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TOWER INSURANCE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2009

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TOWER INSURANCE LIMITED
FINANCIAL INFORMATION
For the year ended 30 September 2009

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TOWER INSURANCE LIMITED

DIRECTORS' REPORT

The Directors of TOWER Insurance Limited present their report and consolidated financial statements of the Company and Group for the year ended 30 September 2009.

During the year the Company and Group undertook its principal activity of providing insurance and insurance related services to its customer base throughout New Zealand, Fiji, Papua New Guinea, Solomon Islands, Cook Islands, Samoa, Tonga and American Samoa.

The consolidated after tax profit attributable to shareholders for the year was $16,744,000 (2008: $14,801,000). Retained profits at the end of the year total $59,557,000 (2008: $66,123,000). Shareholders' equity at the end of the year totals $119,108,000 (2008: $128,711,000). Directors consider the state of affairs of the Company and Group to be satisfactory. During the year directors recommended and paid dividends of $23,000,000 (2008: $6,000,000).

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: RA Flannagan, SJ Boomert, JE Douglas and EJ O'Sullivan.

The Board of Directors of Tower Insurance Limited authorised these financial statements presented on pages 4 to 27 for issue on 21 December 2009.

The Directors wish to thank all staff for their loyalty, application and support during a testing year of change and challenge.

For and on behalf of the Board:

Director: Director:

Date: 21 December 2009 Date: 21 December 2009

TOWER INSURANCE LIMITED
INCOME STATEMENTS
For the year ended 30 September 2009

		Group		Company	
		2009	2008	2009	2008
	Note	NZ$000	NZ$000	NZ$000	NZ$000
Premium revenue from insurance contracts	20	214,619	206,115	170,388	167,815
Less: Outwards reinsurance expense	20	(19,497)	(16,836)	(7,167)	(6,854)
Net premium revenue		195,122	189,279	163,221	160,961
Investment revenue	2, 20	11,193	11,027	13,930	21,416
Net operating revenue		**206,315**	**200,306**	**177,151**	**182,377**
Claims expense	20	(146,621)	(124,516)	(106,872)	(109,822)
Less: Reinsurance and other recoveries revenue		25,979	3,293	2,449	1,041
Net claims expense		(120,642)	(121,223)	(104,423)	(108,781)
Management and sales expenses	3	(60,373)	(57,678)	(52,772)	(50,993)
Net claims and operating expenses		**(181,015)**	**(178,901)**	**(157,195)**	**(159,774)**
Profit before taxation		25,300	21,405	19,956	22,603
Income tax expense	4	8,008	6,648	4,907	3,783
Profit for the year		**17,292**	**14,757**	**15,049**	**18,820**
Profit attributable to minority interests	18	(548)	(8)	-	-
Profit from discontinuing operations		-	52	-	52
Profit for the year attributable to shareholders		**16,744**	**14,801**	**15,049**	**18,872**

The above income statements should be read in conjunction within the accompanying notes.

TOWER INSURANCE LIMITED
BALANCE SHEETS
As at 30 September 2009

		Group		Company	
		2009	2008	2009	2008
	Note	NZ$000	NZ$000	NZ$000	NZ$000
Assets					
Cash and cash equivalents	5	31,559	34,715	17,519	17,238
Receivables	6	111,597	100,631	78,518	88,696
Financial assets at fair value through profit or loss	23	210,551	207,380	184,798	177,491
Investment property	7	-	2,450	-	-
Deferred acquisition costs	11	12,447	13,890	11,088	12,192
Property, plant and equipment	12	2,893	1,855	1,089	1,664
Deferred tax asset	4	1,968	1,154	1,924	1,945
Investment in subsidiaries	8	-	-	4,606	4,854
Total assets		**371,015**	**362,075**	**299,542**	**304,080**
Liabilities					
Payables	13	34,022	30,968	34,828	28,095
Current tax liabilities		14,134	11,289	12,898	9,053
Provisions	14	3,834	4,046	3,442	3,601
Insurance liabilities	15	193,670	180,443	134,738	140,672
Deferred tax liability	4	3,555	3,598	3,568	4,639
Total liabilities		**249,215**	**230,344**	**189,474**	**186,060**
Net assets		**121,800**	**131,731**	**110,068**	**118,020**
Equity					
Contributed equity	16	47,900	47,900	47,900	47,900
Retained profits	17	59,557	66,123	47,362	55,112
Reserves	18	11,651	14,688	14,806	15,008
Total equity attributed to shareholders		**119,108**	**128,711**	**110,068**	**118,020**
Minority interests	18	2,692	3,020	-	-
Total equity		**121,800**	**131,731**	**110,068**	**118,020**

The financial statements were approved for issue by the Board on 21 December 2009.

Director **Director**

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

TOWER INSURANCE LIMITED
STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 September 2009

		Group		Company	
		2009	2008	2009	2008
	Note	NZ$000	NZ$000	NZ$000	NZ$000
Total equity at the beginning of the financial year		**131,731**	**120,774**	**118,020**	**103,814**
Profit for the year attributable to the shareholders		16,744	14,801	15,049	18,872
Movements in reserves:					
Exchange differences on translation of foreign operations	18	(2,883)	2,896	(48)	1,377
Movement in share based payment reserve	18	(154)	(43)	(154)	(43)
Total movements in reserves		**(3,037)**	**2,853**	**(202)**	**1,334**
Total recognised income and expense for the year		**13,707**	**17,654**	**14,847**	**20,206**
Dividend paid	17	(23,000)	(6,000)	(23,000)	(6,000)
Transfer from share based payment reserve	17	201	-	201	-
Other	17	(511)	-	-	-
Change in minority interest	18	(328)	(697)	-	-
Movements in equity for the financial year		**(9,931)**	**10,957**	**(7,952)**	**14,206**
Total equity at the end of the financial year		**121,800**	**131,731**	**110,068**	**118,020**

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

These consolidated financial statements incorporate the assets and liabilities of all subsidiaries of TOWER Insurance Limited ("Company" or "parent entity") as at 30 September 2009 and the results of all subsidiaries for the year then ended. TOWER Insurance Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

During the year the Group undertook its principal activity of providing insurance and insurance related services to its customer base throughout New Zealand, Fiji, Papua New Guinea, Solomon Islands, Cook Islands, Samoa, Tonga and American Samoa.

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.

Basis of preparation

This general purpose financial report has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), the New Zealand Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements were authorised for issue by the Board of Directors on 25 November 2009.

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

The Company and Group are qualifying entities within the Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime. The Company and Group qualify on the basis that they are not publicly accountable and that there is no separation between owners and the governing body. The Company and Group have taken advantage of all differential reporting concessions available, except for those available under *NZ IAS 12 Income Taxes.*

Principles of consolidation

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 purchase method of accounting.

The share of net assets of controlled entities attributable to minority interests is disclosed separately in the balance sheet and income statement.

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

Specific accounting policies

(a) Premium revenue

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract.

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

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.

1. Summary of significant accounting policies (cont.)

(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 on an 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 income statement.

(c) 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. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment.

(d) Claims expense

Claims expenses are recognised when claims are notified. Outstanding claims are measured at the central estimate of the present value of expected future payments after allowing for inflation and superimposed inflation and discounted at the risk free rate.

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. In addition a risk margin is added to the claims provision to recognise the inherent uncertainty of the central estimate.

Provision has been made for the estimate of claim recoveries from third parties in respect of general insurance business.

(e) Liability adequacy testing

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

(f) Policy acquisition costs

Policy acquisition costs comprise the fixed and incremental 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 income statement, with any amounts to be deferred then taken to the balance sheet as a Deferred Acquisition Cost (DAC).

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

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

(g) 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.

1. Summary of significant accounting policies (cont.)

(g) Taxation (cont.)

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

TOWER Insurance Limited is part of the New Zealand 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.

(h) Foreign currency

(i) Functional and presentation currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. The consolidated Group financial statements are presented in New Zealand dollars.

(ii) Transactions and balances

In preparing the financial statements of the individual entities 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 income statement.

(iii) Consolidation

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

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

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

(i) 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 interest bearing liabilities on the balance sheet.

1. Summary of significant accounting policies (cont.)

(j) Receivables

Receivables are recognised initially at fair value. Due to the short term nature of these assets the recoverable value, i.e. allowing for doubtful debts, will be the fair value.

(k) Property, plant and equipment

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

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of any residual amounts, over their useful lives.

The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount.

Computer equipment	3-5 years
Furniture & fittings	5 years
Motor vehicles	5 years
Buildings	50-100 years

(l) 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).

(m) Derivative and other financial instruments

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

All purchases and sales of financial assets classified 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 Group commits to purchase or sell the assets. Loans and deposits are recognised at settlement date, which is the date that the assets are delivered or received.

(i) 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 income statement. The net gain or loss recognised in the income statement includes any dividend or interest earned on the financial assets.

Derivatives are also 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.

(ii) 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 at amortised cost using the effective interest method less any impairment.

1. Summary of significant accounting policies (cont.)

(n) 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 income statement.

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

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

In respect of available for sale debt instruments, the loss is reversed directly through the income statement.
In respect of available for sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

(o) Investment in subsidiaries

Investment in subsidiaries are carried at historical cost less any impairment and translated into the reporting currency using the exchange rates in effect at the transaction dates.

(p) Leased assets

(i) As lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the services are received over the period of the lease.
Benefits received and receivable for entering into an operating lease are recognised on a straight line basis over the term of the lease.

(q) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unsettled.

(r) 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.

(s) 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.

1. Summary of significant accounting policies (cont.)

(t) Share based payments

The Group issues share-based compensation packages to senior executives as part of their remuneration packages.

These options are measured at fair value at grant date and expensed over the period during which the employee becomes unconditionally entitled to the options, based on the estimate of shares that will eventually vest. Fair value at grant date is measured using a binomial model, taking into account the specific conditions of the options issued. The determination of fair value excludes the impact of any non-market vesting conditions which are allowed for in assumptions about the number of options that are expected to be exercisable. When an expense is recognised there is an equal and opposite entry made to the share option reserve in equity. When the options are exercised the receipt of the exercise price is transferred to share capital.

Where there is a tax deduction allowable in relation to the share option scheme this is recognised in the income statement, to the extent of the tax credit commensurate to the expense recognised in the income statement, with the balance reported through the share option reserve in equity.

Where terms are changed during the period that increase the cost of the options then this is recognised over the remaining vesting period. Where terms are changed during the period that decrease the cost of the options then there is no change to the expense recognised.

(u) Investment property

Investment property, which is property held to earn rentals and capital appreciation, is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

(v) Comparatives

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

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2009

	Group		Company	
	2009 NZ$000	2008 NZ$000	2009 NZ$000	2008 NZ$000
2. Investment revenue				
Fixed interest securities				
Interest income	8,553	10,063	6,765	9,789
Net (losses) / gains on revaluation of fixed interest securities designated at fair value through profit or loss	(489)	359	(408)	39
	8,064	**10,422**	**6,357**	**9,828**
Listed equity securities				
Dividend income	3,191	2,056	8,014	11,721
Net gains / (losses) on revaluation of listed equity securities designated at fair value through profit or loss	1,250	(1,386)	1,029	41
	4,441	**670**	**9,043**	**11,762**
Property securities				
Property income	158	191	-	-
Net (losses) / gains on revaluation of property securities designated at fair value through profit or loss	(1,123)	142	(1,123)	142
	(965)	**333**	**(1,123)**	**142**
Other investment income				
Other investment income	(347)	(398)	(347)	(316)
	(347)	**(398)**	**(347)**	**(316)**
Total investment revenue	**11,193**	**11,027**	**13,930**	**21,416**

3. Management and sales expenses

Included in total management and sales expenses are the following:				
Amortisation of deferred acquisition costs	13,890	13,032	12,192	11,670
Change in provision for doubtful debts	(202)	82	(61)	24
Depreciation:				
Office equipment and furniture	893	1,102	695	894
Motor vehicles	111	79	52	24
Computer equipment	209	155	156	67
Donations	-	1	-	-
Fees paid to auditors				
Audit of financial statements	390	365	254	233
Employee benefits expense	27,356	24,175	24,265	21,613

4. Taxation
(a) Current tax expense

Analysis of taxation expense - current and deferred				
Current taxation	8,865	11,254	5,957	5,348
Deferred taxation	(857)	(4,411)	(1,050)	(1,650)
(Over) / under provided in prior years	-	(195)	-	85
Income tax expense for the year	**8,008**	**6,648**	**4,907**	**3,783**
The tax expense recognised can be reconciled to the accounting profit as follows:				
Profit before taxation	25,300	21,405	19,956	22,603
Income tax at the current rate of 30% (2008: 33%)	7,590	7,064	5,987	7,459
Taxation effect of non-deductible expenses / non-assessable revenue:				
Prior period adjustment	-	(195)	-	(85)
Change in tax rates	-	(167)	-	(134)
Income not assessable for tax	-	-	(1,072)	(4,519)
Extra tax on foreign dividends	-	-	-	82
Other tax differences	-	(54)	-	980
Taxable income from PIEs	370	-	370	-
Future witholding tax on dividends	(171)	-	-	-
Release of witholding tax provision	-	-	(264)	-
Non deductible expenditure	219	-	(114)	-
Taxation expense	**8,008**	**6,648**	**4,907**	**3,783**

4. Taxation (Cont.)
(b) Deferred tax assets and liabilities

	Group				
	Opening balance at 1 October	Charged/ (credited) to income statement	Credited to equity	Transfer to related party	Closing balance at 30 September
2009	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000
Movements in deferred tax assets					
Provisions and accruals	689	573	-	-	1,262
Unrealised losses	98	(98)	-	-	-
Tax losses	-	249	-	-	249
Other	367	90	-	-	457
Total deferred tax assets	**1,154**	**814**	**-**	**-**	**1,968**
Movements in deferred tax liabilities					
Deferred costs	(3,598)	408	-	-	(3,190)
Fair value	-	-	-	-	-
Other	-	(365)	-	-	(365)
Total deferred tax liabilities	**(3,598)**	**43**	**-**	**-**	**(3,555)**
Net deferred tax	**(2,444)**	**857**	**-**	**-**	**(1,587)**
2008					
Movements in deferred tax assets					
Provisions and accruals	1,579	(890)	-	-	689
Unrealised losses	-	98	-	-	98
Tax losses	-	-	-	-	-
Other	272	95	-	-	367
Total deferred tax assets	**1,851**	**(697)**	**-**	**-**	**1,154**
Movements in deferred tax liabilities					
Deferred costs	(4,069)	471	-	-	(3,598)
Fair value	(5,282)	3,006	-	2,276	-
Other	(1,631)	1,631	-	-	-
Total deferred tax liabilities	**(10,982)**	**5,108**	**-**	**2,276**	**(3,598)**
Net deferred tax	**(9,131)**	**4,411**	**-**	**2,276**	**(2,444)**

	Company				
	Opening balance at 1 October	Charged/ (credited) to income statement	Credited to equity	Transfer to related party	Closing balance at 30 September
2009	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000
Movements in deferred tax assets					
Provisions and accruals	1,603	(111)	-	-	1,492
Unrealised losses	-	-	-	-	-
Tax losses	-	-	-	-	-
Other	342	90	-	-	432
Total deferred tax assets	**1,945**	**(21)**	**-**	**-**	**1,924**
Movements in deferred tax liabilities					
Deferred costs	(3,599)	409	-	-	(3,190)
Fair value	-	-	-	-	-
Deferred PIE allocated income	-	(365)	-	-	(365)
Witholding tax on future dividends	(865)	865	-	-	-
Other	(175)	162	-	-	(13)
Total deferred tax liabilities	**(4,639)**	**1,071**	**-**	**-**	**(3,568)**
Net deferred tax	**(2,694)**	**1,050**	**-**	**-**	**(1,644)**
2008					
Movements in deferred tax assets					
Provisions and accruals	1,315	288	-	-	1,603
Unrealised losses	-	-	-	-	-
Tax losses	-	-	-	-	-
Other	256	86	-	-	342
Total deferred tax assets	**1,571**	**374**	**-**	**-**	**1,945**
Movements in deferred tax liabilities					
Deferred costs	(3,847)	248	-	-	(3,599)
Fair value	(3,738)	1,462	-	2,276	-
Deferred PIE allocated income	-	-	-	-	-
Witholding tax on future dividends	-	-	-	-	-
Other	(1,324)	284	-	-	(1,040)
Total deferred tax liabilities	**(8,909)**	**1,994**	**-**	**2,276**	**(4,639)**
Net deferred tax	**(7,338)**	**2,368**	**-**	**2,276**	**(2,694)**

4. Taxation (Cont.)
(b) Deferred tax assets and liabilities (Cont.)

	Group		Company	
	2009 NZ$000	2008 NZ$000	2009 NZ$000	2008 NZ$000
Net deferred tax				
Expected to crystallise in the next 12 months	(2,044)	(2,811)	(2,076)	(3,036)
Not expected to crystallise in the next 12 months	457	367	432	342
	(1,587)	(2,444)	(1,644)	(2,694)

5. Cash and cash equivalents

Cash at bank and in hand	3,621	14,261	1,197	6,999
Deposits at call	27,938	20,454	16,322	10,239
Total cash and cash equivalents	31,559	34,715	17,519	17,238

6. Receivables

Other debtors, prepayments and accrued income	643	3,136	808	3,287
Outstanding premiums and trade receivables	78,871	82,150	70,128	70,591
Reinsurance recoveries receivable on outstanding claims and other recoveries	31,728	6,624	2,644	2,076
Related party receivables	355	8,721	4,938	12,742
Total receivables	111,597	100,631	78,518	88,696

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	80,159	83,640	70,603	71,127
Allowance for doubtful debts	(1,288)	(1,490)	(475)	(536)
	78,871	82,150	70,128	70,591
Balance at 1 October	(1,490)	(1,408)	(536)	(512)
Impairment loss recognised during the year	202	(82)	61	(24)
Provision released during the year	-	-	-	-
Balance at 30 September	(1,288)	(1,490)	(475)	(536)

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

7. Investment property

Opening balance at 1 October	2,450	2,158	-	-
Reclassified as property, plant and equipment	(2,538)	-	-	-
Other adjustments	88	292	-	-
Closing balance at 30 September	-	2,450	-	-

Investment property was reclassified as property, plant and equipment on 1 April 2009.

8. Investment in subsidiaries

Investments in controlled entities	-	-	4,606	4,854

9. Controlled entities

The major trading subsidiaries incorporated into the consolidated financial statements, all of which have a common balance date with the Company and undertake insurance activiities are as follows:

	Domicile	Ownership
TOWER Insurance (Cook Islands) Limited	Cook Islands	100%
TOWER Insurance (Fiji) Limited	Fiji	100%
TOWER Insurance (PNG) Limited	Papua New Guinea	100%
National Pacific Insurance Limited	Samoa	70%

The company has accumulated funds held by offshore susidiaries totalling $9,807,773 (2008: $8,458,723) which if paid to the parent by way of dividend would incur withholding taxes of up to 17%.

10. Related parties

All transactions between companies within the TOWER group were conducted at arms length. Trade amounts owing between related parties are payable under normal commercial terms. No related party debts have been written off or forgiven during the year.

Related party	Relationship	Nature of Transactions
TOWER Limited	Ultimate parent	Share based payments
TOWER Financial Services Group Limited	Parent	Sale of preference shares and financing
TOWER Asset Management Limited	Fellow subsidiary	Investment management fees
TOWER Corporation Holdings Limited	Fellow subsidiary	Internal audit services
TOWER Insurance (Fiji) Limited	Subsidiary	Management, IT services & reinsurance settlements
TOWER Insurance (PNG) Limited	Subsidiary	Management, IT services & reinsurance settlements
TOWER Insurance (Cook Islands) Limited	Subsidiary	Management, IT services & reinsurance settlements
National Pacific Insurance Limited	Subsidiary	Management, IT services & reinsurance settlements

The following transactions were carried out with related parties.				
Sales of services:				
Fellow subsidiary	1,917	874	1,917	874
Subsidiary	-	-	4,407	1,978
Purchases of services:				
Fellow subsidiary	1,436	466	1,436	466
Balances with related parties				
Balance receivable:				
Fellow subsidiary	355	8,721	355	8,622
Subsidiary	-	-	4,583	4,120
	355	**8,721**	**4,938**	**12,742**
Balance payable:				
Fellow subsidiary	1,263	904	4,215	804
	1,263	**904**	**4,215**	**804**

	Group		Company	
	2009 NZ$000	**2008 NZ$000**	**2009 NZ$000**	**2008 NZ$000**
11. Deferred acquisition costs				
Opening balance at 1 October	13,890	13,032	12,192	11,670
Acquisition costs deferred during the period	12,447	13,890	11,088	12,192
Current period amortisation	(13,890)	(13,032)	(12,192)	(11,670)
Closing balance at 30 September	**12,447**	**13,890**	**11,088**	**12,192**
12. Property, plant and equipment				
Computer equipment cost	2,145	8,192	1,649	7,596
Accumulated depreciation	(1,958)	(7,821)	(1,501)	(7,311)
Net book value at 30 September	**187**	**371**	**148**	**285**
Office equipment and motor vehicles cost	5,512	7,295	4,327	5,875
Accumulated depreciation	(4,701)	(5,811)	(3,386)	(4,496)
Net book value at 30 September	**811**	**1,484**	**941**	**1,379**
Land and buildings	1,895	-	-	-
Accumulated depreciation	-	-	-	-
Net book value at 30 September	**1,895**	**-**	**-**	**-**
Total net book value at 30 September	**2,893**	**1,855**	**1,089**	**1,664**
13. Payables				
Trade payables	25,411	25,408	23,472	22,919
Reinsurance payables	7,348	4,656	7,141	4,372
Related party payables	1,263	904	4,215	804
Total payables	**34,022**	**30,968**	**34,828**	**28,095**

	Group		Company	
	2009 NZ$000	2008 NZ$000	2009 NZ$000	2008 NZ$000
14. Provisions				
Employee benefits	3,834	4,046	3,442	3,601
Total provisions	**3,834**	**4,046**	**3,442**	**3,601**
15. Insurance liabilities				
Unearned premiums	96,914	103,045	80,702	83,802
Outstanding claims	96,756	77,398	54,036	56,870
Total insurance liabilities	**193,670**	**180,443**	**134,738**	**140,672**
16. Contributed equity				
Share capital				
Fully paid ordinary shares	47,900	47,900	47,900	47,900
	47,900	**47,900**	**47,900**	**47,900**
Fully paid ordinary shares				
Opening balance at 1 October	47,900	35,198	47,900	35,198
Shares issued during the year	-	12,702	-	12,702
Closing balance at 30 September	**47,900**	**47,900**	**47,900**	**47,900**
Fully paid convertible preference shares				
Opening balance at 1 October	-	12,702	-	12,702
Shares sold during the year	-	(12,702)	-	(12,702)
Closing balance at 30 September	-	-	-	-
Represented by:	**Number of shares**		**Number of shares**	
Ordinary shares authorised, issued and fully paid (no par value)	49,017,980	49,017,980	49,017,980	49,017,980
Fully paid ordinary shares				
Opening balance at 1 October	49,017,980	39,806,622	49,017,980	39,806,622
Shares issued during the year	-	9,211,358	-	9,211,358
Closing balance at 30 September	**49,017,980**	**49,017,980**	**49,017,980**	**49,017,980**
Fully paid convertible preference shares				
Opening balance at 1 October	-	18,422,715	-	18,422,715
Shares sold during the year	-	(18,422,715)	-	(18,422,715)
Closing balance at 30 September	-	-	-	-

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

17. Retained profits				
Retained profits				
Opening balance at 1 October	66,123	57,322	55,112	42,240
Net profit for the year attributable to shareholders	16,744	14,801	15,049	18,872
Dividend paid	(23,000)	(6,000)	(23,000)	(6,000)
Transfer from share based payment reserve	201	-	201	-
Other	(511)	-	-	-
Closing balance at 30 September	**59,557**	**66,123**	**47,362**	**55,112**

	Group		Company	
	2009	2008	2009	2008
	NZ$000	NZ$000	NZ$000	NZ$000
18. Reserves				
Foreign currency translation reserve				
Opening balance at 1 October	2,487	(409)	3,138	1,761
Currency translation differences arising during the year	(2,883)	2,896	(48)	1,377
Closing balance at 30 September	**(396)**	**2,487**	**3,090**	**3,138**

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve as described in note 1(h). The reserve is recognised in profit and loss when the net investment is disposed of.

Share based payments reserve				
Opening balance at 1 October	211	254	211	254
Transfer to retained profits	(201)	-	(201)	-
Option expense	47	(43)	47	(43)
Closing balance at 30 September	**57**	**211**	**57**	**211**

The share based payments reserve recognises share options in the parent company, TOWER Limited, held by senior executives employed by TOWER Insurance Limited. Full details relating to the share option schemes are included in the financial statements of TOWER Limited for the year ended 30 September 2009.

Capital reserve				
Opening balance at 1 October	11,990	11,990	11,659	11,659
Closing balance at 30 September	**11,990**	**11,990**	**11,659**	**11,659**
Total reserves	**11,651**	**14,688**	**14,806**	**15,008**
Minority interest				
Opening balance at 1 October	3,020	3,717	-	-
Share in current year profit of subsidiary	548	8	-	-
Dividends paid by subsidiary to minority shareholders	(340)	(907)	-	-
Share of foreign currency translation reserve movements	(536)	202	-	-
Closing balance at 30 September	**2,692**	**3,020**	-	-

19. Distributions to shareholders

A dividend of $23,000,000 was paid during the year ended 30 September 2009 (30 September 2008: $6,000,000).

	Group		Company	
	2009 NZ$000	2008 NZ$000	2009 NZ$000	2008 NZ$000
20. Insurance business				
(a) Analysis of insurance operating result				
Premium revenue	214,619	206,115	170,388	167,815
Outward reinsurance expense	(19,497)	(16,836)	(7,167)	(6,854)
Net premium income	**195,122**	**189,279**	**163,221**	**160,961**
Claims expense	146,621	124,516	106,872	109,822
Reinsurance recoveries	(25,979)	(3,293)	(2,449)	(1,041)
Net claims incurred	**120,642**	**121,223**	**104,423**	**108,781**
Acquisition costs	30,920	30,646	30,920	28,159
Other underwriting expenses	29,453	27,032	21,852	22,834
Underwriting result	**14,107**	**10,378**	**6,026**	**1,187**
Net investment income from general insurance business:				
Investment revenue	11,540	11,425	14,277	21,732
Investment expenses	(347)	(398)	(347)	(316)
Net investment income	**11,193**	**11,027**	**13,930**	**21,416**
Operating surplus before income tax	**25,300**	**21,405**	**19,956**	**22,603**

(b) Net claims incurred

	2009			2008		
Group	**Risks borne in current year NZ$000**	**Risks borne in prior years NZ$000**	**Total NZ$000**	**Risks borne current year NZ$000**	**Risks borne in prior years NZ$000**	**Total NZ$000**
Gross claims expense						
Direct claims - undiscounted	144,536	120	144,656	123,223	(1,159)	122,064
Discount	46	1,919	1,965	(78)	2,530	2,452
Gross claims expense	**144,582**	**2,039**	**146,621**	**123,145**	**1,371**	**124,516**
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	23,349	2,863	26,212	843	2,419	3,262
Discount	(26)	(207)	(233)	(2)	33	31
Reinsurance	**23,323**	**2,656**	**25,979**	**841**	**2,452**	**3,293**
Net claims incurred	**121,259**	**(617)**	**120,642**	**122,304**	**(1,081)**	**121,223**

	2009			2008		
Company	**Risks borne in current year NZ$000**	**Risks borne in prior years NZ$000**	**Total NZ$000**	**Risks borne current year NZ$000**	**Risks borne in prior years NZ$000**	**Total NZ$000**
Gross claims expense						
Direct claims - undiscounted	105,381	(400)	104,981	108,794	(389)	108,405
Discount	-	1,891	1,891	(3)	1,420	1,417
Gross claims expense	**105,381**	**1,491**	**106,872**	**108,791**	**1,031**	**109,822**
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	931	1,653	2,584	119	899	1,018
Discount	-	(135)	(135)	-	23	23
Reinsurance	**931**	**1,518**	**2,449**	**119**	**922**	**1,041**
Net claims incurred	**104,450**	**(27)**	**104,423**	**108,672**	**109**	**108,781**

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to reassessment of the risks borne in all previous financial years.

20. Insurance business (Cont.)

(c) Net outstanding claims

i) Net outstanding claims liability

	Group		Company	
	2009 NZ$000	2008 NZ$000	2009 NZ$000	2008 NZ$000
Central estimate of expected present value of future payments	72,534	79,515	60,005	64,146
Risk margin	4,907	4,351	4,567	3,756
Claims handling costs	4,668	4,523	3,934	3,204
	82,109	88,389	68,506	71,106
Discount	(17,081)	(17,615)	(17,114)	(17,404)
Net outstanding claims liability	**65,028**	**70,774**	**51,392**	**53,702**

ii) Reconciliation of movements in net discounted outstanding claims liability

Group	2009			2008		
	Gross NZ$000	Reinsurance NZ$000	Net NZ$000	Gross NZ$000	Reinsurance NZ$000	Net NZ$000
Balance brought forward	77,398	(6,624)	70,774	68,968	(5,695)	63,273
Effect of change in foreign exchange rates	(637)	(1,935)	(2,572)	1,874	671	2,545
Effect of changes in assumptions	676	77	753	1,028	(142)	886
Incurred claims for year	146,621	(25,979)	120,642	124,519	(3,294)	121,225
Claim payments during year	127,302	(2,733)	124,569	118,991	(1,836)	117,155
Balance carried forward	**96,756**	**(31,728)**	**65,028**	**77,398**	**(6,624)**	**70,774**

Reconciliation of net undiscounted claims to liability for net outstanding claims

Long tail outstanding claims undiscounted	**36,682**	**(3,556)**	**33,126**	**40,594**	**(1,845)**	**38,749**
Discount	(16,157)	738	(15,419)	(18,120)	505	(17,615)
Long tail outstanding claims	**20,525**	**(2,818)**	**17,707**	**22,474**	**(1,340)**	**21,134**
Short tail outstanding claims			47,321			49,640
Total net outstanding claims as per balance sheet			**65,028**			**70,774**

Company	2009			2008		
	Gross NZ$000	Reinsurance NZ$000	Net NZ$000	Gross NZ$000	Reinsurance NZ$000	Net NZ$000
Balance brought forward	55,778	(2,076)	53,702	51,438	(1,673)	49,765
Effect of change in foreign exchange rates	(620)	(360)	(980)	(620)	(360)	(980)
Effect of changes in assumptions	556	63	619	1,028	(142)	886
Incurred claims for year	106,819	(2,449)	104,370	109,822	(1,041)	108,781
Claim payments during year	108,497	(2,178)	106,319	105,890	(1,140)	104,750
Balance carried forward	**54,036**	**(2,644)**	**51,392**	**55,778**	**(2,076)**	**53,702**

Reconciliation of net undiscounted claims to liability for net outstanding claims

Long tail outstanding claims undiscounted	**30,935**	**(2,171)**	**28,764**	**35,355**	**(1,671)**	**33,684**
Discount	(16,009)	630	(15,379)	(17,900)	495	(17,405)
Long tail outstanding claims	**14,926**	**(1,541)**	**13,385**	**17,455**	**(1,176)**	**16,279**
Short tail outstanding claims			38,007			37,423
Total net outstanding claims as per balance sheet			**51,392**			**53,702**

	Group		Company	
	2009 NZ$000	2008 NZ$000	2009 NZ$000	2008 NZ$000
iii) Long tail outstanding claims is made up of exposures from:				
Pacific Islands	4,438	4,707	116	163
Australia	9,240	11,160	9,240	11,160
Inwards reinsurance business (excl Australia)	4,029	5,069	4,029	5,069
Net discounted long tail outstanding claims	**17,707**	**20,936**	**13,385**	**16,392**

20. Insurance business (Cont.)

(d) Assumptions adopted in calculation of insurance provisions
The claims provisions have been assessed having regard to external actuarial assessments.
The actuary used was P. Davies, B.Bus.Sc, FNZSA, FIA, AIA, AIAA.
The external actuarial assessments are in accordance with the standards of the Societies of Actuaries in New Zealand. The Actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims.

Long tail claims - Pacific Islands and Australia only
The following assumptions have been made in determining net outstanding claims liabilities for the long tail business of the Pacific Islands and Australia only:

	2009	2008
- Inflation rates varied from	1.5% to 8%	1.5% to 8%
- Discount rates varied from	4% to 9%	4% to 7%
- Claims handling expense ratio	3.3% to 13%	3.3% to 13%
- Risk margin	15% to 20%	15% to 20%

Short tail claims
No such assumptions apply to the short tail business.

Inflation rate

Insurance costs are subject to inflationary pressures. Inflation assumptions for all classes of business are based on current economic indicators.

For motor and property classes, for example, claim costs are related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs. These costs are expected to increase at a level between appropriate Consumer Price Index (CPI) indices and wage inflation.

Risk margin
The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class.

The assumptions regarding uncertainty for each class were applied to the net central estimates and the results were aggregated allowing for diversification in order to arrive at an overall provision which is intended to have a 75% probability of sufficiency.

Applicable to all long tail and short tail claims
The weighted average expected term to settlement of outstanding claims from balance date is

	2009	2008
- Short tail claims	within 1 year	within 1 year
- Long tail claims in the Pacific Islands	1.06 to 2.51 years	1.6 to 3 years
- Long tail claims in Australia	6.9 to 7.9 years	6.6 to 6.8 years
- Inwards reinsurance treaties	in excess of 10 years	in excess of 10 years

Discount rate
The outstanding claims liabilities is discounted at a rate equivalent to that inherent in a portfolio of riskless fixed interest securities with coupon and redemption cash flows exactly matching the projected inflation claim cash flows.

Outstanding claims liabilities are discounted to present value using a risk free rate based on ten year government bond rate in New Zealand. The outstanding claims liabilities relating to the Pacific Islands are discounded to present value using the relevant government bond rates applicable to each of the Pacific Islands.

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.

Inward reinsurance business
The company participated in some inward treaty and pooling arrangements all of which ceased prior to 1985. These claims continue to be run off. Some arrangements have commuted with cedants and other commutations are being sought. Some pooling arrangements are progressing through solvent schemes of arrangement. Information from the cedants has been regular and reserves for these claims have been conservatively assessed and reported by the cedants. Because of the nature of inward treaty and pooling arrangements, it is difficult to have these liabilities reliably actuarially assessed. Accordingly the company has taken a conservative appoarch in assessing these liabilities and has based its reserves on the latest available information from cedants plus IBNR provisions based on recent trends. With the exception of the Australian treaties, the inwards reinsurance business has not been actuarially assessed and does not form part of the sensitivity analysis. All other long tail business is included and has been actuarially assessed.

20. Insurance business (Cont.)

Sensitivity analysis - Pacific Islands and Australia only
The impact of change in key variables on the outstanding claims liability relating to the long tail business of the Pacific Islands and Australia only is

Variable	Movement	Group Impact $'000	Parent Impact $'000
Claim settlement period	+ 0.5 years	(271)	(248)
	- 0.5 years	271	248
Claims expenses ratio	increase of 1%	277	254
	decrease of 1%	(277)	(254)
Inflation rates	increase of 1%	978	955
	decrease of 1%	(755)	(733)
Discount rates	increase of 1%	(801)	(779)
	decrease of 1%	935	912

Sensitivity analysis - short tail business
Sensitivities relating to the short tail business are not material for disclosure.

(e) Risk management policies and procedures
The general insurance business of the Group involves a number of non-financial risks. Notes on the policies and procedures employed in managing these risks in the general insurance business are set out below.

(i) 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.

The key policies in place to mitigate risk arising from writing general insurance contracts include:
- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- monitoring natural disasters such as earthquake, flood, storms and other catastrophes using models;
- the use of reinsurance to limit the Group's exposure to large single claims or accumulation of claims that arise from the same event.

(ii) Terms and conditions of insurance contracts that have a material effect on amount timing and uncertainty of cash flows
The term and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

(iii) Concentration of insurance risk
The exposure to concentration of insurance risk is mitigated by the group operating a portfolio of diversified classes of business across a number of countries.

Concentration risk is a factor in the event of a natural disaster, political unrest or other catastrophes. Modelling is undertaken to estimate the impact of such risks and the net exposure is limited through the purchase of reinsurance cover to the extent that it is capital efficient.

(f) 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.

Group

	Incident year						
Ultimate claims cost estimate	**Prior NZ$000**	**2005 NZ$000**	**2006 NZ$000**	**2007 NZ$000**	**2008 NZ$000**	**2009 NZ$000**	**Total NZ$000**
At end of accident year	-	111,522	118,996	121,315	122,903	121,562	
One year later	-	111,491	117,333	121,198	123,926	-	
Two years later	-	111,024	116,573	119,803	-	-	
Three years later	-	110,756	116,498	-	-	-	
Four years later	-	110,523	-	-	-	-	
Current estimate of ultimate claims cost	-	110,523	116,498	119,803	123,926	121,562	
Cumulative payments	-	(110,366)	(115,493)	(118,242)	(118,191)	(84,276)	
Undiscounted central estimate	26,790	157	1,005	1,561	5,735	37,286	72,534
Discount to present value	15,408	(7)	18	17	(23)	6	15,419
Discounted central estimate	11,382	164	987	1,544	5,758	37,280	57,115
Claims handling expense	1,965	21	49	87	172	1,564	3,858
Risk margin	3,700	14	50	51	85	155	4,055
Net outstanding claims liabilities	**17,047**	**199**	**1,086**	**1,682**	**6,015**	**38,999**	**65,028**
Reinsurance recoveries on outstanding claims liabilities and other recoveries							31,728
Gross outstanding claims liabilities							**96,756**

20. Insurance business (Cont.)

Company

	Incident year						
Ultimate claims cost estimate	Prior NZ$000	2005 NZ$000	2006 NZ$000	2007 NZ$000	2008 NZ$000	2009 NZ$000	Total NZ$000
At end of accident year	-	97,561	104,364	106,718	108,718	104,450	
One year later	-	97,827	103,794	107,439	109,709		
Two years later	-	97,871	103,519	106,799			
Three years later	-	97,782	103,420				
Four years later	-	97,589					
Current estimate of ultimate claims cost	-	97,589	103,420	106,799	109,709	104,450	
Cumulative payments	-	(97,682)	(103,343)	(106,132)	(105,251)	(74,898)	
Undiscounted central estimate	25,344	(93)	77	667	4,458	29,552	60,005
Discount to present value	15,369	-	2	2	2	3	15,378
Discounted central estimate	9,975	(93)	75	665	4,456	29,549	44,627
Claims handling expense	1,924	2	3	9	44	1,148	3,130
Risk margin	3,625	-	3	2	2	3	3,635
Net outstanding claims liabilities	**15,524**	**(91)**	**81**	**676**	**4,502**	**30,700**	**51,392**
Reinsurance recoveries on outstanding claims liabilities and other recoveries							2,644
Gross outstanding claims liabilities							**54,036**

(g) Liability adequacy test

The liability adequacy test has identified a surplus for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

The risk margin adopted in performing the liability adequacy test is 75%. The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

(h) Insurer financial strength rating

TOWER Insurance Limited has an insurer financial strength rating of "A-" (Excellent) issued by AM Best Company Limited.

(i) Reinsurance programme

Reinsurance programmes are structured to adequately protect the general insurance companies' solvency and capital positions. They cover per risk and event losses in each country, including a major Wellington earthquake, assessed as the worst possible scenario.

	Group		Company	
	2009 NZ$000	2008 NZ$000	2009 NZ$000	2008 NZ$000
21. Operating leases				
Rent paid under non-cancellable operating leases during the year	4,223	3,884	3,386	3,164
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
– Not later than one year	2,298	2,175	2,113	1,912
– Later than one year and not later than five years	6,424	7,536	6,285	7,229
– Later than five years	344	369	223	230
	9,066	**10,080**	**8,621**	**9,371**

Operating lease payments represent the future rentals payable for office space under current leases. Leases are entered into for an average of seven years with rental rates reviewed every three years.

22. Share based payments

The Company has four executive share option schemes. Each is equity settled and has differing conditions which are set out in the tables below. The exercise prices are set at the average of the share price for the five days before grant date. Subject to the discretion of the Board, options are forfeited if an employee leaves the Group before the options vest.

Vesting requirements of each tranche include service and performance conditions. The performance condition is based on a market condition such as total shareholder return achieved at the end of each reporting period. The holders of the options are not entitled to dividend or have other shareholder benefits, including voting rights.

The grant date fair value for options was estimated by using a binomial pricing model. The main inputs to the model were as follows:

Terms of share schemes	Tranche A	Tranche D	Tranche F	Tranche G
Exercise price after rights issue	$1.31	$2.46	$2.10	$1.38
Grant date	31-Mar-04	4-Apr-06	11-Dec-07	5-Dec-08
Vesting date	1-Apr-07	3-Apr-09	1-Dec-10	1-Dec-11
Expiry date	31-Mar-10	4-Apr-12	1-Dec-13	1-Dec-14
Expected volatility	20%	20%	20%	40%
Risk free rate	5.71%	5.71%	5.71%	4.88%
Amount expensed / (released) during the year (NZ$)	-	-	40,474	6,503

The exercise price has been reduced to maintain the value of the share options after the rights issue which was completed on 28 September 2009. The fair value remains unchanged after the rights issue as the reduction of the exercise price is to preserve the value of the share option before and after the rights issue.

Expected volatility was determined by looking at the performance of the share price over a number of periods ranging from six months to two years, adjusted to remove significant impacts arising from one off events.

The expected life is based on best estimates of management allowing for non-transferability, exercise restrictions and behavioural considerations.

Details of the share options outstanding as at 30 September were as follows:

	Number of options				Weighted average exercise price [1]
2009	Tranche A	Tranche D	Tranche F	Tranche G	
Outstanding at start of year	-	-	314,533	-	$2.19
Granted	-	-	-	200,000	$1.47
Outstanding at the end of the year	-	-	**314,533**	**200,000**	**$1.82**
Exercisable at the end of the year	-	-	-	-	$0.00
2008					
Outstanding at start of year	173,000	200,000	-	-	$2.02
Granted	-	-	381,200	-	$2.19
Exercised	(173,000)	-	-	-	$1.40
Forfeited	-	(200,000)	(66,667)	-	$2.46
Outstanding at the end of the year	-	-	**314,533**	-	**$2.19**
Exercisable at the end of the year	-	-	-	-	$0.00

[1] *The weighted average exercise price for outstanding share options at the end of the year has been adjusted for the impact of the rights issue.*
No options are exercisable in 2009 (2008: Nil).

23. 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	Designated at fair value through profit or loss
	$000	$000	$000
As at 30 September 2009			
Financial assets			
Cash and cash equivalents	31,559	31,559	-
Reinsurance recoveries receivable	31,728	31,728	-
Outstanding premiums and trade receivables	78,871	78,871	-
Related party receivables	355	355	-
Investments in listed equity securities	2,923	-	2,923
Investments in fixed interest securities	199,378	-	199,378
Investments in property securities	8,250	-	8,250
Total financial assets	**353,064**	**142,513**	**210,551**
As at 30 September 2008			
Financial assets			
Cash and cash equivalents	34,715	34,715	-
Reinsurance recoveries receivable	6,624	6,624	-
Outstanding premiums and trade receivables	85,286	85,286	-
Related party receivables	8,721	8,721	-
Investments in listed equity securities	2,966	-	2,966
Investments in fixed interest securities	195,280	-	195,280
Investments in property securities	9,134	-	9,134
Total financial assets	**342,726**	**135,346**	**207,380**

COMPANY	Total	Loans and receivables	Designated at fair value through profit or loss
	$000	$000	$000
As at 30 September 2009			
Financial assets			
Cash and cash equivalents	17,519	17,519	-
Reinsurance recoveries receivable	2,644	2,644	-
Outstanding premiums and trade receivables	70,128	70,128	-
Related party receivables	4,938	4,938	-
Investments in fixed interest securities	176,548	-	176,548
Investments in property securities	8,250	-	8,250
Total financial assets	**280,027**	**95,229**	**184,798**
As at 30 September 2008			
Financial assets			
Cash and cash equivalents	17,238	17,238	-
Reinsurance recoveries receivable	2,076	2,076	-
Outstanding premiums and trade receivables	73,878	73,878	-
Related party receivables	12,742	12,742	-
Investments in fixed interest securities	168,323	-	168,323
Investments in property securities	9,168	-	9,168
Total financial assets	**283,425**	**105,934**	**177,491**

23. Financial instruments categories (cont.)

GROUP As at 30 September 2009	Total $000	Financial liabilities at amortised cost $000
Financial liabilities		
Trade payables	25,411	25,411
Reinsurance payables	7,348	7,348
Related party payables	1,263	1,263
Total financial liabilities	**34,022**	**34,022**
As at 30 September 2008		
Financial liabilities		
Trade payables	25,408	25,408
Reinsurance payables	4,656	4,656
Related party payables	904	904
Total financial liabilities	**30,968**	**30,968**

COMPANY As at 30 September 2009	Total $000	Financial liabilities at amortised cost $000
Financial liabilities		
Trade payables	23,472	23,472
Reinsurance payables	7,141	7,141
Related party payables	4,215	4,215
Total financial liabilities	**34,828**	**34,828**
As at 30 September 2008		
Financial liabilities		
Trade payables	22,919	22,919
Reinsurance payables	4,372	4,372
Related party payables	804	804
Total financial liabilities	**28,095**	**28,095**

24. Contingent liabilities

There are no material contingent liabilities at balance date (2008: $Nil).

25. Capital commitments

There were no capital commitments as at 30 September 2009 (2008: $Nil).

26. Subsequent events

There are no subsequent events relating to the year ended 30 September 2009 that have a material impact on the financial statements.

27. Company information

TOWER Insurance Limited is a profit-oriented entity incorporated and domiciled in New Zealand. Its registered office and principal place of business is:

Level 11
TOWER Centre
22 Fanshaw Street
Auckland
New Zealand

PRICEWATERHOUSECOOPERS

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Auditors' Report

To the shareholders of TOWER Insurance Limited

We have audited the financial statements on pages 4 to 27. The financial statements provide information about the past financial performance of the Company and Group for the year ended 30 September 2009 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 7 to 12.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 September 2009 and their financial performance for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors and providers of other assurance and advisory services.

PRICEWATERHOUSECOOPERS

Auditors' Report
TOWER Insurance Limited

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(b) the financial statements on pages 4 to 27:

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

  (ii) give a true and fair view of the financial position of the Company and Group as at 30 September 2009 and their financial performance for the year ended on that date.

Our audit was completed on 21 December 2009 and our unqualified opinion is expressed as at that date.

Chartered Accountants

Auckland