TOWER INSURANCE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2012

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

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TOWER INSURANCE LIMITED
INCOME STATEMENTS
For the year ended 30 September 2012

	Note	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Revenue					
Premium revenue from insurance contracts		238,859	208,328	192,783	166,873
Less: Outwards reinsurance expense		(41,137)	(41,102)	(25,042)	(24,868)
Net premium revenue		197,722	167,226	167,741	142,005
Investment revenue	5	12,677	11,843	11,239	15,366
Other revenue		3,841	2,524	2,716	1,235
Net operating revenue		214,240	181,593	181,696	158,606
Expenses					
Claims expense		171,498	513,768	160,310	491,633
Less: Reinsurance recoveries revenue		(44,878)	(402,087)	(44,925)	(389,451)
Net claims expense		126,620	111,681	115,385	102,182
Management and sales expenses	6	67,791	62,506	58,378	54,098
Total expenses		194,411	174,187	173,763	156,280
Profit before taxation		19,829	7,406	7,933	2,326
Tax expense	7	(6,590)	(4,862)	(3,559)	(1,716)
Profit for the year		13,239	2,544	4,374	610
Profit attributed to:					
Shareholders		12,754	2,230	4,374	610
Minority interests		485	314	-	-
		13,239	2,544	4,374	610

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

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

	Note	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Profit for the year		13,239	2,544	4,374	610
Other comprehensive income:					
Currency translation differences	18	(251)	(629)	(1,169)	(2,050)
Gain on asset revaluation	18	327	-	-	-
Deferred income tax relating to asset revaluation	18	(91)	-	-	-
Other comprehensive (loss) net of taxation		(15)	(629)	(1,169)	(2,050)
Total comprehensive income / (loss) for the year		13,224	1,915	3,205	(1,440)
Total comprehensive income / (loss) attributed to:					
Shareholders		13,915	1,543	3,205	(1,440)
Minority interests		(691)	372	-	-
		13,224	1,915	3,205	(1,440)

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

TOWER INSURANCE LIMITED
BALANCE SHEETS
As at 30 September 2012

		Group		Company	
		2012	2011	2012	2011
	Note	$000	$000	$000	$000
Assets					
Cash and cash equivalents	8	87,607	62,116	65,567	49,492
Financial assets at fair value through profit or loss	21	154,631	142,835	123,683	115,844
Deferred acquisition costs	9	17,086	14,664	14,902	12,844
Current tax assets		2,077	4,345	1,087	4,344
Receivables	10	482,437	551,027	458,525	523,721
Property, plant and equipment	11	2,730	2,498	28	45
Deferred tax assets	7	1,562	1,368	980	855
Investments in subsidiaries	12	-	-	4,661	4,661
Total Assets		748,130	778,853	669,433	711,806
Liabilities					
Payables	13	37,694	38,900	34,369	42,357
Derivative financial liabilities	21	124	-	124	-
Current tax liabilities		4,930	3,547	2,881	1,956
Provisions	14	2,257	1,655	1,771	1,232
Insurance liabilities	15	554,705	619,750	512,580	572,377
Deferred tax liabilities	7	4,538	3,951	4,358	3,739
Total Liabilities		604,248	667,803	556,083	621,661
Net Assets		143,882	111,050	113,350	90,145
Equity					
Contributed equity	16	67,900	47,900	67,900	47,900
Accumulated profits	17	60,343	47,342	31,708	27,334
Reserves	18	14,196	13,282	13,742	14,911
Total equity attributed to shareholders		142,439	108,524	113,350	90,145
Minority interests		1,443	2,526	-	-
Total Equity		143,882	111,050	113,350	90,145

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

Rob Flannagan
Director

Michael Boggs
Director

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

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

Group		Attributed to shareholders					
	Note	Contributed equity $000	Accumulated profits $000	Reserves $000	Total $000	Minority Interest $000	Total equity $000
Year Ended 30 September 2012							
At the beginning of the year		**47,900**	**47,342**	**13,282**	**108,524**	**2,526**	**111,050**
Comprehensive income							
Profit for the year		-	12,754	-	12,754	485	13,239
Currency translation differences		-	247	678	925	(1,176)	(251)
Gain on asset revaluation		-	-	327	327	-	327
Deferred income tax relating to asset revaluation		-	-	(91)	(91)	-	(91)
Total comprehensive income		-	13,001	914	13,915	(691)	13,224
Transactions with shareholders							
Addition to share capital		20,000	-	-	20,000	-	20,000
Dividends paid	19	-	-	-	-	(392)	(392)
Total transactions with shareholders		20,000	-	-	20,000	(392)	19,608
At the end of the year		**67,900**	**60,343**	**14,196**	**142,439**	**1,443**	**143,882**
Year Ended 30 September 2011							
At the beginning of the year		**47,900**	**64,994**	**14,105**	**126,999**	**2,924**	**129,923**
Comprehensive income							
Profit for the year		-	2,230	-	2,230	314	2,544
Currency translation differences		-	-	(687)	(687)	58	(629)
Total comprehensive income		-	2,230	(687)	1,543	372	1,915
Transactions with shareholders							
Movement in share based payment reserve		-	118	(136)	(18)	-	(18)
Dividends paid	19	-	(20,000)	-	(20,000)	(770)	(20,770)
Total transactions with shareholders		-	(19,882)	(136)	(20,018)	(770)	(20,788)
At the end of the year		**47,900**	**47,342**	**13,282**	**108,524**	**2,526**	**111,050**

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

TOWER INSURANCE LIMITED
STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
For the year ended 30 September 2012

Company	Note	Contributed equity $000	Accumulated profits $000	Reserves $000	Total equity $000
Year Ended 30 September 2012					
At the beginning of the year		**47,900**	**27,334**	**14,911**	**90,145**
Comprehensive income					
Profit for the year		-	4,374	-	4,374
Currency translation differences		-	-	(1,169)	(1,169)
Total comprehensive income		-	4,374	(1,169)	3,205
Transactions with shareholders					
Addition to share capital		20,000	-	-	20,000
Dividends paid	19	-	-	-	-
Total transactions with shareholders		20,000	-	-	20,000
At the end of the year		**67,900**	**31,708**	**13,742**	**113,350**
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	19	-	(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**

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

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

	Note	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Cash flows from operating activities					
Premiums received		240,654	209,565	194,200	167,713
Interest received		7,645	9,719	6,700	8,236
Dividends received		141	74	948	4,888
Investment income		7,617	914	7,618	1,051
Commission received		2,570	2,887	1,203	1,669
Receipts from intercompany		-	-	74	5,737
Reinsurance received		132,077	19,039	127,469	11,821
Reinsurance paid		(45,825)	(34,680)	(30,033)	(19,068)
Claims paid		(255,422)	(143,948)	(237,111)	(116,763)
Payments to suppliers and employees		(65,754)	(72,760)	(55,852)	(73,882)
Payments to intercompany		-	-	(6,412)	-
Interest paid		-	-	(558)	(56)
Income tax paid		(2,544)	(20,253)	1,117	(17,588)
Net cash inflow/(outflow) from operating activities	24	21,159	(29,443)	9,363	(26,242)
Cash flows from investing activities					
Net (payments) / receipts for financial assets		(14,792)	42,492	(12,139)	39,828
Payments for purchase of property, plant and equipment and intangible assets		(299)	(369)	(4)	(43)
Receipts for purchase of property, plant and equipment and intangible assets		66	411	-	345
Net cash (outflow)/inflow from investing activities		(15,025)	42,534	(12,143)	40,130
Cash flows from financing activities					
Proceeds from issue of share capital		20,000	-	20,000	-
Dividends paid		-	(20,000)	-	(20,000)
Payment of minority interest dividends		(392)	(770)	-	-
Net advances from related parties		-	3,300	-	3,300
Net cash inflow/(outflow) from financing activities		19,608	(17,470)	20,000	(16,700)
Effect of exchange rate changes		(251)	(630)	(1,145)	(2,065)
Net increase/(decrease) in cash and cash equivalents		25,742	(4,379)	17,220	(2,812)
Cash and cash equivalents at the beginning of year		62,116	67,125	49,492	54,369
Cash and cash equivalents at the end of year	8	87,607	62,116	65,567	49,492

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

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1. CORPORATE INFORMATION

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

The principal activity of the TOWER Insurance Limited Group is providing general insurance services. The Group predominantly operates in New Zealand with some of its operations based in the Pacific Islands and Australia.

The financial statements were authorised for issue by the Board of Directors on 28 November 2012. The entity's owners or others do not have power to amend the financial statements after issue.

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

The financial statements of the Company and the Group comply with International Financial Reporting Standards (IFRS).

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

(B) PRINCIPLES OF CONSOLIDATION

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

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

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

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

(C) INVESTMENTS IN SUBSIDARIES

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes directly 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.

(E) OTHER REVENUE

Other revenue on services provided by the Group such as rental income and commission is recognised in the period the services are provided.

(F) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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

(H) 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.

(I) 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.

(J) REINSURANCE RECOVERIES
Reinsurance recoveries are recognised as revenue under net claims expense. 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.

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

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

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

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

(iii) Tax consolidation
The ultimate parent, TOWER Limited, and its New Zealand wholly-owned subsidiaries comprise a New Zealand tax consolidated Group of which TOWER Limited is the head entity and TOWER Insurance Limited is a part of. All members of the tax consolidated group are jointly and severally liable for the tax liabilities of the Group.

(iv) Income tax expense
The income tax expense is the tax payable on taxable income for the current period, based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

(v) GST
All revenues, expenses and certain assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

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

(L) 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 unless stated otherwise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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 statements unless the items form part of a net investment in a foreign operation. In this case, exchange differences are taken to the Foreign Currency Translation Reserve and recognised in the statements of comprehensive income and the statements of changes in equity.

(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 statements of comprehensive income and the statements 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 statements 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 statements.

(M) 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.

(N) 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.

(O) 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.

Land and buildings are shown at fair value, based on valuations by external independent appraisers less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. In the prior year land and buildings were shown at cost.

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
Leasehold property improvements	3-12 years

(P) ASSETS BACKING INSURANCE BUSINESS
The Group has determined that all assets are held to back insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Q) 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).

(R) BUSINESS COMBINATIONS

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

(S) 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.

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

(iii) Fair value

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

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(v) Derecognition

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

(T) 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.

Trade receivables and reinsurance receivables are 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through the 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.

(U) LEASED ASSETS

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.

(V) 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 less transaction costs and subsequently measured at amortised cost using the effective interest method.

(W) 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.

(X) 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.

(Y) 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.

(Z) CONTRIBUTED EQUITY

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

(AA) CASH FLOWS

The statements of cash flows present the net cash flows for financial assets. TOWER Insurance Limited considers that knowledge of gross receipts and payments is not essential to understanding the activities of the Group or company and it is considered acceptable to report only the net cash flows for these items. This is based on the fact that turnover is quick, the amounts are large, and the maturities are short.

(AB) COMPARATIVES

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

(AC) CHANGES IN ACCOUNTING POLICY

The Group has changed its accounting policy in respect to land and building during the year. This has been disclosed in (O) above.

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 events 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 20 and note 30 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. Objective evidence includes notification of insolvency of the debtor and upon receipt of similar evidence that the Group will be unable to collect the amount.

(C) TAXATION

The Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant management judgement is required in determining the worldwide provision for income taxes. There are some transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on its understanding of tax law in each relevant jurisdiction. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Deferred tax assets are recognised for all unused tax losses to the extent it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likely timing and quantum of future taxable profits.

4. IMPACT OF AMENDMENTS TO NZ IFRS

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

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

- NZ IFRS 9 'Financial Instruments' (effective from 1 January 2015). The standard partly replaces NZ IAS 39 and introduces requirements for classifying and measuring financial assets and liabilities. The Company is in the process of evaluating the potential effect of this standard.

- NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013). The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The standard is not expected to have a material impact on the financial statements.

- NZ IFRS 10 'Consolidated Financial statements' (effective from 1 January 2013). The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in 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 Company is in the process of evaluating the potential effect of this standard.

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

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

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

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

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

5. INVESTMENT REVENUE

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Fixed interest securities [1]				
Interest income	7,448	9,776	6,560	8,186
Net realised gain	6,699	537	6,699	537
Net unrealised (loss) / gain	(3,309)	656	(3,309)	656
	10,838	10,969	9,950	9,379
Equity securities [1]				
Dividend income	141	74	948	4,888
Net unrealised gain	1,357	331	-	630
	1,498	405	948	5,518
Property securities [1]				
Property income	213	230	213	230
Net realised gain	810	-	810	-
Net unrealised (loss) / gain	(616)	239	(616)	239
	407	469	407	469
Other				
Net realised (loss)	(4)	-	(4)	-
Net unrealised (loss)	(62)	-	(62)	-
	(66)	-	(66)	-
Total investment revenue				
Total investment revenue	7,802	10,080	7,721	13,304
Total net realised gain	7,505	537	7,505	537
Total net unrealised (loss) / gain	(2,630)	1,226	(3,987)	1,525
	12,677	11,843	11,239	15,366

[1] The income and loss in these categories have been generated by financial assets designated on initial recognition at fair value through profit or loss.

6. OTHER EXPENSES

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Included in total management and sales expenses are the following:				
Employee benefits	17,471	21,492	13,686	18,431
Commissions paid	18,192	16,218	14,595	13,589
Amortisation of deferred acquisition costs	14,664	13,623	12,844	11,963
Acquisition costs deferred	(17,086)	(14,664)	(14,902)	(12,844)
Administration	26,562	15,019	24,989	13,760
Marketing	6,412	8,261	6,170	8,041
Travel	687	822	359	506
Tenancy	831	768	93	72
Other expenses	483	715	470	542
Bad debts written off	55	3	53	(1)
Depreciation:				
Office equipment and furniture	90	118	9	4
Motor vehicles	118	109	10	26
Computer equipment	28	21	-	8

No fees for audit or other services were paid by the Group to its auditors during the year (2011: nil). TOWER New Zealand Limited paid all fees for audit services provided to the Group on its behalf.

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7. TAXATION

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
(A) CURRENT TAX EXPENSE				
Analysis of taxation expense				
Current taxation	5,995	3,127	2,624	27
Deferred taxation	561	157	512	111
Under provided in prior years	34	1,578	423	1,578
Income tax expense for the year	**6,590**	**4,862**	**3,559**	**1,716**

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

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Profit before taxation	19,829	7,406	7,933	2,326
Income tax at the current rate of 28% (2011: 30%)	5,552	2,222	2,221	698
Taxation effect of non deductible expenses / non-assessable revenue:				
Change in tax rates	-	(207)	-	(207)
Recognition of prior period current tax	34	1,578	423	1,578
Non deductible losses from PIEs	28	19	28	19
Non deductible expenditure	680	435	602	163
Non taxable dividend from subsidiaries	-	(13)	(265)	(1,467)
Other	296	828	550	932
Income tax expense	**6,590**	**4,862**	**3,559**	**1,716**

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

(B) DEFERRED TAX ASSETS AND LIABILITIES

Group	Opening balance at 1 October $000	(Charged)/ credited to income statement $000	(Charged)/ credited to comprehensive income $000	Closing balance at 30 September $000
2012				
Movements in deferred tax assets				
Provisions and accruals	1,368	194	-	1,562
Total deferred tax assets	1,368	194	-	1,562
Movements in deferred tax liabilities				
Deferred acquistion costs	(3,582)	(554)	-	(4,136)
Fair value	(274)	274	-	-
Other	(95)	(216)	(91)	(402)
Total deferred tax liabilities	(3,951)	(496)	(91)	(4,538)
Net deferred tax	(2,583)	(302)	(91)	(2,976)
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 acquistion 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	(2,803)	220	-	(2,583)

7. TAXATION (CONTINUED)

Company	Opening balance at 1 October	Charged/ (credited) to income statement	(Charged)/ credited to comprehensive income	Closing balance at 30 September
2012	$000	$000	$000	$000
Movements in deferred tax assets				
Provisions and accruals	855	125	-	980
Total deferred tax assets	855	125	-	980
Movements in deferred tax liabilities				
Deferred acquistion costs	(3,489)	(595)	-	(4,084)
Deferred PIE income	(250)	(24)	-	(274)
Total deferred tax liabilities	(3,739)	(619)	-	(4,358)
Net deferred tax	(2,884)	(494)	-	(3,378)
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 acquistion costs	(3,535)	46	-	(3,489)
Other	(314)	64	-	(250)
Total deferred tax liabilities	(3,849)	110	-	(3,739)
Net deferred tax	(2,912)	28	-	(2,884)

	Group 2012	Group 2011	Company 2012	Company 2011
	$000	$000	$000	$000
Net deferred tax				
Expected to crystallise in the next 12 months	(608)	(2,583)	(685)	(2,884)
Not expected to crystallise in the next 12 months	(2,368)	-	(2,693)	-
	(2,976)	(2,583)	(3,378)	(2,884)

(C) IMPUTATION CREDITS

Any imputation credits arising belong to the TOWER Limited consolidated tax group and are held by TOWER Limited as the representative member of the consolidated tax group.

8. CASH AND CASH EQUIVALENTS

	Group 2012	Group 2011	Company 2012	Company 2011
	$000	$000	$000	$000
Cash at bank and in hand	23,315	6,817	11,444	3,616
Deposits at call	64,292	55,299	54,123	45,876
Total cash and cash equivalents	87,607	62,116	65,567	49,492

9. DEFERRED ACQUISITION COSTS

	Group		Company	
	2012	2011	2012	2011
	$000	$000	$000	$000
At 1 October	14,664	13,623	12,844	11,963
Acquisition costs deferred during the year	17,086	14,664	14,902	12,844
Current period amortisation	(14,664)	(13,623)	(12,844)	(11,963)
At 30 September	17,086	14,664	14,902	12,844
Analysed as:				
Current	17,086	14,664	14,902	12,844
Non current	-	-	-	-
	17,086	14,664	14,902	12,844

10. RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	$000	$000	$000	$000
Reinsurance recovery receivables	18,205	17,127	17,891	17,127
Reinsurance recoveries on outstanding claims	356,695	441,367	346,181	425,977
Outstanding premiums and trade receivables	106,960	89,876	93,557	77,968
Unsettled investment sales	235	-	235	-
Related party receivables (note 29)	65	32	337	32
Prepayments	90	44	56	44
Other	187	2,581	268	2,573
Total receivables	482,437	551,027	458,525	523,721
Analysed as:				
Current	335,187	187,526	311,498	160,371
Non current	147,250	363,501	147,027	363,350
	482,437	551,027	458,525	523,721

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

Outstanding premiums and trade receivables	108,403	91,233	94,168	78,378
Provision for Cancellation	(1,443)	(1,357)	(611)	(410)
	106,960	89,876	93,557	77,968
At 1 October	(1,357)	(1,307)	(410)	(388)
Provisions added during the year	(221)	-	(263)	-
Impairment loss recognised during the year	-	(50)	-	(22)
Provisions released during the year	135	-	62	-
At 30 September	(1,443)	(1,357)	(611)	(410)

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.

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings $000	Office equipment and furniture $000	Motor vehicles $000	Computer equipment $000	Total $000
2012					
Cost:					
At 1 October	1,927	1,727	1,092	338	5,084
Additions	-	25	211	63	299
Disposals	-	(80)	(249)	(70)	(399)
Revaluations	327	-	-	-	327
Foreign exchange movements	(59)	(61)	(9)	(1)	(130)
At 30 September	2,195	1,611	1,045	330	5,181
Accumulated Depreciation:					
At 1 October	-	(1,467)	(781)	(338)	(2,586)
Depreciation charge	-	(90)	(118)	(28)	(236)
Disposals	-	24	249	69	342
Foreign exchange movements	-	52	(24)	1	29
At 30 September	-	(1,481)	(674)	(296)	(2,451)
At 30 September					
At cost / revaluation	2,195	1,611	1,045	330	5,181
Accumulated depreciation	-	(1,481)	(674)	(296)	(2,451)
Net book value	2,195	130	371	34	2,730
2011					
Cost:					
At 1 October	1,901	2,143	1,371	509	5,924
Additions	-	163	182	24	369
Disposals	-	(575)	(108)	(203)	(886)
Foreign exchange movements	26	34	99	8	167
Transfers	-	(38)	(452)	-	(490)
At 30 September	1,927	1,727	1,092	338	5,084
Accumulated Depreciation:					
At 1 October	-	(1,786)	(879)	(472)	(3,137)
Depreciation charge	-	(118)	(109)	(21)	(248)
Disposals	-	515	107	195	817
Foreign exchange movements	-	(93)	(60)	(40)	(193)
Transfers	-	15	160	-	175
At 30 September	-	(1,467)	(781)	(338)	(2,586)
At 30 September					
At cost / revaluation	1,927	1,727	1,092	338	5,084
Accumulated depreciation	-	(1,467)	(781)	(338)	(2,586)
Net book value	1,927	260	311	-	2,498

Land and buildings are all located in Fiji and are stated at fair value in 2012 and at cost in 2011. Fair value is determined using a replacement cost approach whereby the depreciated replacement cost of improvements is added to the leasehold interest in the land. This value is then adjusted to take into account recent market activity. Valuations were performed as at 1 August 2012 by Rolle Associates, registered valuers in Fiji. Nothing has changed between valuation date and 30 September 2012 that would materially affect the valuation.

Had land and buildings been recognised under the cost model the carrying amount would have been $1,868,000. The revaluation surplus for the period is recorded in other comprehensive income and has no restrictions on the distribution of the balance to shareholders.

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Office equipment and furniture $000	Motor vehicles $000	Computer equipment $000	Total $000
2012				
Cost:				
At 1 October	60	50	-	110
Additions	4	-	-	4
Disposals	(2)	-	-	(2)
Reclassification	(29)	-	29	-
Foreign exchange movements	(3)	(1)	-	(4)
At 30 September	30	49	29	108
Accumulated Depreciation:				
At 1 October	(39)	(26)	-	(65)
Depreciation charge	(9)	(10)	-	(19)
Disposals	2	-	-	2
Reclassification	23	-	(23)	-
Foreign exchange movements	1	1	-	2
At 30 September	(22)	(35)	(23)	(80)
At 30 September				
At cost	30	49	29	108
Accumulated depreciation	(22)	(35)	(23)	(80)
Net book value	8	14	6	28
2011				
Cost:				
At 1 October	434	496	17	947
Additions	38	-	5	43
Disposals	(366)	-	-	(366)
Foreign exchange movements	(2)	6	8	12
Transfers	(44)	(452)	(30)	(526)
At 30 September	60	50	-	110
Accumulated Depreciation:				
At 1 October	(411)	(143)	(9)	(563)
Depreciation charge	(4)	(26)	(7)	(37)
Disposals	366	-	-	366
Foreign exchange movements	(2)	(3)	(2)	(7)
Transfers	12	146	18	176
At 30 September	(39)	(26)	-	(65)
At 30 September				
At cost	60	50	-	110
Accumulated depreciation	(39)	(26)	-	(65)
Net book value	21	24	-	45

12. INVESTMENT IN SUBSIDIARIES

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Investments in controlled entities carried at cost	-	-	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 at 30 September 2012 and 2011 are as follows:

Name of Company	Holdings 2012	Holdings 2011	Nature of Business
Incorporated in Cook Islands			
TOWER Insurance (Cook Islands) Limited	100%	100%	Fire and general insurance
Incorporated in Fiji			
TOWER Insurance (Fiji) Limited	100%	100%	Fire and general insurance
Incorporated in PNG			
TOWER Insurance (PNG) Limited	100%	100%	Fire and general insurance
Incorporated in Samoa			
National Pacific Insurance Limited	71%	71%	Fire and general insurance

13. PAYABLES

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Trade payables	17,715	14,920	15,146	13,008
Reinsurance payables	7,352	12,125	7,043	12,051
GST payable	10,462	8,450	10,092	8,340
Other payables	1,238	1,572	1,147	1,069
Related party payables (note 29)	927	1,833	941	7,889
Total payables	37,694	38,900	34,369	42,357
Analysed as:				
Current	37,694	38,900	34,369	42,357
Non current	-	-	-	-
	37,694	38,900	34,369	42,357

14. PROVISIONS

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Employee benefits	2,257	1,655	1,771	1,232
Total provisions	2,257	1,655	1,771	1,232
Analysed as:				
Current	2,257	1,655	1,771	1,232
Non current	-	-	-	-
	2,257	1,655	1,771	1,232

Employee benefits include holiday pay and long service leave.

15. INSURANCE LIABILITIES

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Unearned premiums	127,309	108,430	106,162	89,159
Outstanding claims	427,396	511,320	406,418	483,218
	554,705	619,750	512,580	572,377
Analysed as:				
Current	387,852	208,444	347,559	162,686
Non current	166,853	411,306	165,021	409,691
	554,705	619,750	512,580	572,377

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

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Unearned premiums				
At 1 October	108,430	99,604	89,159	81,421
Premiums written	216,601	176,052	184,744	149,743
Premiums earned	(197,722)	(167,226)	(167,741)	(142,005)
At 30 September	127,309	108,430	106,162	89,159

16. CONTRIBUTED EQUITY

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Ordinary share capital	67,900	47,900	67,900	47,900
Total contributed equity	67,900	47,900	67,900	47,900
Represented by:	Number of shares		Number of shares	
Ordinary shares (issued and fully paid)	69,017,966	49,017,980	69,017,966	49,017,980
	69,017,966	49,017,980	69,017,966	49,017,980
Movements in ordinary shares				
At 1 October	49,017,980	49,017,980	49,017,980	49,017,980
Issue of share capital	19,999,986	-	19,999,986	-
At 30 September	69,017,966	49,017,980	69,017,966	49,017,980

19,999,986 shares have been issued during the year at a cost of $20 million. The par value per share is $0.98 (2011: $0.98). All shares rank equally with one vote attached to each share. No shares are held by the entity or by its subsidiaries or are reserved for issue.

17. ACCUMULATED PROFITS

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Accumulated profits				
At 1 October	47,342	64,994	27,334	46,606
Net profit for the year	12,754	2,230	4,374	610
Transfer from share based payments reserve (note 28)	-	118	-	118
Dividends paid	-	(20,000)	-	(20,000)
Foreign currency differences	247	-	-	-
At 30 September	**60,343**	**47,342**	**31,708**	**27,334**

18. RESERVES

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Foreign currency translation reserve (FCTR)				
At 1 October	1,292	1,979	3,252	5,302
Currency translation differences arising during the year	678	(687)	(1,169)	(2,050)
At 30 September	**1,970**	**1,292**	**2,083**	**3,252**

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

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Share based payments reserve				
At 1 October	-	136	-	136
Transfer to accumulated profits	-	(118)	-	(118)
Transfer to TOWER New Zealand Limited	-	(18)	-	(18)
At 30 September	**-**	**-**	**-**	**-**

The share based payments reserve is used to recognise the fair value of options issued but not exercised.

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Capital reserve				
At 1 October	11,990	11,990	11,659	11,659
At 30 September	**11,990**	**11,990**	**11,659**	**11,659**

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Asset revaluation reserve				
At 1 October	-	-	-	-
Gain on revaluation	236	-	-	-
At 30 September	**236**	**-**	**-**	**-**
Total reserves	**14,196**	**13,282**	**13,742**	**14,911**

The asset revaluation reserve is used to recognise unrealised gains on the value of land and buildings above initial cost.

19. DISTRIBUTIONS TO SHAREHOLDERS

No dividend was paid during the year ended 30 September 2012 (2011:$20,000,000). This equates to $0 per share (2011: $0.41).

20. GENERAL INSURANCE BUSINESS

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
(A) ANALYSIS OF OPERATING RESULT				
Premium revenue	238,859	208,328	192,783	166,873
Outward reinsurance expense	(41,137)	(41,102)	(25,042)	(24,868)
Net premium income	**197,722**	**167,226**	**167,741**	**142,005**
Claims expense	171,498	513,768	160,310	491,633
Reinsurance recoveries	(44,878)	(402,087)	(44,925)	(389,451)
Net claims incurred	**126,620**	**111,681**	**115,385**	**102,182**
Acquisition costs	35,621	33,609	31,384	30,476
Other underwriting expenses	32,170	28,524	26,994	23,134
Underwriting result	**3,311**	**(6,588)**	**(6,022)**	**(13,787)**
Investment revenue	**12,677**	**11,470**	**11,239**	**14,878**
Other income	**3,841**	**2,524**	**2,716**	**1,235**
Operating profit before taxation	**19,829**	**7,406**	**7,933**	**2,326**

(B) NET CLAIMS INCURRED

Group

	2012 Risks borne in current year $000	2012 Risks borne in prior years $000	2012 Total $000	2011 Risks borne in current year $000	2011 Risks borne in prior years $000	2011 Total $000
Gross claims expense						
Direct claims - undiscounted	119,568	44,168	163,736	428,000	93,266	521,266
Movement in discount	(132)	7,894	7,762	(450)	(7,048)	(7,498)
Gross claims expense	**119,436**	**52,062**	**171,498**	**427,550**	**86,218**	**513,768**
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	(4,975)	(38,955)	(43,930)	312,937	90,908	403,845
Movement in discount	4	(952)	(948)	(43)	(1,715)	(1,758)
Reinsurance recoveries	**(4,971)**	**(39,907)**	**(44,878)**	**312,894**	**89,193**	**402,087**
Net claims incurred	**114,465**	**12,155**	**126,620**	**114,656**	**(2,975)**	**111,681**

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20. GENERAL INSURANCE BUSINESS (CONTINUED)

Company

	2012			2011		
	Risks borne in current year $000	Risks borne in prior years $000	Total $000	Risks borne in current year $000	Risks borne in prior years $000	Total $000
Gross claims expense						
Direct claims - undiscounted	105,238	47,797	153,035	401,967	95,552	497,519
Movement in discount	(257)	7,532	7,275	(7)	(5,879)	(5,886)
Gross claims expense	**104,981**	**55,329**	**160,310**	**401,960**	**89,673**	**491,633**
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	(3,487)	(40,509)	(43,996)	299,198	91,858	391,056
Movement in discount	-	(929)	(929)	-	(1,605)	(1,605)
Reinsurance recoveries	**(3,487)**	**(41,438)**	**(44,925)**	**299,198**	**90,253**	**389,451**
Net claims incurred	**101,494**	**13,891**	**115,385**	**102,762**	**(580)**	**102,182**

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. Refer to note 30 for amounts related to the Christchurch earthquakes.

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Central estimate of expected present value of future payments for claims incurred	69,775	76,202	60,410	63,265
Risk margin	6,248	6,893	4,956	6,355
Claims handling costs	7,007	6,000	6,073	5,170
	83,030	89,095	71,439	74,790
Discount	(12,329)	(19,142)	(11,202)	(17,549)
Outstanding claims liability	**70,701**	**69,953**	**60,237**	**57,241**

(C) OUTSTANDING CLAIMS

(a) Assumptions adopted in calculation of insurance provisions
Estimates of the outstanding claims as at 30 September 2012 have been carried out by J. Feyter , B.Sc, FNZSA, FIA and P. Davies, B.Bus.Sc, FNZSA, FIA.

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

The outstanding claims liability is set at a level that is appropriate and sustainable to cover the 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:

	2012	2011
Inflation rates varied from	1.5%-4.25%	0.5% to 5.25%
Inflation rates for succeeding year	1.5%-4.25%	0.5% to 4.5%
Inflation rates for following years	1.5%-4.25%	0.5% to 5.25%
Discount rates varied from	2.91%-6.75%	3.0% to 7.8%
Discount rates for succeeding year	2.91%-6.75%	3.0% to 7.8%
Discount rates for following years	2.91%-6.75%	3.0% to 7.8%
Claims handling expense ratio	4.7%-22.97%	4.2% to 14.5%
Risk margin	15.0%-25.0%	15.0% to 20.0%

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

Short tail claims	within 1 year	within 1 year
Long tail claims in the Pacific Islands	1.05 to 2.36 years	1.05 to 2.45 years
Australian long tail claims	14.5 years	14.1 years
Inwards reinsurance	15.2 years	15.9 years

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20. GENERAL INSURANCE BUSINESS (CONTINUED)

Inflation rate
Insurance costs are subject to inflationary pressures. Inflation assumptions for all classes of business are based on current economic indicators in the country the provision relates to.

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 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 administrating the claims. This allowance is determined after analysing historical claim related expenses incurred by the classes of business.

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

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

Uncertainty in claims is represented as a volatility measure in relation to the central estimate. The volatility measure is derived after consideration of statistical modelling and benchmarking to industry analysis. The measure of the volatility is referred to as the coefficient of variation (CoV), defined as the standard deviation of the distribution of future cash flows divided by the mean.

Risk margins are calculated separately for each class of business and aggregated for the portfolio. The risk margin for all classes when aggregated is less than the sum of the individual risk margins. This reflects the benefit of diversification. The measure of the parameter used to derive the diversification benefit is referred to as correlation, which is adopted with regard to industry analysis, historical experience and actuarial judgement.

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

Group

	2012			2011		
	Gross $000	**Reinsurance $000**	**Net $000**	**Gross $000**	**Reinsurance $000**	**Net $000**
Reconciliation of movements in discounted outstanding claims liability						
Balance brought forward	511,320	(441,367)	69,953	141,501	(75,446)	66,055
Effect of change in foreign exchange rates	(5,336)	190	(5,146)	(4,363)	1,479	(2,884)
Effect of changes in assumptions	3,480	(657)	2,823	4,003	(823)	3,180
Incurred claims recognised in the income statement	171,498	(44,878)	126,620	513,768	(402,086)	111,682
Claim (payment) / recoveries during the year	(253,566)	130,017	(123,549)	(143,589)	35,509	(108,080)
Balance carried forward	**427,396**	**(356,695)**	**70,701**	**511,320**	**(441,367)**	**69,953**
Reconciliation of undiscounted claims to liability for outstanding claims						
Outstanding claims undiscounted	29,719	(3,892)	25,827	38,661	(4,731)	33,930
Discount	(13,874)	1,791	(12,083)	(21,881)	2,739	(19,142)
Outstanding claims	15,845	(2,101)	13,744	16,780	(1,992)	14,788
Short tail outstanding claims			56,957			55,165
Total outstanding claims as per balance sheet			**70,701**			**69,953**

20. GENERAL INSURANCE BUSINESS (CONTINUED)

Company

	2012 Gross $000	2012 Reinsurance $000	2012 Net $000	2011 Gross $000	2011 Reinsurance $000	2011 Net $000
Reconciliation of movements in discounted outstanding claims liability						
Balance brought forward	483,218	(425,977)	57,241	117,814	(65,476)	52,338
Effect of change in foreign exchange rates	(5,766)	(12,405)	(18,171)	(248)	2,109	1,861
Effect of changes in assumptions	3,480	(657)	2,823	4,003	(823)	3,180
Incurred claims recognised in the income statement	160,310	(44,925)	115,385	491,722	(389,451)	102,271
Claim (payment) / recoveries during the year	(234,824)	137,783	(97,041)	(130,073)	27,664	(102,409)
Balance carried forward	**406,418**	**(346,181)**	**60,237**	**483,218**	**(425,977)**	**57,241**
Reconciliation of undiscounted claims to liability for outstanding claims						
Outstanding claims undiscounted	25,024	(3,176)	21,848	33,312	(4,104)	29,208
Discount	(12,608)	1,651	(10,957)	(20,129)	2,580	(17,549)
Outstanding claims	12,416	(1,525)	10,891	13,183	(1,524)	11,659
Short tail outstanding claims			49,346			45,582
Total outstanding claims as per balance sheet			**60,237**			**57,241**

(b) 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 table below describes how the change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit or loss and equity net of reinsurance to changes in assumptions.

		Change in following financial year's shareholder profit and equity net of reinsurance Group		Change in following financial year's shareholder profit and equity net of reinsurance Company	
Variable	**Movement**	**2012 $000**	**2011 $000**	**2012 $000**	**2011 $000**
Claim settlement period	+ 0.5 years	(267)	(310)	(222)	(283)
	- 0.5 years	275	303	225	277
Claims expenses ratio	increase of 1%	122	100	112	88
	decrease of 1%	(122)	(100)	(112)	(88)
Inflation rates	increase of 1%	2,074	1,383	2,056	1,358
	decrease of 1%	(1,685)	(1,148)	(1,666)	(1,124)
Discount rates	increase of 1%	(1,745)	(1,240)	(1,728)	(1,217)
	decrease of 1%	2,119	1,472	2,100	1,448

(c) Future net cash out flows

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

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
Within 3 months	28,998	28,761	24,657	22,996
3 to 6 months	9,985	9,899	8,492	7,871
6 to 12 months	9,917	9,710	7,475	7,058
After 12 months	21,801	21,583	19,613	19,316
Outstanding claims liability	**70,701**	**69,953**	**60,237**	**57,241**

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20. GENERAL INSURANCE BUSINESS (CONTINUED)

(D) RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operations of the insurance business are affected by a number of key risks including insurance risk, interest rate risk, currency risk, market risk, financial risk, compliance risk, fiscal risk and operational risk, refer to note 22. Notes on the policies and procedures employed in managing these risks in the insurance business are set out below.

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

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

The key policies in place to mitigate risk arising from writing 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.

(b) 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

(c) 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 $000**	**2008 $000**	**2009 $000**	**2010 $000**	**2011 $000**	**2012 $000**	**Total $000**
At end of incident year		122,903	121,562	110,692	114,656	114,465	
One year later		123,926	122,349	109,073	128,214		
Two years later		123,455	120,918	108,186			
Three years later		122,985	120,876				
Four years later		122,713					
Current estimate of ultimate claims cost		122,713	120,876	108,186	128,214	114,465	
Cumulative payments		(121,847)	(119,786)	(107,251)	(110,271)	(87,368)	
Undiscounted central estimate	21,844	866	1,090	935	17,943	27,097	69,775
Discount to present value	(11,145)	(90)	(103)	(168)	(252)	(571)	(12,329)
Discounted central estimate	10,699	776	987	767	17,691	26,526	57,446
Claims handling expense							7,007
Risk margin							6,248
Net outstanding claims liabilities							**70,701**
Reinsurance recoveries on outstanding claims liabilities and other recoveries							356,695
Gross outstanding claims liabilities							**427,396**

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20. GENERAL INSURANCE BUSINESS (CONTINUED)

Company

	Incident year						
	Prior	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
Ultimate claims cost estimate	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
At end of incident year		108,718	104,450	97,003	102,762	101,494	
One year later		109,709	105,488	97,175	116,995		
Two years later		109,551	104,390	96,387			
Three years later		109,270	104,366				
Four years later		109,146					
Current estimate of ultimate claims cost		109,146	104,366	96,387	116,995	101,494	
Cumulative payments		(109,088)	(104,152)	(96,057)	(100,544)	(79,158)	
Undiscounted central estimate	21,022	58	214	330	16,451	22,336	60,411
Discount to present value	(10,877)	(11)	(7)	(8)	(34)	(266)	(11,203)
Discounted central estimate	10,145	47	207	322	16,417	22,070	49,208
Claims handling expense							6,073
Risk margin							4,956
Net outstanding claims liabilities							**60,237**
Reinsurance recoveries on outstanding claims liabilities and other recoveries							346,181
Gross outstanding claims liabilities							**406,418**

(E) LIABILITY ADEQUACY TEST

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

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

	2012	**2011**
Central estimate claim % of premium	42.33%	49.50%
Risk margin	11.38%	10.20%

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

(F) INSURER FINANCIAL STRENGTH RATING

TOWER Insurance Limited has an insurer financial strength rating of 'A-' (Excellent) issued by AM Best Company Limited. Credit ratings for all other insurers within the Group are not required.

(G) REINSURANCE PROGRAMME

Reinsurance programmes are structured to adequately protect the general insurance companies' 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.

20. GENERAL INSURANCE BUSINESS (CONTINUED)

(H) SOLVENCY REQUIREMENTS

The minimum solvency capital required to be retained to meet solvency requirements are shown below. The actual solvency capital exceeds the minimum requirements by $39.008 million.

	Group $000	Company $000
Actual solvency capital	120,902	92,551
Minimum solvency capital	81,894	71,324
Solvency margin	**39,008**	**21,227**

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standard for Non-life Insurance Business published by the Reserve Bank of New Zealand. The new solvency requirements were introduced this year under the new Insurance (Prudential Supervision) Act 2010 enacted on the 7 September 2010.

21. FINANCIAL INSTRUMENTS CATEGORIES

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

Group	Total	Loans and Receivables	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2012				
Financial assets				
Cash and cash equivalents	87,607	87,607	-	-
Reinsurance recovery receivables	18,205	18,205	-	-
Reinsurance recoveries on outstanding claims	356,695	356,695	-	-
Outstanding premiums and trade receivables	106,960	106,960	-	-
Unsettled investments sale	235	235	-	-
Related party receivables	65	65	-	-
Other receivables	187	187	-	-
Investment in equity securities	4,437	-	4,437	-
Investment in fixed interest securities	142,635	-	142,635	-
Investment in property securities	7,559	-	7,559	-
Total financial assets	**724,585**	**569,954**	**154,631**	-
2011				
Financial assets				
Cash and cash equivalents	62,116	62,116	-	-
Reinsurance recovery 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	32	32	-	-
Other receivables	2,581	2,581	-	-
Investment in equity securities	3,057	-	3,057	-
Investment in fixed interest securities	130,444	-	130,444	-
Investment in property securities	9,334	-	9,334	-
Total financial assets	**755,934**	**613,099**	**142,835**	-

21. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

	Total	Financial liabilities at amortised cost	Fair value through profit or loss	
			Designated	Held for trading
2012	$000	$000	$000	$000
Financial liabilities				
Trade payables	17,715	17,715	-	-
Reinsurance payables	7,352	7,352	-	-
Related party payables	927	927	-	-
Other payables	354	354	-	-
Derivative financial liabilities	124	-	-	124
Total financial liabilities	**26,472**	**26,348**	-	**124**
2011				
Financial liabilities				
Trade payables	14,920	14,920	-	-
Reinsurance payables	12,125	12,125	-	-
Related party payables	1,833	1,833	-	-
Other payables	1,445	1,445	-	-
Total financial liabilities	**30,323**	**30,323**	-	-

Company	Total	Loans and Receivables	Fair value through profit or loss	
			Designated	Held for
2012	$000	$000	$000	$000
Financial assets				
Cash and cash equivalents	65,567	65,567	-	-
Reinsurance recovery receivables	17,891	17,891	-	-
Reinsurance recoveries on outstanding claims	346,181	346,181	-	-
Outstanding premiums and trade receivables	93,557	93,557	-	-
Unsettled investments sale	235	235	-	-
Related party receivables	337	337	-	-
Other receivables	268	268	-	-
Investments in fixed interest securities	116,124	-	116,124	-
Investments in property securities	7,559	-	7,559	-
Total financial assets	**647,719**	**524,036**	**123,683**	-
2011				
Financial assets				
Cash and cash equivalents	49,492	49,492	-	-
Reinsurance recovery 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 receivable	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**	-

21. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

	Total	Financial liabilities at amortised cost	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2012				
Financial liabilities				
Trade payables	15,146	15,146	-	-
Reinsurance payables	7,043	7,043	-	-
Related party payables	941	941	-	-
Other payables	328	328	-	-
Derivative financial liabilities	124	-	124	-
Total financial liabilities	**23,582**	**23,458**	**124**	**-**
2011				
Financial liabilities				
Trade payables	13,008	13,008	-	-
Reinsurance payables	12,051	12,051	-	-
Related party payables	7,889	7,889	-	-
Other payables	868	868	-	-
Total financial liabilities	**33,816**	**33,816**	**-**	**-**

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION

The financial condition and operating results of the Group are affected by a number of key financial and non-financial risks. Financial risks include market risk, credit risk, financing and liquidity risk. The non-financial risks include insurance risk, compliance risk and operational risk. The Group's objectives and policies in respect of insurance risks are disclosed in note 20, while the managing of financial and other non financial risks are set out in the remainder of this section.

TOWER Insurance Limited's objective is to satisfactorily manage these risks in line with the Groups risk and compliance framework policy. Various procedures are put in place to control and mitigate the risks faced by the Group depending on the nature of the risk. The business managers are responsible for managing their risks including operational and compliance risk. The consolidated entity's exposure to all high and critical risks is reviewed by the Group Risk and Compliance team and this exposure is reported quarterly to the Group Audit and Compliance Committee.

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

The Board has delegated to the TOWER Limited Group Investment Committee the responsibility for:

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

(A) MARKET RISK

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

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

(i) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not the Group's functional currency.

TOWER Insurance's principal transactions are carried out in New Zealand Dollars and its exposure to foreign exchange risk arises primarily with respect to the Pacific Island business.

TOWER Insurance generally elects to not hedge the capital invested in overseas entities, thereby accepting the foreign currency translation risk on invested capital.

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22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

The TOWER Limited Investment Committee sets limits for the management of currency risk arising from its investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to. In accordance with this policy, TOWER Insurance does not hedge the currency risk arising from translation of the financial statements of foreign operations other than through net investment in foreign operations.

The impact of reasonably possible changes in the currency risk on the Group shareholders' profit and equity is included in (E) below.

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

The Group manages interest rate risk arising from its interest bearing investments in accordance with TOWER Limited Group Investment Committee approved policies.

Interest rate risk arises to the extent that there is a mismatch between the fixed interest portfolios used to back outstanding claims liabilities and those outstanding claims. Interest rate risk is managed by matching the duration profiles of investment assets and outstanding claim liabilities.

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

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

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

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

(i) Credit risk concentration
Concentration of credit risk exists when the Group enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. TOWER Insurance manages concentration of credit risk by credit rating, industry type and individual counterparty.

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

	Group Carrying value		Company Carrying value	
	2012	2011	2012	2011
	$000	$000	$000	$000
New Zealand government	16,259	16,545	16,259	16,545
Other government agencies	28,672	28,437	28,545	27,707
Banks	168,174	115,901	122,870	83,098
Financial institutions	6,255	11,723	3,133	8,694
Other non-investment related receivables	481,859	548,370	457,711	523,648
Other industries	11,305	8,710	11,305	19,955
Related party receivables	65	32	337	32
Total financial assets with credit exposure	**712,589**	**729,718**	**640,160**	**679,679**

(ii) Maximum exposure to credit risk
The Group's maximum exposure to credit risk is as follows:

	Group Carrying value		Company Carrying value	
	2012	2011	2012	2011
	$000	$000	$000	$000
Cash and cash equivalents	87,607	62,116	65,567	49,492
Loans and receivables	482,282	548,370	458,132	523,645
Related party receivables	65	32	337	32
Financial assets at fair value through profit or loss	142,635	119,200	116,124	106,510
Total credit risk	**712,589**	**729,718**	**640,160**	**679,679**

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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

	Group Carrying value		Company Carrying value	
	2012	2011	2012	2011
	$000	$000	$000	$000
Credit exposure by credit rating				
AAA	43,707	62,531	43,707	62,531
AA	146,569	101,140	120,793	76,239
A	9,370	4,373	9,306	4,373
BBB	-	578	-	578
Below BBB	15,579	4,851	362	278
Total counterparties with external credit rating by Standard and Poor's	**215,225**	**173,473**	**174,168**	**143,999**
Group 1	470,779	536,993	452,729	519,351
Group 1A	65	32	337	32
Group 2	-	-	-	-
Group 3	15,440	7,843	7,943	12,002
Total counterparties with no external credit rating	486,284	544,868	461,009	531,385
Total financial assets neither past due nor impaired with credit exposure	**701,509**	**718,341**	**635,177**	**675,384**

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

TOWER Insurance invests in a number of Pacific region investment markets through its Pacific Islands operations to comply with local statutory requirements and in accordance with TOWER Insurance investment policies. These investments generally have low credit ratings representing the majority of the value included in the 'Below BBB' and unrated categories above.

(iv) Financial assets that would otherwise be past due whose terms have been renegotiated
No financial assets have been renegotiated in the past year (2011: Nil).

(v) Financial assets that are past due but not impaired
The Group considers that financial assets are past due if payments have not been received when contractually due. At the reporting date, the total carrying value of past due but not impaired assets held are as follows:

Group

	Less than 30 days $000	31 to 60 days $000	61 to 90 days $000	Over 90 days $000	Total $000
2012					
Reinsurance recoveries receivable	-	-	-	2,106	2,106
Outstanding premiums and trade receivables	5,324	2,639	921	90	8,974
Total	**5,324**	**2,639**	**921**	**2,196**	**11,080**
2011					
Reinsurance recoveries receivable	-	-	-	1,524	1,524
Outstanding premiums and trade receivables	4,254	1,837	1,129	2,633	9,853
Total	**4,254**	**1,837**	**1,129**	**4,157**	**11,377**

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Company

	Less than 30 days $000	31 to 60 days $000	61 to 90 days $000	Over 90 days $000	Total $000
2012					
Reinsurance recovery receivables	-	-	-	2,106	2,106
Outstanding premiums and trade receivables	1,721	944	199	13	2,877
Total	**1,721**	**944**	**199**	**2,119**	**4,983**
2011					
Reinsurance recovery receivables	-	-	-	1,524	1,524
Outstanding premiums and trade receivables	1,330	927	375	139	2,771
Total	**1,330**	**927**	**375**	**1,663**	**4,295**

(vi) Financial assets that are individually impaired
There are no financial assets that are individually impaired. (2011: Nil).

(C) FINANCING AND LIQUIDITY RISK

Financing and liquidity risk is the risk that the Group will not be able to meet its cash outflows or refinance debt obligations, as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

To mitigate financing and liquidity risk the Group treasury function maintains sufficient liquid assets to ensure that the Group can meet its debt obligations and other cash outflows on a timely basis.

(i) Financial liabilities and guarantees by contractual maturity
The table below summarises the Group's financial liabilities and guarantees into relevant maturity groups based on the remaining period at the balance date to the contractual maturity date. All amounts disclosed are contractual undiscounted cash flows that include interest payments and exclude the impact of netting agreements.

Group	Carrying value $000	Total contractual cash flows $000	Less than one year $000	One to two years $000	Two to three years $000	Three to five years $000
2012						
Financial liabilities and guarantees						
Trade payables	17,715	17,715	17,715	-	-	-
Reinsurance payables	7,352	7,352	7,352	-	-	-
Related party payables	927	927	927	-	-	-
Other payables	354	354	354	-	-	-
Derivative financial liabilities	124	182	81	67	33	1
Total financial liabilities and guarantees	**26,472**	**26,530**	**26,429**	**67**	**33**	**1**
2011						
Financial liabilities and guarantees						
Trade payables	14,920	14,920	14,920	-	-	-
Reinsurance payables	12,125	12,125	12,125	-	-	-
Related party payables	1,833	1,833	1,833	-	-	-
Other payables	1,445	1,445	1,445	-	-	-
Total financial liabilities and guarantees	**30,323**	**30,323**	**30,323**	-	-	-

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Company	Carrying value $000	Total contractual cash flows $000	Less than one year $000	One to two years $000	Two to three years $000	Three to five years $000
2012						
Financial liabilities						
Trade payables	15,146	15,146	15,146	-	-	-
Reinsurance payables	7,043	7,043	7,043	-	-	-
Related party payables	941	941	941	-	-	-
Other payables	328	328	328	-	-	-
Derivative financial liabilities	124	182	81	67	33	1
Total financial liabilities	**23,582**	**23,640**	**23,539**	**67**	**33**	**1**
2011						
Financial liabilities						
Trade payables	13,008	13,008	13,008	-	-	-
Reinsurance payables	12,051	12,051	12,051	-	-	-
Related party payables	7,889	7,889	7,889	-	-	-
Other payables	868	868	868	-	-	-
Total financial liabilities	**33,816**	**33,816**	**33,816**	**-**	**-**	**-**

(D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Refer below for details of valuation methods used for each category of financial assets and liabilities.

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

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

(i) Cash and cash equivalents
The carrying amount of cash and cash equivalents reasonably approximates its fair value.

(ii) Financial assets at fair value through profit or loss and held for trading
The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted price at the reporting date.

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

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

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

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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

Group	Total $000	Level 1 $000	Level 2 $000	Level 3 $000
2012				
Assets				
Investment in equity securities	4,437	1,186	-	3,251
Investments in fixed interest securities	142,635	-	142,635	-
Investments in property securities	7,559	-	7,559	-
Total financial assets	**154,631**	**1,186**	**150,194**	**3,251**
Liabilities				
Derivative financial liabilities	124	-	124	-
Total financial liabilities	**124**	**-**	**124**	**-**
2011				
Assets				
Investment in equity securities	3,057	926	-	2,131
Investments in fixed interest securities	130,444	-	130,444	-
Investments in property securities	9,334	-	9,334	-
Total financial assets	**142,835**	**926**	**139,778**	**2,131**

Company	Total $000	Level 1 $000	Level 2 $000	Level 3 $000
2012				
Assets				
Investments in fixed interest securities	116,124	-	116,124	-
Investments in property securities	7,559	-	7,559	-
Total financial assets	**123,683**	**-**	**123,683**	**-**
Liabilities				
Derivative financial liabilities	124	-	124	-
Total financial liabilities	**124**	**-**	**124**	**-**
2011				
Assets				
Investments in fixed interest securities	106,510	-	106,510	-
Investments in property securities	9,334	-	9,334	-
Total financial assets	**115,844**	**-**	**115,844**	**-**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. These investments are unlisted and the fair value is calculated based on the net assets of the companies invested in per the most recently available financial information and after making adjustment for events occurring in the period between the date of this financial information and 30 September 2012.

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22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

The following table represents the changes in Level 3 instruments for the year ended 30 September 2012.

	2012 $000	2011 $000
Opening balance	2,131	1,846
Gain recognised in profit or loss	1,053	-
FX movement	67	285
Closing balance	3,251	2,131

Increasing or decreasing the combined inputs used to determine the fair value of the investment by 10% would result in an increase or decrease in the fair value of the investment of $325,129.

Specific valuation techniques used to value financial instruments include:

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

(E) SENSITIVITY ANALYSIS

The analysis below demonstrates the impact of changes in interest rates, exchange rates and equity prices on profit after tax and equity. The analysis is based on changes in economic conditions that are considered reasonably possible at the reporting date. The potential impact is assumed as at the reporting date.

(i) Interest rate

The impact of a 50 basis point change in New Zealand and international interest rates as at the reporting date on profit after tax and equity is included in the tables below. The sensitivity analysis assumes changes in interest rates only. All other variables are held constant.

Group	2012 Impact on		2011 Impact on	
	profit after tax $000	equity $000	profit after tax $000	equity $000
Change in variables				
+50 basis points	(1,372)	(1,372)	(1,043)	(1,043)
-50 basis points	1,410	1,410	1,077	1,077

Company	2012 Impact on		2011 Impact on	
	profit after tax $000	equity $000	profit after tax $000	equity $000
Change in variables				
+50 basis points	(1,328)	(1,328)	(1,042)	(1,042)
-50 basis points	1,365	1,365	1,076	1,076

This analysis assumes that the sensitivity applies to the closing market yields of fixed interest investments. A parallel shift in the yield curve is assumed.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the reporting period included in the analysis.

(ii) Foreign currency

The following tables demonstrate the impact of a 10% movement of currency rates against the New Zealand dollar on profit after tax and equity. The analysis assumes changes in foreign currency rates only, with all other variables held constant. The potential impact on the profit and equity of the Group is due to the changes in fair value of currency sensitive monetary assets and liabilities as at the reporting date.

Group	2012 Impact on		2011 Impact on	
	profit after tax $000	equity $000	profit after tax $000	equity $000
Change in variables				
10% appreciation of New Zealand dollar	957	(10,448)	-	(12,205)
10% depreciation of New Zealand dollar	(1,169)	12,770	-	14,918

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22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Company	**2012**		**2011**	
	Impact on		**Impact on**	
	profit after tax	**equity**	**profit after tax**	**equity**
	$000	**$000**	**$000**	**$000**
Change in variables				
10% appreciation of New Zealand dollar	957	(4,150)	-	(6,301)
10% depreciation of New Zealand dollar	(1,169)	5,073	-	7,701

The dollar impact of the change in currency movements is determined by applying the sensitivity to the value of the unhedged international assets.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the reporting period included in the analysis.

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

The tables below demonstrate the impact of a 10% movement in international equities on profit after tax and equity. The potential impact is assumed as at the reporting date.

Group	**2012**		**2011**	
	Impact on		**Impact on**	
	profit after tax	**equity**	**profit after tax**	**equity**
	$000	**$000**	**$000**	**$000**
Change in variables				
+10% in International equities	85	85	65	65
-10% in International equities	(85)	(85)	(65)	(65)

The Company holds no equities.

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

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the two reporting periods included in the analysis.

(iv) Other price
Other price sensitivity includes sensitivity to unit price fluctuations. Unit price risk is the risk that the fair value of investments in property fund units held in unit trusts will decrease as a result of changes in the value of these units.

The tables below demonstrate the impact of a 10% movement in the value of property funds other unit trusts on the profit after tax and equity. The potential impact is assumed as at the reporting date.

Group	**2012**		**2011**	
	Impact on		**Impact on**	
	profit after tax	**equity**	**profit after tax**	**equity**
	$000	**$000**	**$000**	**$000**
Change in variables				
+10% property funds and other unit trusts	542	542	1,438	1,438
-10% property funds and other unit trusts	(542)	(542)	(1,438)	(1,438)

Company	**2012**		**2011**	
	Impact on		**Impact on**	
	profit after tax	**equity**	**profit after tax**	**equity**
	$000	**$000**	**$000**	**$000**
Change in variables				
+10% property funds and other unit trusts	527	527	1,438	1,438
-10% property funds and other unit trusts	(527)	(527)	(1,438)	(1,438)

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the two reporting periods included in the analysis.

23. CAPITAL RISK MANAGEMENT

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

The Group's capital resources include ordinary equity.

	Group	
	2012	2011
	$000	$000
TOWER shareholder equity	143,882	111,050
Total capital resources	**143,882**	**111,050**

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

From 31 December 2012 the Group is required to retain fixed capital under the solvency standards of no less than $3,000,000.

From 31 December 2012 the Group is required to maintain a solvency margin of no less than $0. From this date actual solvency capital as determined under the solvency standards should be at or above the minimum solvency capital level. The amount retained as minimum solvency capital is shown in Note 20 (H).

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

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

24. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Company	
	2012	2011	2012	2011
	$000	$000	$000	$000
Net profit after tax for the year	13,239	2,544	4,374	610
Add/(less) non-cash items				
Depreciation of property, plant and equipment	236	248	19	37
Unrealised loss/(gain) on financial assets	2,630	(1,226)	3,987	(1,525)
Share based payments expense and movement in fair value of employee share option derivative	-	(18)	-	(18)
Decrease in deferred tax	393	(220)	494	(28)
	16,498	1,328	8,874	(924)
Add/(less) movements in working capital (excluding the effects of exchange differences on consolidation)				
Decrease/(increase) in receivables	66,631	(393,979)	63,819	(387,353)
(Decrease)/increase in payables	(65,623)	367,746	(67,513)	367,246
Decrease/(increase) in taxation	3,653	(4,538)	4,183	(5,211)
	4,661	(30,771)	489	(25,318)
Net cash inflows/(outflows) from operating activities	**21,159**	**(29,443)**	**9,363**	**(26,242)**

25. CONTINGENT LIABILITIES

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

26. OPERATING LEASES

	Group 2012 $000	Group 2011 $000	Company 2012 $000	Company 2011 $000
As lessee				
Rent paid under non-cancellable operating leases during the year	632	549	65	52
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
– Not later than one year	735	422	47	32
– Later than one year and not later than five years	416	182	78	-
– Later than five years	125	16	-	-
	1,276	**620**	**125**	**32**

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

27. CAPITAL COMMITMENTS

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

28. SHARE BASED PAYMENTS

The Company had three active executive share option schemes in the prior year. 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 TOWER Limited Board, options are forfeited if an employee leaves the Group before the options vest.

In the prior year, all remaining share options that were not forfeited were transferred to TOWER New Zealand Limited. The Group no longer has any share based payments.

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 ($000)	(18)	-	-

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 was based on best estimates of management allowing for non-transferability, exercise restrictions and behavioural considerations.

The following reconciles the share options outstanding at the beginning and end of the year.

2011	**Number of options** Tranche F	Tranche G	Tranche I	**Weighted average**
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 the end of the year	-	-	-	$0.00
Exercisable at the end of the year	-	-	-	$0.00

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29. TRANSACTIONS WITH RELATED PARTIES

(A) TOWER LIMITED GROUP

During the year there have been transactions between TOWER Insurance Limited, its subsidiaries, its parent and entities within the parent's group. Balances outstanding are payable on demand. Balances are interest free other than those between TOWER Insurance Limited and its subsidiaries. None of TOWER Insurance Limited's subsidiaries have related party transactions or balances with entities outside of the TOWER Insurance Limited Group. All balances and transactions below relate to the parent only.

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

Related party	2012 $000	2011 $000	Nature of Relationship	Type of Transaction
TOWER Asset Management Limited	-	(60)	Fellow subsidiary	Investment management fees
TOWER Health & Life Limited	57	31	Fellow subsidiary	Commission
TOWER Insurance (Cook Islands) Limited	14	(750)	Subsidiary	Management, IT services & reinsurance settlements
TOWER Insurance (Fiji) Limited	(99)	(59)	Subsidiary	Management, IT services & reinsurance settlements
TOWER Insurance (PNG) Limited	(173)	(5,246)	Subsidiary	Management, IT services & reinsurance settlements
TOWER Managed Funds Limited	8	1	Fellow subsidiary	Operating expenses
TOWER New Zealand Limited	(927)	(1,774)	Fellow subsidiary	Management expenses, loan and tax losses

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

Related party	2012 $000	2011 $000	Nature of Relationship	Type of Transaction
National Insurance (Co) Hold Ltd	-	2,941	Subsidiary	Dividend
National Pacific Insurance Limited	275	298	Subsidiary	Management, IT services & reinsurance settlements
National Pacific Insurance Limited	948	1,947	Subsidiary	Dividend
TOWER Asset Management Limited	(314)	(298)	Fellow subsidiary	Investment management fees
TOWER Financial Services Group Limited	20,000	-	Parent	Issue of share capital
TOWER Financial Services Group Limited	-	(20,000)	Parent	Dividend
TOWER Health & Life Limited	153	240	Fellow subsidiary	Commission
TOWER Insurance (Cook Islands) Limited	168	173	Subsidiary	Management, IT services & reinsurance settlements
TOWER Insurance (Cook Islands) Limited	(80)	247	Subsidiary	Interest
TOWER Insurance (Fiji) Limited	767	743	Subsidiary	Management, IT services & reinsurance settlements
TOWER Insurance (Fiji) Limited	41	28	Subsidiary	Interest
TOWER Insurance (PNG) Limited	668	734	Subsidiary	Management, IT services & reinsurance settlements
TOWER Insurance (PNG) Limited	823	(18)	Subsidiary	Interest
TOWER Limited	1,391	-	Ultimate parent	Group tax loss offset
TOWER New Zealand Limited	(39,386)	(24,380)	Fellow subsidiary	Management expenses
TOWER New Zealand Limited	-	314	Fellow subsidiary	Transfer of fixed assets
TOWER New Zealand Limited	-	3,300	Fellow subsidiary	Loan

(B) KEY MANAGEMENT PERSONNEL COMPENSATION

All key management personnel are employed by TOWER New Zealand Limited, a fellow subsidiary of TOWER Limited. As a result, TOWER Insurance pay no key management personnel remuneration.

(C) LOANS TO KEY MANAGEMENT PERSONNEL

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

(D) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

30. IMPACT OF CHRISTCHURCH EARTHQUAKES

For the year ended 30 September 2012, the income statement includes gross incurred claims of $7,752,108 less reinsurance recoveries of $1,859,292 in respect of the 23 December 2011 earthquake, resulting in a pre tax net claims expense of $5,892,816. For the 4 September 2010, 22 February 2011 and 13 June 2011 earthquakes, the 2012 income statement includes gross incurred claims of $53,836,695 less reinsurance recoveries of $40,836,695 resulting in a pre tax net claims expense of $13,000,000. Comparative income statement figures for the prior year ended 30 September 2011 include gross incurred claims of $397,769,000 less reinsurance recoveries of $383,664,000 resulting in a net amount of $14,105,000 representing incurred claims expenses for the 4 September 2010, 22 February 2011 and 13 June 2011 earthquakes.

In October 2012, TOWER Limited confirmed the successful placement of its reinsurance programme for the TOWER Limited Group for the 2012/13 financial year. The programme again involves reinsurance cover for two catastrophe events. TOWER has continued to enhance its reinsurance programme, with the limit for 2012/13 increased to $525 million per event (the excess for an event in 2012/13 is $11.7 million compared with $6.7 million for the 2011/12 programme).

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 ("the Company") on pages 2 to 43, which comprise the balance sheets as at 30 September 2012, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 September 2012 or from time to time during the financial year.

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

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

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

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

We have no relationship with, or interests in, TOWER 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.

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Independent Auditors' Report

TOWER Insurance Limited

Opinion

In our opinion, the financial statements on pages 2 to 43:

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

(ii) comply with International Financial Reporting Standards; and

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

Report on Other Legal and Regulatory Requirements

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

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

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

Restriction on Distribution or Use

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

Chartered Accountants
28 November 2012

Auckland

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

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

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 $12,754,000 (2011: $2,230,000). Retained profits at the end of the year totalled $60,343,000 (2011: $47,342,000). Shareholders' equity at the end of the year totalled $142,439,000 (2011: $108,524,000). 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 nil (2011: $20,000,000).

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 during the year and at the date of this report are RA Flannagan, M Boggs and B Walsh.

The Board of Directors of Tower Insurance Limited authorised the financial statements presented on pages 2 to 43 for issue on 28 November 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: 28 November 2012

Director: ______________________

Date: 28 November 2012

APPOINTED ACTUARY's IPSA SECTION 78 REPORT

The report prepared by the Appointed Actuary for the purpose of Section 78 of IPSA is reproduced below (to be updated by Charles)

To the Directors of TOWER Insurance Limited

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

I am the Appointed Actuary to TOWER Insurance Limited. I am Head of Actuarial Services at Deloitte and act as Appointed Actuary under a contract for services. The previous Appointed Actuary has confirmed they and the TOWER actuarial team were directly involved in the preparation of TOWER Insurance 2012 financial statements. I am also the Appointed Actuary to two other insurers in the TOWER Group of companies

TOWER's policy is to seek the advice of the appointed actuary to prepare the actuarial information contained in its financial statements. I confirm the financial statements have been prepared in accordance with this policy, and as such this satisfies the requirements of the Act.

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

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

In my opinion and from an actuarial perspective TOWER Insurance has maintained and is maintaining the required solvency margin.

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

Date: 31 January 2013