- (i) comply with generally accepted accounting practice in New Zealand; and
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 30 September 2012, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2012:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholder in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholder those matters which we are required to state to them in an auditors' 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 shareholder for our audit work, for this report or for the opinions we have formed.

Chartered Accountants
28 November 2012

Auckland

Appointed Actuary's IPSA Section 78 Report

The report prepared by the Appointed Actuary for the purpose of Section 78 of IPSA is included in the TLNZ FCR below

To the Directors of TOWER Life (N.Z.) Limited

Review of the Actuarial Information contained in the Financial Statements as at 30 September 2012

The directors have asked me to carry out a review of the actuarial information contained in the financial statements as at 30 September 2012 and provide an opinion as to its appropriateness.

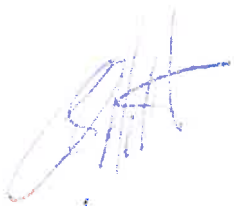
I am the Appointed Actuary to TOWER Life (N.Z.) Limited (TLNZ). I am Head of Actuarial Services at Deloitte and act as Appointed Actuary under a contract for services. I am also the Appointed Actuary to two other insurers in the TOWER Group of companies.

TOWER's policy is to seek the advice of the appointed actuary in the preparation of the actuarial information contained in its financial statements. The previous Appointed Actuary has confirmed they and the TOWER actuarial team were directly involved in the preparation of TLNZ 2012 financial statements. I confirm the financial statements have been prepared in accordance with this policy, and as such this satisfies the requirements of the Act.

No limitations were placed on me in preparing the actuarial information and all data requested was provided by the company. All information and explanations that were necessary to prepare the actuarial information were obtained.

In my opinion and from an actuarial perspective the actuarial information contained in the financial statements has been appropriately included in the statements and the actuarial information used in the preparation of the financial statements has been used appropriately.

In my opinion and from an actuarial perspective TLNZ has maintained and is maintaining the required solvency margin. There are no TLNZ Statutory Funds yet established.



Charles Hett
Appointed Actuary
Fellow of the New Zealand Society of Actuaries

Date: 31 January 2013

