TOWER LIFE (N.Z.) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2013

TOWER LIFE (N.Z.) LIMITED

FINANCIAL STATEMENTS
For the year ended 30 September 2013

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TOWER LIFE (N.Z.) LIMITED
DIRECTORS REPORT
For the year ended 30 September 2013

The Directors of TOWER Life (N.Z.) Limited present their report and financial statements of the Group for the year ended 30 September 2013.

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 $12,546k (2012: $4,417k). Shareholders' equity at the end of the year totals $39,439k (2012: $26,893k). 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: M Allen, D Hancock, M Jefferies, S Smith, J Spencer, M Stiassny and G Stuart. Directors in office during the year that are no longer directors are M Boggs, R Flannagan and 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 26 November 2013.

For and on behalf of the Board:

Director: ______________ Director: ______________

Date: 26 November 2013 Date: 26 November 2013

TOWER LIFE (N.Z.) LIMITED
GOVERNANCE STATEMENT
For the year ended 30 September 2013

The New Zealand insurance industry is regulated by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010 ("IPSA"). All companies carrying on insurance business in New Zealand must hold a licence. TOWER Life (N.Z.) Limited is a licensed insurer.

Governance is a key aspect of the Reserve Bank's licensing requirements and the Reserve Bank has published Governance Guidelines setting out the governance requirements for licensed insurers. TOWER Life (N.Z.) Limited has adopted and developed corporate governance structures, policies and practices that are consistent with these guidelines.

Role and operation of the Board of Directors

The primary role of the Board of TOWER Life (N.Z.) Limited is to govern the company, by ensuring there is a proper governance framework in place to promote and protect the company's interests for the benefit of its stakeholders.

Under IPSA, Directors of a licensed insurer must act in the best interests of that company and cannot act in the best interests of a holding company where it is not in the best interests of the licensed insurer.

The Board is primarily governed by the TOWER Life (N.Z.) Limited Board Charter, and is also subject to the TOWER Code of Ethics. The Board Charter records the Board's roles and responsibilities, including reserving certain functions to the Board, and the Code of Ethics ensures decision making is in accordance with TOWER's values.

The Board meets a minimum of four times each calendar year and will hold additional meetings as required.

The day-to day leadership and management of TOWER Life (N.Z.) Limited is undertaken by the Chief Executive Officer under a formal delegation from the Board, and by senior management. The Chief Executive Officer is solely accountable to the Board for management performance. The Chief Executive Officer has also formally delegated decision making to senior management within their areas of responsibility and subject to quantitative limits to ensure consistent and efficient decision-making within the Company.

Composition of the Board

The TOWER Life (N.Z.) Limited constitution provides for a minimum of two, and a maximum of nine, Directors. TOWER Life (N.Z.) Limited has seven Directors as at 26 November 2013. Details on the Directors, including their qualifications and experience are set out below. Under the Reserve Bank Governance Guidelines it is expected that at least half of the Directors will be independent. Criteria that the Reserve Bank will consider when determining whether a Director is independent include, but are not limited to:

- any financial or other obligation the Director may have to the licensed insurer or its Directors;
- whether the Director has been employed in an executive capacity by the licensed insurer or any associated person within the last three years;
- whether the Director is, or has been, a provider of material professional services to the licensed insurer or any associated person within the last three years;
- whether the Director has a material contractual relationship with the licensed insurer or any associated person;
- any remuneration received in addition to Director's fees, related directorships or shareholdings in the licensed insurer; or
- whether the Director is a related party of the licensed insurer.

Four out of seven of the TOWER Life (N.Z.) Limited Directors are considered by the company to be independent and those Directors are noted below. All of the Directors of TOWER Life (N.Z.) Limited are also Directors of TOWER Limited, TOWER Capital Limited, TOWER Financial Services Limited and TOWER Insurance Limited.

Composition of the Board (including range of skills, knowledge and experience) and Director independence, is reviewed by the Remuneration and Appointments Committee.

Steve Smith

BCom, CA, Dip Bus (Finance), AMInstD

Chairman

Non Executive Director

Independent

Appointed: 5 August 2013

Steve is a professional Director, with over 30 years business experience including 19 years in investment banking and financial advisory roles. His career has also included being a partner at a leading New Zealand accountancy firm. He has a Bachelor of Commerce and Diploma in Business from the University of Auckland and is a member of the New Zealand Institute of Chartered Accountants.

Steve resides in Auckland, New Zealand.

Michael Stiassny

LLB, BCom, CA, FInstD

Non Executive Director

Independent

Appointed: 5 August 2013

Michael is a chartered accountant and senior partner of KordaMentha, based in Auckland, which specialises in financial consulting work. He has both a Commerce and Law degree from the University of Auckland.

He is currently Chairman of Vector Limited, as well as a director of a number of public and private companies. Mr Stiassny is a Fellow of Institute of Directors (FInstD) and Vice President of Institute of Directors in New Zealand Inc.

Michael resides in Auckland, New Zealand.

Mike Allen

LLB, BCom

Non Executive Director

Not Independent

Appointed: 5 August 2013

Mike has over 25 years experience in investment banking and general management, both in New Zealand and the UK. He previously held various senior roles at Southpac Corporation and Westpac in New Zealand.

Mike resides in Auckland, New Zealand.

David Hancock

BBus, GAICD

Executive Director

Not Independent

Appointed: 5 August 2013

David has over 25 years of broad experience in financial services. This experience includes being a former Executive General Manager at the Commonwealth Bank of Australia, with a variety of roles including capital markets, fixed income and equities. He held several board positions at the bank including Commonwealth Securities (Comsec), as well as external professional board positions. Prior to that he served in roles at JPMorgan where he was a Managing Director with responsibilities in New Zealand, Australia and Asia across various operations.

David resides in Auckland, New Zealand.

Mike Jefferies

BCom, CA

Non Executive Director

Not Independent

Appointed: 5 August 2013

Mike is a chartered accountant with extensive experience in finance and investment. He has been an executive for Guinness Peat Group plc for more than 20 years, and holds directorships in both Australia and New Zealand.

Mike resides in Perth, Australia.

John Spencer

BCom, FCA

Non Executive Director

Independent

Appointed: 5 August 2013

John brings to the Board significant financial and commercial expertise gained over many years from senior management positions with a number of major companies in New Zealand and overseas. Prior to the formation of Fonterra, John was the Chief Executive Officer of New Zealand Dairy Group.

John resides in Wellington.

Graham Stuart

BCom(Hons), MS, CA

Non Executive Director

Independent

Appointed: 5 August 2013

Graham is currently the Chief Executive of the Sealord Group. With over 25 years management experience, he has held several diverse leadership roles with major corporates. Graham has a Bachelor of Commerce (First Class Hons) from the University of Otago and a Master of Science from Massachusetts Institute of Technology and is a member of the New Zealand Institute of Chartered Accountants. Graham has served on the Food & Beverage Taskforce and the Maori Economic Development Panel.

Graham resides in Auckland, New Zealand.

Board committees

The Board has two standing committees: the Audit and Risk Committee and the Remuneration and Appointments Committee. The committees are governed by written terms of reference, which detail their specific functions and responsibilities.

The Committees make recommendations to the Board. They have no decision-making ability except where expressly provided by the Board.

Audit and Risk Committee

Members: Graham Stuart (Chairman), Michael Stiassny, Mike Jefferies, John Spencer and Steve Smith

TOWER Life (N.Z.) Limited has a structure to independently verify and safeguard the integrity of the company's financial reporting. The principal components of this are the Audit and Risk Committee, the external and internal auditors, and the certifications provided to the Board by senior management.

The terms of reference of the Audit and Risk Committee include the following duties and responsibilities:

- Independently and objectively review the financial information presented by management to the Board, external auditors, regulators and the public.
- Review draft half yearly and annual Company financial statements and reports and the external audit report, and make recommendations to the Board as to their adoption.
- Oversee the performance of the external auditor and be satisfied as to its independence.
- Review draft half yearly and annual solvency returns and receive the financial condition report prepared by the Appointed Actuary.
- Recommend allocation and distribution of retained profits of the statutory fund.
- Advise the Board in respect of IPSA solvency issues relating to the Company.
- Review the effectiveness of management processes, risk management and internal financial controls and control systems.
- Monitor and review compliance with regulatory and statutory requirements and obligations including, but not limited to, the requirements of IPSA.
- Monitor the internal audit function and receive regular reports from the internal auditors on risks, exposures and compliance.
- Maintain open and direct lines of communication with the external and internal auditors.
- Make recommendations to the Board as to the appointment of external auditors.
- Monitor and review policies and practices established to avoid and manage conflicts of interest (pecuniary or otherwise) by the Company, directors, management and staff.

The Committee is to meet a minimum of three times per year.

The Terms of Reference require that the Audit and Risk Committee has a minimum of three Non-Executive Directors, the majority of whom are independent. The Board appoints the Chairman of the Committee, who is an independent non-executive Director who cannot also be the Chairman of the Board.

Following each meeting the Chairman of the Committee provides a report to the Board. The Chairman is also required to provide an annual report summarising the committee's activities, findings, recommendations and results for the past year.

Remuneration and Appointments Committee

Members: Steve Smith (Chairman), Michael Stiassny, Graham Stuart, Mike Jefferies, John Spencer and Mike Allen

The Remuneration and Appointments Committee advises the Board in respect of a number of matters, including:

- the appointment, induction and succession of Board Directors, and Director remuneration;
- the composition and structure of the Board, including on-going review of Director independence; and
- performance evaluations of the Board.

The Terms of Reference require that the committee has a minimum of three suitably qualified non-executive Directors, the majority of which are independent. The Board appoints the Chairman of the Committee, who is to be an independent, non-executive Director.

Following each meeting the Chairman of the Committee provides a report to the Board. The Chairman is also required to provide an annual report summarising the committee's activities, findings, recommendations and results for the past year.

Risk management

TOWER's approach to risk management is recorded in the TOWER Group Risk & Compliance Framework Policy. This policy sets out TOWER's commitment to managing risk and compliance, and provides an overview of the core components of the Framework including roles and responsibilities and requirements that must be met. The Framework applies to TOWER Life (N.Z.) Limited. Effective management of risk and compliance is essential to ensure that TOWER Life (N.Z.) Limited remains a viable business and is able to achieve its objectives. This Framework is integral in providing guidance to management and staff of TOWER in dealing with its risk and compliance obligations.

TOWER Life (N.Z.) Limited is subject to the TOWER Group Conflicts of Interest and Related Party Transactions Policy. This Policy sets out the principles and procedures relating to the management of conflicts of interest within the TOWER group and includes principles and procedures for dealings with related parties.

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 10 to 56, which comprise the balance sheets as at 30 September 2013, the 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 2013 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 assurance, taxation and advisory services. These services have not impaired our independence as auditors of the Company and the Group.

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Independent Auditors' Report

TOWER Life (N.Z) Limited

Opinion

In our opinion, the financial statements on pages 10 to 56:

(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 2013, 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 2013:

(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.

PricewaterhouseCoopers

Chartered Accountants
26 November 2013

Auckland

Deloitte.

TOWER Life (N.Z.) Limited - 30th September 2013
Appointed Actuary's Insurance (Prudential Supervision) Act 2010 Section 78 Report

The report prepared by Charles Hett, MA FNZSA, Appointed Actuary for the purpose of Section 78 of Insurance (Prudential Supervision) Act 2010 ("IPSA") is included in the TOWER Life (N.Z.) Limited ("TLNZ") financial statements.

The report provides information to the Directors of TLNZ (and management) regarding a review of the actuarial information (Section 77 of IPSA) contained in the financial statements as at 30 September 2013 and provides an opinion as to its appropriateness.

This report has not been prepared with any other additional purposes in mind.

Review of the Actuarial Information contained in the 30 September 2013 TOWER Life (N.Z.) Limited Financial Statements

I am the Appointed Actuary to TOWER Life (N.Z.) Limited. 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 one other insurer in the TOWER Group of companies.

The directors are responsible for the preparation of the company's financial statements; TOWER's policy is to seek the advice of the appointed actuary in the preparation of the actuarial information contained in the financial statements. I have been directly involved in the preparation of TLNZ 2013 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. Appropriate actuarial information has been used accurately and appropriately.

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.

The company is maintaining a solvency margin as at 30th September 2013 that complies with the Reserve Bank of New Zealand ("RBNZ") Solvency Standards and any additional licensing requirements.

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

Date: 25 November 2013

TOWER LIFE (N.Z.) LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
For the year ended 30 September 2013

		Group		Company	
		2013	2012	2013	2012
	Note	$000	$000	$000	$000
Premium revenue from insurance contracts		9,771	11,003	9,771	11,003
Less: reinsurance expense		53	35	53	35
Net premium revenue	4	**9,824**	**11,038**	**9,824**	**11,038**
Investment revenue	5	4,117	97,139	71	97,066
Net operating revenue		**13,941**	**108,177**	**9,895**	**108,104**
Claims expense		39,041	45,431	39,041	45,431
Less: reinsurance recoveries revenue		-	(87)	-	(87)
Net claims expense	6	**39,041**	**45,344**	**39,041**	**45,344**
(Decrease) / increase in policy liabilities	7	(27,808)	32,622	(27,808)	32,622
Management and sales expenses	8	5,135	7,747	4,823	7,663
Net claims and operating expenses		**16,368**	**85,713**	**16,056**	**85,629**
(Loss)/Profit before taxation		**(2,427)**	**22,464**	**(6,161)**	**22,475**
Income tax credit/(expense)	9	5,268	(19,877)	9,002	(19,888)
Total continuing profit and comprehensive income		**2,841**	**2,587**	**2,841**	**2,587**
(Loss)/Profit from discontinued operations		(717)	1,830	(717)	1,830
Profit on disposal of subsidiary		10,422	-	10,422	-
Total discontinued profit and comprehensive income		9,705	1,830	9,705	1,830
Profit for the year		**12,546**	**4,417**	**12,546**	**4,417**

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 2013

		Group		Company	
		2013	2012	2013	2012
	Note	$000	$000	$000	$000
Assets					
Cash and cash equivalents	20	8,399	4,560	2,889	2,194
Receivables	10	33,408	30,537	33,379	29,607
Intercompany receivables	23	-	88	-	77
Financial assets at fair value through profit or loss	17	625,663	625,870	560,759	546,836
Derivative financial assets	17	48,082	91,026	48,082	91,026
Liabilities ceded under reinsurance	16	-	13,470	-	13,470
Current tax assets		3,479	-	3,479	-
Policyholder loans		4,166	4,925	4,166	4,925
Investment in subsidiaries	11	-	-	78,412	93,226
Deferred tax asset	9(C)	16,103	11,703	8,134	-
Total assets		**739,300**	**782,179**	**739,300**	**781,361**
Liabilities					
Payables	12	1,970	3,185	1,970	2,367
Intercompany payables	23	1,122	978	1,122	978
Derivative financial liabilities	17	5,086	46	5,086	46
Employee provisions		57	94	57	94
Current tax liabilities		-	1,738	-	1,738
Insurance liabilities	13	7,008	6,297	7,008	6,297
Deferred tax liability	9(C)	84	1,020	84	1,020
Life insurance contract liabilities	16	660,945	714,452	660,945	714,452
Life investment contract liabilities	16	23,589	27,476	23,589	27,476
Total liabilities		**699,861**	**755,286**	**699,861**	**754,468**
Net assets		**39,439**	**26,893**	**39,439**	**26,893**
Equity					
Contributed equity	14	10,000	10,000	10,000	10,000
Retained earnings	15	29,439	16,893	29,439	16,893
Total equity		**39,439**	**26,893**	**39,439**	**26,893**

The financial statements were approved for issue by the Board on 26 November 2013.

Director

Director

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

pwc

TOWER LIFE (N.Z.) LIMITED
STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 September 2013

Group and Company

	Note	Attributed to shareholders Contributed equity $000	Retained earnings $000	Total equity $000
Year ended 30 September 2013				
At the beginning of the year		**10,000**	**16,893**	**26,893**
Comprehensive income				
Profit for the year		-	12,546	**12,546**
Total comprehensive income		**-**	**12,546**	**12,546**
At the end of the year		**10,000**	**29,439**	**39,439**
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**
Dividends paid	23	**-**	(6,460)	(6,460)
At the end of the year		**10,000**	**16,893**	**26,893**

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 2013

		Group		Company	
		2013	2012	2013	2012
	Note	$000	$000	$000	$000
Cash flows from operating activities					
Premiums received		29,294	30,556	29,294	30,556
Reinsurance revenue		4,098	6,557	4,098	6,557
Interest received		22,117	17,228	18,359	17,212
Dividends received		2,878	1,997	2,877	25,649
Investment income		13,683	48,951	12,782	41,832
Payments to policyholders		(65,820)	(60,052)	(65,820)	(60,052)
Reinsurance payments		(9,376)	(8,103)	(9,376)	(8,103)
Payments to suppliers and employees		(11,390)	(13,299)	(10,271)	(12,425)
Income taxation paid		(4,567)	(10,708)	(4,567)	(10,708)
Net cash (outflow)/inflow from operating activities	20	**(19,083)**	**13,127**	**(22,624)**	**30,518**
Cash flows from investing activities					
Net receipts /(payments) for financial assets		8,831	(21,422)	(772)	(37,790)
Cash from acquisition of subsidiary		-	3,389	-	-
Net cash inflow/(outflow) from investing activities		**8,831**	**(18,033)**	**(772)**	**(37,790)**
Cash flows from financing activities					
Sale of business		8,287	-	8,287	-
Payment of dividends		-	(6,460)	-	(6,460)
Repayment of borrowings		(350)	-	(350)	-
Purchase of subsidiary		15,854	-	15,854	-
Outflow from issue of equity share capital		(10,000)	-	-	-
Proceeds from borrowings		300	-	300	-
Net cash inflow/(outflow) from financing activities		**14,091**	**(6,460)**	**24,091**	**(6,460)**
Net increase/(decrease) in cash and cash equivalents		**3,839**	**(11,366)**	**695**	**(13,732)**
Cash and cash equivalents at beginning of year		4,560	15,926	2,194	15,926
Cash and cash equivalents at end of year		**8,399**	**4,560**	**2,889**	**2,194**

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 2013

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.

On 10 May 2013, TOWER Limited announced the sale of most of its non-participating life insurance business to Fidelity Life Assurance Company Limited (Fidelity). For the Company, this represented the sale of its entire group risk life insurance business (Group Risk), leaving the Company with its traditional participating, annuity and unit linked life insurance businesses (Retained Life). The sale to Fidelity was completed on 1 August 2013 resulting in the Group Risk business being treated as a discontinued operation in these financial statements. The sale is disclosed in more detail in note 27.

As at 30 September 2013, TOWER Limited .was actively marketing the remaining life insurance business. The decision to active market followed a strategic review of TOWER Group's businesses announced in 2012. The decision has resulted in the remaining TOWER Life (N.Z.) business segment being treated as a discontinued operation in the TOWER Limited Financial Statements.

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 2013 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 and Statement of Comprehensive Income.

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

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

INVESTMENT IN SUBSIDIARIES
The accounting policy for investments in subsidiaries has changed in the current year from accounting for subsidiaries at cost less impairment to accounting for investments in subsidiaries at fair value. This has been retrospectively applied and prior year comparatives have been adjusted accordingly. Refer to Note 1. (AA) for further details.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(F) POLICY ACQUISITION COSTS

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.

(I) FINANCING COSTS

Financing costs include interest on external debt (borrowing costs), and amortisation of transaction costs and are recognised on an effective interest method basis.

(J) 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% (2012: 28%). 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.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(K) 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.

(L) 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.

(M) 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.

(N) 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).

(O) 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.

Identifiable assets acquired and liabilities assumed in business combinations with entities within the TOWER Limited Group are accounted for at carrying value at the date of acquisition. Any difference between the cost and carrying value of net assets is recognised in the business combinations under common control reserve in the Balance Sheet.

(P) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

(Q) 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.

(R) 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.

(S) 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.

(T) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(U) 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.

(V) DERIVATIVES

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.

(W) 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.

(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 Appointed 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.

(X) 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.

(Y) CONTRIBUTED EQUITY

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

(Z) 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.

(AA) COMPARATIVES

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

A change in accounting policy for accounting for subsidiaries in investments has been applied retrospectively as described in Note 1 to provide more reliable and relevant information. This change better reflects the underlying nature of the Company's subsidiary, being a unitised investment trust in which the Company owns 100% of the units on issue. The effect of retrospective application has resulted in prior period investment revenue, and consequently retained earnings, decreasing by $1,040,000, as well as investment in subsidiaries decreasing by the same amount.

(AA) COMPARATIVES (CONTINUED)

The business sold has resulted in the reclassification of balances in the Statement of Comprehensive Income. The Statement of Comprehensive Income balances for 2013 and 2012 years have been reclassified as Gain/Loss on disposal of discontinued operations. The Statement of Cash Flows continues to include related cash flows from discontinued operations within each line item. A summary of cash flows from discontinued operations is presented in Note 27, which contains full details of the business disposal.

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.

(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 2013 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 Company 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.

3. IMPACT OF AMENDMENTS TO NZ IFRS (CONTINUED)

- 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 Company is in the process of evaluating the potential effect of this standard.

(B) Standards, amendments and interpretations to existing standards effective 2013 or early adopted by the Group.

The Group has adopted the following new and amended IFRS's as of 1 October 2012:

- NZ IAS 1 'Presentation of Financial Statements (effective from 1 January 2013). This revised standard amendment requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods. The revised standard has not had a material impact on the financial statements.

- Improvements to NZ IFRS 2009-2011 cycle includes various amendments effective for periods beginning on or after 1 January 2012. The amendments have not had a material impact on the financial statements.

4. PREMIUM REVENUE

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Life insurance premiums	9,786	11,023	9,786	11,023
Life investment premiums	383	345	383	345
Total life premiums	**10,169**	**11,368**	**10,169**	**11,368**
Less: Deposits recognised as an increase in policy liabilities	(398)	(365)	(398)	(365)
Life Insurance contract premiums recognised as revenue	**9,771**	**11,003**	**9,771**	**11,003**
Reinsurance ceded	53	35	53	35
Total net premium revenue	**9,824**	**11,038**	**9,824**	**11,038**

5. INVESTMENT REVENUE

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
	Group		Company	
Fixed interest securities (1)				
Interest income	21,215	17,228	18,359	17,212
Net realised (loss)/gain	(7,619)	2,661	(7,177)	2,661
Net unrealised (loss)	(76,085)	(1,495)	(77,406)	(2,512)
	(62,489)	**18,394**	**(66,224)**	**17,361**
Equity securities (1)				
Dividend income	1,479	1,998	1,478	25,649
Net realised gain/(loss)	4,079	5,336	2,764	(1,770)
Net unrealised gain	86,683	16,558	87,717	1,001
	92,241	**23,892**	**91,959**	**24,880**
Property securities (1)				
Property income	1,150	1,781	1,150	1,781
Net realised gain	2,267	11,258	2,267	11,258
Net unrealised gain/(loss)	4,179	(9,906)	4,179	(9,906)
	7,596	**3,133**	**7,596**	**3,133**
Other (2)				
Other investment income	109	191	73	191
Net realised gain	14,805	27,088	14,812	27,075
Net unrealised (loss)/gain	(48,145)	24,441	(48,145)	24,426
	(33,231)	**51,720**	**(33,260)**	**51,692**
Total investment revenue				
Total investment revenue	23,953	21,198	21,060	44,833
Total net realised gain	13,532	46,343	12,666	39,224
Net unrealised (loss)/gain	(33,368)	29,598	(33,655)	13,009
	4,117	**97,139**	**71**	**97,066**

(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

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Life insurance claims	39,270	45,531	39,270	45,531
Life investment contract payments	6,744	3,361	6,744	3,361
Total life claims and payments	**46,014**	**48,892**	**46,014**	**48,892**
Less: Withdrawals recognised as a decrease in policy liabilities	(6,973)	(3,461)	(6,973)	(3,461)
Life insurance claims recognised as expense	**39,041**	**45,431**	**39,041**	**45,431**
Less: Reinsurance recoveries revenue	-	(87)	-	(87)
Total net claims expense	**39,041**	**45,344**	**39,041**	**45,344**

7. MOVEMENT IN POLICY LIABILITIES

	Group and Company	
	2013	2012
	$000	$000
Decrease/(increase) in life insurance contract liabilities	(30,282)	30,214
Increase in life investment contract liabilities	2,474	2,408
Decrease/(increase) in policy liabilities	**(27,808)**	**32,622**

8. MANAGEMENT AND SALES EXPENSES

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Life insurance contracts				
Policy maintenance expenses:				
Commission	299	312	299	312
Other maintenance expenses	1,988	3,957	1,988	3,957
Investment management expenses	2,460	3,199	2,460	3,199
Total life insurance expenses	**4,747**	**7,468**	**4,747**	**7,468**
Life investment contracts				
Policy maintenance expenses:				
Commission	14	39	14	39
Other maintenance expenses	62	156	62	156
Total life investment expenses	**76**	**195**	**76**	**195**
Other non-life expenses	**312**	84	-	-
Total management and sales expenses	**5,135**	**7,747**	**4,823**	**7,663**

No audit fees were paid by the Group to its auditor during the year (2012: nil). TOWER New Zealand Limited paid all fees for audit services provided to the Group on its behalf.

9. TAXATION

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
(A) CURRENT TAX EXPENSE				
Analysis of taxation expense				
Current taxation	68	19,079	68	19,091
Deferred taxation	(5,336)	280	(9,070)	280
Under provided in prior years	-	518	-	517
Income tax (benefit)/expense for the year	**(5,268)**	**19,877**	**(9,002)**	**19,888**
Income tax (benefit)/expense attributed to policyholders	(5,593)	17,511	(9,327)	17,522
Income tax expense attributed to shareholders	325	2,366	325	2,366
	(5,268)	**19,877**	**(9,002)**	**19,888**
Analysis of taxation expense - continuing and discontinuing operations				
Continuing operations	(5,975)	19,176	(9,709)	19,187
Discontinued operations - operating profit	707	701	707	701
Income tax (benefit)/expense for the year	**(5,268)**	**19,877**	**(9,002)**	**19,888**

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

	Group 2013	Group 2012	Company 2013	Company 2012
(Loss)/Profit before taxation				
Continuing operations	(2,427)	23,592	(6,161)	23,603
Discontinuing operations	-	(1,129)	-	(1,129)
Profit before taxation	(2,427)	22,463	(6,161)	22,474
Income tax at the current rate of 28%	(680)	6,290	(1,725)	6,293
Taxation effect of non deductible expenses/non-assessable revenue:				
Life insurance companies permanent differences	674	18,765	674	18,765
Recognition of prior period current tax	-	517	-	517
Non taxable Policyholder Australasian equity (gains)/losses	(2,633)	(5,708)	(2,633)	916
Non deductible losses/(income) from PIEs	(6,153)	(120)	(4,806)	171
Benefit of imputation credits received	(512)	(374)	(512)	(6,998)
Utilisation of tax losses	3,734	-	-	-
Other (non deductible expenditure)	302	-	-	224
Deduction available on redemption of Futureplan Debenture	-	507	-	-
Income tax (credit)/expense	**(5,268)**	**19,877**	**(9,002)**	**19,888**

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 2013 to meet policyholders' current tax liabilities.

9. TAXATION (CONTINUED)

(C) DEFERRED TAX ASSETS AND LIABILITIES

	Opening balance at 1 October $000	Charged/ (credited) to Statement of Comprehensive Income $000	Acquired on acquisition of subsidiary $000	Closing balance at 30 September $000
Group				
2013				
Movements in deferred tax assets				
Tax losses	11,703	2,563	-	14,266
Unrealised losses	-	1,837	-	1,837
Total deferred tax assets	**11,703**	**4,400**	**-**	**16,103**
Movements in deferred tax liabilities				
Unrealised gains	874	(874)	-	-
Other	146	(62)	-	84
Total deferred tax liabilities	**1,020**	**(936)**	**-**	**84**
Net deferred tax	**10,683**	**5,336**	**-**	**16,019**
2012				
Movements in deferred tax assets				
Provisions and accruals liability	-	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**

9. TAXATION (CONTINUED)

	Opening balance at 1 October $000	Charged/ (credited) to Statement of Comprehensive Income $000	Acquired on acquisition of subsidiary $000	Closing balance at 30 September $000
Company				
2013				
Movements in deferred taxation assets				
Unrealised losses	-	1,837	-	1,837
Tax losses	-	6,297	-	6,297
Total deferred tax assets	**-**	**8,134**	**-**	**8,134**
Movements in deferred tax liabilities				
Unrealised gains	874	(874)	-	-
Other	146	(62)	-	84
Total deferred tax liabilities	**1,020**	**(936)**	**-**	**84**
Net deferred tax	**(1,020)**	**9,070**	**-**	**8,050**
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)**

	Group 2013 $000	Group 2012 $000	Company 2013 $000	Company 2012 $000
Net deferred tax				
Expected to crystallise in the next 12 months	11,746	2,881	8,050	(1,020)
Not expected to crystallise in the next 12 months	4,273	7,802	-	-
	16,019	**10,683**	**8,050**	**(1,020)**

(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.

10. RECEIVABLES

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Reinsurance receivable	5,466	1,998	5,466	1,998
Outstanding premiums and trade receivables	24,765	26,270	24,765	26,270
Unsettled investment sales	581	622	581	622
Prepayments	239	245	239	245
Other	2,357	1,402	2,328	472
Total receivables	**33,408**	**30,537**	**33,379**	**29,607**
Analysed as:				
Current	10,862	8,892	10,833	7,962
Non current	22,546	21,645	22,546	21,645
	33,408	**30,537**	**33,379**	**29,607**

11. INVESTMENT IN SUBSIDIARIES

	Company	
	2013	2012
	$000	$000
Investments in controlled entities at fair value	**78,412**	**93,226**

TOWER Life (N.Z.) Limited owns 100% holding in TAM International Trust Income Fund (2012: 100%). TAM International Trust Income Fund is a unitised investment fund with a balance date of 30 September.

12. PAYABLES

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Trade payables	-	816	-	-
Reinsurance payables	1,142	1,232	1,142	1,232
Other payables	722	1,116	722	1,114
Unsettled investment purchases	106	21	106	21
Total payables	**1,970**	**3,185**	**1,970**	**2,367**
Analysed as:				
Current	1,970	3,185	1,970	2,367
	1,970	**3,185**	**1,970**	**2,367**

13. INSURANCE LIABILITIES

	Group and Company	
	2013	2012
	$000	$000
Outstanding claims – life	7,008	6,297
	7,008	**6,297**
Analysed as:		
Current	7,008	6,297

14. CONTRIBUTED EQUITY

	Group 2013 $000	Group 2012 $000	Company 2013 $000	Company 2012 $000
Ordinary share capital				
Fully paid	**10,000**	**10,000**	**10,000**	**10,000**

	Number of shares 000's		Number of shares 000's	
Represented by:				
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 2013 $000	Group 2012 $000	Company 2013 $000	Company 2012 $000
Retained earnings				
Balance at 1 October	16,893	18,936	16,893	18,936
Net profit for the year	12,546	4,417	12,546	4,417
Dividends paid ($0.65 per share)	-	(6,460)	-	(6,460)
Closing balance at 30 September	**29,439**	**16,893**	**29,439**	**16,893**

16. LIFE INSURANCE BUSINESS

(A) POLICY LIABILITIES

	Group and Company	
	2013	2012
	$000	$000
Life insurance contract liabilities		
Value of policy liabilities – Projection Method		
Future policy benefits	547,606	569,657
Future bonuses	127,649	122,385
Future expenses	26,515	52,319
Future profit margins	32,387	31,244
Future premiums	(99,905)	(107,586)
	634,252	**668,019**
Value of policy liabilities – Accumulation Method		
Future policy benefits	1,047	10,488
Unvested policy benefits	25,646	22,475
Net policy liabilities - life insurance contracts	**660,945**	**700,982**
Reconciliation of movements in life insurance contract policy liabilities		
Gross life insurance liabilities at 1 October	714,452	683,621
(Decrease) in liabilities ceded under reinsurance	(13,470)	(343)
(Decrease)/increase in life insurance contract liabilities recognised in the Statement of Comprehensive Income	(29,079)	31,253
Deposits recognised as an increase in policy liabilities	(10,835)	20
Withdrawals recognised as a decrease in policy liabilities	14	(99)
Other adjustments including foreign exchange	(137)	-
Gross life insurance liabilities at 30 September	**660,945**	**714,452**
Life investment contract liabilities		
Value of policy liabilities – Accumulation Method		
Future policy benefits	23,589	27,476
Gross policy liabilities - life investment contracts	**23,589**	**27,476**
Reconciliation of movements in investment contract policy liabilities		
Gross life investment contract liabilities at 1 October	27,476	28,084
Increase in life investment contract liabilities recognised in the Statement of Comprehensive Income	2,474	2,408
Deposits recognised as an increase in policy liabilities	383	345
Withdrawals recognised as a decrease in policy liabilities	(6,744)	(3,361)
Gross life investment contract liabilities at 30 September	**23,589**	**27,476**
Total gross policy liabilities	**684,534**	**741,928**

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16. LIFE INSURANCE BUSINESS (CONTINUED)

	Group and Company	
	2013	2012
	$000	$000
Liabilities ceded under reinsurance		
Balance at 1 October	13,470	13,813
Movement in Statement of Comprehensive Income	(13,470)	(343)
Balance at 30 September	**-**	**13,470**
Net policy liabilities	**684,441**	**728,458**
Gross policy liabilities analysed as:		
Current	16,120	23,042
Non current	668,414	718,886
	684,534	**741,928**
Liabilities ceded under reinsurance analysed as:		
Current	-	7,256
Non current	-	6,214
	-	**13,470**

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 (2012: 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 and Company	
	2013	2012
	$000	$000
Life insurance contracts		
Planned profit margins	1,829	3,916
Experience loss	9,841	(1,462)
Capitalised loss recognition	-	198
Investment earnings on assets in excess of policy liabilities of life companies	552	1,504
Operating profit after tax attributable to shareholders arising from life insurance contracts	**12,222**	**4,156**
Life investment contracts		
Planned profit margins	309	25
Experience profit	15	236
Operating profit after tax attributable to shareholders arising from life investment contracts	**324**	**261**

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

16. LIFE INSURANCE BUSINESS (CONTINUED)

(C) SOLVENCY REQUIREMENTS OF LIFE FUNDS

The minimum solvency capital required to be retained to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 are shown below. The actual solvency capital exceeds the minimum requirements by $23.7 million.

	Group $000
Actual solvency capital	29,779
Minimum solvency capital	6,052
Solvency margin	**23,727**

On 26th August the Reserve Bank of New Zealand imposed a condition of license requirements for TOWER Life (N.Z) Limited to maintain a minimum solvency margin of $15 million.

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.

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 2013. The Appointed Actuary, Charles Hett, FNZSA, FIA, Head of Actuarial Services, Deloitte, 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	

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 2013 3.6% net of tax September 2012 3.1% 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 2013 3.3% September 2012 2.7% Annuities (discount rates net of tax) September 2013 3.3% September 2012 2.6%
Inflation	Benefit indexation is before allowance for the proportion of policyholders who take up indexation.	Benefit Indexation September 2013 2.0% September 2012 2.0% Expense inflation September 2013 2.0% September 2012 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 2013 $50 p.a. September 2012 $50 p.a. Risk business: September 2013 $55 p.a. September 2012 $55 p.a. Annuities: September 2013 $55 p.a. September 2012 $55 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 2013 28.0% September 2012 28.0% GST rate: September 2013 15.0% September 2012 15.0%

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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 2013	Factors applied to NZ97: September 2013 46% to 77% September 2012 46% to 77%
Mortality – risk products	Mortality assumption is based on NZ07 table adjusted for company experience. No changes were made to assumptions at September 2013.	Factors applied to NZ07: September 2013 20.6% to 61.2% for non smokers. Additional loading for smokers. September 2012 20.6% to 61.2% for non smokers. Additional loading for smokers.
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.	Historical and Future Improvement factors September 2013 1% to 3% p.a. depending on age and sex September 2012 1% to 3% p.a. depending on age and sex
Disability income	Standard morbidity tables (CIDA) adjusted for company experience. Specific company experience is used for certain wholesale schemes.	September 2013 CIDA85 adjusted September 2012 CIDA85 adjusted
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 2013.	Annual discontinuance rates for main risk September 2013 0% to 13.5% p.a. September 2012 0% to 13.5% p.a. In both years additional discontinuances were assumed for ages over 65 years.
Surrender values	Surrender values are based on current practice.	
Rates of future supportable participating benefits	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. 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. Additional policy bonuses will emerge from the assets representing policyholders' unvested	Future supportable bonus rates as at percentage of Sum Assured: September 2013 0.4% to 2.6% September 2012 0.2% to 1.3% Future supportable bonus rates as at percentage of Sum Assured: September 2013 0.5% to 0.6% September 2012 0.5% to 0.6% Future terminal bonus: September 2013 10.6% to 34.3% September 2012 10.6% to 34.3%

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
2013	**$000**	**$000**	**$000**	**$000**
Assumption change				
Mortality and morbidity	-	-	-	-
Expenses	-	-	-	-
2012				
Assumption change				
Mortality and Morbidity	-	-	-	-
Expenses	4,882	15	(1,201)	201

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

Variable	Impact of movement in underlying variable
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.

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**			
	2013		**2012**	
	+ 10%	**- 10%**	**+ 10%**	**- 10%**
	$000	**$000**	**$000**	**$000**
Group				
Mortality	(84)	84	(219)	219
Morbidity claims costs	-	-	(166)	166
Annuitant mortality	155	(155)	(175)	175
Lapses and surrenders	65	(65)	(80)	80
Renewal expenses	(35)	35	(282)	282
Just coy				
Company				
Mortality	(84)	84	(227)	227
Morbidity claims costs	-	-	(157)	157
Annuitant mortality	155	(155)	188	(188)
Lapses and surrenders	65	(65)	94	(94)
Renewal expenses	(35)	35	(390)	390

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 Appointed 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 Appointed 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 2013	569,490	32,630	30,999	28,742	53,703	423,416
30 September 2012	585,642	35,357	32,590	31,347	56,863	429,485

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	Loans and Receivables	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
As at 30 September 2013				
Financial assets				
Cash and cash equivalents	**8,399**	8,399	-	-
Reinsurance recoveries receivable	**5,466**	5,466	-	-
Outstanding premiums and trade receivables	**24,765**	24,765	-	-
Unsettled investments sale	**581**	581	-	-
Related party receivable	**-**	-	-	-
Other receivables	**2,259**	2,259	-	-
Loans on policy	**4,166**	4,166	-	-
Derivative financial assets	**48,082**	-	-	48,082
Investment in listed equity securities	**94,713**	-	94,713	-
Investments in fixed interest securities	**481,950**	-	481,950	-
Investments in property securities	**49,000**	-	49,000	-
Total financial assets	**719,381**	**45,636**	**625,663**	**48,082**
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**

17. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

Company	Total	Loans and Receivables	Fair value through profit or loss Designated	Fair value through profit or loss Held for trading
	$000	$000	$000	$000
As at 30 September 2013				
Financial assets				
Cash and cash equivalents	**2,889**	2,889	-	-
Reinsurance recoveries receivable	**5,466**	5,466	-	-
Outstanding premiums and trade receivables	**24,765**	24,765	-	-
Unsettled investments sale	**581**	581	-	-
Related party receivable	**-**	-	-	-
Other receivables	**2,230**	2,230	-	-
Loans on policy	**4,166**	4,166	-	-
Derivative financial assets	**48,082**	-	-	48,082
Investment in listed equity securities	**94,714**	-	94,714	-
Investments in fixed Interest securities	**417,045**	-	417,045	-
Investments in property securities	**49,000**	-	49,000	-
Total financial assets	**648,938**	**40,097**	**560,759**	**48,082**
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**

17. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

Group	Total	Fair value through profit or loss		Financial liabilities at amortised cost
		Designated	Held for trading	
	$000	$000	$000	$000
As at 30 September 2013				
Financial liabilities				
Reinsurance payables	**1,142**	-	-	1,142
Unsettled investment purchases	**106**	-	-	106
Related party payables	**1,122**	-	-	1,122
Other payables	**386**	-	-	386
Derivative financial liabilities	**5,086**	-	5,086	-
Life investment contract liabilities	**23,589**	23,589	-	-
Total financial instruments	**31,431**	**23,589**	**5,086**	**2,756**
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**

Company	Total	Fair value through profit or loss		Financial liabilities at amortised cost
		Designated	Held for trading	
	$000	$000	$000	$000
As at 30 September 2013				
Financial liabilities				
Reinsurance payables	**1,142**	-	-	1,142
Unsettled investment purchases	**106**	-	-	106
Related party payables	**1,122**	-	-	1,122
Other payables	**386**	-	-	386
Derivative financial liabilities	**5,086**	-	5,086	-
Life investment contract liabilities	**23,589**	23,589	-	-
Total financial instruments	**31,431**	**23,589**	**5,086**	**2,756**
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**

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 note 16, while the managing of financial and other non financial risks are set out in the remainder of this note.

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 control and mitigate the risks faced by the Group depending on the nature of the risk. The business managers are responsible for managing their risks including operational and compliance risk. The consolidated entity's exposure to all high and critical risks is reviewed by the Group Risk and Compliance team and this exposure is reported quarterly to the Group's Audit and Risk Committee.

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

The Board has 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.

(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 Board sets limits for the management of currency risk arising from its investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to. In accordance with this policy, the Group does not hedge the currency risk arising from translation of the financial statements of foreign operations other than through net investment in 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 2013 there were no interest rate swaps in place in relation to external borrowings (2012: Nil). The Group manages interest rate risk arising from its interest bearing investments in accordance with the Board approved policies.

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 Appointed 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 Board.

(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 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	
	2013 $000	2012 $000	2013 $000	2012 $000
New Zealand government	28,759	29,704	3,778	5,641
Other government agencies	48,930	74,878	48,930	74,878
Banks	440,340	465,296	394,906	416,556
Financial institutions	4,021	5,211	4,021	5,211
Other non-investment related receivable	17,641	16,623	17,641	16,623
Other industries	35,429	24,043	35,429	23,853
Intercompany receivables	-	88	-	77
Total financial assets with credit exposure	**575,120**	**615,843**	**504,705**	**542,839**

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 Carrying value		Company Carrying value	
	2013	2012	2013	2012
	$000	$000	$000	$000
Cash and cash equivalents	8,399	4,560	2,889	2,194
Reinsurance recoveries receivable	5,466	1,998	5,466	1,998
Outstanding premiums and trade receivables	11,594	14,002	11,594	14,002
Unsettled investments sale	581	622	581	622
Loans and receivables	5,064	3,834	5,064	3,644
Financial assets at fair value through profit or loss	481,516	485,049	416,611	415,352
Derivative financial assets	48,082	91,026	48,082	91,026
Interest receivable	14,418	14,664	14,418	13,924
Intercompany receivables	-	88	-	77
Total credit risk	**575,120**	**615,843**	**504,705**	**542,839**

(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:

AAA	169,542	249,998	169,542	203,624
AA	254,367	315,460	248,857	289,031
A	16,421	10,483	16,421	10,483
Total counterparties with external credit rating by Standard and Poor's	**440,330**	**575,941**	**434,820**	**503,138**
Group 1	12,175	13,158	12,175	12,956
Group 1A	-	88	-	77
Group 2	-	-	-	-
Group 3	52,245	22,990	52,245	23,001
Group 4				-
Total counterparties with no external credit rating	**64,420**	**36,236**	**64,420**	**36,034**
Total financial assets neither past due nor impaired with credit exposure	**504,750**	**612,177**	**499,240**	**539,172**

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 (2012: Nil).

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:

	Past due but not impaired				
Group	**Less than 31 days $000**	**30 to 60 days $000**	**61 to 90 days $000**	**Over 90 days $000**	**Total $000**
As at 30 September 2013					
Reinsurance recoveries receivable	44	856	278	4,288	5,466
Total	**44**	**856**	**278**	**4,288**	**5,466**
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**
Company					
As at 30 September 2013					
Reinsurance recoveries receivable	44	856	278	4,288	5,466
Total	**44**	**856**	**278**	**4,288**	**5,466**
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**

(vi) Financial assets that are individually impaired

There were no assets that were individually impaired (2012: 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 2013 is $28,834,465 (2012: $28,778,387).

(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.

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

	Carrying value $000	Total contractual cash flows $000	Less than one year $000	On demand $000
Group				
As at 30 September 2013				
Financial liabilities and guarantees				
Reinsurance payable	1,142	1,142	1,142	-
Unsettled investment purchases	106	106	106	-
Derivative financial liabilities	5,086	49,351	49,351	-
Life investment contract liabilities	23,589	23,589	-	23,589
Funds invested guarantee	668	668	-	668
Intercompany payables	1,122	1,122	1,122	-
Other payables	388	388	388	-
Total financial liabilities and guarantees	**32,101**	**76,366**	**52,108**	**24,257**
As at 30 September 2012				
Financial liabilities and guarantees				
Trade payables	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**
Company				
As at 30 September 2013				
Financial liabilities and guarantees				
Reinsurance payable	1,142	1,142	1,142	-
Unsettled investment purchases	106	106	106	-
Derivative financial liabilities	5,086	49,351	49,351	-
Life investment contract liabilities	23,589	23,589	-	23,589
Funds invested guarantee	668	668	-	668
Intercompany payables	1,122	1,122	1,122	-
Other payables	388	388	388	-
Total financial liabilities	**32,101**	**76,366**	**52,108**	**24,257**
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**

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

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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. Refer below for details of valuation methods used for each 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.

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Group	Total $000	Level 1 $000	Level 2 $000
As at 30 September 2013			
Assets			
Derivative financial assets	48,082	-	48,082
Investment in equity securities	94,713	42,361	52,352
Investments in fixed interest securities	481,950	-	481,950
Investments in property securities	49,000	-	49,000
Total financial assets	**673,745**	**42,361**	**631,384**
Liabilities			
Derivative financial liabilities	5,086	-	5,086
Life investment contract liabilities	23,589	-	23,589
Total financial liabilities	**28,675**	**-**	**28,675**
As at 30 September 2012			
Assets			
Derivative financial assets	91,026	-	91,026
Investment in equity securities	93,181	45,148	48,033
Investments in fixed interest securities	485,049	-	485,049
Investments in property securities	47,640	-	47,640
Total financial assets	**716,896**	**45,148**	**671,748**
Liabilities			
Derivative financial liabilities	46	-	46
Life investment contract liabilities	27,476	-	27,476
Total financial liabilities	**27,522**	**-**	**27,522**

Company	Total $000	Level 1 $000	Level 2 $000
As at 30 September 2013			
Assets			
Derivative financial assets	48,082	-	48,082
Investment in equity securities	94,714	42,361	52,353
Investments in fixed interest securities	417,045	-	417,045
Investments in property securities	49,000	-	49,000
Total financial assets	**608,841**	**42,361**	**566,480**
Liabilities			
Derivative financial liabilities	5,086	-	5,086
Life investment contract liabilities	23,589	-	23,589
Total financial liabilities	**28,675**	**-**	**28,675**
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**

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 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.

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	
	2013	2012	2013	2012	2013	2012
	%	%	$000	$000	$000	$000
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
over 5 years	8.3%	7.3%	402,539	360,588	43,306	91,026
			402,539	360,588	**43,306**	91,026

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 2013		
Forward foreign exchange contracts		
Outflow	(49,351)	(49,351)
Inflow	49,087	49,087
As at 30 September 2012		
Forward foreign exchange contracts		
Outflow	(62,948)	(62,948)
Inflow	63,173	63,173

(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.

	2013 Impact on		2012 Impact on	
	profit after tax	equity	profit after tax	equity
Group	$000	$000	$000	$000
Change in variables				
+50 basis points	(1,174)	(1,174)	(835)	(835)
-50 basis points	1,235	1,235	887	887
Company				
Change in variables				
+50 basis points	(1,156)	(1,156)	(814)	(814)
-50 basis points	1,216	1,216	866	866

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.

	2013		2012	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
Group and Company	$000	$000	$000	$000
Change in variables				
+50 basis points	526	526	657	657
-50 basis points	(550)	(550)	(689)	(689)

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 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.

	2013		2012	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
Group	$000	$000	$000	$000
Change in variables				
10% appreciation of New Zealand dollar	47	47	13	13
10% depreciation of New Zealand dollar	(47)	(47)	(13)	(13)
Company				
Change in variables				
10% appreciation of New Zealand dollar	47	47	26	26
10% depreciation of New Zealand dollar	(47)	(47)	(26)	(26)

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. 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.

18. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

	2013		2012	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
Group and Company	$000	$000	$000	$000
Change in variables				
+10% in New Zealand equities	47	47	44	44
-10% in New Zealand equities	(47)	(47)	(44)	(44)

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.

	2013		2012	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
Group	$000	$000	$000	$000
Change in variables				
+10% property funds and other unit trusts	81	81	245	245
-10% property funds and other unit trusts	(81)	(81)	(245)	(245)
+10% in International equities	166	166	45	45
-10% in International equities	(166)	(166)	(45)	(45)
Company				
Change in variables				
+10% property funds and other unit trusts	81	81	245	245
-10% property funds and other unit trusts	(81)	(81)	(245)	(245)
+10% in International equities	166	166	34	34
-10% in International equities	(166)	(166)	(34)	(34)

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.

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 meet statutory solvency obligations, including on a look forward basis 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 2013 $000	Group 2012 $000
Total shareholders equity	39,439	26,893
Total capital resources	39,439	26,893

The Group measures adequacy of their capital against Solvency Standard for Life Insurance Business ("the solvency standard") published by the Reserve Bank of New Zealand.

From August 2013 actual solvency capital as determined under the solvency standards, should exceed the minimum solvency capital level by at least $80,000,000. The amount retained as minimum solvency capital as shown in note 16(C).

During the year ended 30 September 2013 the Group complied with all externally imposed capital requirements.

The Group holds 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 Risk Committee.

20. CASH AND CASH EQUIVALENTS

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

	Group 2013 $000	Group 2012 $000	Company 2013 $000	Company 2012 $000
Cash at bank and in hand	7,199	2,060	1,689	(306)
Deposits at call	1,200	2,500	1,200	2,500
Total cash and cash equivalents	**8,399**	**4,560**	**2,889**	**2,194**

20. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	Group		Company	
	2013 $000	2012 $000	2013 $000	2012 $000
Profit attributable to shareholders	12,546	4,417	12,546	4,417
Add/(less) non cash items				
Unrealised loss/(gain) on investment	33,368	(29,598)	33,655	(13,009)
(Increase)/decrease in deferred tax balances	(5,336)	240	(9,070)	250
Change in policyholder liabilities	(42,455)	30,567	(42,455)	30,567
	(14,423)	1,209	(17,870)	17,808
Add/(less) movements in working capital relating to operating activities				
(Increase)/decrease in receivables	(440)	1,612	(1,343)	671
(Increase) in payables	(1,139)	(2,339)	(330)	(606)
(Increase)/decrease in taxation	(5,205)	8,228	(5,205)	8,228
	(6,784)	7,501	(6,878)	8,293
Add other item classified as financing activities				
Gain on sale of business	(10,422)	-	(10,422)	-
Net cash (outflows)/inflows from operating activities	**(19,083)**	**13,127**	**(22,624)**	**30,518**

21. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 30 September 2013 (2012: 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 (2012: $nil).

23. TRANSACTIONS WITH RELATED PARTIES

The Group is a wholly owned subsidiary of TOWER Insurance 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.

23. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

(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	2013 $000	2012 $000	Nature of Relationship	Type of Transactions
Group and Company				
TOWER Health & Life Limited	-	(350)	Parent	Operating expenses
TOWER Asset Management Limited	-	(4)	Fellow subsidiary	Operating expenses
TOWER Managed Funds Limited	-	77	Fellow subsidiary	Operating expenses
TOWER Managed Funds Limited	-	(549)	Fellow subsidiary	Operating expenses
TOWER New Zealand Limited	(1,122)	(75)	Fellow subsidiary	Operating expenses
Additional Group intercompany asset				
TOWER Asset Management Limited	-	11	Fellow subsidiary	Investment management fees

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	2013 $000	2012 $000	Nature of Relationship	Type of Transactions
Company				
TOWER Health & Life Limited	-	(6,460)	Parent	Dividend
TOWER Health & Life Limited	-	(504)	Fellow subsidiary	Operating expenses
TOWER Asset Management Limited	-	(3,034)	Fellow subsidiary	Investment management fees
TOWER Managed Funds Limited	-	(1,548)	Fellow subsidiary	Operating expenses
TOWER New Zealand Limited	(4,589)	(2,907)	Fellow subsidiary	Operating expenses
TOWER New Zealand Limited	-	-	Fellow subsidiary	Loan/Advance
TOWER New Zealand Limited	171	-	Fellow subsidiary	Tas refund
TOWER Limited	-	(10,548)	Ultimate parent	Tax loss

(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 2013.

(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 (2012: Nil).

(D) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

24. DISCLOSURES ON ASSET RESTRICTIONS AND MANAGED ASSETS

Restrictions on assets
Investments and other assets held in the Company 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	
	2013	**2012**
	$000	**$000**
VITAL	668	880
	668	**880**

26. INVESTMENT LINKED AND NON-INVESTMENT LINKED BUSINESS

This includes items which are held as discontinued operations. Refer to Note 27 for balances in relation to discontinued operations.

	Group			
	2013		**2012**	
	Investment linked	**Non-investment linked**	**Investment linked**	**Non-investment linked**
	$000	**$000**	**$000**	**$000**
Investment assets	23,589	716,834	27,476	740,347
Other assets	-	-	-	13,470
Policyholder liabilities	(23,589)	(660,945)	(27,476)	(714,452)
Other liabilities	-	(16,450)	-	(12,472)
Net assets	**-**	**39,440**	**-**	**26,893**
Retained earnings	**-**	**29,439**	**-**	**16,893**
Net premium revenue	-	18,106	-	22,083
Investment revenue	3,103	1,015	3,177	93,962
Net claims expense	-	(42,009)	-	(50,181)
Other operating expenses	(89)	(10,581)	(183)	(11,603)
Change in policyholder liabilities	(2,474)	29,079	(2,408)	(31,254)
Operating profit before taxation	**540**	**(4,390)**	**586**	**23,007**
Taxation expense	(216)	6,192	(325)	(18,851)
Operating profit after taxation	**324**	**1,802**	**261**	**4,156**

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

	Company			
	2013		2012	
	Investment linked	Non-investment linked	Investment linked	Non-investment linked
	$000	$000	$000	$000
Investment assets	23,589	715,712	27,476	740,569
Other assets	-	-	-	13,470
Policyholder liabilities	(23,589)	(660,945)	(27,476)	(714,452)
Other liabilities	-	(15,327)	-	(11,654)
Net assets	**-**	**39,441**	**-**	**27,933**
Retained earnings	**-**	**30,479**	**-**	**17,933**
Net premium revenue	-	18,106	-	22,083
Investment revenue	3,103	(3,032)	3,177	94,929
Net claims expense	-	(42,009)	-	(50,181)
Other operating expenses	(89)	(10,269)	(183)	(11,519)
Change in policyholder liabilities	(2,474)	29,079	(2,408)	(31,254)
Operating profit before taxation	**540**	**(8,125)**	**586**	**24,058**
Taxation expense	(216)	9,926	(325)	(18,862)
Operating profit after taxation	**324**	**1,801**	**261**	**5,196**

Investment revenue allocated to policyholders was $3,103,000 (2012: $3,177,000).

27. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE

Consolidated results of discontinued operations/disposal groups are as follows:

On 1 August 2013 the Company sold its non participating group risk life insurance business to Fidelity Life Assurance Company Limited. The sale followed a strategic review of TOWER Group's businesses announced in 2012. The sale has resulted in the group risk life insurance business being treated as a discontinued operation of the Group.

The operating results of the group risk life insurance business has been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as a discontinued operation.

A breakdown of the financial performance, position and cash flows of the group risk life insurance business is as follows:

	2013	2012
	$000	$000
Premium revenue from insurance contracts	17,621	19,572
Less: Outwards reinsurance expense	(9,339)	(8,527)
Net operating revenue	**8,282**	**11,045**
Claims expense	10,534	10,781
Less: reinsurance recoveries revenue	(7,566)	(5,945)
Net claims expense	**2,968**	**4,836**
Decrease in policy liabilities	1,203	1,041
Management and sales expenses	5,536	4,039
Net claims and operating expenses	**9,707**	**9,916**
(Loss)/Profit before taxation	**(1,425)**	**1,129**
Income tax credit	707	701
(Loss)/Profit after tax from discontinued operations	**(718)**	**1,830**

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	2013 $000	2012 $000
Cash flows of the insurance business:		
Operating cash inflow	2,925	1,973
Total cash inflow	**2,925**	**1,973**

	2013 $000
Assets	
Liabilities ceded under reinsurance	14,132
Total assets	**14,132**
Liabilities	
Payables	1
Life insurance contract liabilities	24,553
Total liabilities	**24,554**
Net assets	**(10,422)**

Profit on disposal

	2013 $000
Cash consideration received	-
Net Assets at 31 July 2013	(10,422)
Gross profit on disposal	**(10,422)**
Profit on disposal	**(10,422)**

28. SUBSEQUENT EVENTS

On 1 October 2013, TOWER Life (N.Z.) Limited established a statutory fund in accordance with the Insurance (Prudential Supervision) Act 2010 (IPSA). All life insurance policies within the Company at 1 October are referable to the fund, named Statutory Fund No. 1. Assets sufficient to meet the Company's minimum solvency requirements calculated under Reserve Bank requirements have been transferred to Statutory Fund No. 1 on establishment.

As at 30 September 2013, TOWER Limited was actively marketing the remaining life insurance business (TOWER Life (N.Z) Limited). The decision to active market followed a strategic review of TOWER Group's businesses announced in 2012. The decision has resulted in the remaining TOWER Life (N.Z.) Limited business segment being treated as a discontinued operation in the TOWER Limited Financial Statements.

On 26 November 2013, the Directors declared a dividend of $4,000,000 which equates to approximately $0.40 per share. The dividend will be paid in January 2014.