TOWER MEDICAL INSURANCE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2012

TOWER MEDICAL INSURANCE LIMITED
FINANCIAL STATEMENTS
For the year ended 30 September 2012

Table of Contents

TOWER MEDICAL INSURANCE LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2012

The Directors of TOWER Medical Insurance Limited present their report and financial statements of the Company for the year ended 30 September 2012.

During the year the Company undertook its principal activity of providing health insurance services, and reinsurance services to TOWER Health & Life Limited.

The after tax profit for the year was $13,249k (2011: $9,631k). Accumulated profits at the end of the year totals $31,886k (2011: $25,637k). Shareholders' equity at the end of the year totals $63,886k (2011: $57,637k). Directors consider the state of affairs of the Company to be satisfactory.

On the 2 November 2012, TOWER Limited announced to the market the sale of our health business, TOWER Medical Insurance Limited, to leading Australian health insurer nib health funds limited (nib) for approximately NZD$102 million.

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

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

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

The Board of Directors of TOWER Medical Insurance Limited authorised these financial statements, for issue on the 28 November 2012.

For and on behalf of the Board:

Director: _____

Date: 28-11-12

Director: _____

Date: 28-11-12

TOWER MEDICAL INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2012

	Note	2012 $000	2011 $000
Revenue			
Reinsurance premium revenue	4(A)	134,576	127,777
Insurance premium revenue	4(B)	11,654	12,826
Investment revenue	5	5,760	5,933
Net operating revenue		151,990	146,536
Reinsurance claims expense	14	89,797	88,736
Insurance claims expense	14	7,402	8,336
Decrease in premium payback liabilities		(510)	(2,542)
Management and sales expenses	6	36,899	38,225
Net claims and operating expenses		133,588	132,755
Profit before taxation		18,402	13,781
Income tax expense	7(A)	5,153	4,150
Total profit and comprehensive income for the year attributed to shareholders		13,249	9,631

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

TOWER MEDICAL INSURANCE LIMITED
BALANCE SHEET
As at 30 September 2012

	Note	2012 $000	2011 $000
Assets			
Cash and cash equivalents	16	13,257	28,165
Receivables	8	2,576	2,802
Financial assets at fair value through profit or lose	15	88,914	70,543
Derivative financial assets	15	3,318	5,974
Deferred commission		9,529	9,672
Deferred acquisition costs	9	22,367	20,686
Deferred tax asset	7(B)	14,516	14,648
Total assets		154,477	152,490
Liabilities			
Payables	10	1,834	1,847
Current tax liability		234	3,562
Insurance liabilities	11	26,397	27,272
Derivative financial liabilities	15	34	-
Deferred tax liability	7(B)	8,931	8,500
Premium payback liability	14	53,161	53,672
Total liabilities		90,591	94,853
Net assets		63,886	57,637
Equity			
Contributed equity	12	32,000	32,000
Retained earnings	13	31,886	25,637
Total equity		63,886	57,637

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

Rob Flannagan
Director

Michael Boggs
Director

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

pwc

TOWER MEDICAL INSURANCE LIMITED
STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 September 2012

	Note	Attributed to shareholders		
		Contributed equity $000	Retained earnings $000	Total $000
Year ended 30 September 2012				
At the beginning of the year		32,000	25,637	57,637
Comprehensive income				
Profit for the year		-	13,249	13,249
Total comprehensive income		-	13,249	13,249
Transactions with shareholders				
Dividends paid	13	-	(7,000)	(7,000)
		-	(7,000)	(7,000)
At the end of the year		32,000	31,886	63,886
Year ended 30 September 2011				
At the beginning of the year		32,000	16,006	48,006
Comprehensive income				
Profit for the year		-	9,631	9,631
Total comprehensive income		-	9,631	9,631
At the end of the year		32,000	25,637	57,637

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

TOWER MEDICAL INSURANCE LIMITED
STATEMENTS OF CASH FLOWS
For the year ended 30 September 2012

	Note	2012 $000	2011 $000
Cash flows from operating activities			
Premiums received		145,930	141,131
Interest received		3,929	3,618
Investment income		4,841	4,651
Claims expense		(97,554)	(98,063)
Payments to suppliers and employees		(46,363)	(61,715)
Net cash inflow from operating activities	18	10,783	(8,378)
Cash flows from investing activities			
Net (payments)/receipts from sales of financial assets		(18,691)	19,637
Net cash outflow from investing activities		(18,691)	19,637
Cash flows from financing activities			
(Payments) of dividends		(7,000)	-
Net cash inflow from financing activities		(7,000)	-
Net increase in cash and cash equivalents		(14,908)	11,259
Cash and cash equivalents at beginning of year		28,165	16,906
Cash and cash equivalents at end of year		13,257	28,165

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

TOWER MEDICAL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

TOWER Medical Insurance Limited (the Company) is a profit-oriented company incorporated in New Zealand under the New Zealand Companies Act 1993. The address of its registered office is 22 Fanshawe Street, Auckland, New Zealand.

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

The principal activity of the Company is providing health insurance and reinsurance.

BASIS OF PREPARATION

The Company has previously qualified for differential reporting concessions. As of 1 October 2012, the Company becomes an issuer under section 4(1)(da) of the Financial Reporting Act 1993. Accordingly the company has no longer applied differential reporting exemptions. As retrospective application of the changes in accounting policies have not resulted in material measurement or recognition differences, comparative information was not restated in these financial statements.

Compliance with International Financial Reporting Standards (IFRS)
The financial statements and notes of TOWER Medical Insurance 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 power to amend the financial statements after they have been authorised for issue.

SPECIFIC ACCOUNTING POLICIES

(A) REINSURANCE AND INSURANCE PREMIUM REVENUE
Reinsurance and insurance premium revenue is recognised in the period in which the premiums are earned during the term of the contract.

The proportion of premiums not earned in the statement of comprehensive income at the reporting date is recognised in the balance sheet as unearned premium liability.

Reinsurance and insurance premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

(B) 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.

(C) REINSURANCE AND INSURANCE CLAIMS EXPENSE
Claims expenses are recognised when claims are notified with the exception of claims incurred but not reported for which a provision is estimated (discussed in note 2(A)).

(D) POLICY ACQUISITION COSTS
Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs are initially recorded in the statement of comprehensive income, with any amounts to be deferred then taken to the balance sheet as a Deferred Acquisition Cost (DAC).

The acquisition costs of establishing contracts for medical products are deferred. These costs are amortised over the periods of expected future benefit. A comparison to recoverable value is carried out annually, with any variance below carrying value taken to the statement of comprehensive income in that year.

(E) 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).

PWC

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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) 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.

(F) FOREIGN CURRENCY

(i) Functional and presentation currencies
The financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates. The financial statements are presented in New Zealand dollars and rounded off to the nearest thousand dollars.

(ii) Transactions and balances
In preparing the financial statements of the Company transactions denominated in foreign currencies are translated into the reporting currency using the exchange rates in effect at the transaction dates. Monetary items receivable or payable in a foreign currency, including forward exchange contracts, are translated at reporting date at the closing exchange rate.

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

Exchange differences arising on the settlement or retranslation of monetary items at year end exchange rates are recognised in the statement of comprehensive income.

(G) 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.

(H) ASSETS BACKING INSURANCE BUSINESS

The Company has determined that all assets within the company are held to back health reinsurance and insurance liabilities.

As these assets are managed in accordance with agreed investment mandate agreements 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 approximately equal to fair value as they are settled within a short period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) 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).

(J) DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

The Company 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 as 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 Company 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 Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. Loans and receivables are measured initially at fair value plus transactions costs and subsequently at amortised cost using the effective interest method less any impairment.

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

Financial assets at fair value through profit or loss comprise of financial assets that are either held for trading or designated on initial recognition at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Designation by management takes place when it is necessary to eliminate or significantly reduce measurement or recognition inconsistencies or if related financial assets or liabilities are managed and evaluated on a fair value basis.

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

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

(iii) Fair value

The fair value of the Company'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 Company has transferred substantially all risks and rewards of ownership.

(K) 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 Company will be unable to collect the amount. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(L) PAYABLES

These amounts represent liabilities for goods and services provided to the Company 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.

(M) PROVISIONS

Provisions are only recognised when the Company 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.

(N) POLICY LIABILITIES

Health reinsurance and insurance outstanding claims are measured at the central estimate of the present value of expected future payments after allowing for historical claims cost escalation and discounted at the risk free rate. In addition a risk margin is added to the claims provision to recognise the inherent uncertainty of the central estimate.

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

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

(O) PREMIUM PAYBACK LIABILITIY

For health premium payback business an additional unearned premium liability has been established representing the accrued amount of premium expected to be repaid to policyholders. This liability is discounted at the risk-free rate and a liability adequacy test has been performed incorporating a risk margin to cover uncertainty in the central estimate.

(P) CASH FLOWS

The statements of cash flows present the net cash flows for financial assets. The Company considers that knowledge of gross receipts and payments is not essential to understanding the activities of the Company 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 maturities are short, or the value of the sales are immaterial.

(Q) CONTRIBUTED EQUITY

(i) Ordinary share capital

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

(R) BUSINESS COMBINATIONS

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.

(S) COMPARATIVES

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company 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) CLAIMS LIABILITIES UNDER HEALTH REINSURANCE AND INSURANCE CONTRACTS

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company.

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

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims has happened.

In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based on statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Company processes which might accelerate or slow down the development and (or) recording of paid or incurred claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks; and
- medical and technological developments.

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

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 14.

(B) TAXATION

The Company 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 Company 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.

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 Company.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning after 1 October 2012 or later periods. The Company has not early adopted them. The Company 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.

(B) Standards, amendments and interpretations to existing standards effective 2011 or early adopted by the Company.

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

- NZ IAS 24, 'Related party disclosures' (effective from 1 January 2011). The revised standard amends the definition of a related party. The revised standard has not resulted in any additional disclosures.

- FRS 44, 'New Zealand additional disclosures' (effective from 1 July 2011). This standard amends multiple standards to harmonise NZ IFRS with IFRS and Australian Accounting Standards. The amendments have not had a material impact on the financial statements.

- Improvements to NZ IFRS 2010 includes various amendments effective for periods beginning on or after 1 January 2011. The amendments have not had a material impact on the financial statements.

4. PREMIUM REVENUE

	2012 $000	2011 $000
(A) Reinsurance premium revenue		
Gross health reinsurance premiums	134,372	128,385
Movement in unearned premium liability	204	(608)
Total reinsurance premium revenue	134,576	127,777
(B) Insurance premium revenue		
Gross health insurance premiums	11,634	12,886
Movement in unearned premium liability	20	(60)
Total insurance premium revenue	11,654	12,826
Total premium revenue	146,230	140,603

5. INVESTMENT REVENUE

Fixed interest securities [1]		
Interest income	3,929	3,618
Net realised gain	202	112
Net unrealised gain/(loss)	(320)	(113)
	3,811	3,617
Other [2]		
Net realised gain	8,051	4,120
Net unrealised gain/(loss)	(6,102)	(1,804)
	1,949	2,316
Total investment revenue		
Total investment revenue		
Total net realised gain	3,929	3,618
Net unrealised gain/(loss)	8,253	4,232
Total investment revenue	(6,422)	(1,917)
	5,760	5,933

[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 and losses has been generated by derivative financial assets and financial liabilities classified as held for trading at fair value through profit or loss.

6. MANAGEMENT AND SALES EXPENSES

Deferred acquisition costs (increase)/decrease	(1,681)	1,565
Commission	20,482	20,067
Management expenses	18,118	16,593
Total management and sales expenses	36,899	38,225
Included in total management expenses and sales expenses are the following		
Amortisation of deferred acquisition costs	8,579	8,591
Change in provision for doubtful debts	41	235

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

7. TAXATION

(A) CURRENT TAX EXPENSE

Analysis of taxation expense	2012 $000	2011 $000
Current taxation		
Deferred taxation	4,590	3,562
Under/(over) provided in prior years	563	493
Income tax expense for the year	-	95
	5,153	4,150

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

Profit before taxation		
Income tax at the current rate of 28% (2011: 30%)	18,402	13,781
Change in tax rates	5,153	4,135
Under/(over) provided in prior years	-	(80)
Taxation expense	-	95
	5,153	4,150

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

(B) DEFERRED TAX ASSETS AND LIABILITIES

2012	Opening balance at 1 October $000	Charged/ (credited) to statement of comprehensive income $000	Closing balance at 30 September $000
Movements in deferred tax assets			
Provisions and accruals	14,648	(132)	14,516
Total deferred tax assets	14,648	(132)	14,516
Movements in deferred tax liabilities			
Deferred acquisition costs	8,500	431	8,931
Total deferred tax liabilities	8,500	431	8,931
Net deferred tax	6,148	(563)	5,585

2011	Opening balance at 1 October $000	Charged/ (credited) to statement of comprehensive income $000	Closing balance at 30 September $000
Movements in deferred tax assets			
Provisions and accruals	15,340	(692)	14,648
Total deferred tax assets	15,340	(692)	14,648
Movements in deferred tax liabilities			
Deferred acquisition costs	8,699	(199)	8,500
Total deferred tax liabilities	8,699	(199)	8,500
Net deferred tax	6,641	(493)	6,148

7. TAXATION (CONTINUED)

	2012 $000	2011 $000
Net Deferred Tax		
Expected to crystallise in the next 12 months	(1,253)	(1,269)
Not expected to crystallise in the next 12 months	6,838	7,417
	5,585	6,148

8. RECEIVABLES

Outstanding reinsurance premiums and trade receivables	-	2,234
Outstanding insurance premiums	2,245	230
Related party receivables	331	338
Total receivables	2,576	2,802

Outstanding premiums and trade receivables above are presented net of allowance for credit losses and impairment. Movement in the allowance for credit losses and impairment during the reporting period was as follows:

Outstanding premiums and trade receivables	2,521	2,699
Allowance for doubtful debts	(276)	(235)
	2,245	2,464
Balance at 1 October	(235)	(172)
Provisions added during the year	(63)	(63)
Impairment loss recognised during the year	22	-
Balance at 30 September	(276)	(235)

Analysed as:

Current	2,576	2,802

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

9. DEFERRED ACQUISITION COSTS

Opening balance at 1 October	20,686	22,251
Acquisition costs deferred during the period	10,260	7,026
Current period amortisation	(8,579)	(8,591)
Closing balance at 30 September	22,367	20,686

Analysed as:

Current	6,732	4,534
Non-current	15,635	16,152
	22,367	20,686

10. PAYABLES

	2012 $000	2011 $000
Trade payables	1,523	1,847
Other payables	311	-
Total payables	1,834	1,847
Analysed as:		
Current	1,834	1,847

11. INSURANCE LIABILITIES

On 30 September 2012, all health insurance business of TOWER Health & Life Limited was transferred to the Company. As a result of the transfer, a reinsurance arrangement between TOWER Health & Life Limited and the Company was cancelled. Consequently, reinsurance assets and liabilities presented in the balance sheet are nil as at 30 September 2012.

(a) Reinsurance liabilities

Unearned reinsurance premiums	-	12,058
Outstanding reinsurance claims	-	10,341
Total reinsurance liabilities	-	22,399
Analysed as:		
Current	-	22,399

The table below includes a reconciliation of unearned premiums as at balance date

Unearned reinsurance premiums		
Opening balance at 1 October	12,058	11,621
Premiums written	134,372	128,385
Premiums earned	(134,877)	(127,948)
Transfer out of health policies	(11,553)	-
Closing balance at 30 September	-	12,058

(b) Insurance liabilities

Unearned insurance premiums	15,439	3,901
Outstanding insurance claims	10,958	972
Total insurance liabilities	26,397	4,873
Analysed as:		
Current	26,397	4,873

The table below includes a reconciliation of unearned premiums as at balance date

Unearned insurance premiums		
Opening balance at 1 October	3,901	3,669
Premiums written	11,634	12,886
Premiums earned	(11,649)	(12,654)
Transfer in of health policies	11,553	-
Closing balance at 30 September	15,439	3,901
Total policy liabilities	26,397	27,272

12. CONTRIBUTED EQUITY

	2012 $000	2011 $000
Ordinary share capital (fully paid)	32,000	32,000
Movements in ordinary share capital		
Opening balance at 1 October	32,000	32,000
Shares issued during the year	-	-
Closing balance at 30 September	32,000	32,000

	Number of shares	
Represented by: (000's)		
Ordinary shares authorised	32,000	32,000

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

13. RETAINED EARNINGS

	2012 $000	2011 $000
Opening balance at 1 October	25,637	16,006
Net profit for the year	13,249	9,631
Dividends paid ($0.22 per share)	(7,000)	-
Closing balance at 30 September	31,886	25,637

14. HEALTH INSURANCE BUSINESS

	2012 $000	2011 $000
(A) Analysis of health insurance operating result		
Insurance premium revenue	11,654	12,826
Reinsurance premium revenue	134,576	127,777
Net premium income	146,230	140,603
Insurance claims expense	7,402	8,336
Reinsurance claims expense	89,797	88,736
Net claims incurred	97,199	97,072
Acquisition costs	9,092	7,744
Other underwriting expenses	27,807	30,481
Movement in actuarial reserves	(510)	(2,542)
Underwriting result	12,642	7,849
Investment revenue	5,760	5,933
Operating profit before taxation	18,402	13,781
Analysis of health insurance underwriting result		
Profit from health business	18,402	13,781

14. HEALTH INSURANCE BUSINESS (CONTINUED)

(B) Net claims incurred

	2012			2011		
	Risks borne in current year $000	Risks borne in prior years $000	Total $000	Risks borne in current year $000	Risks borne in prior years $000	Total $000
Claims expense						
Direct reinsurance and insurance claims - undiscounted	87,179	10,020	97,199	87,196	9,876	97,072
Claims expense	87,179	10,020	97,199	87,196	9,876	97,072

The $10.02 million claims expense for risks borne in prior years includes premium payback payments of $11.47 million (which are fully funded by the release of the premium payback reserve). Additionally $1.45 million has been released for the over-reserved portion of the prior year outstanding claim reserve.

	2012 $000	2011 $000
Central estimate of expected present value of future payments for claims incurred	10,084	10,583
Claims handling costs	352	191
Risk margin	522	539
Claims liability	10,958	11,313

(a) Assumptions adopted in calculation of health insurance provisions

Estimates of the outstanding claims as at 30 September 2012 have been carried out by J. Feyter , B.Sc, FNZSA, FIA.

The New Zealand actuarial assessments are in accordance with the standards of the New Zealand Society of Actuaries. The Appointed Actuary were satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Company's claims obligations after having regard to the prevailing market environment and prudent industry practice.

The following assumptions have been made in determining net outstanding claims liabilities:

	2012	2011
Discount rates varied from	2.8% to 3.2%	4.4% to 5.5%
Claims handling expense ratio	3.40%	1.70%
Risk margin	5.00%	5.00%
The weighted average expected term to settlement of outstanding claims based on historical trends is:		
Short tail claims	2.11 months	1.96 months

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

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

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

The risk margins applied to future claims payments are determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability.

14. HEALTH INSURANCE BUSINESS (CONTINUED)

Reconciliation of movements in discounted outstanding claims liability

	2012			2011		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	$000	$000	$000	$000	$000	$000
Balance brought forward	11,313	-	11,313	10,304	-	10,304
Increase in claims incurred/recoveries anticipated over year	(4,092)	-	(4,092)	(2,078)	-	(2,078)
Claims incurred during the year	101,291	-	101,291	99,150	-	99,150
	108,512	-	108,512	107,376	-	107,376
Claims paid during the year	(97,554)	-	(97,554)	(96,063)	-	(96,063)
Balance carried forward	10,958	-	10,958	11,313	-	11,313
Total outstanding claims			10,958			11,313

(b) Sensitivity analysis

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

The impact of change in a key variable on the premium payback reserve is set out below:

Variable	Movement	Change in following financial year's shareholder profit and equity net of reinsurance 2012 $000	2011 $000
Discount rates	increase of 50 basis points	749	784
	decrease of 50 basis points	(762)	(797)

(c) Future net cash out flows

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

Expected Claims Run Off	2012 $000	2011 $000
Within 3 months	9,458	9,688
3 to 6 months	949	1,021
6 to 12 months	485	533
After 12 months	66	71
	10,958	11,313

(C) RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operations of the insurance business are affected by a number of key risks including insurance risk, interest rate risk, currency risk, market risk, financial risk, compliance risk, fiscal risk and operational risk; refer to note 16. Notes on the policies and procedures employed in managing these risks in the health insurance business are set out below.

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

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

The key policies in place to mitigate risk arising from writing reinsurance and insurance contracts include comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims.

(b) Terms and conditions of insurance contracts that have a material effect on amount, timing and uncertainty of cash flows

The terms, reinsurance and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Company. Certain policies within the health insurance business have premium payback clauses that allow for the return of premiums after claim payments. These liabilities are matched with suitable assets.

14. HEALTH INSURANCE BUSINESS (CONTINUED)

(c) Concentration of insurance risk

The Company does not have material concentration of reinsurance and insurance risk with respect to the reinsurance and insurance portfolio.

(d) Development of claims

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

	Incident year					
Ultimate claims cost estimate	2008 NZ$000	2009 NZ$000	2010 NZ$000	2011 NZ$000	2012 NZ$000	Total NZ$000
At end of accident year	73,286	77,130	83,371	86,634	86,834	
One year later	71,383	76,816	81,681	84,983	-	
Two years later	71,142	76,205	81,298	-	-	
Three years later	71,142	76,205	-	-	-	
Four years later	71,142	-	-	-	-	
Current estimate of ultimate claims cost	71,142	76,205	81,298	84,983	86,314	
Cumulative payments	(71,142)	(76,205)	(81,298)	(84,913)	(76,300)	
Undiscounted central estimate	-	-	-	70	10,014	10,084
Discount to present value	-	-	-	-	-	-
Discounted central estimate	-	-	-	70	10,014	10,084
Risk margin						352
Claims handling expense						522
Gross outstanding claims liabilities						10,958

(e) Liability Adequacy Test

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

If the unearned premium liability less related deferred acquisition costs exceeds the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate then the unearned premium liability is deemed to be sufficient. The risk margins applied to future claims were determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability using the same methodology as described above.

	2012	2011
Central estimate of the present value of expected future cash flows	80.59%	82.29%
Risk margin for 75% sufficiency	8.75%	8.75%

Unearned premium liabilities as at 30 September 2012 were sufficient (2011: sufficient).

(D) INSURER FINANCIAL STRENGTH RATING

TOWER Medical Insurance Limited has an insurer financial strength rating of 'A-' (Excellent) issued by AM Best Company Inc. The rating has an effective date of 6 September 2012.

(E) NON-CURRENT HEALTH INSURANCE CONTRACT LIABILITY

A number of the Company's health insurance policies have a benefit whereby policyholders receive a proportion of premiums paid less claims received over the life of their policy, 'premium payback', if certain conditions are met. This liability represents a long term health reinsurance and insurance contract liability. The liability is determined based on the discounted value of the accumulated excess of premiums over claims at individual policy level. A liability adequacy test with a risk margin to cover uncertainty in the central estimate is also applied to confirm the sufficiency of the liability in aggregate.

14. HEALTH INSURANCE BUSINESS (CONTINUED)

Assumptions Used in the Calculation of the Liability and associated Liability Adequacy Test:

Liability:	2012	2011
Discount rate for succeeding year	2.28% net of tax	2.77% net of tax
Discount rate for following years	2.28% net of tax	2.77% net of tax
Lapse Rate until 3 years from premium payback date	1% p.a.	1% p.a.
Lapse Rate within 3 years of premium payback date	0% to 1% p.a.	0% to 1% p.a.
Liability Adequacy Test / Cash flow projection:		
Discount rate for succeeding and following years	9% p.a.	9% p.a.
Claims and Premium inflation rate for succeeding and following years	0% to 25% p.a.	0% to 25% p.a.
Lapse rates:	15%	15%
GST rate	28%	28%
Income Tax rate	$74.20	$74.20
Administration expense per member:	2% p.a.	2% p.a.
Expense inflation for succeeding and following years		

The table below includes a reconciliation of the liability as at the reporting date.

	2012 $000	2011 $000
Balance at 1 October	53,672	56,212
New funding	8,776	5,924
Benefits paid	(12,081)	(11,964)
Other	2,794	3,480
Balance at 30 September	53,161	53,672

(a) Liquidity risk and future net cash outflows

The table below shows the estimated timing of cash outflows resulting from premium payback liabilities.

	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
30 September 2012	53,161	11,976	5,940	4,703	7,676	22,865
30 September 2011	53,672	9,444	8,475	4,862	7,217	23,673

14. HEALTH INSURANCE BUSINESS (CONTINUED)

(F) SOLVENCY REQUIREMENTS OF HEALTH BUSINESS

The Minimum Solvency Capital required to be retained to meet solvency requirements are shown below. The Actual Solvency Capital exceeds the minimum requirements by $16,548,311 for the Company.

	2012 $000
Actual Solvency Capital	28,668
Minimum Solvency Capital	12,120
Solvency Capital	16,548

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standard for Non-life Insurance Business published by the Reserve Bank of New Zealand. The new solvency requirements were introduced this year under the Insurance Prudential (Supervision) Act 2010 and become effective from 31 December 2012.

15. FINANCIAL INSTRUMENTS CATEGORIES

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

	Total	Loans and receivables	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
As at 30 September 2012				
Financial assets				
Cash and cash equivalents	13,257	13,257	-	-
Outstanding premiums and trade receivables	2,245	2,245	-	-
Related party receivables	331	331	-	-
Derivative financial assets	3,318	-	-	3,318
Investments in fixed interest securities	88,914	-	88,914	-
Total financial assets	108,065	15,833	88,914	3,318
As at 30 September 2011				
Financial assets				
Cash and cash equivalents	28,165	28,165	-	-
Outstanding premiums and trade receivables	2,464	2,464	-	-
Related party receivables	338	338	-	-
Derivative financial assets	5,974	-	-	5,974
Investments in fixed interest securities	70,543	-	70,543	-
Total financial assets	107,484	30,967	70,543	5,974

15. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

	Total	Fair value through profit or loss	Financial liabilities at amortised cost
		Held for trading	
As at 30 September 2012	$000	$000	$000
Financial liabilities			
Trade payables	1,515	1,515	-
Derivative financial liabilities	34	-	34
Total financial liabilities	1,549	1,515	34
As at 30 September 2011			
Financial liabilities			
Trade payables	1,847	-	1,847
Total financial liabilities	1,847	-	1,847

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION

The financial condition and operating results of the Company 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 Company's objectives and policies in respect of reinsurance and insurance risks are disclosed in note 14, while the managing of financial and other non financial risks are set out in the remainder of this section.

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

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

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

The Board has delegated to the Group Investment Committee the responsibility for:
- reviewing investment policy for shareholder and funds;
- reviewing the risk management policy and statements in respect of investment management, including the derivative policy;
- considering the establishment, adjustment or deletion of limits and counter-party approvals, and the scope of financial instruments to be used in the management of TOWER's investments;
- reviewing the appointment of external investment managers;
- monitoring investment and fund manager performance; and
- monitoring compliance with investment policies and client mandates.

(A) MARKET RISK

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

The impact of reasonably 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 Company's functional currency.

The Company's principal transactions are carried out in New Zealand dollars.

The Group Investment Committee sets limits for the management of currency risk arising from its investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to.

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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

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

Health insurance
Interest rate risk arises in health insurance to the extent that there is a mismatch between fixed interest portfolios used to back the health non-current liabilities and those health non-current liabilities. Interest rate risk is managed by matching the duration profiles of investment assets and health non-current liabilities.

(iii) Price risk
Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The Company 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 Group Investment Committee.

(B) CREDIT RISK

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

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

(i) Credit risk concentration
Concentration of credit risk exists when the Company 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. The Company manages concentration of credit risk by credit rating, industry type and individual counterparty.

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

	Carrying Value	
	2012	2011
	$000	$000
New Zealand Government	812	613
Other government agencies	2,516	21,085
Banks	94,806	80,001
Other non-investment related receivable	2,245	2,464
Other industrial	7,555	2,963
Intercompany receivables	331	338
Total financial assets with credit exposure	**108,065**	**107,464**

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(ii) Maximum exposure to credit risk
The Company's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements, which is as follows:

	Carrying Value	
	2012	2011
	$000	$000
Cash and cash equivalents	13,257	28,165
Outstanding premiums and trade receivables	2,245	2,463
Intercompany receivables	331	338
Fixed interest securities	88,914	70,543
Derivative financial assets	3,318	5,974
Interest receivables	-	1
Total credit risk	108,065	107,484

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

Credit Exposure by credit rating		
AAA	46,528	22,249
AA	57,982	56,833
A	999	11,550
Total counterparties with external credit rating by Standard and Poor's	105,489	90,632
Group 1	-	-
Group 1A	331	338
Group 2	-	-
Group 3	-	14,051
Total counterparties with no external credit rating	331	14,389
Total financial assets neither past due nor impaired with credit exposure	105,820	105,021

Group 1 - trade debtors outstanding for less than 6 months
Group 1A - intercompany receivable
Group 2 - trade debtors outstanding for more than 6 months with no defaults in the past
Group 3 - unrated investments

(iv) Financial assets that would otherwise be past due whose terms have been renegotiated
None of the financial assets that are fully performing have been renegotiated in the past year (2011: Nil).

(v) Financial assets that are past due but not impaired
The Company 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 Company is as follows:

	Past due but not impaired				
	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
	$000	$000	$000	$000	$000
As at 30 September 2012					
Outstanding premiums and trade receivables	1,414	739	92	-	2,245
Total	1,414	739	92	-	2,245
As at 30 September 2011					
Outstanding premiums and trade receivables	1,285	729	242	207	2,463
Total	1,285	729	242	207	2,463

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(vi) Financial assets that are individually impaired

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

(C) FINANCING AND LIQUIDITY RISK

Financing and liquidity risk is the risk that the Company 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 Company treasury function maintains sufficient liquid assets to ensure that the Company 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 Company'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.

	Carrying value $000	Total contractual cash flows $000	Less than one year $000	one to two years $000	two to three years $000	three to four years $000	four to five years $000	over five years $000
As at 30 September 2012								
Financial liabilities								
Trade payables	1,515	1,515	1,515	-	-	-	-	-
Derivative liabilities	34	63	45	34	17	1	(18)	(16)
Total financial liabilities	1,549	1,578	1,560	34	17	1	(18)	(16)
As at 30 September 2011								
Financial liabilities								
Trade payables	1,847	1,847	1,847	-	-	-	-	-
Total financial liabilities	1,847	1,847	1,847	-	-	-	-	-

(D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

The following methods and assumptions were used by the Company 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.

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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 Company's assets and liabilities measured at fair value categorised by fair value measurement hierarchy levels.

	Total $000	Level 1 $000	Level 2 $000
As at 30 September 2012			
Assets			
Derivative financial assets	3,318	-	3,318
Investment in fixed interest securities	88,914	-	88,914
Total financial assets	92,232	-	92,232
Liabilities			
Derivative financial liabilities	34	-	34
Total financial liabilities	34	-	34
As at 30 September 2011			
Assets			
Derivative financial assets	5,974	-	5,974
Investment in fixed interest securities	70,543	-	70,543
Total financial assets	76,517	-	76,517

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 Company is the current bid price. These instruments are included in Level 1.

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The Company 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 Company 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 Company 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 remeasured at their fair value. The fair values of interest rate swaps are calculated by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates. The average interest rate is based on the outstanding balances at the start of the financial year.

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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

	Average contracted fixed		Notional principal amount		Fair value	
	2012 %	2011 %	2012 $000	2011 $000	2012 $000	2011 $000
Less than one year	-	-	-	-	-	-
One to two years	-	-	-	-	-	-
Two to five years	-	-	-	-	-	-
Over five years	7.20%	4.58%	16,500	37,250	3,285	5,974
			16,500	37,250	3,285	5,974

(F) SENSITIVITY ANALYSIS

The analysis below demonstrates the impact of changes in interest rates, exchange rates and equity prices on the Company'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 Company'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.

	2012 Impact on		2011 Impact on	
Change in variables	profit after tax $000	equity $000	profit after tax $000	equity $000
+50 basis points	(786)	(786)	(2,060)	(2,060)
-50 basis points	815	815	2,150	2,150

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 Company's profit to movements in interest rates.

	2012 Impact on		2011 Impact on	
Change in variables	profit after tax $000	equity $000	profit after tax $000	equity $000
+50 basis points	749	749	(3,331)	(3,331)
-50 basis points	(782)	(782)	3,331	3,331

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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.

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.

17. CAPITAL RISK MANAGEMENT

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

The Company's capital resources include ordinary equity and interest bearing liabilities.

	2012 $000	2011 $000
TOWER shareholder equity	63,886	57,637
Total capital resources	63,886	57,637

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

From 31 December 2012, the Company will be required to retain $3,000,000 fixed capital under the solvency standards.

From 31 December 2012, the Company will be required to maintain a solvency margin of $0. From 31 December 2012, actual solvency capital as determined under the solvency standards should be at or above the minimum solvency capital level. The amount retained as minimum solvency capital is shown in Note 14 (F).

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

The Company is required to hold assets in excess of the levels specified by the various standards to ensure that they continue to meet the minimum requirements under a reasonable range of adverse scenarios. The Company's capital management strategy forms part of the Company's broader strategic planning process overseen by the Group Audit and Compliance Committee.

18. CASH AND CASH EQUIVALENTS

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

	2012 $000	2011 $000
Cash at bank and in hand	(715)	(253)
Call deposits	13,972	28,418
Total cash and cash equivalents	13,257	28,165

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

18. CASH AND CASH EQUIVALENTS (CONTINUED)

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

Reconciliation of operating cash flows to profit

	2012 $000	2011 $000
Profit / (loss) from continued operations	13,249	9,631
Add/(less) non cash items		
Movement in deferred acquisition costs	(1,681)	1,565
Change in health insurance contract liabilities	(1,384)	(864)
Unrealised (gain) / loss on fixed interest	321	112
Unrealised (gain) / loss on derivative financial instruments	2,690	2,223
Intercompany expenses	8	(19,096)
(Increase) / decrease in deferred taxation	563	493
	13,766	(5,936)
Add / (less) movements in working capital relating to operating activities		
(Increase)/ decrease in receivables	360	(1,307)
Decrease in payables	(14)	(496)
Increase in current tax provisons	(3,329)	(639)
	(2,983)	(2,442)
Net cash inflows/(outflows) from operating activities	10,783	(8,378)

19. CONTINGENT LIABILITIES

The Company has no contingent liabilities as at reporting date (2011: Nil). The Company is occasionally subject to claims and disputes as a commercial outcome of conducting its insurance business. Provisions are recorded for these claims or disputes when it is probable that an outflow of resources will be required to settle any obligations. Best estimates are included within claims reserves for any litigation that has arisen in the usual course of business.

20. CAPITAL COMMITMENTS

The Company has no capital commitments at reporting date related to software under development (2011: nil).

21. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

(A) RELATED PARTY TRANSACTIONS

During the year there have been transactions between TOWER Medical Insurance Limited and its parent, TOWER Health & Life Limited which have been conducted on a normal course of business. TOWER Limited is the ultimate parent. All intercompany balances are current and repayable on demand. No debts have been written off or forgiven during the year.

The following transactions in relation to reinsurance business were carried out with TOWER Health & Life Limited:

On 30 September 2012, all health insurance business of TOWER Health & Life Limited was transferred to the Company. As a result of the transfer, a reinsurance arrangement between TOWER Health & Life Limited and the Company was cancelled. Consequently, reinsurance assets and liabilities presented in the balance sheet are nil as at 30 September 2012.

	2012 $000	2011 $000
Purchases of services:		
Reinsurance premiums	134,576	127,777
Reinsurance claims	69,797	88,736
Management fees	34,909	36,140

The following balances in relation to insurance business relate to TOWER Health & Life Limited

Reinsurance debtors	-	2,234
Reinsurance liabilities	-	21,906
Premium payback reserve	-	52,925
Deferred and accrued management fees	-	9,672
Commission accrued payable	-	842

21. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (CONTINUED)

(B) RELATED PARTY BALANCES

Related party receivable and payable balances of TOWER Medical Insurance Limited at the reporting date were as follows. They are interest free and are payable on demand.

	2012 $000	2011 $000	Nature of Relationship	Type of Transactions
TOWER Health & Life Limited (excluding insurance balances disclosed above)	331	338	Parent	Management fee and reinsurance

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

Related party	2012 $000	2011 $000	Nature of Relationship	Type of Transactions
TOWER Health & Life Limited	(34,909)	(36,140)	Parent	Management fee
TOWER Health & Life Limited	(7,000)	-	Parent	Dividend
TOWER Health & Life Limited	22,380	40,758	Parent	Reinsurance
TOWER Asset Management Limited	(335)	(255)	Fellow subsidiary	Investment management fee
TOWER Limited	(7,919)	(6,838)	Ultimate parent	Tax losses

(C) KEY MANAGEMENT PERSONNEL COMPENSATION

TOWER New Zealand Limited and TOWER Health and Life Limited paid all key management personnel compensation on behalf of TOWER Medical Insurance Limited for the year ended 30 September 2012.

(D) LOANS TO KEY MANAGEMENT PERSONNEL

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

(E) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

22. TRANSFER OF HEALTH ASSETS

On 30 September 2012, all health insurance business of TOWER Health & Life Limited was transferred to the Company. The transfer was completed in accordance with the 'Transfers and Amalgamations Guidelines' issued by the Reserve Bank of New Zealand under the auspices of the Insurance (Prudential Supervision) Act 2012 (IPSA). The health insurance business transfer had no impact on policy holders. As a result of the transfer, a reinsurance arrangement between TOWER Health & Life Limited and the Company was cancelled. Consequently, reinsurance assets and liabilities presented in the balance sheet are nil as at 30 September 2012.

23. DISCLOSURES ON ASSET RESTRICTIONS AND MANAGED ASSETS

Restrictions on assets
Investments and other assets held can only be used to meet the liabilities and expenses of the 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.

24. SUBSEQUENT EVENTS

On 2 November 2012, TOWER Limited announced the sale of its health insurance business, TOWER Medical Insurance Limited to Australian health insurer, nib holdings limited for approximately $102 million. The sale followed a strategic review of TOWER Group's businesses announced earlier in the year. The sale, which is subject to certain conditions customary for a transaction of this type, is expected to settle prior to 31 December 2012.

pwc

Independent Auditors' Report
to the shareholder of TOWER Medical Insurance Limited

Report on the Financial Statements
We have audited the financial statements of TOWER Medical Insurance Limited on pages 3 to 32, which comprise the balance sheet as at 30 September 2012, the statement of comprehensive income, the statement of changes in equity and statement 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.

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'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'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 Medical Insurance Limited other than in our capacities as auditors and providers of other assurance, taxation and advisory services. These services have not impaired our independence as auditors of the Company.

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

pwc

Independent Auditors' Report
TOWER Medical Insurance Limited

Opinion
In our opinion, the financial statements on pages 3 to 32:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company as at 30 September 2012, and its financial performance and cash flows for the year then ended.

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

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use
This report is made solely to the Company's shareholder in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholder those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder for our audit work, for this report or for the opinions we have formed.

Chartered Accountants
28 November 2012

Auckland

finity

4 June 2013

Mr Glenn Treadwell
Chief Financial Officer
TOWER Medical Insurance Limited
Level 3, 22 Fanshawe Street
AUCKLAND 1141

Dear Glenn

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

Finity Consulting Pty Limited (Finity) has been asked by TOWER Medical Insurance Limited (TMIL) to carry out a review of the 30 September 2012 actuarial information contained in the financial statements and provide an opinion as to its appropriateness. This letter sets out the findings of our review, as required under Section 78 of the Insurance (Prudential Supervision) Act 2010.

Post Balance Date Events

TMIL's ultimate parent company is nib holdings limited (holdings), which completed the acquisition of TMIL from TOWER Limited (Tower) on 30 November 2012. Neither holdings nor Finity were involved in preparing the 30 September 2012 financial statements. We have not reviewed the 30 September 2012 financial statements of Tower, holdings, or their subsidiaries other than TMIL.

TMIL is aligning its accounting policies with other holdings group companies. Prior to completing the 31 December 2012 accounts, TMIL has written off deferred indirect acquisition expenses, and significantly increased the probability of sufficiency of its insurance liabilities.

These comments on post balance date events are provided for information purposes only, and do not represent a qualification of our opinion on TMIL's 30 September 2012 financial statements.

Finity Consulting Pty Limited
ABN 89 111 470 270
www.finity.com.au
www.finityconsulting.co.nz

Sydney
Level 7, 155 George Street
The Rocks NSW 2000
Ph +61 2 8252 3300
Fax +61 2 8252 3399

Melbourne
Level 3, 30 Collins Street
Melbourne VIC 3000
Ph +61 3 8080 0900
Fax +61 3 8080 0999

Auckland
Level 27, 188 Quay Street
Auckland 1010
Ph +64 9 363 2894
Fax +64 9 363 2899

finity

Section 78 Report

Jamie Reid is an employee of Finity and is the Appointed Actuary of TMIL. Jamie Reid and Finity have no relationship with TMIL apart from the Appointed Actuary role.

Our review of actuarial information included discussions with TMIL's previous Appointed Actuary and TMIL staff, and examination of various models used to prepare estimates for the financial statements.

TMIL sought and adopted the Appointed Actuary's advice in respect of actuarial information contained in its 31 December 2012 financial statements. In reviewing the actuarial information at 30 September 2012, I have considered the results of my analysis at 31 December 2012. This includes comparison of 30 September 2012 estimates to subsequent actual experience.

In my opinion and from an actuarial perspective:

- The actuarial information contained in the financial statements has been appropriately included in those statements
- The actuarial information used in the preparation of the financial statements has been used appropriately
- TMIL is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b), noting that the required margin is $0.

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

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

Yours sincerely

Jamie Reid

Jamie Reid
Appointed Actuary
Fellow of the New Zealand Society of Actuaries
Fellow of the Institute of Actuaries of Australia