

TOWER INSURANCE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2011

TOWER INSURANCE LIMITED
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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 2011.

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 \$2,230,000 (2010: \$21,937,000). Retained profits at the end of the year totalled \$47,342,000 (2010: \$64,994,000). Shareholders' equity at the end of the year totalled \$108,524,000 (2010: \$126,999,000). The directors consider the state of affairs of the Company and Group to be satisfactory. During the year the directors recommended and paid dividends of \$20,000,000 (2010: \$16,500,000).

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, M Boggs and B Walsh.

The following director left office during the year: JE Douglas.

The Board of Directors of Tower Insurance Limited authorised these financial statements presented on pages 2 to 36 for issue on 26 January 2012.

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:



Date: 26 January 2012

Director:



Date: 26 January 2012

TOWER INSURANCE LIMITED
INCOME STATEMENTS
For the year ended 30 September 2011

	Note	Group		Company	
		2011 NZ\$000	2010 NZ\$000	2011 NZ\$000	2010 NZ\$000
Revenue					
Premium revenue from insurance contracts	22	208,328	204,845	166,873	162,819
Less: Outwards reinsurance expense	22	(41,102)	(21,651)	(24,868)	(8,468)
Net premium revenue		167,226	183,194	142,005	154,351
Investment revenue	5, 22	11,843	14,530	15,366	13,323
Other revenue		157	180	-	-
Net operating revenue		179,226	197,904	157,371	167,674
Expenses					
Claims expense	22	513,768	166,452	491,633	161,471
Less: Reinsurance recoveries revenue	22	(402,087)	(56,540)	(389,451)	(64,021)
Net claims expense		111,681	109,912	102,182	97,450
Management and sales expenses	6	60,139	55,930	52,863	48,125
Net claims and operating expenses		171,820	165,842	155,045	145,575
Profit before taxation		7,406	32,062	2,326	22,099
Income tax expense	7	4,862	9,613	1,716	6,355
Profit for the year		2,544	22,449	610	15,744
Profit attributed to					
Shareholders		2,230	21,937	610	15,744
Minority interests	19	314	512	-	-
		2,544	22,449	610	15,744

TOWER INSURANCE LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
For the year ended 30 September 2011

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Profit for the year	2,544	22,449	610	15,744
Other comprehensive income				
Currency translation differences	(629)	2,413	(2,050)	2,212
Other comprehensive (loss) / income net of taxation	(629)	2,413	(2,050)	2,212
Total comprehensive income / (loss) for the year	1,915	24,862	(1,440)	17,956
Total comprehensive income / (loss) attributed to				
Shareholders	1,543	24,312	(1,440)	17,956
Minority interests	372	550	-	-
	1,915	24,862	(1,440)	17,956

TOWER INSURANCE LIMITED
BALANCE SHEETS
As at 30 September 2011

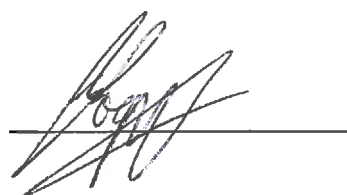
	Note	Group		Company	
		2011 NZ\$000	2010 NZ\$000	2011 NZ\$000	2010 NZ\$000
Assets					
Cash and cash equivalents	8	62,116	67,125	49,492	54,369
Receivables	9	551,027	158,787	523,721	141,925
Financial assets at fair value through profit or loss	25	142,835	184,205	115,844	154,447
Property, plant and equipment	10	2,498	2,787	45	384
Current tax assets		4,345	-	4,344	-
Deferred acquisition costs	11	14,664	13,623	12,844	11,963
Investment in subsidiaries	12	-	-	4,661	4,661
Deferred tax asset	7	1,368	1,481	855	937
Total assets		778,853	428,008	711,806	368,686
Liabilities					
Payables	13	38,900	45,767	42,357	48,354
Current tax liabilities		3,547	3,741	1,956	2,823
Provisions	14	1,655	3,188	1,232	2,822
Insurance liabilities	15	619,750	241,105	572,377	199,235
Deferred tax liabilities	7	3,951	4,284	3,739	3,849
Total liabilities		667,803	298,085	621,661	257,083
Net assets		111,050	129,923	90,145	111,603
Equity					
Contributed equity	16	47,900	47,900	47,900	47,900
Retained profits	17	47,342	64,994	27,334	46,606
Reserves	18	13,282	14,105	14,911	17,097
Total equity attributed to shareholders		108,524	126,999	90,145	111,603
Minority interests	19	2,526	2,924	-	-
Total equity		111,050	129,923	90,145	111,603

The financial statements were approved for issue by the Board on 26 January 2012.

Director:



Director:



TOWER INSURANCE LIMITED
STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 September 2011

	Attributed to shareholders			Minority interest	Total equity
	Share capital	Retained profits	Reserves		
	\$000	\$000	\$000	\$000	\$000
Group					
Year ended 30 September 2011					
At the beginning of the year	47,900	64,994	14,105	2,924	129,923
Comprehensive income					
Profit for the year	-	2,230	-	314	2,544
Currency translation differences	-	-	(687)	58	(629)
Total comprehensive income	-	2,230	(687)	372	1,915
Transactions with shareholders					
Movement in share based payment reserve	-	118	(136)	-	(18)
Dividends paid	-	(20,000)	-	(770)	(20,770)
Total transactions with shareholders	-	(19,882)	(136)	(770)	(20,788)
At the end of the year	47,900	47,342	13,282	2,526	111,050
Year ended 30 September 2010					
At the beginning of the year	47,900	59,557	11,651	2,692	121,800
Comprehensive income					
Profit for the year	-	21,937	-	512	22,449
Currency translation differences	-	-	2,375	38	2,413
Total comprehensive income	-	21,937	2,375	550	24,862
Transactions with shareholders					
Movement in share based payment reserve	-	-	79	-	79
Dividends paid	-	(16,500)	-	(318)	(16,818)
Total transactions with shareholders	-	(16,500)	79	(318)	(16,739)
At the end of the year	47,900	64,994	14,105	2,924	129,923

TOWER INSURANCE LIMITED
STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
For the year ended 30 September 2011

	Attributed to shareholders			Minority Interest	Total equity
	Share capital	Retained profits	Reserves		
	\$000	\$000	\$000	\$000	\$000
Company					
Year ended 30 September 2011					
At the beginning of the year	47,900	46,606	17,097	-	111,603
Comprehensive income					
Profit for the year	-	610	-	-	610
Currency translation differences	-	-	(2,050)	-	(2,050)
Total comprehensive income	-	610	(2,050)	-	(1,440)
Transactions with shareholders					
Movement in share based payment reserve	-	118	(136)	-	(18)
Dividends paid	-	(20,000)	-	-	(20,000)
Total transactions with shareholders	-	(19,882)	(136)	-	(20,018)
At the end of the year	47,900	27,334	14,911	-	90,145
Year ended 30 September 2010					
At the beginning of the year	47,900	47,362	14,806	-	110,068
Comprehensive income					
Profit for the year	-	15,744	-	-	15,744
Currency translation differences	-	-	2,212	-	2,212
Total comprehensive income	-	15,744	2,212	-	17,956
Transactions with shareholders					
Movement in share based payment reserve	-	-	79	-	79
Dividends paid	-	(16,500)	-	-	(16,500)
Total transactions with shareholders	-	(16,500)	79	-	(16,421)
At the end of the year	47,900	46,606	17,097	-	111,603

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

1. CORPORATE INFORMATION

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

The principal activity of the Group is providing general insurance services. The Group operates in New Zealand, Fiji, Papua New Guinea, Solomon Islands, Cook Islands, Samoa, Tonga and American Samoa.

2. 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.

(A) Basis of preparation

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

The 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 their owner and 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.

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

(B) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 September 2011 and the results of all subsidiaries for the year then ended.

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

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

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

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

(C) Investment in subsidiaries

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

(D) 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.

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(E) 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 income statement in the period in which they arise.

(F) Claims expense

Claims expenses are recognised when claims are notified with the exception of claims incurred not reported for which a provision is estimated (discussed in Note 3 (A)).

(G) Policy acquisition costs

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.

(H) 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.

(I) Reinsurance recoveries

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

(J) Taxation

(i) Current tax

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

(ii) Deferred tax

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

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

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

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Tax consolidation

TOWER Limited and its New Zealand wholly-owned subsidiaries (including TOWER Insurance Limited) comprise a 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.

(K) 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 and rounded off to the nearest thousand dollars.

The parent includes branches which have a different functional currency from that of the presentation currency. For the purpose of preparing financial statements of the parent the assets and liabilities of branches with a functional currency different to the presentation currency are translated at the closing rate at the balance sheet date. Income and expense items for each branch 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 comprehensive income and the statement of changes in equity.

(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 comprehensive income and the statement of changes in equity.

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

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

(L) Cash and cash equivalents

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

(M) Receivables

Receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method. Due to the short term nature of these assets the recoverable value, i.e. allowing for doubtful debts, will be the fair value.

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(N) Property, plant and equipment

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

Land and buildings are measured at fair value. Fair value is assessed each year end by way of independent valuation. Any gain is recorded through other comprehensive income. Loss is recognised through other comprehensive income to the point it offsets any accumulated gain in the reserve. All remaining loss is recorded through the income statement.

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
Office equipment	3-5 years
Motor vehicles	5 years

(O) Assets backing insurance business

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

As these assets are managed under the TOWER Limited Group's Risk Management Statement on a fair value basis and are reported to the TOWER Limited 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 are carried at face value which approximates fair value;
- shares, fixed interest securities and units in trusts listed on stock exchanges are valued at the quoted bid price of the instrument at balance sheet date;
- unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable traded investments at balance date;
- unlisted unit trusts are recorded at fund managers' quoted redemption prices; and,
- receivables are carried at amortised cost less any impairment, which is the best estimate of fair value as they are settled within a short period.

(P) Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortisation or depreciation and are tested bi-annually for impairment. Assets with a finite useful life are subject to amortisation or depreciation 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).

(Q) 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 receivables are recognised at settlement date, which is the date that the assets are delivered or received.

(i) Loans and receivables

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



TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(iii) 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.

(iv) Derecognition

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

(R) Impairment of financial assets

Financial assets, with the exception of those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's 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.

(S) Leased assets

(i) As lessor

Rental income on operating leases is recognised as income in the periods the services are provided and the amounts are receivable. Initial direct costs incurred in initiating the lease are added to the carrying value of the leased asset and amortised on a straight line basis over the term of the lease.

(ii) 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.

(T) Payables

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

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(U) 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.

(V) 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.

(W) Insurance liabilities

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. 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.

Provision has been made for the estimate of claim recoveries from third parties.

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.

(X) Contributed equity

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

(Y) 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.

(Z) 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 2011

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(A) Claims liabilities

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 Group.

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

The estimation of claims 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 Group, 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 event giving rise to the claims has happened. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based on statistical analyses of historical experience, which assumes that the development pattern of 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 Group 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 Group 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 Group 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.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based on the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note 26 with regards to the impact of the Christchurch earthquakes.

(B) Assets arising from reinsurance contracts

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

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

4. IMPACT OF AMENDMENTS TO NZ IFRS

(A) Standards, amendments and interpretations to existing standards not yet effective and not early adopted

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 October 2011, and which the Group has not chosen to early adopt:

- IAS 24, 'Related party disclosures' (effective from 1 January 2011). The revised standard amends the definition of a related party. The amendment is not expected to have a material impact on the financial statements.
- NZ IFRS 9 'Financial Instruments' (effective from 1 January 2013). The standard is the first step in replacing NZ IAS 39 and introduces requirements for classifying and measuring financial assets and liabilities. The Group is in the process of evaluating the potential effect of this standard.
- NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013). The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The standard is not expected to have a material impact on the financial statements.
- NZ IFRS 10 'Consolidated Financial statements' (effective from 1 January 2013). The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements. The standard is not expected to have a material impact on the financial statements.
- NZ IFRS 12 'Disclosure of Interests in Other Entities' (effective from 1 January 2013). The standard requires extensive disclosure of information that enables users of the financial statements to evaluate the nature of, and risks associated with, interests in other entities. The Group is in the process of evaluating the potential effect of this standard.
- Harmonisation Amendments (effective from 1 July 2011). This amends multiple standards to harmonise NZ IFRS with IFRS and Australian Accounting Standards. The Group is in the process of evaluating the potential effect of the amendments.
- Improvements to NZ IFRS 2010 includes various amendments effective for periods beginning on or after 1 January 2011 and are not expected to have a material impact on the financial statements.

(B) Standards, amendments and interpretations to existing standards newly effective or early adopted

The Group has early adopted the following new and amended IFRS's as of the 1 October 2010:

- NZ IFRS 7, 'Financial instruments' (effective retrospectively from 1 January 2011). The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The change in accounting policy has not resulted in additional disclosures.

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

5. INVESTMENT REVENUE

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Fixed interest securities				
Interest income	9,776	10,371	8,186	8,639
Net realised gain	537	113	537	113
Net unrealised gain	656	1,704	656	1,704
	10,969	12,188	9,379	10,456
Equity securities				
Dividend income	74	187	4,888	828
Net unrealised gain	331	1,480	630	1,389
	405	1,667	5,518	2,217
Property securities				
Property income	230	249	230	224
Net unrealised gain	239	426	239	426
	469	675	469	650
Total investment revenue	11,843	14,530	15,366	13,323

6. MANAGEMENT AND SALES EXPENSES

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Included in total management and sales expenses are the following:				
Amortisation of deferred acquisition costs	13,623	12,447	11,963	11,088
Bad debts written off	3	19	(1)	(87)
Depreciation:				
Office equipment and furniture	118	143	4	11
Motor vehicles	109	165	26	92
Computer equipment	21	36	8	5
Employee benefits expense	21,492	22,424	18,431	19,728

No fees for audit or other services were paid by the Group to its auditors during the year (2010: nil). TOWER New Zealand Limited paid all fees for audit services provided to the Group on its behalf.

7. TAXATION

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
(A) Current tax expense				
Analysis of taxation expense				
Current taxation	3,127	9,346	27	5,581
Deferred taxation	157	1,216	111	1,268
Under / (over) provided in prior years	1,578	(949)	1,578	(494)
Income tax expense for the year	4,862	9,613	1,716	6,355

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

7. TAXATION (CONTINUED)

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

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Profit before taxation	7,406	32,062	2,326	22,099
Income tax at the current rate of 30% (2010: 30%)	2,222	9,619	698	6,630
Taxation effect of non-deductible expenses / non-assessable revenue:				
Prior period adjustment	1,578	(949)	1,578	(494)
Change in tax rates	(207)	-	(207)	-
Income not assessable for tax	(13)	(64)	(1,467)	-
Other tax differences	828	391	932	144
Taxable/(non-taxable) income from PIEs	19	(42)	19	(42)
Future withholding tax on dividends	-	337	-	-
Non deductible expenditure	435	321	163	117
Income tax expense	4,862	9,613	1,716	6,355

In May 2010 legislation was passed to reduce the company tax rate from 30% to 28%. This is effective for the Group and Company from 1 October 2011. The financial effect of the change in tax rate has been taken into account in these financial statements and reduces deferred tax assets and liabilities for the Group by \$207,000 (2010: nil) and the Company by \$207,000 (2010: nil) on a net basis.

(B) Deferred tax assets and liabilities

	Balance at 1 October	Credited / (Charged) to income statement	Balance at 30 September
	NZ\$000	NZ\$000	NZ\$000
Group			
2011			
Movements in deferred tax assets			
Provisions and accruals	1,481	(113)	1,368
Total deferred tax assets	1,481	(113)	1,368
Movements in deferred tax liabilities			
Deferred costs	(3,708)	126	(3,582)
Fair value	(297)	23	(274)
Other	(279)	184	(95)
Total deferred tax liabilities	(4,284)	333	(3,951)
Net deferred tax liability	(2,803)	220	(2,583)
2010			
Movements in deferred tax assets			
Provisions and accruals	1,262	219	1,481
Tax losses	249	(249)	-
Other	457	(457)	-
Total deferred tax assets	1,968	(487)	1,481

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

7. TAXATION (CONTINUED)

	Balance at 1 October	Credited / (Charged) to income statement	Balance at 30 September
	NZ\$000	NZ\$000	NZ\$000
Movements in deferred tax liabilities			
Deferred costs	(3,190)	(518)	(3,708)
Fair value	-	(297)	(297)
Other	(365)	86	(279)
Total deferred tax liabilities	(3,555)	(729)	(4,284)
Net deferred tax liability	(1,587)	(1,216)	(2,803)
Company			
2011			
Movements in deferred tax assets			
Provisions and accruals	934	(79)	855
Other	3	(3)	-
Total deferred tax assets	937	(82)	855
Movements in deferred tax liabilities			
Deferred costs	(3,535)	46	(3,489)
Deferred PIE allocated income	(314)	64	(250)
Total deferred tax liabilities	(3,849)	110	(3,739)
Net deferred tax liability	(2,912)	28	(2,884)
2010			
Movements in deferred tax assets			
Provisions and accruals	1,492	(558)	934
Other	432	(429)	3
Total deferred tax assets	1,924	(987)	937
Movements in deferred tax liabilities			
Deferred costs	(3,190)	(345)	(3,535)
Deferred PIE allocated income	(365)	51	(314)
Other	(13)	13	-
Total deferred tax liabilities	(3,568)	(281)	(3,849)
Net deferred tax liability	(1,644)	(1,268)	(2,912)
	Group	Company	
	2011	2010	
	NZ\$000	NZ\$000	
Net deferred tax			
Expected to crystallise in the next 12 months	(2,583)	(2,803)	(2,884)
Not expected to crystallise in the next 12 months	-	-	(3)
	(2,583)	(2,803)	(2,884)
			(2,912)

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

8. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Cash at bank and in hand	6,817	5,724	3,616	1,915
Deposits at call	55,299	61,401	45,876	52,454
Total cash and cash equivalents	62,116	67,125	49,492	54,369

9. RECEIVABLES

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Reinsurance recoveries receivables	17,127	-	17,127	-
Reinsurance recoveries on outstanding claims	441,367	75,446	425,977	65,476
Outstanding premiums and trade receivables	89,876	82,289	77,968	71,071
Related party receivables	32	578	32	4,756
Other debtors, prepayments and accrued income	2,625	474	2,617	622
Total receivables	551,027	158,787	523,721	141,925
Analysed as				
Current	187,526	156,607	160,371	139,916
Non current	363,501	2,180	363,350	2,009
	551,027	158,787	523,721	141,925

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	91,233	83,596	78,378	71,459
Allowance for doubtful debts	(1,357)	(1,307)	(410)	(388)
Total outstanding premiums and trade receivables	89,876	82,289	77,968	71,071
Balance at 1 October	(1,307)	(1,288)	(388)	(475)
Impairment loss recognised during the year	(50)	(19)	(22)	87
Balance at 30 September	(1,357)	(1,307)	(410)	(388)

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

10. PROPERTY, PLANT AND EQUIPMENT

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Computer equipment				
Cost	338	509	-	17
Accumulated depreciation	(338)	(472)	-	(9)
Net book value at 30 September	-	37	-	8

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Office equipment				
Cost	1,069	1,485	60	434
Accumulated depreciation	(819)	(1,138)	(39)	(411)
Net book value at 30 September	250	347	21	23
Motor vehicles				
Cost	842	1,121	50	496
Accumulated depreciation	(531)	(629)	(26)	(143)
Net book value at 30 September	311	492	24	353
Land and buildings				
Cost	1,937	1,911	-	-
Net book value at 30 September	1,937	1,911	-	-
Total net book value at 30 September	2,498	2,787	45	384

11. DEFERRED ACQUISITION COSTS

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Balance at 1 October	13,623	12,447	11,963	11,088
Acquisition costs deferred during the year	14,664	13,623	12,844	11,963
Current period amortisation	(13,623)	(12,447)	(11,963)	(11,088)
Balance at 30 September	14,664	13,623	12,844	11,963
Analysed as				
Current	14,664	13,623	12,844	11,963
Non current	-	-	-	-
	14,664	13,623	12,844	11,963

12. INVESTMENT IN SUBSIDIARIES

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Investments in controlled entities	-	-	4,661	4,661

The table below lists TOWER Insurance Limited subsidiary companies. All subsidiary companies have a balance date of 30 September.

Principal trading subsidiary companies undertake fire and general insurance. Holdings as at 30 September 2011 and 2010 are as follows.

Name of Company	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	71%

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

13. PAYABLES

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Reinsurance payables	12,125	5,756	12,051	6,460
Trade payables	14,920	19,476	13,008	17,579
Other payables	10,022	5,582	9,409	4,850
Related party payables	1,833	14,953	7,889	19,465
Total payables	38,900	45,767	42,357	48,354
Analysed as				
Current	38,900	45,767	42,357	48,354
Non current	-	-	-	-
	38,900	45,767	42,357	48,354

14. PROVISIONS

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Employee benefits	1,655	3,188	1,232	2,822
Total provisions	1,655	3,188	1,232	2,822
Analysed as				
Current	1,655	3,188	1,232	2,822
Non current	-	-	-	-
	1,655	3,188	1,232	2,822

15. INSURANCE LIABILITIES

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Unearned premiums	108,430	99,604	89,159	81,421
Outstanding claims	511,320	141,501	483,218	117,814
Total insurance liabilities	619,750	241,105	572,377	199,235
Analysed as				
Current	208,444	223,224	162,686	183,167
Non current	411,306	17,881	409,691	16,068
	619,750	241,105	572,377	199,235

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

Balance at 1 October	99,604	96,914	81,421	80,702
Premiums written	176,051	185,884	149,743	155,070
Premiums earned	(167,226)	(183,194)	(142,005)	(154,351)
Balance at 30 September	108,430	99,604	89,159	81,421

TOWER INSURANCE LIMITED
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For the year ended 30 September 2011

16. CONTRIBUTED EQUITY

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Share capital				
Fully paid ordinary shares	47,900	47,900	47,900	47,900
Total contributed equity	47,900	47,900	47,900	47,900
Represented by:				
	Number of	Number of	Number of	Number of
Ordinary shares	49,017,980	49,017,980	49,017,980	49,017,980

All shares are issued and fully paid. Shares have no par value. All shares rank equally with one vote attached to each share.

There were no movements in share capital during the year.

17. RETAINED PROFITS

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Retained profits				
Balance at 1 October	64,994	59,557	46,606	47,362
Net profit for the year	2,230	21,937	610	15,744
Transfer from share based payment reserve	118	-	118	-
Dividend paid	(20,000)	(16,500)	(20,000)	(16,500)
Balance at 30 September	47,342	64,994	27,334	46,606

18. RESERVES

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Foreign currency translation reserve				
Balance at 1 October	1,979	(396)	5,302	3,090
Currency translation differences arising during the year	(687)	2,375	(2,050)	2,212
Balance at 30 September	1,292	1,979	3,252	5,302

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve as described in note 2(K). The reserve is recognised in profit and loss when the net investment is disposed of.

Share based payments reserve

Opening balance at 1 October	136	57	136	57
Transfer to retained profits	(118)	-	(118)	-
Transfer to TOWER New Zealand Limited	(18)	-	(18)	-
Option expense	-	79	-	79
Closing balance at 30 September	-	136	-	136

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 note 24.

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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18. RESERVES (CONTINUED)

Capital reserve

Opening balance at 1 October	11,990	11,990	11,659	11,659
Closing balance at 30 September	<u>11,990</u>	<u>11,990</u>	<u>11,659</u>	<u>11,659</u>
Total reserves	<u>13,282</u>	<u>14,105</u>	<u>14,911</u>	<u>17,097</u>

19. MINORITY INTEREST

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Balance at 1 October	2,924	2,692	-	-
Net profit for the year	314	512	-	-
Currency translation differences arising during the year	58	38	-	-
Dividend paid	(770)	(318)	-	-
Balance at 30 September	<u>2,526</u>	<u>2,924</u>	<u>-</u>	<u>-</u>

20. TRANSACTIONS WITH RELATED PARTIES

During the year there have been transactions between TOWER Limited and its subsidiaries. Balances outstanding are payable on demand.

The payables owing to the TOWER consolidated tax group members in 2010 of \$4,056,000, represents the use of tax losses offset by TOWER Insurance Limited as a member of the TOWER consolidated tax group. All subsidiary companies of TOWER Limited incorporated in New Zealand, except for TOWER Investments Limited and TOWER Option Scheme Limited are members of the TOWER consolidated tax group.

Trade amounts owing between related parties are payable under normal commercial terms and are repayable upon demand. No related party debts have been written off or forgiven during the year.

Related party receivable and (payable) balances of TOWER Insurance Limited at reporting date were as follows:

Related party	Nature of relationship	2011	2010	Type of transactions
		NZ\$000	NZ\$000	
TOWER Asset Management Limited	Fellow subsidiary	(60)	(96)	Investment management fees
TOWER Capital Limited	Fellow subsidiary	-	(409)	Tax losses
TOWER Financial Services Group Limited	Parent	-	(7,678)	Tax losses
TOWER Health & Life Limited	Fellow subsidiary	31	464	Commission
TOWER Insurance (Cook Islands) Limited	Subsidiary	(750)	(1,165)	Management, IT services & reinsurance settlements
TOWER Insurance (Fiji) Limited	Subsidiary	(59)	(123)	Management, IT services & reinsurance settlements
TOWER Insurance (PNG) Limited	Subsidiary	(5,246)	954	Management, IT services & reinsurance settlements
TOWER Life (N.Z.) Limited	Fellow subsidiary	-	(2,638)	Tax losses
TOWER Limited	Ultimate parent	-	113	Tax gain
TOWER Managed Funds Limited	Fellow subsidiary	1	-	Operating expenses
TOWER Medical Insurance Limited	Fellow subsidiary	-	(20)	Tax losses
TOWER New Zealand Limited	Fellow subsidiary	(1,774)	(4,112)	Recoveries, loan and tax losses

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

20. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

TOWER Insurance Limited enters into transactions with its related parties in the normal course of business. Transactions during the year are shown below:

National Insurance (Co) Hold Ltd	Subsidiary	2,941	-	Dividend
National Pacific Insurance Limited	Subsidiary	-	380	Management, IT services & reinsurance settlements
National Pacific Insurance Limited	Subsidiary	1,947	773	Dividend
TOWER Asset Management Limited	Fellow subsidiary	(298)	(383)	Investment management fees
TOWER Capital Limited	Fellow subsidiary	-	(409)	Tax losses
TOWER Financial Services Group Limited	Parent	-	(7,678)	Tax losses
TOWER Financial Services Group Limited	Parent	(20,000)	(16,500)	Dividend
TOWER Health & Life Limited	Fellow subsidiary	240	210	Commission
TOWER Health & Life Limited	Fellow subsidiary	-	471	Tax gain
TOWER Insurance (Cook Islands) Limited	Subsidiary	173	671	Management, IT services & reinsurance settlements
TOWER Insurance (Fiji) Limited	Subsidiary	743	1,838	Management, IT services & reinsurance settlements
TOWER Insurance (PNG) Limited	Subsidiary	734	2,280	Management, IT services & reinsurance settlements
TOWER Life (N.Z.) Limited	Fellow subsidiary	-	(2,638)	Tax losses
TOWER Limited	Ultimate parent	-	113	Tax gain
TOWER Medical Insurance Limited	Fellow subsidiary	-	106	Commission
TOWER Medical Insurance Limited	Fellow subsidiary	-	(20)	Tax losses
TOWER New Zealand Limited	Fellow subsidiary	-	(3,717)	Tax losses
TOWER New Zealand Limited	Fellow subsidiary	(24,380)	(19,008)	Cost recoveries
TOWER New Zealand Limited	Fellow subsidiary	-	1	Transfer of intangible assets
TOWER New Zealand Limited	Fellow subsidiary	314	794	Transfer of fixed assets
TOWER New Zealand Limited	Fellow subsidiary	3,300	763	Loan

21. DISTRIBUTION TO SHAREHOLDERS

A dividend of \$20,000,000 was paid during the year ended 30 September 2011 (2010: \$16,500,000).

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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22. INSURANCE BUSINESS

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
(A) Analysis of operating result				
Premium revenue	208,328	204,845	166,873	162,819
Outward reinsurance expense	(41,102)	(21,651)	(24,868)	(8,468)
Net premium income	167,226	183,194	142,005	154,351
Claims expense	513,768	166,452	491,633	161,471
Reinsurance recoveries	(402,087)	(56,540)	(389,451)	(64,021)
Net claims incurred	111,681	109,912	102,182	97,450
Acquisition costs	33,609	26,556	30,476	23,075
Other underwriting expenses	26,000	28,726	21,899	24,582
Underwriting result	(4,064)	18,000	(12,552)	9,244
Investment revenue	11,843	14,530	15,366	13,323
Investment expenses	(373)	(468)	(488)	(468)
Net investment income	11,470	14,062	14,878	12,855
Operating profit before taxation	7,406	32,062	2,326	22,099

(B) Net claims incurred

	2011			2010		
	Risks borne in current year	Risks borne in prior years	Total	Risks borne in current year	Risks borne in prior years	Total
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Gross claims expense						
Direct claims - undiscounted	428,000	93,266	521,266	175,552	(10,874)	164,678
Movement in discount	(450)	(7,048)	(7,498)	(3)	1,777	1,774
Gross claims expense	427,550	86,218	513,768	175,549	(9,097)	166,452
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	312,937	90,908	403,845	64,830	(8,047)	56,783
Movement in discount	(43)	(1,715)	(1,758)	27	(270)	(243)
Reinsurance and other recoveries	312,894	89,193	402,087	64,857	(8,317)	56,540
Net claims incurred	114,656	(2,975)	111,681	110,692	(780)	109,912

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

22. INSURANCE BUSINESS (CONTINUED)

Company

	2011			2010		
	Risks borne in current year NZ\$000	Risks borne in prior years NZ\$000	Total NZ\$000	Risks borne in current year NZ\$000	Risks borne in prior years NZ\$000	Total NZ\$000
Gross claims expense						
Direct claims - undiscounted	401,967	95,552	497,519	160,250	(545)	159,705
Movement in discount	(7)	(5,879)	(5,886)	1	1,765	1,766
Gross claims expense	401,960	89,673	491,633	160,251	1,220	161,471
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	299,198	91,858	391,056	63,460	905	64,365
Movement in discount	-	(1,605)	(1,605)	-	(344)	(344)
Reinsurance and other recoveries	299,198	90,253	389,451	63,460	561	64,021
Net claims incurred	102,762	(580)	102,182	96,791	659	97,450

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years including those relating to the Christchurch earthquake in September 2010. Refer to note 26 for further detail.

(C) Outstanding claims

	Group		Company	
	2011 NZ\$000	2010 NZ\$000	2011 NZ\$000	2010 NZ\$000
Central estimate of expected present value of future payments for claims incurred	76,202	69,138	63,265	56,599
Risk margin	6,893	5,200	6,355	4,659
Claims handling costs	6,000	5,119	5,170	4,348
	89,095	79,457	74,790	65,606
Discount	(19,142)	(13,402)	(17,549)	(13,268)
Outstanding claims liability	69,953	66,055	57,241	52,338

(i) Assumptions adopted in calculation of insurance provisions

Estimates of the outstanding claims as at 30 September 2011 have been carried out by P. Davies, B.Bus.Sc, FNZSA, FIA.

The actuarial assessments are in accordance with the standards of the New Zealand Society of Actuaries. The Actuary was 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 Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

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

	2011	2010
Inflation rates varied from	0.5% to 5.25%	1.5% to 8.0%
Inflation rates for succeeding year	0.5% to 4.5%	1.5% to 8.0%
Inflation rates for following years	0.5% to 5.25%	1.5% to 8.0%
Discount rates varied from	3.0% - 7.8%	4.0% to 6.5%
Discount rates for succeeding year	3.0% - 7.8%	4.0% to 6.5%
Discount rates for following years	3.0% - 7.8%	4.0% to 6.5%
Claims handling expense ratio	4.2% - 14.5%	3.6% to 11.1%
Risk margin	15.0% - 20.0%	15.0% to 20.0%

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

22. INSURANCE BUSINESS (CONTINUED)

The weighted average expected term to settlement of outstanding claims based on historical trends is:

	2011	2010
Short tail claims	within 1 year	within 1 year
Long tail claims in the Pacific Islands	1.05 to 2.45 years	1.51 to 2.48 years
Long tail claims in Australia	14.1 years	8.10 to 8.40 years
Inwards reinsurance	15.9 years	in excess of 10 years

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.

Discount rate

Outstanding claims liabilities are discounted at a rate equivalent to that inherent in a portfolio of risk free 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.

Claims handling expense

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

Risk margin

The overall risk margin is determined for the TOWER Insurance Limited Group allowing for diversification between classes of business. For this purpose the portfolio has been assumed to comprise of separate components whose variability will offset each other. Assumptions were made for independent and systemic variance in accordance with accepted actuarial practise.

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 adequacy.

Group

Reconciliation of movements in net discounted outstanding claims liability

	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Balance brought forward	141,501	(75,446)	66,055	96,756	(31,728)	65,028
Effect of change in foreign exchange rates	(4,363)	1,479	(2,884)	(2,480)	576	(1,904)
Effect of changes in assumptions	4,003	(823)	3,180	3,498	(690)	2,808
Incurred claims for the year	513,768	(402,086)	111,682	166,452	(56,541)	109,911
Claim payments during the year	(143,589)	35,509	(108,080)	(122,725)	12,937	(109,788)
Balance carried forward	511,320	(441,367)	69,953	141,501	(75,446)	66,055

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

22. INSURANCE BUSINESS (CONTINUED)

Reconciliation of net undiscounted claims to liability for net outstanding claims

Long tail outstanding claims undiscounted	38,661	(4,731)	33,930	29,622	(2,769)	26,853
Discount	(21,881)	2,739	(19,142)	(14,382)	981	(13,401)
Long tail outstanding claims	16,780	(1,992)	14,788	15,240	(1,788)	13,452
Short tail outstanding claims			55,165			52,603
Total net outstanding claims as per balance sheet			69,953			66,055

Company

Reconciliation of movements in net discounted outstanding claims liability

	2011			2010		
	Gross NZ\$000	Reinsurance NZ\$000	Net NZ\$000	Gross NZ\$000	Reinsurance NZ\$000	Net NZ\$000
Balance brought forward	117,814	(65,476)	52,338	54,036	(2,644)	51,392
Effect of change in foreign exchange rates	(248)	2,109	1,861	(3,154)	549	(2,605)
Effect of changes in assumptions	4,003	(823)	3,180	3,498	(690)	2,808
Incurred claims for the year	491,722	(389,451)	102,271	161,471	(64,021)	97,450
Claim payments during the year	(130,073)	27,664	(102,409)	(98,037)	1,330	(96,707)
Balance carried forward	483,218	(425,977)	57,241	117,814	(65,476)	52,338

Reconciliation of net undiscounted claims to liability for net outstanding claims

Long tail outstanding claims undiscounted	33,312	(4,104)	29,208	25,264	(1,976)	23,288
Discount	(20,129)	2,580	(17,549)	(14,243)	975	(13,268)
Long tail outstanding claims	13,183	(1,524)	11,659	11,021	(1,001)	10,020
Short tail outstanding claims			45,582			42,318
Total net outstanding claims as per balance sheet			57,241			52,338

Group

2011 NZ\$000	2010 NZ\$000
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Company

2011 NZ\$000	2010 NZ\$000
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Long tail outstanding claims is made up of exposures from:

Pacific Islands	3,288	3,547	159	115
Australia	7,443	5,706	7,443	5,706
Inwards reinsurance business (excl Australia)	4,057	4,199	4,057	4,199
Net discounted long tail outstanding claims	14,788	13,452	11,659	10,020

(ii) Sensitivity analysis

Sensitivity analysis is conducted to quantify the exposure to risk of change in the key underlying variables. The movement in any key variable will impact the performance and equity of the Group. The following table describes how the change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit or loss and equity net of reinsurance to changes in assumptions.

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

22. INSURANCE BUSINESS (CONTINUED)

Variable	Movement	2011		2010	
		Group Impact \$'000	Parent Impact \$'000	Group Impact \$'000	Parent Impact \$'000
Claim settlement period	+ 0.5 years	(310)	(283)	(290)	(243)
	- 0.5 years	303	277	290	243
Claims expenses ratio	increase of 1%	100	88	85	74
	decrease of 1%	(100)	(88)	(85)	(74)
Inflation rates	increase of 1%	1,383	1,358	834	815
	decrease of 1%	(1,148)	(1,124)	(719)	(700)
Discount rates	increase of 1%	(1,240)	(1,217)	(759)	(741)
	decrease of 1%	1,472	1,448	872	853

(iii) Future net cash out flows

The net cash outflow for general and health insurance liabilities expected to occur in the next 12 months is \$52,220,000 (2010: \$50,353,000) for the group and \$40,973,000 (2010: \$38,279,000) for the parent.

(D) Risk management policies and procedures

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

(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 earthquakes, floods, storms and other catastrophes using models; and
- the use of reinsurance to limit the Group's exposure to individual catastrophic risks.

(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

Risk	Source of concentration	Risk Management measures
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection
Inclusion of multiple classes of casualty business in the one event	Response by a multitude of the Group's policies to the one event, for example a construction liability and professional indemnity policy	Purchase of reinsurance clash protection

(iv) 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.

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

22. INSURANCE BUSINESS (CONTINUED)

Group

Ultimate claims cost estimate	Incident year						Total NZ\$000
	Prior NZ\$000	2007 NZ\$000	2008 NZ\$000	2009 NZ\$000	2010 NZ\$000	2011 NZ\$000	
At end of accident year	-	121,315	122,903	121,562	110,692	114,656	
One year later	-	121,198	123,926	122,349	109,073	-	
Two years later	-	119,803	123,455	120,918	-	-	
Three years later	-	119,625	122,985	-	-	-	
Four years later	-	119,339	-	-	-	-	
Current estimate of ultimate claims cost	-	119,339	122,985	120,918	109,073	114,656	
Cumulative payments	-	(117,742)	(122,925)	(118,408)	(104,163)	(78,168)	
Undiscounted central estimate	30,637	1,597	60	2,510	4,910	36,488	76,202
Discount to present value	(17,938)	(78)	(143)	(180)	(359)	(444)	(19,142)
Discounted central estimate	12,699	1,519	(83)	2,330	4,551	36,044	57,060
Claims handling expense	3,476	23	27	66	460	1,948	6,000
Risk margin	2,990	28	42	60	96	3,677	6,893
Net outstanding claims liabilities	19,165	1,570	(14)	2,456	5,107	41,669	69,953
Reinsurance recoveries on outstanding claims liabilities and other recoveries							441,367
Gross outstanding claims liabilities							511,320

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

22. INSURANCE BUSINESS (CONTINUED)

Company

Ultimate claims cost estimate	Incident year						Total NZ\$000
	Prior NZ\$000	2007 NZ\$000	2008 NZ\$000	2009 NZ\$000	2010 NZ\$000	2011 NZ\$000	
At end of accident year		106,718	108,718	104,450	97,003	102,762	
One year later		107,439	109,709	105,488	97,175	-	
Two years later		106,799	109,551	104,390	-	-	
Three years later		106,928	109,270	-	-	-	
Four years later		106,692	-	-	-	-	
Current estimate of ultimate claims cost		106,692	109,270	104,390	97,175	102,762	
Cumulative payments		(106,552)	(109,021)	(103,530)	(93,711)	(72,547)	
Undiscounted central estimate	28,337	140	249	860	3,464	30,215	63,265
Discount to present value	(17,526)	(7)	(3)	(1)	(3)	(9)	(17,549)
Discounted central estimate	10,811	133	246	859	3,461	30,206	45,716
Claims handling expense	3,417	3	4	11	305	1,430	5,170
Risk margin	2,911	5	2	1	3	3,433	6,355
Net outstanding claims liabilities	17,139	141	252	871	3,769	35,069	57,241
Reinsurance recoveries on outstanding claims liabilities and other recoveries							425,978
Gross outstanding claims liabilities							483,219

(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 for the TOWER Insurance Limited Group with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability.

	2011	2010
Central estimate claim % of premium	49.50%	51.70%
Risk margin	10.20%	10.20%

Unearned premium liabilities as at 30 September 2011 were sufficient (2010: sufficient).

(F) Insurer financial strength rating

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

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

22. INSURANCE BUSINESS (CONTINUED)

(G) Reinsurance programme

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

23. OPERATING LEASES

	Group		Company	
	2011 NZ\$000	2010 NZ\$000	2011 NZ\$000	2010 NZ\$000
Rent paid under non-cancellable operating leases	549	837	52	375
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
– Not later than one year	422	303	32	37
– Later than one year and not later than five years	182	172	-	24
– Later than five years	16	132	-	-
Total operating lease commitments	620	607	32	61

All lease commitments in New Zealand were centralised across the TOWER Limited Group and taken over by TOWER New Zealand Limited from 1 October 2009. The Company is charged a management fee in return by TOWER New Zealand Limited.

24. SHARE BASED PAYMENTS

The Company has three 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 5 days before grant date. Subject to the discretion of the Board, options are forfeited if an employee leaves the Company 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 F	Tranche G	Tranche I
Exercise price after rights issue	\$2.10	\$1.38	\$1.93
Grant date	11-Dec-07	5-Dec-08	22-Dec-09
Vesting date	1-Dec-10	1-Dec-11	3-Dec-12
Expiry date	1-Dec-13	1-Dec-14	2-Dec-15
Expected volatility	20%	40%	30%
Risk free rate	5.71%	4.88%	6.03%
Amount expensed during 2011 year (NZ\$)	(18,357)	-	-
Amount expensed during 2010 year (NZ\$)	45,554	26,181	6,883

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. No share options were issued during the year, the weighted average fair value of options presented under Tranche I in 2010 was \$460,508.

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

24. SHARE BASED PAYMENTS (CONTINUED)

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

	Number of options			
	Tranche F	Tranche G	Tranche I	Weighted
2011				
Outstanding at start of year	314,533	200,000	200,000	\$1.85
Forfeited	(200,000)	(200,000)	(200,000)	\$1.80
Transferred	(114,533)	-	-	\$2.10
Outstanding at end of year	-	-	-	\$0.00
Exercisable at 30 September	-	-	-	\$0.00
2010				
Outstanding at start of year	314,533	200,000	-	\$1.82
Granted	-	-	200,000	\$1.93
Outstanding at end of year	314,533	200,000	200,000	\$1.85
Exercisable at 30 September	-	-	-	\$0.00

No options are exercisable in 2011 (2010: Nil).

25. 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 2011			
Financial assets			
Cash and cash equivalents	62,116	62,116	-
Reinsurance recoveries receivables	17,127	17,127	-
Reinsurance recoveries on outstanding claims	441,367	441,367	-
Outstanding premiums and trade receivables	89,876	89,876	-
Related party receivables	31	31	-
Investments in equity securities	3,057	-	3,057
Investments in fixed interest securities	130,444	-	130,444
Investments in property securities	9,334	-	9,334
Total financial assets	753,352	610,517	142,835

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

25. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

	Total	Loans and receivables	Designated at fair value through profit or loss
	\$000	\$000	\$000
As at 30 September 2010			
Financial assets			
Cash and cash equivalents	67,125	67,125	-
Reinsurance recoveries receivable	75,446	75,446	-
Outstanding premiums and trade receivables	82,289	82,289	-
Related party receivables	578	578	-
Investments in equity securities	3,049	-	3,049
Investments in fixed interest securities	172,270	-	172,270
Investments in property securities	8,886	-	8,886
Total financial assets	409,643	225,438	184,205
Company			
As at 30 September 2011			
Financial assets			
Cash and cash equivalents	49,492	49,492	-
Reinsurance recoveries receivables	17,127	17,127	-
Reinsurance recoveries on outstanding claims	425,977	425,977	-
Outstanding premiums and trade receivables	77,968	77,968	-
Related party receivables	31	31	-
Investments in fixed interest securities	106,510	-	106,510
Investments in property securities	9,334	-	9,334
Total financial assets	686,439	570,595	115,844
As at 30 September 2010			
Financial assets			
Cash and cash equivalents	54,369	54,369	-
Reinsurance recoveries receivable	65,476	65,476	-
Outstanding premiums and trade receivables	71,071	71,071	-
Related party receivables	4,756	4,756	-
Investments in fixed interest securities	145,561	-	145,561
Investments in property securities	8,886	-	8,886
Total financial assets	350,119	195,672	154,447

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

25. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

Group

	Total	Financial liabilities at amortised cost
	\$000	\$000
As at 30 September 2011		
Financial liabilities		
Trade payables	14,920	14,920
Reinsurance payables	12,125	12,125
Other payables	1,432	1,432
Related party payables	1,833	1,833
Total financial liabilities	30,310	30,310

As at 30 September 2010		
Financial liabilities		
Trade payables	19,476	19,476
Reinsurance payables	5,756	5,756
Other payables	5,582	5,582
Related party payables	14,953	14,953
Total financial liabilities	45,767	45,767

Company

As at 30 September 2011

Financial liabilities		
Trade payables	13,008	13,008
Reinsurance payables	12,051	12,051
Other payables	928	928
Related party payables	7,889	7,889
Total financial liabilities	33,876	33,876

As at 30 September 2010

Financial liabilities		
Trade payables	17,579	17,579
Reinsurance payables	6,460	6,460
Other payables	4,850	4,850
Related party payables	19,465	19,465
Total financial liabilities	48,354	48,354

26. IMPACT OF CHRISTCHURCH EARTHQUAKES

Following the Christchurch earthquakes which occurred during the 2011 financial year, TOWER Insurance Limited has, consistent with its policy on reinsurance, purchased additional cover to maintain its reinsurance position. The high cost of reinsurance cover, together with net claims and other costs associated with the Christchurch earthquakes, has increased TOWER Insurance Limited's expenses in the 2011 financial year.

For the year ended 30 September 2011 these costs amounted to \$22,210,000 after taxation and have been expensed in the 30 September 2011 financial statements. Costs associated with the 4 September 2010 event amounted to \$4,470,000 after taxation and were expensed in the 30 September 2010 financial statements.

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

26. IMPACT OF CHRISTCHURCH EARTHQUAKES (CONTINUED)

The after taxation impact of the Christchurch earthquakes are presented below.

	Group		Company	
	2011	2010	2011	2010
	NZ\$000	NZ\$000	NZ\$000	NZ\$000
Additional costs associated with Christchurch earthquakes				
Christchurch earthquakes claims	397,769	67,336	397,769	67,336
Reinsurance recoveries	(383,664)	(62,336)	(383,664)	(62,336)
Claims expenses net of reinsurance recoveries revenue	14,105	5,000	14,105	5,000
Reinsurance expense	17,623	1,386	17,623	1,386
Income tax impact	(9,518)	(1,916)	(9,518)	(1,916)
Impact of Christchurch earthquakes after tax	22,210	4,470	22,210	4,470

Assumptions adopted in calculation of insurance provisions of outstanding claims

There are considerable estimation uncertainties surrounding measurement of gross claims liabilities and related reinsurance recoveries in respect of Christchurch earthquake claims. While assumptions used in calculating Christchurch earthquake insurance provisions are consistent with those outlined in note 22 (with the exception of superimposed inflation rates which have been assumed at 6%) the following uncertainties have been considered when determining earthquake provisions: impact of Earthquake Commission cover reinstatement; impact and application of revised Department of Building and Housing building standard guidelines, in particular, relating to foundations; and extended claims development periods.

Given the nature of estimation uncertainties noted above, TOWER Insurance Limited's actual claims experience may deviate from gross outstanding claims provisions recorded at 30 September 2011. Any changes to estimates and claims provisions will be adjusted in the accounting period in which they occur.

Reinsurance

TOWER Insurance Limited has confirmed the successful placement of its reinsurance programme for the 2011/12 financial year on 3 October 2011. Consistent with its policy on reinsurance, the programme involves cover for two catastrophe events. The excess for an event has increased from NZ\$5 million to NZ\$6.7 million for the 2011/12 financial year.

Due to changes in the programme, and a significant increase in premium levels charged by reinsurers, TOWER Insurance Limited's total reinsurance premiums for the 2011/12 year will be higher than in previous years. The Company has increased premium rates, consistent with the market.

Earthquake Commission

The Government announced on 11 October 2011 that the compulsory Earthquake Commission (EQC) levy is to treble to 15 cents per \$100 of insured value from February 2012 to maximum of \$207 per policy per year. The increase in levy is the first step in a 30 year plan to rebuild the National Disaster Fund, which was eliminated by the Christchurch earthquakes.

A High Court decision in September 2011 requiring the EQC to make payments on multiple disasters in one year has resulted in a shortfall to the National Disaster Fund of \$1.2 billion.

TOWER Insurance Limited remains in a strong position, as evidenced by its ability to deal with the Christchurch related claims that have arisen. The company's policies will continue to offer earthquake cover across the whole of New Zealand, including Christchurch.

27. CONTINGENT LIABILITIES

There are no material contingent liabilities at balance date (2010: \$Nil).

TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2011

28. CAPITAL COMMITMENTS

There were no capital commitments as at 30 September 2011 (2010: \$Nil).

29. SUBSEQUENT EVENTS

There are no subsequent events relating to the year ended 30 September 2011 that have a material impact on the financial statements.



Independent Auditors' Report to the shareholder of TOWER Insurance Limited

Report on the Financial Statements

We have audited the financial statements of TOWER Insurance Limited on pages 2 to 36 which comprise the balance sheets as at 30 September 2011, the income statements, statements of comprehensive income and statements of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 September 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers the internal controls relevant to the entity'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 entity'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 Insurance Limited or any of its subsidiaries other than in our capacities as auditors and providers of other assurance, taxation and advisory services. These services have not impaired our independence as auditors of the Company and the Group.



Independent Auditors' Report

TOWER Insurance Limited

Opinion

In our opinion, the financial statements on pages 2 to 36:

- (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 2011, and their financial performance 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 2011:

- (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, as a body, 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, as a body, for our audit work, for this report or for the opinions we have formed.

Priscilla Louise Rogers

Chartered Accountants
27 January 2012

Auckland