TOWER INSURANCE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2013

TOWER INSURANCE LIMITED
TABLE OF CONTENTS
For the year ended 30 September 2013

TOWER INSURANCE LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2013

The Directors of TOWER Insurance Limited present their report and consolidated financial statements of the Company and Group for the year ended 30 September 2013.

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 $7,504,000 (2012: $12,754,000). Accumulated profits at the end of the year totalled $67,872,000 (2012: $60,343,000). Shareholders' equity at the end of the year totalled $250,142,000 (2012: $142,439,000). 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 (2012: nil).

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.

Directors in office during the year and at the date of this report are M Allen, D Hancock, M Jefferies, S Smith, J Spencer, M Stiassny and G Stuart. Directors in office during the year that are no longer Directors are M Boggs, R Flannagan and B Walsh.

The Board of Directors of Tower Insurance Limited authorised the financial statements presented on pages 10 to 66 for issue on 26 November 2013.

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

For and on behalf of the Board

Director _____ Director _____

Date 26 November 2013 Date 26 November 2013

TOWER INSURANCE LIMITED
GOVERNANCE STATEMENT
For the year ended 30 September 2013

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

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

Role and operation of the Board of Directors

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

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

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

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

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

Composition of the Board

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

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

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

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

Graham Stuart

BCom(Hons), MS, CA

Chairman

Non Executive Director

Independent

Appointed: 5 August 2013

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

Graham resides in Auckland, New Zealand.

Michael Stiassny

LLB, BCom, CA, FInstD

Non Executive Director

Independent

Appointed: 5 August 2013

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

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

Michael resides in Auckland, New Zealand.

Steve Smith

BCom, CA, Dip Bus (Finance), AMInstD

Non Executive Director

Independent

Appointed: 5 August 2013

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

Steve resides in Auckland, New Zealand.

Mike Allen

LLB, BCom

Non Executive Director

Not Independent

Appointed: 5 August 2013

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

Mike resides in Auckland, New Zealand.

David Hancock

BBus, GAICD

Executive Director

Not Independent

Appointed: 5 August 2013

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

David resides in Auckland, New Zealand.

Mike Jefferies BCom, CA Non Executive Director Not Independent Appointed: 5 August 2013 Mike is a chartered accountant with extensive experience in finance and investment. He has been an executive for Guinness Peat Group plc for more than 20 years, and holds directorships in both Australia and New Zealand. Mike resides in Perth, Australia.
John Spencer BCom, FCA Non Executive Director Independent Appointed: 5 August 2013 John brings to the Board significant financial and commercial expertise gained over many years from senior management positions with a number of major companies in New Zealand and overseas. Prior to the formation of Fonterra, John was the Chief Executive Officer of New Zealand Dairy Group. John resides in Wellington, New Zealand.

Board committees

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

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

Audit and Risk Committee

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

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

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

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

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

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

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

Remuneration and Appointments Committee

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

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

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

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

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

Risk management

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

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

pwc

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 10 to 66, which comprise the balance sheets as at 30 September 2013, 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 2013 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

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

pwc

Independent Auditors' Report

TOWER Insurance Limited

Opinion

In our opinion, the financial statements on pages 10 to 66:

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

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 30 September 2013, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2013:

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

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

Restriction on Distribution or Use

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

PricewaterhouseCoopers

Chartered Accountants
26 November 2013

Auckland

Deloitte.

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

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

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

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

Review of the Actuarial Information contained in the 30 September 2013 TOWER Insurance Limited Financial Statements

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. I am also the Appointed Actuary to one other insurer in the TOWER Group of companies.

The directors are responsible for the preparation of the company's financial statements; TOWER's policy is to seek the advice of the appointed actuary in the preparation of the actuarial information contained in the financial statements. I have been directly involved in the preparation of TIL 2013 financial statements. I confirm the financial statements have been prepared in accordance with this policy and as such this satisfies the requirements of the Act. Appropriate actuarial information has been used accurately and appropriately.

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

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

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

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

Date: 25 November 2013

TOWER INSURANCE LIMITED
INCOME STATEMENTS
For the year ended 30 September 2013

	Note	Group 2013 $000	Group 2012 $000	Company 2013 $000	Company 2012 $000
Revenue					
Premium revenue from insurance contracts		267,160	238,859	222,203	192,783
Less: Outwards reinsurance expense		(48,617)	(41,137)	(35,560)	(25,042)
Net premium revenue		218,543	197,722	186,643	167,741
Investment revenue	5	8,538	12,677	21,598	11,239
Other revenue		3,787	3,841	1,913	2,716
Net operating revenue		230,868	214,240	210,154	181,696
Expenses					
Claims expense		198,818	168,868	181,264	157,680
Less: Reinsurance recoveries revenue		(51,880)	(44,580)	(49,449)	(44,627)
Net claims expense		146,938	124,288	131,815	113,053
Management and sales expenses	6	71,507	67,791	59,967	58,378
Total expenses		218,445	192,079	191,782	171,431
Profit before taxation		12,423	22,161	18,372	10,265
Tax expense	7	(8,586)	(6,590)	(5,388)	(3,559)
Profit for the year from continuing operations		3,837	15,571	12,984	6,706
Profit / (loss) from discontinued operations	32	3,797	(2,332)	(7,114)	(2,332)
Profit for the year		7,634	13,239	5,870	4,374
Profit attributed to					
Shareholders		7,504	12,754	5,870	4,374
Minority interests		130	485	-	-
		7,634	13,239	5,870	4,374

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

pwc

TOWER INSURANCE LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
For the year ended 30 September 2013

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Profit for the year	7,634	13,239	5,870	4,374
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Currency translation differences	(6,453)	(251)	(2,685)	(1,169)
Gain on asset revaluation	715	327	-	-
Gain transferred to income statement from asset sold	(467)	-	-	-
Deferred income tax relating to asset revaluation	(218)	(91)	-	-
Deferred income tax relating to asset sold	87	-	-	-
Items that may not be reclassified subsequently to profit or loss				
Business combinations under common control	(562)	-	-	-
Other comprehensive (loss) net of taxation	(6,898)	(15)	(2,685)	(1,169)
Total comprehensive income for the year	736	13,224	3,185	3,205
Total comprehensive income / (loss) attributed to				
Shareholders	613	13,915	3,185	3,205
Minority interests	123	(691)	-	-
	736	13,224	3,185	3,205
Total comprehensive income / (loss) attributed to equity shareholders arises from				
Continuing operations	(912)	15,592	12,448	5,573
Profit / (loss) for the year from assets and liabilities held for sale	3,797	(2,332)	(7,114)	(2,332)
Currency translation differences of disposal group held for sale	(2,149)	(36)	(2,149)	(36)
	736	13,224	3,185	3,205

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

pwc

TOWER INSURANCE LIMITED
BALANCE SHEETS
As at 30 September 2013

	Note	Group 2013 $000	Group 2012 $000	Company 2013 $000	Company 2012 $000
Assets					
Cash and cash equivalents	8	189,094	87,607	174,747	65,567
Financial assets at fair value through profit or loss	21	142,984	154,631	117,851	123,683
Derivative financial assets	21	122	-	122	-
Deferred acquisition costs	9	18,211	17,086	16,123	14,902
Current tax assets		916	2,077	-	1,087
Receivables	10	372,313	482,437	357,614	458,525
Property, plant and equipment	11	2,661	2,730	24	28
Intangible assets	12	3	-	-	-
Deferred tax assets	7	1,645	1,562	1,015	980
Investments in subsidiaries	13	-	-	33,751	4,661
Total assets of continuing operations		727,949	748,130	701,247	669,433
Assets of disposal groups classified as held for sale	32	739,923	-	623	-
Total assets		1,467,872	748,130	701,870	669,433
Liabilities					
Payables	14	37,015	37,694	34,341	34,369
Derivative financial liabilities	21	-	124	-	124
Current tax liabilities		3,529	4,930	1,834	2,881
Provisions	15	1,124	2,257	983	1,771
Insurance liabilities	16	451,905	554,705	418,401	512,580
Deferred tax liabilities	7	5,344	4,538	4,996	4,358
Total liabilities of continuing operations		498,917	604,248	460,555	556,083
Liabilities of disposal groups classified as held for sale	32	717,551	-	17,690	-
Total liabilities		1,216,468	604,248	478,245	556,083
Net Assets		251,404	143,882	223,625	113,350
Equity					
Contributed equity	17	174,990	67,900	174,990	67,900
Accumulated profits	18	67,872	60,343	37,729	31,708
Reserves	19	7,280	14,196	10,906	13,742
Total equity attributed to shareholders		250,142	142,439	223,625	113,350
Minority interests		1,262	1,443	-	-
Total equity		251,404	143,882	223,625	113,350

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

Director

Director

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

pwc

TOWER INSURANCE LIMITED
STATEMENTS OF CHANGES IN EQUITY
As at 30 September 2013

Group	Note	Attributed to shareholders					
		Contributed equity $000	Accumulated profits $000	Reserves $000	Total $000	Minority interest $000	Total equity $000
Year Ended 30 September 2013							
At the beginning of the year		**67,900**	**60,343**	**14,196**	**142,439**	**1,443**	**143,882**
Comprehensive income							
Profit for the year	18	-	7,504	-	7,504	130	7,634
Currency translation differences	19	-	-	(6,446)	(6,446)	(7)	(6,453)
Gain on asset revaluation	19	-	-	715	715	-	715
Gain on asset sold	19	-	-	(467)	(467)	-	(467)
Deferred income tax relating to asset revaluation	19	-	-	(218)	(218)	-	(218)
Deferred income tax relating to asset sold	19	-	-	87	87	-	87
Business combinations under common control	19	-	-	(562)	(562)	-	(562)
Transfer	18	-	25	(25)	-	-	-
Total comprehensive income		-	7,529	(6,916)	613	123	736
Transactions with shareholders							
Addition to share capital		107,090	-	-	107,090	-	107,090
Dividends paid	20	-	-	-	-	(304)	(304)
Total transactions with shareholders		107,090	-	-	107,090	(304)	106,786
At the end of the year		**174,990**	**67,872**	**7,280**	**250,142**	**1,262**	**251,404**
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	18	-	12,754	-	12,754	485	13,239
Currency translation differences	18	-	247	678	925	(1,176)	(251)
Gain on asset revaluation	19	-	-	327	327	-	327
Deferred income tax relating to asset revaluation	19	-	-	(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	20	-	-	-	-	(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**

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

pwc

TOWER INSURANCE LIMITED
STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
For the year ended 30 September 2013

Company	Note	Contributed equity $000	Accumulated profits $000	Reserves $000	Total equity $000
Year Ended 30 September 2013					
At the beginning of the year		**67,900**	**31,708**	**13,742**	**113,350**
Comprehensive income					
Profit for the year	18	-	5,870	-	5,870
Currency translation differences	19	-	-	(2,685)	(2,685)
Transfer	18	-	151	(151)	-
Total comprehensive income		-	6,021	(2,836)	3,185
Transactions with shareholders					
Addition to share capital		107,090	-	-	107,090
Dividends paid	20	-	-	-	-
Total transactions with shareholders		107,090	-	-	107,090
At the end of the year		**174,990**	**37,729**	**10,906**	**223,625**
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	18	-	4,374	-	4,374
Currency translation differences	19	-	-	(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	20	-	-	-	-
Total transactions with shareholders		20,000	-	-	20,000
At the end of the year		**67,900**	**31,708**	**13,742**	**113,350**

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

TOWER INSURANCE LIMITED
STATEMENTS OF CASH FLOWS
As at 30 September 2013

		Group		Company	
		2013	2012	2013	2012
	Note	$000	$000	$000	$000
Cash flows from operating activities					
Premiums received		273,550	240,624	225,455	193,855
Interest received		12,178	7,644	7,536	6,688
Dividends received		650	140	14,883	946
Investment income		11,252	7,616	5,557	7,605
Commission received		3,422	2,570	4,384	1,201
Receipts from intercompany		-	-	623	74
Reinsurance received		168,162	132,060	158,348	127,244
Reinsurance paid		(51,298)	(45,831)	(36,441)	(30,086)
Claims paid		(321,612)	(255,455)	(274,776)	(237,530)
Payments to suppliers and employees		(72,693)	(65,762)	(62,166)	(55,948)
Payments to intercompany		-	-	(2,788)	(6,423)
Interest paid		-	-	-	(559)
Income tax paid		(8,318)	(2,544)	(4,793)	1,119
Net cash inflow from operating activities	25	15,293	21,062	35,822	8,186
Cash flows from investing activities					
Net receipts / (payments) for financial assets		4,483	(14,794)	(1,048)	(12,160)
Payments for purchase of property, plant and equipment and intangible assets		(156)	(299)	(22)	(4)
Receipts for purchase of property, plant and equipment and intangible assets		-	66	-	-
Net cash inflow / (outflow) from investing activities		4,327	(15,027)	(1,070)	(12,164)
Cash flows from financing activities					
Proceeds from issue of share capital		107,090	20,000	107,090	20,000
Payment for purchase of company		(29,090)	-	(29,090)	-
Proceeds from sale of business		8,287	-	-	-
Payment of minority interest dividends		(304)	(392)	-	-
Net advances from related parties		300	-	-	-
Net cash inflow from financing activities		86,283	19,608	78,000	20,000
Net increase in cash and cash equivalents		105,903	25,643	112,752	16,022
Foreign exchange movement in cash		(4,118)	(152)	(3,572)	53
Cash and cash equivalents at the beginning of year		87,607	62,116	65,567	49,492
Cash acquired in purchase of subsidiary		8,101	-	-	-
Cash classified as held for sale		(8,399)	-	-	-
Cash and cash equivalents at the end of year	8	189,094	87,607	174,747	65,567

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

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 and life insurance services. The Group predominantly operates in New Zealand with some of its operations based in the Pacific Islands.

On 31 July 2013 the Company acquired the net assets of TOWER Life (N.Z.) Limited, a member of the TOWER Limited Group. On 1 August 2013 the non participating group risk life insurance business of TOWER Life (N.Z.) Limited was sold to Fidelity Life Assurance Company Limited. This has resulted in the non participating group risk life insurance business segment being treated as a discontinued operation. The sale is disclosed in more detail in note 32(A).

At 30 September 2013 the Company was marketing its remaining life insurance business for sale. Consequently the remaining life business segment is being treated as a discontinued operation, which has been disclosed as a disposal group held for sale in these financial statements. The sale is disclosed in more detail in note 32(B).

During the period the Directors of the Company approved the disposal of the Company's general insurance run-off business in its Australian branch to an Australian domiciled entity. The transaction will include disposing of all policies written or assumed by the branch and all the associated liabilities under those policies. Subsequent to the disposal of the policy liabilities, the balance of the Australian branch assets will be repatriated to New Zealand and the operations of the branch will be discontinued. The Australian branch of TOWER Insurance Limited has been treated as a disposal group held for sale in these financial statements. The sale is disclosed in more detail in note 32(C).

The financial statements were authorised for issue by the Board of Directors on 26 November 2013. 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 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 measurement 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 2013 and the results of all subsidiaries for the year then ended.

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

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

The acquisition of controlled entities from external parties is accounted for using the acquisition method of accounting. The acquisition of entities under common control is accounted for using the predecessor values method. 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.

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

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

(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

(i) General insurance contracts

General insurance premium revenue is recognised in the period in which the premiums are earned during the term of the contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Life insurance contracts
Premiums on life insurance contracts are separated into their revenue and deposit components. Where it is not practicable to split out the two components, all premiums have been recognised as revenue. Where policies provide for the payment of amounts of premiums on specific due dates, such premiums are recognised as revenue when due. Unpaid premiums are recognised as revenue only during the days of grace or where secured by the surrender values of the policies concerned. Other premiums are recognised as revenue on a cash received basis.

(iii) Life investment contracts
Under life investment contracts the life companies receive deposits from policyholders which are then invested on behalf of the policyholders. No premiums are recognised as revenue. Fees deducted from members' accounts are accounted for as fee revenue.

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
Fee revenue on investment contracts and other revenue on services provided by the Group, such as rental income and commission, are 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.

(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
(i) General insurance contracts
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)).

(ii) Life insurance contracts
Life insurance contract claims are recognised when the liability to a policyholder under a life insurance contract has been established or upon notification of the insured event. Claims are separated into their expense and withdrawal components. Claims on risk business are treated as an expense and are recognised when a liability to the policyholder is established.

(iii) Life investment contracts
There is no claims expense in respect of investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Other claim amounts are similar to withdrawals and as such do not relate to the provision of services or the bearing of risk. Accordingly, they are not expenses and are treated as movements in life insurance contract liabilities.

(H) BASIS OF EXPENSE APPORTIONMENT
All operating expenses in respect of life insurance or life investment contracts have been apportioned between policy acquisition, policy maintenance and investment management expenses with regard to the objective when incurring the expense and the outcome achieved.

The apportionment process is adopted by applying the following methodology:

(i) Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned.

(ii) Commission expenses that cannot be allocated to a class of business, for example volume bonuses, are apportioned on the basis of new business and renewal commissions of each class, allowing for limits implied by the basis of adviser remuneration.

(iii) Investment expenses are apportioned to the classes of business on the mean balance of assets under management.

(iv) Other expenses that cannot be allocated to a particular class of business are apportioned to classes of business based on appropriate cost drivers, including number of new policies issued and related premiums, number of new units issued, mean balance of assets under management, average number of policies in-force and time and activity based allocations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) POLICY ACQUISITION COSTS

(i) General insurance products

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.

(ii) Life insurance contracts

In determining the life insurance contract liabilities, the deferral and future recovery of acquisition costs are capitalised by way of movement in life insurance contract liabilities, then amortised over the period in which they will be recoverable.

(iii) Other contracts

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs are initially recorded in the income statement, with any amounts to be deferred then taken to the balance sheet as a deferred acquisition cost. Deferred acquisition costs are recognised for superannuation products. The acquisition costs of establishing contracts for certain superannuation products are deferred. These costs are amortised over the periods of expected future benefit. A comparison to recoverable value is carried out annually, with any variance below carrying value taken to the income statement in that year.

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.

(J) 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.

(K) 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.

(L) 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) Life Insurance tax

From 1 July 2010, life insurers have been subject to a new tax regime. Two tax bases are maintained; the shareholder base which is subject to tax on life risk products (premiums less claims) and net investment income from shareholder funds, and the policyholder base which is subject to tax on net investment income from policyholder funds. The life insurer pays tax on both bases at the prevailing corporate tax rate of 28% (2012: 28%). As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

Transitional provisions are included in the new regime which effectively maintains the historical tax treatment for most policies in force on 30 June 2010 for a period of time (five years in most cases). Under the previous tax regime, the life office base was subject to tax on investment income less expenses plus underwriting income, and tax was calculated on the policyholder base as benefits accrued to policyholders under the policies. The life insurer paid tax on the higher of the two bases at the company tax rate applying at the time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(M) 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.

(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 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.

(N) 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.

(O) 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.

(P) 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Q) ASSETS BACKING INSURANCE BUSINESS

The Group has determined that all assets within the general insurance companies are held to back insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries. All assets of the life insurance companies are assets backing the policy liabilities of the life insurance business including life insurance contract liabilities and life investment contract liabilities.

These assets are managed in accordance with approved investment mandate agreements on a fair value basis and are reported to the Board on this basis. They have been measured at fair value through profit or loss wherever the applicable standard allows. Fair value is determined as follows:

- cash assets and bank overdrafts are carried at face value which approximates fair value;
- shares, fixed interest securities, options and units in trusts listed on stock exchanges are valued at the quoted bid price of the instrument at balance 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.

(R) INTANGIBLES

Application software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the software.

General use computer software	5 years

(S) 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).

(T) BUSINESS COMBINATIONS

Identifiable assets acquired and liabilities assumed in business combinations with third parties 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.

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

(U) 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.

All derivatives entered into by the Group are classified as held for trading.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(V) 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.

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.

(W) 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.

(X) 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.

(Y) 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.

(Z) 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.

(AA) DERIVATIVES
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the income statement. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(AB) LIFE INSURANCE LIABILITIES

The Group's life insurance liabilities are split between life insurance contracts and life investment contracts. Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4 Insurance Contracts. Life investment contracts are accounted for in accordance with NZ IAS 18 Revenue and NZ IAS 39 Financial Instruments: Recognition and Measurement.

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no insurance risk, but which give rise to a financial asset and/or liability under NZ IAS 39. Contracts that contain a discretionary participating feature are also classified as life insurance contracts.

(i) Life investment contract liabilities
These contracts are designated at inception as at fair value through profit or loss and subsequently measured at fair value with any change in value being recognised in the income statement. Fair value is the current value of units plus investment fluctuation reserves subject to a minimum of current surrender value.

The Group designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising gains or losses on different basis.

(ii) Life insurance contract liabilities
The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS).

Under MoS the excess of premium received over claims and expenses, 'the profit margin', is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder 'the service', hence the term Margin on Services.

Life insurance contract liabilities are determined using either the projection method or accumulation method as referred to in note 33. Under the projection method the policy liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future. When the benefits under the life insurance contract liability are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate on those assets. Where the benefits are not linked to the performance of the backing assets, a risk free discount rate is used. The risk free discount rate is determined by the Appointed Actuary based on the zero coupon swap rates, depending on the nature, structure and term of the contract liabilities.

The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date.

(AC) GENERAL 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.

(AD) CONTRIBUTED EQUITY

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

(AE) 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.

(AF) SEGMENT REPORTING

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance. The chief operating decision-maker has been identified as the Company's Board of Directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(AG) DISCONTINUED OPERATIONS AND DISPOSAL GROUPS

Assets and liabilities of a disposal group are classified as held for sale if their carrying amount will be recovered or settled principally through a sale transaction rather than through continuing use. A disposal group is defined as a group of assets or liabilities to be disposed of, by sale or otherwise, together as a group in a single transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated. This condition is regarded as being met only when the sale is highly probable and the assets or businesses are available for immediate sale in their present condition or is a subsidiary acquired exclusively with a view to resale.

As required by accounting standards assets and liabilities of a disposal group are measured at the lower of carrying amount and fair value less costs to sell and disclosed in aggregate on the balance sheet as single line items. Items in the income statements and statements of comprehensive income relating to discontinued operations are not shown individually on the face of the statements, however profit for the year is separated between continuing and discontinued operations.

Cash flows associated with discontinued operations are disclosed in note 32.

(AH) COMPARATIVES

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

Businesses being sold and held for sale has resulted in the reclassification of balances into two line items. Income statement balances for 2013 and 2012 years have been reclassified into either, 'Profit for the year from discontinued operations' or 'Gain on disposal of discontinued operations'. 2013 balance sheet items have been reclassified into two lines 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale'. The cash flow statement continues to include related cash flows from discontinued operations within each line item. A summary of cash flows from discontinued operations is presented in note 32, which contains full details of the business disposals.

(AI) CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies.

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. Key areas where critical accounting estimates are applied are noted below.

(A) CLAIMS LIABILITIES UNDER GENERAL INSURANCE CONTRACTS

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance 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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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 23.

(B) LIFE INSURANCE POLICY LIABILITIES

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Group's ability to recover the cost of acquiring new business over the lives of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Group shares experience on mortality, morbidity, persistency and investment results with its customers, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 33.

(C) ASSETS ARISING FROM REINSURANCE CONTRACTS

Assets arising from reinsurance contracts are also determined 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.

(D) 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 2013 or later periods, and the Group has not early adopted them. The Group expects to adopt the following new standards on 1 October after the effective date.

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

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

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

4. IMPACT OF AMENDMENTS TO NZ IFRS (CONTINUED)

(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 2012:

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

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

5. INVESTMENT REVENUE

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Fixed interest securities [1]				
Interest income	8,804	7,448	7,870	6,560
Net realised gain	2,301	6,699	2,301	6,699
Net unrealised (loss)	(4,229)	(3,309)	(4,229)	(3,309)
	6,876	10,838	5,942	9,950
Equity securities [1]				
Dividend income	231	141	14,883	948
Net realised gain	461	-	-	-
Net unrealised gain	196	1,357	-	-
	888	1,498	14,883	948
Property securities [1]				
Property income	105	213	105	213
Net realised gain	3,215	810	3,214	810
Net unrealised (loss)	(2,729)	(616)	(2,729)	(616)
	591	407	590	407
Other				
Net realised (loss)	(63)	(4)	(63)	(4)
Net unrealised gain / (loss)	246	(62)	246	(62)
	183	(66)	183	(66)
Total investment revenue				
Total investment revenue	9,140	7,802	22,858	7,721
Total net realised gain	5,914	7,505	5,452	7,505
Total net unrealised (loss)	(6,516)	(2,630)	(6,712)	(3,987)
	8,538	12,677	21,598	11,239

[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. MANAGEMENT AND SALES EXPENSES

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Employee benefits	16,234	17,471	12,678	13,686
Commissions paid	19,781	18,192	15,775	14,595
Amortisation of deferred acquisition costs	17,086	14,664	14,902	12,844
Acquisition costs deferred	(18,211)	(17,086)	(16,123)	(14,902)
Administration	25,861	25,816	23,978	24,991
Marketing	6,473	6,412	6,259	6,170
Foreign exchange loss	1,600	-	1,298	-
Travel	880	687	457	359
Tenancy	849	831	75	93
Other expenses	570	483	541	470
Bad debts written off	111	55	106	53
Audit Fees	37	30	-	-
Depreciation:				
Office equipment and furniture	69	90	4	9
Motor vehicles	141	118	10	10
Computer equipment	26	28	7	-
Total management and sales expenses	71,507	67,791	59,967	58,378

TOWER New Zealand Limited paid all fees for audit services provided to the Group on its behalf other than the audit fees of National Pacific Insurance Limited.

7. TAXATION

(A) CURRENT TAX EXPENSE

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Analysis of taxation expense				
Current taxation	8,226	5,995	5,065	2,624
Deferred taxation	592	561	603	512
(Over) / under provided in prior years	(232)	34	(280)	423
Income tax expense for the year	**8,586**	**6,590**	**5,388**	**3,559**

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

Profit before taxation	12,423	22,161	18,372	10,265
Income tax at the current rate of 28%	3,478	6,205	5,144	2,874
Taxation effect of non deductible expenses / non-assessable revenue				
Recognition of prior period current tax	(232)	35	(280)	423
Non deductible (income) / losses from PIEs	(78)	28	(78)	28
Non deductible expenditure	1,100	27	499	(51)
Foreign tax credits written off	3,894	-	3,894	-
Non taxable dividend from subsidiaries	-	-	(4,167)	(265)
Other	424	295	376	550
Income tax expense	**8,586**	**6,590**	**5,388**	**3,559**

7. TAXATION (CONTINUED)

(B) DEFERRED TAX ASSETS AND LIABILITIES

Group	Opening balance at 1 October	(Charged)/ credited to income statement	(Charged)/ credited to comprehensive income	Acquired in purchase of subsidiary	Balances of business held for sale	Closing balance at 30 September
2013	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Movements in deferred tax assets						
Provisions and accruals	1,562	(83)	-	28	(28)	1,479
Tax losses	-	166	-	6,725	(6,725)	166
Unrealised loss	-	-	-	1,221	(1,221)	-
Total deferred tax assets	1,562	83	-	7,974	(7,974)	1,645
Movements in deferred tax liabilities						
Deferred acquistion costs	(4,136)	(298)	-	-	-	(4,434)
Accrual for WHT on retained earnings	-	(571)	-	-	-	(571)
Other	(402)	194	(131)	-	-	(339)
Total deferred tax liabilities	(4,538)	(675)	(131)	-	-	(5,344)
Net deferred tax	(2,976)	(592)	(131)	7,974	(7,974)	(3,699)
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)

7. TAXATION (CONTINUED)

Company	Opening balance at 1 October	Charged/ (credited) to income statement	(Charged)/ credited to comprehensive income	Acquired in purchase of subsidiary	Balances of business held for sale	Closing balance at 30 September
2013	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Movements in deferred tax assets						
Provisions and accruals	980	35	-	-	-	1,015
Total deferred tax assets	980	35	-	-	-	1,015
Movements in deferred tax liabilities						
Deferred acquistion costs	(4,084)	(340)	-	-	-	(4,424)
Accrual for WHT on retained earnings	-	(571)	-	-	-	(571)
Other	(274)	273	-	-	-	(1)
Total deferred tax liabilities	(4,358)	(638)	-	-	-	(4,996)
Net deferred tax	(3,378)	(603)	-	-	-	(3,981)
2012						
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)
Other	(250)	(24)	-	-	-	(274)
Total deferred tax liabilities	(3,739)	(619)	-	-	-	(4,358)
Net deferred tax	(2,884)	(494)	-	-	-	(3,378)

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$000	**$000**	**$000**	**$000**
Net deferred tax				
Expected to crystallise in the next 12 months	(1,335)	(608)	(1,253)	(685)
Not expected to crystallise in the next 12 months	(2,364)	(2,368)	(2,728)	(2,693)
	(3,699)	(2,976)	(3,981)	(3,378)

(C) IMPUTATION CREDITS

The Parent is a member of the tax consolidated group with other members of the TOWER Group. The consolidated group imputation credit account balance reflects the imputation credits available to all members of the tax consolidated group.

Imputation credits available for use at 30 September 2013 were $361,000 (2012: $337,000).

These amounts represent the balance of the imputation account as at the end of the reporting period including imputation credits that will arise from the payments of the amount of the provision for income tax.

8. CASH AND CASH EQUIVALENTS

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$000	**$000**	**$000**	**$000**
Cash at bank and in hand	13,494	23,315	8,714	11,444
Deposits at call	175,600	64,292	166,033	54,123
Total cash and cash equivalents	189,094	87,607	174,747	65,567

9. DEFERRED ACQUISITION COSTS

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
At 1 October	17,086	14,664	14,902	12,844
Acquisition costs deferred during the year	18,211	17,086	16,123	14,902
Current period amortisation	(17,086)	(14,664)	(14,902)	(12,844)
At 30 September	18,211	17,086	16,123	14,902
Analysed as				
Current	18,211	17,086	16,123	14,902
Non current	-	-	-	-
	18,211	17,086	16,123	14,902

10. RECEIVABLES

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Reinsurance recovery receivables	16,118	18,205	15,918	17,891
Reinsurance recoveries on outstanding claims	238,375	356,695	234,523	346,181
Outstanding premiums and trade receivables	114,369	106,960	101,417	93,557
Unsettled investment sales	601	235	601	235
Related party receivables (note 30)	1,533	65	4,452	361
Prepayments	106	90	87	56
Other	1,211	187	616	244
Total receivables	372,313	482,437	357,614	458,525
Analysed as				
Current	301,985	335,187	287,482	311,498
Non current	70,328	147,250	70,132	147,027
	372,313	482,437	357,614	458,525

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	115,837	108,403	102,203	94,168
Provision for cancellation	(1,468)	(1,443)	(786)	(611)
	114,369	106,960	101,417	93,557
At 1 October	(1,443)	(1,357)	(611)	(410)
Provisions added during the year	(270)	(221)	(180)	(203)
Provisions released during the year	187	105	-	-
Foreign exchange movements	58	30	5	2
At 30 September	(1,468)	(1,443)	(786)	(611)

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	Office equipment and furniture	Motor vehicles	Computer equipment	Total
	$000	$000	$000	$000	$000
2013					
Cost					
At 1 October	2,195	1,611	1,045	330	5,181
Additions	1	116	-	39	156
Disposals	(533)	(175)	-	(5)	(713)
Revaluations	715	-	-	-	715
Foreign exchange movements	(109)	(80)	(125)	(34)	(348)
At 30 September	2,269	1,472	920	330	4,991
Accumulated Depreciation					
At 1 October	-	(1,481)	(674)	(296)	(2,451)
Depreciation charge	-	(69)	(141)	(26)	(236)
Disposals	-	160	-	5	165
Foreign exchange movements	-	71	90	31	192
At 30 September	-	(1,319)	(725)	(286)	(2,330)
At 30 September					
At cost / revaluation	2,269	1,472	920	330	4,991
Accumulated depreciation	-	(1,319)	(725)	(286)	(2,330)
Net book value	2,269	153	195	44	2,661
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

Land and buildings are located in Fiji and are stated at fair value. 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. Valuation was performed as at 16 August 2013 by Rolle Associates, registered valuers in Fiji. Nothing has changed between valuation date and 30 September 2013 that would materially affect the valuation.

Had land and buildings been recognised under the cost model the carrying amount would have been $1,144,809 (2012: $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
2013				
Cost				
At 1 October	30	49	29	108
Additions	12	-	10	22
Disposals	(4)	-	-	(4)
Reclassification	-	-	-	-
Foreign exchange movements	(3)	(4)	(3)	(10)
At 30 September	35	45	36	116
Accumulated Depreciation				
At 1 October	(22)	(35)	(23)	(80)
Depreciation charge	(4)	(10)	(7)	(21)
Disposals	-	-	-	-
Foreign exchange movements	2	4	3	9
At 30 September	(24)	(41)	(27)	(92)
At 30 September				
At cost	35	45	36	116
Accumulated depreciation	(24)	(41)	(27)	(92)
Net book value	11	4	9	24
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

12. INTANGIBLE ASSETS

Group

	Software $000	Total $000
2013		
Cost		
At 1 October	-	-
Additions	3	3
Disposals	-	-
Revaluations	-	-
Foreign exchange movements	-	-
At 30 September	3	3
Accumulated Amortisation		
At 1 October	-	-
Amortisation charge	-	-
Disposals	-	-
Foreign exchange movements	-	-
At 30 September	-	-
At 30 September		
At cost	3	3
Accumulated amortisation	-	-
Net book value	3	3

The group had no intangible assets in 2012. The parent has no intangible assets.

13. INVESTMENT IN SUBSIDIARIES

	Group		Company	
	2013 $000	2012 $000	2013 $000	2012 $000
Investments in controlled entities carried at cost	-	-	33,751	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 2013 and 2012 are as follows:

Name of Company	Holdings 2013	Holdings 2012	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
Incorporated in New Zealand			
TOWER Life (N.Z.) Limited	100%	-	Life insurance

14. PAYABLES

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Trade payables	9,986	10,262	8,019	8,048
Reinsurance payables	5,864	7,352	6,082	7,043
GST payable	11,261	10,462	10,855	10,092
Other payables	9,904	8,691	8,812	8,245
Related party payables (note 30)	-	927	573	941
Total payables	37,015	37,694	34,341	34,369
Analysed as				
Current	37,015	37,694	34,341	34,369
Non current	-	-	-	-
	37,015	37,694	34,341	34,369

15. PROVISIONS

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Employee benefits	1,124	2,257	983	1,771
Total provisions	1,124	2,257	983	1,771
Analysed as				
Current	1,124	2,257	983	1,771
Non current	-	-	-	-
	1,124	2,257	983	1,771

Employee benefits include holiday pay and long service leave.

16. INSURANCE LIABILITIES

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Unearned premiums	136,915	127,309	117,256	106,162
Outstanding claims	314,990	427,396	301,145	406,418
	451,905	554,705	418,401	512,580
Analysed as				
Current	345,926	387,852	313,925	347,559
Non current	105,979	166,853	104,476	165,021
	451,905	554,705	418,401	512,580

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

Unearned premiums				
At 1 October	127,309	108,430	106,162	89,159
Premiums written	265,259	247,545	220,301	198,647
Premiums earned	(254,701)	(227,289)	(209,083)	(181,487)
Foreign exchange movements	(952)	(1,377)	(124)	(157)
At 30 September	136,915	127,309	117,256	106,162

17. CONTRIBUTED EQUITY

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Ordinary share capital	174,990	67,900	174,990	67,900
Total contributed equity	174,990	67,900	174,990	67,900
	Number of shares		**Number of shares**	
Represented by				
Ordinary shares (issued and fully paid)	176,107,758	69,017,966	176,107,758	69,017,966
	176,107,758	69,017,966	176,107,758	69,017,966
Movements in ordinary shares				
At 1 October	69,017,966	49,017,980	69,017,966	49,017,980
Issue of share capital	107,089,792	19,999,986	107,089,792	19,999,986
At 30 September	176,107,758	69,017,966	176,107,758	69,017,966

107,089,792 shares have been issued during the year at a cost of $107.090 million. The par value per share is $0.99 (2012: $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.

18. ACCUMULATED PROFITS

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Accumulated profits				
At 1 October	60,343	47,342	31,708	27,334
Net profit for the year attributable to shareholders	7,504	12,754	5,870	4,374
Transfer from foreign currency translation reserve (note 19)	25	-	151	-
Foreign currency differences	-	247	-	-
At 30 September	**67,872**	**60,343**	**37,729**	**31,708**

19. RESERVES

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Foreign currency translation reserve (FCTR)				
At 1 October	1,970	1,292	2,083	3,252
Currency translation differences arising during the year	(6,446)	678	(2,685)	(1,169)
Transfer to accumulated profits	(25)	-	(151)	-
At 30 September	**(4,501)**	**1,970**	**(753)**	**2,083**
Capital reserve				
At 1 October	11,990	11,990	11,659	11,659
At 30 September	**11,990**	**11,990**	**11,659**	**11,659**
Asset revaluation reserve				
At 1 October	236	-	-	-
Gain on revaluation	497	236	-	-
Gain transferred to income statement from asset sold	(380)	-	-	-
At 30 September	**353**	**236**	-	-

19. RESERVES (CONTINUED)

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Business Combinations Reserve				
At 1 October	-	-	-	-
Acquisition of TOWER Life (N.Z.) Limited	(562)	-	-	-
At 30 September	**(562)**	-	-	-
Total reserves	**7,280**	**14,196**	**10,906**	**13,742**

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(M). The reserve is recognised in profit and loss when the net investment is disposed of.

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

The business combinations reserve is used to recognise the difference between cost and net assets acquired upon the purchase of TOWER Life (N.Z.) Limited.

20. DISTRIBUTIONS TO SHAREHOLDERS

No dividend was paid during the year ended 30 September 2013 (2012: $nil). This equates to $0 per share (2012: $nil).

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
2013				
Financial assets				
Cash and cash equivalents	189,094	189,094	-	-
Reinsurance recovery receivables	16,118	16,118	-	-
Reinsurance recoveries on outstanding claims	238,375	238,375	-	-
Outstanding premiums and trade receivables	114,369	114,369	-	-
Unsettled investments sale	601	601	-	-
Related party receivables	1,533	1,533	-	-
Other receivables	1,211	1,211	-	-
Investment in equity securities	1,685	-	1,685	-
Investment in fixed interest securities	140,444	-	140,444	-
Investment in property securities	855	-	855	-
Derivative financial assets	122	-	-	122
Total financial assets	**704,407**	**561,301**	**142,984**	**122**

21. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

	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**	**-**

	Total	Financial liabilities at amortised cost	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2013				
Financial liabilities				
Trade payables	9,986	9,986	-	-
Reinsurance payables	5,864	5,864	-	-
Other payables	454	454	-	-
Total financial liabilities	**16,304**	**16,304**	**-**	**-**
2012				
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**

21. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

Company

	Total	Loans and Receivables	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2013				
Financial assets				
Cash and cash equivalents	174,747	174,747	-	-
Reinsurance recovery receivables	15,918	15,918	-	-
Reinsurance recoveries on outstanding claims	234,523	234,523	-	-
Outstanding premiums and trade receivables	101,417	101,417	-	-
Unsettled investments sale	601	601	-	-
Related party receivables	4,452	4,452	-	-
Other receivables	616	616	-	-
Investments in fixed interest securities	116,996	-	116,996	-
Investments in property securities	855	-	855	-
Derivative financial assets	122	-	-	122
Total financial assets	**650,247**	**532,274**	**117,851**	**122**
2012				
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 receivable	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**	**-**

	Total	Financial liabilities at amortised cost	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2013				
Financial liabilities				
Trade payables	8,019	8,019	-	-
Reinsurance payables	6,082	6,082	-	-
Related party payables	573	573	-	-
Other payables	420	420	-	-
Total financial liabilities	**15,094**	**15,094**	**-**	**-**

21. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

	Total	Financial liabilities at amortised cost	Fair value through profit Designated	Fair value through profit 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**	-

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 notes 23 and 33, while the managing of financial and other non financial risks are set out in the remainder of this note.

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

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

The Board has responsibility for:
- reviewing the investment policy for TOWER Insurance shareholder and policyholder 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.

The Board sets limits for the management of currency risk arising from its investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to. In accordance with this policy, 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.

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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 Board 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 Board.

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

The Group's exposure to credit risk is limited to deposits and investments held with banks and other financial institutions as well as credit exposure to trade customers or other counterparties. For banks and financial institutions the minimum credit rating accepted by the Group is 'A'. Independent ratings are used for customers that are rated by rating agencies. For customers with no external ratings, internally developed minimum credit quality requirements are applied, which take into account customers' financial position, past experience and other relevant factors. Overall exposure to credit risk is monitored on a group basis in accordance with limits set by the 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	
	2013 $000	2012 $000	2013 $000	2012 $000
New Zealand government	12,702	16,259	12,702	16,259
Other government agencies	23,635	28,672	18,005	28,545
Banks	291,880	168,174	260,044	122,870
Financial institutions	1,920	6,255	1,590	3,133
Other non-investment related receivables	369,596	481,859	351,999	457,711
Other industries	-	11,305	-	11,305
Related party receivables	1,533	65	4,452	337
Total financial assets with credit exposure	**701,266**	**712,589**	**648,792**	**640,160**

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

	Group Carrying value		Company Carrying value	
	2013 $000	2012 $000	2013 $000	2012 $000
Cash and cash equivalents	189,094	87,607	174,747	65,567
Loans and receivables	370,073	482,282	352,475	458,132
Related party receivables	1,533	65	4,452	337
Financial assets at fair value through profit or loss	140,444	142,635	116,996	116,124
Derivative financial assets	122	-	122	-
Total credit risk	**701,266**	**712,589**	**648,792**	**640,160**

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	
	2013	2012	2013	2012
	$000	$000	$000	$000
Credit exposure by credit rating				
AAA	56,220	43,707	56,220	43,707
AA	244,228	146,569	219,256	120,793
A	5,053	9,370	4,990	9,306
BBB	-	-	-	-
Below BBB	12,798	15,579	333	362
Total counterparties with external credit rating by Standard and Poor's	**318,299**	**215,225**	**280,799**	**174,168**
Group 1	358,441	470,779	347,068	452,729
Group 1A	1,533	65	4,452	337
Group 2	-	-	-	-
Group 3	11,836	15,440	11,542	7,943
Total counterparties with no external credit rating	371,810	486,284	363,062	461,009
Total financial assets neither past due nor impaired with credit exposure	**690,109**	**701,509**	**643,861**	**635,177**

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 in the table 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 (2012: 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
2013					
Reinsurance recoveries receivable	80	102	318	1,365	1,865
Outstanding premiums and trade receivables	5,550	2,434	1,098	210	9,292
Total	**5,630**	**2,536**	**1,416**	**1,575**	**11,157**
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**

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
2013					
Reinsurance recovery receivables	80	102	318	1,230	1,730
Outstanding premiums and trade receivables	1,913	946	328	14	3,201
Total	**1,993**	**1,048**	**646**	**1,244**	**4,931**
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**

(vi) Financial assets that are individually impaired

	Group Carrying value		Company Carrying value	
	2013 $000	2012 $000	2013 $000	2012 $000
Outstanding premiums and trade receivables	4	-	-	-
Total	**4**	-	-	-

(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.

Financial liabilities by contractual maturity

The table below summarises the Group's financial liabilities 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
2013						
Financial liabilities						
Trade payables	9,986	9,986	9,986	-	-	-
Reinsurance payables	5,864	5,864	5,864	-	-	-
Other payables	454	454	454	-	-	-
Total financial liabilities	**16,304**	**16,304**	**16,304**	-	-	-
2012						
Financial liabilities						
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	**26,472**	**26,530**	**26,429**	**67**	**33**	**1**

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Company

	Carrying value	Total contractual cash flows	Less than one year	One to two years	Two to three years	Three to five years
	$000	$000	$000	$000	$000	$000
2013						
Financial liabilities						
Trade payables	8,019	8,019	8,019	-	-	-
Reinsurance payables	6,082	6,082	6,082	-	-	-
Related party payables	573	573	573	-	-	-
Other payables	420	420	420	-	-	-
Total financial liabilities	**15,094**	**15,094**	**15,094**	-	-	-
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**

(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)

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

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Group

	Total	Level 1	Level 2	Level 3
	$000	$000	$000	$000
2013				
Assets				
Investment in equity securities	1,685	-	-	1,685
Investments in fixed Interest securities	140,444	-	140,444	-
Investments in property securities	855	-	855	-
Derivative financial assets	122	-	122	-
Total financial assets	**143,106**	-	**141,421**	**1,685**
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**	-

Company

	Total	Level 1	Level 2	Level 3
	$000	$000	$000	$000
2013				
Assets				
Investments in fixed Interest securities	116,996	-	116,996	-
Investments in property securities	855	-	855	-
Derivative financial assets	122	-	122	-
Total financial assets	**117,973**	-	**117,973**	-
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**	-

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance 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 2013.

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

The following table represents the changes in Level 3 instruments for the year ended 30 September 2013.

	2013 $000	2012 $000
Opening balance	3,251	2,131
Gain recognised in profit or loss	-	1,053
Sale of investments	(1,050)	-
Foreign exchange movement	(516)	67
Closing balance	**1,685**	**3,251**

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 $168,535.

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 on continuing business. 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

	2013 Impact on		2012 Impact on	
	profit after tax $000	equity $000	profit after tax $000	equity $000
Change in variables				
+50 basis points	(871)	(871)	(1,372)	(1,372)
-50 basis points	576	576	1,410	1,410

Company

	2013 Impact on		2012 Impact on	
	profit after tax $000	equity $000	profit after tax $000	equity $000
Change in variables				
+50 basis points	(865)	(865)	(1,328)	(1,328)
-50 basis points	569	569	1,365	1,365

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.

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Group

	2013 Impact on profit after tax $000	2013 Impact on equity $000	2012 Impact on profit after tax $000	2012 Impact on equity $000
Change in variables				
10% appreciation of New Zealand dollar	291	(6,812)	957	(10,448)
10% depreciation of New Zealand dollar	(274)	8,408	(1,169)	12,770

Company

	2013 Impact on profit after tax $000	2013 Impact on equity $000	2012 Impact on profit after tax $000	2012 Impact on equity $000
Change in variables				
10% appreciation of New Zealand dollar	(80)	(2,796)	957	(4,150)
10% depreciation of New Zealand dollar	97	3,418	(1,169)	5,073

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

	2013 Impact on profit after tax $000	2013 Impact on equity $000	2012 Impact on profit after tax $000	2012 Impact on equity $000
Change in variables				
+10% in International equities	-	-	85	85
-10% in International equities	-	-	(85)	(85)

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 following tables 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.

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Group

	2013 Impact on profit after tax $000	2013 Impact on equity $000	2012 Impact on profit after tax $000	2012 Impact on equity $000
Change in variables				
+10% property funds and other unit trusts	59	59	542	542
-10% property funds and other unit trusts	(59)	(59)	(542)	(542)

Company

	2013 Impact on profit after tax $000	2013 Impact on equity $000	2012 Impact on profit after tax $000	2012 Impact on equity $000
Change in variables				
+10% property funds and other unit trusts	59	59	527	527
-10% property funds and other unit trusts	(59)	(59)	(527)	(527)

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. GENERAL INSURANCE BUSINESS

(A) ANALYSIS OF OPERATING RESULT

	Group 2013 $000	Group 2012 $000	Company 2013 $000	Company 2012 $000
Premium revenue	267,160	238,859	222,203	192,783
Outward reinsurance expense	(48,617)	(41,137)	(35,560)	(25,042)
Net premium income	**218,543**	**197,722**	**186,643**	**167,741**
Claims expense	198,818	168,868	181,264	157,680
Reinsurance recoveries	(51,880)	(44,580)	(49,449)	(44,627)
Net claims incurred	**146,938**	**124,288**	**131,815**	**113,053**
Acquisition costs	36,281	35,621	31,310	31,384
Other underwriting expenses	35,226	32,170	28,657	26,994
Underwriting result	**98**	**5,643**	**(5,139)**	**(3,690)**
Investment revenue	**8,538**	**12,677**	**21,598**	**11,239**
Other revenue	**3,787**	**3,841**	**1,913**	**2,716**
Operating profit before taxation	**12,423**	**22,161**	**18,372**	**10,265**

23. GENERAL INSURANCE BUSINESS (CONTINUED)

(B) NET CLAIMS INCURRED

Group

	2013			2012		
	Risks borne in current	Risks borne in prior years	Total	Risks borne in current	Risks borne in prior years	Total
	$000	$000	$000	$000	$000	$000
Gross claims expense						
Direct claims - undiscounted	131,045	65,395	196,440	119,568	46,326	165,894
Movement in discount	(410)	2,788	2,378	(132)	3,106	2,974
Gross claims expense	**130,635**	**68,183**	**198,818**	**119,436**	**49,432**	**168,868**
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	(6,844)	(44,961)	(51,805)	(4,975)	(39,586)	(44,561)
Movement in discount	25	(100)	(75)	4	(23)	(19)
Reinsurance recoveries	**(6,819)**	**(45,061)**	**(51,880)**	**(4,971)**	**(39,609)**	**(44,580)**
Net claims incurred	**123,816**	**23,122**	**146,938**	**114,465**	**9,823**	**124,288**

Company

	2013			2012		
	Risks borne in current	Risks borne in prior years	Total	Risks borne in current	Risks borne in prior years	Total
	$000	$000	$000	$000	$000	$000
Gross claims expense						
Direct claims - undiscounted	110,022	69,974	179,996	105,238	49,954	155,192
Movement in discount	(356)	1,624	1,268	(257)	2,745	2,488
Gross claims expense	**109,666**	**71,598**	**181,264**	**104,981**	**52,699**	**157,680**
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	(1,911)	(47,538)	(49,449)	(3,487)	(41,140)	(44,627)
Movement in discount	-	-	-	-	-	-
Reinsurance recoveries	**(1,911)**	**(47,538)**	**(49,449)**	**(3,487)**	**(41,140)**	**(44,627)**
Net claims incurred	**107,755**	**24,060**	**131,815**	**101,494**	**11,559**	**113,053**

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 34 for amounts related to the Christchurch earthquakes.

(C) OUTSTANDING CLAIMS

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Central estimate of expected present value of future payments for claims incurred	56,996	69,775	48,870	60,410
Risk margin	19,350	6,248	18,377	4,956
Claims handling costs	3,061	7,007	2,074	6,073
	79,407	83,030	69,321	71,439
Discount	(2,792)	(12,329)	(2,699)	(11,202)
Outstanding claims liability	**76,615**	**70,701**	**66,622**	**60,237**

23. GENERAL INSURANCE BUSINESS (CONTINUED)

(a) Assumptions adopted in calculation of insurance provisions

Estimates of the outstanding claims as at 30 September 2013 have been carried out by C. Hett, FIA, FNZSA, Head of Actuarial Services, Deloitte and P. Davies, B.Bus.Sc, FIA, FNZSA.

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

	2013	2012
Inflation rates varied from	1.5%-3.75%	1.5%-4.25%
Inflation rates for succeeding year	1.5%-3.75%	1.5%-4.25%
Inflation rates for following years	1.5%-3.75%	1.5%-4.25%
Discount rates varied from	4.0%-6.25%	2.91%-6.75%
Discount rates for succeeding year	4.0%-6.25%	2.91%-6.75%
Discount rates for following years	4.0%-6.25%	2.91%-6.75%
Claims handling expense ratio	3.28%-13.15%	4.7%-22.97%
Risk margin	6.47%-10.71%	15.0%-25.0%

In addition to the risk margin range shown above, the total risk margin also includes $15.9 million associated with the Christchurch earthquakes.

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	1.02 to 2.96 years	1.05 to 2.36 years
Inwards reinsurance	greater than 10 years	15.2 years

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 relevant to the term of the liability and the jurisdiction.

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 by jurisdiction, separately for long tail and short tail 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 for both the outstanding claims liability and the unexpired risk liability.

23. GENERAL INSURANCE BUSINESS (CONTINUED)

Group

	2013			2012		
	Gross $000	Reinsurance $000	Net $000	Gross $000	Reinsurance $000	Net $000
Reconciliation of movements in discounted outstanding claims liability						
Balance brought forward	427,396	(356,695)	70,701	511,320	(441,367)	69,953
Effect of change in foreign exchange rates	(3,708)	3,830	122	(5,336)	190	(5,146)
Effect of changes in assumptions	-	-	-	3,480	(657)	2,823
Held for sale liabilities	(17,690)	271	(17,419)	-	-	-
Incurred claims recognised in the income statement	198,818	(51,880)	146,938	171,498	(44,878)	126,620
Claim (payment) / recoveries during the year	(289,826)	166,099	(123,727)	(253,566)	130,017	(123,549)
Balance carried forward	**314,990**	**(238,375)**	**76,615**	**427,396**	**(356,695)**	**70,701**
Reconciliation of undiscounted claims to liability for outstanding claims						
Outstanding claims undiscounted	6,235	(130)	6,105	29,719	(3,892)	25,827
Discount	(2,482)	66	(2,416)	(13,874)	1,791	(12,083)
Outstanding claims	3,753	(64)	3,689	15,845	(2,101)	13,744
Short tail outstanding claims			72,926			56,957
Total outstanding claims as per balance sheet			**76,615**			**70,701**

Company

	2013			2012		
	Gross $000	Reinsurance $000	Net $000	Gross $000	Reinsurance $000	Net $000
Reconciliation of movements in discounted outstanding claims liability						
Balance brought forward	406,418	(346,181)	60,237	483,218	(425,977)	57,241
Effect of change in foreign exchange rates	647	1,233	1,880	(5,766)	(12,405)	(18,171)
Effect of changes in assumptions	-	-	-	3,480	(657)	2,823
Held for sale liabilities	(17,690)	271	(17,419)	-	-	-
Incurred claims recognised in the income statement	181,264	(49,449)	131,815	160,310	(44,925)	115,385
Claim (payment) / recoveries during the year	(269,494)	159,603	(109,891)	(234,824)	137,783	(97,041)
Balance carried forward	**301,145**	**(234,523)**	**66,622**	**406,418**	**(346,181)**	**60,237**
Reconciliation of undiscounted claims to liability for outstanding claims						
Outstanding claims undiscounted	4,146	-	4,146	25,024	(3,176)	21,848
Discount	(2,324)	-	(2,324)	(12,608)	1,651	(10,957)
Outstanding claims	1,822	-	1,822	12,416	(1,525)	10,891
Short tail outstanding claims			64,800			49,346
Total outstanding claims as per balance sheet			**66,622**			**60,237**

(b) Sensitivity analysis

Generally all insurance business entered into is short tail in nature. Key sensitivities relate to the volume of claims and in particular those for significant events such as earthquakes or weather events.

The Group has exposure to some historic inwards reinsurance business and, while this business is not large, it is sensitive to claims experience, timing of claims and changes in assumptions. The movement in any of these key variables will impact the performance and equity of the Group. The business written is long tail in nature and therefore it will be more impacted by changes in assumptions over time. The following table describes how a change in each assumption for the inwards reinsurance business will affect the net insurance liabilities and shows an analysis of the sensitivity of the profit or loss and equity to changes in assumptions related to this business.

The prior year comparatives included the long tail business in Australia which is being held for sale.

23. GENERAL INSURANCE BUSINESS (CONTINUED)

Variable	Movement	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	
		2013	2012	2013	2012
		$000	$000	$000	$000
Claim settlement period	+ 0.5 years	(16)	(267)	(1)	(222)
	- 0.5 years	16	275	1	225
Claims expenses ratio	increase of 1%	13	122	1	112
	decrease of 1%	(13)	(122)	(1)	(112)
Inflation rates	increase of 1%	24	2,074	2	2,056
	decrease of 1%	(23)	(1,685)	(2)	(1,666)
Discount rates	increase of 1%	(22)	(1,745)	(2)	(1,728)
	decrease of 1%	23	2,119	2	2,100

(c) Future net cash out flows
The following table shows the expected run off pattern of net discounted outstanding claims.

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Within 3 months	23,588	28,998	17,520	24,657
3 to 6 months	7,596	9,985	6,096	8,492
6 to 12 months	5,627	9,917	4,508	7,475
After 12 months	39,804	21,801	38,498	19,613
Outstanding claims liability	**76,615**	**70,701**	**66,622**	**60,237**

(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

23. GENERAL INSURANCE BUSINESS (CONTINUED)

(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						
	Prior	2009	2010	2011	2012	2013	Total
Ultimate claims cost estimate	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
At end of incident year		120,934	110,287	113,814	113,839	123,816	
One year later		121,734	109,078	127,689	117,277		
Two years later		120,395	108,277	147,024			
Three years later		120,354	108,968				
Four years later		120,330					
Current estimate of ultimate claims cost		120,330	108,968	147,024	117,277	123,816	
Cumulative payments		(119,913)	(108,085)	(128,720)	(114,201)	(94,428)	
Undiscounted central estimate	4,928	417	883	18,304	3,076	29,388	56,996
Discount to present value	(2,307)	(11)	(13)	(30)	(47)	(384)	(2,792)
Discounted central estimate	2,621	406	870	18,274	3,029	29,004	54,204
Claims handling expense							3,061
Risk margin							19,350
Net outstanding claims liabilities							**76,615**
Reinsurance recoveries on outstanding claims liabilities and other recoveries							238,375
Gross outstanding claims liabilities							**314,990**

Company

	Incident year						
	Prior	2009	2010	2011	2012	2013	Total
Ultimate claims cost estimate	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
At end of incident year		104,452	96,409	102,473	101,490	107,755	
One year later		105,588	96,570	116,707	105,607		
Two years later		104,497	95,783	136,144			
Three years later		104,473	96,390				
Four years later		104,605					
Current estimate of ultimate claims cost		104,605	96,390	136,144	105,607	107,755	
Cumulative payments		(104,574)	(96,222)	(118,447)	(103,453)	(82,954)	
Undiscounted central estimate	4,020	31	168	17,696	2,154	24,801	48,870
Discount to present value	(2,286)	(6)	(2)	(15)	(34)	(356)	(2,699)
Discounted central estimate	1,734	25	166	17,681	2,120	24,445	46,171
Claims handling expense							2,074
Risk margin							18,377
Net outstanding claims liabilities							**66,622**
Reinsurance recoveries on outstanding claims liabilities and other recoveries							234,523
Gross outstanding claims liabilities							**301,145**

23. GENERAL INSURANCE BUSINESS (CONTINUED)

(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.

	2013	2012
Central estimate claim % of premium	43.67%	42.33%
Risk margin	11.83%	11.38%

Unearned premium liabilities as at 30 September 2013 were sufficient (2012: sufficient).

(F) INSURER FINANCIAL STRENGTH RATING

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

(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.

(H) SOLVENCY REQUIREMENTS

The minimum solvency capital required to be retained to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 are shown below. The actual solvency capital exceeds the minimum requirements for the general insurance group by $117.188 million and $110.132 million for the Company.

	Group $000	Company $000
Actual solvency capital	195,993	175,449
Minimum solvency capital	78,805	65,317
Solvency margin	**117,188**	**110,132**

On 27 August the Reserve Bank of New Zealand imposed a condition of license requirement for TOWER Insurance Limited to maintain a minimum solvency margin of $80.0 million for the general insurance business.

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.

24. CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to ensure that the Group's level of capital is sufficient to meet statutory solvency obligations including on a look forward basis to enable it to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders of the Group.

The Group's capital resources include ordinary equity.

	2013 $000	2012 $000
TOWER shareholder equity	251,404	143,882
Total capital resources	**251,404**	**143,882**

The Group measures adequacy of their capital against Solvency Standards for Non-life Insurance Business and Life Insurance Business (the solvency standards) published by the Reserve Bank of New Zealand (RBNZ) alongside additional capital held to meet RBNZ minimum requirements and any further capital as determined by the Board.

24. CAPITAL RISK MANAGEMENT (CONTINUED)

From August 2013 the Group is required to maintain a minimum solvency margin of no less than $80.0 million in TOWER Insurance Limited and $15.0 million in TOWER Life (N.Z.) Limited. The actual solvency capital as determined under the solvency standards should exceed the minimum solvency capital level by at least these amounts. The amount retained as minimum solvency capital is shown in Notes 23 (H) and 33 (A).

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

The Group holds assets in excess of the levels specified by the various solvency requirements 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 Insurance Limited Audit and Risk Committee.

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

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Net profit after tax for the year	7,634	13,239	5,870	4,374
Add / (less) non cash items				
Depreciation of property, plant and equipment	236	236	21	19
Unrealised loss on financial assets	12,107	2,630	6,712	3,987
Decrease in deferred tax	(5,346)	393	603	493
	14,631	16,498	13,206	8,873
Add / (less) movements in working capital (excluding the effects of exchange differences on consolidation)				
Decrease in receivables	134,493	66,585	125,365	63,267
(Decrease) in payables	(129,451)	(65,671)	(102,741)	(68,100)
Decrease / (increase) in taxation	6,042	3,650	(8)	4,146
	11,084	4,564	22,616	(687)
Add other items classified as financing				
Gain on sale of business	(10,422)	-	-	-
Net cash inflows from operating activities	**15,293**	**21,062**	**35,822**	**8,186**

26. SEGMENTAL REPORTING

	New Zealand	Pacific Islands	Other	Consolidation Adjustments	Total
	$000	$000	$000	$000	$000
Year Ended 30 September 2013					
Revenue					
Revenue - external	187,590	42,930	348	-	230,868
Revenue - internal	2,609	-	-	(2,609)	-
Total revenue	**190,199**	**42,930**	**348**	**(2,609)**	**230,868**
Profit / (loss) before interest, tax, depreciation and amortisation	**(8,366)**	**12,604**	**(817)**	**434**	**3,855**
Interest revenue	6,419	976	1,409	-	8,804
Depreciation and amortisation	-	(236)	-	-	(236)
Profit / (loss) before income tax	**(1,947)**	**13,344**	**592**	**434**	**12,423**
Income tax credit / (expense)	466	(8,772)	(159)	(121)	(8,586)
Profit / (loss) for the year from continuing operations	**(1,481)**	**4,572**	**433**	**313**	**3,837**
Total assets excluding assets held for sale	666,498	67,503	42,355	(48,407)	727,949
Total liabilities excluding liabilities held for sale	454,099	45,282	19,165	(19,629)	498,917
Acquisition of property, plant and equipment, intangibles and other non current assets	29,090	159	-	(29,090)	159

26. SEGMENTAL REPORTING (CONTINUED)

	New Zealand	Pacific Islands	Other	Consolidation Adjustments	Total
	$000	$000	$000	$000	$000
Year Ended 30 September 2012					
Revenue					
Revenue - external	169,277	39,822	5,141	-	214,240
Revenue - internal	5,410	551	-	(5,961)	-
Total revenue	**174,687**	**40,373**	**5,141**	**(5,961)**	**214,240**
Profit before interest, tax, depreciation and amortisation	**468**	**13,108**	**2,162**	**(789)**	**14,949**
Interest revenue	3,475	1,668	3,019	(632)	7,530
Interest expense	(558)	(156)	-	632	(82)
Depreciation and amortisation	-	(236)	-	-	(236)
Profit before income tax	**3,385**	**14,384**	**5,181**	**(789)**	**22,161**
Income tax (expense)	(2,197)	(2,608)	(1,785)	-	(6,590)
Profit for the year from continuing operations	**1,188**	**11,776**	**3,396**	**(789)**	**15,571**
Total assets	624,413	120,746	51,961	(48,990)	748,130
Total liabilities	564,320	50,974	37,944	(48,990)	604,248
Acquisition of property, plant and equipment, intangibles and other non current assets	-	299	-	-	299

DESCRIPTION OF SEGMENTS AND OTHER SEGMENT INFORMATION

Operating segments are based on the assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments.

Management has determined operating segments are based on internal reporting reviewed by the Board of Directors (chief operating decision maker) for the purpose of making decisions on resource allocation and assessing performance.

New Zealand includes all fire and general insurance business with customers in New Zealand written in New Zealand. Pacific Islands includes all fire and general insurance business with customers in the Pacific Islands written by the Company's subsidiary and branch operations. Other includes run off business in Australia, the United Kingdom and the United States. The life business and Australian branch insurance liabilities and related assets have been excluded from the above disclosure as the results of these segments are contained within note 32.

The Group operates predominantly in two geographical segments, New Zealand and the Pacific region. The operations in Australia, the United Kingdom and the United States do not represent a significant part of the Group's operations or hold material non-current assets.

All revenue from external customers is attributed to the entity's country of domicile as disclosed above.

The Group does not derive revenue from an individual policy holder or intermediary that represents 10% or more of the Group's total revenue.

27. OPERATING LEASES

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
As lessee				
Rent paid under non-cancellable operating leases during the year	675	632	61	65
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
– Not later than one year	420	735	43	47
– Later than one year and not later than five years	339	416	28	78
– Later than five years	-	125	-	-
	759	**1,276**	71	**125**

Operating lease payments represent the future rentals payable for office space under current leases. Leases are for a maximum of four years with rental rates reviewed on average every two years.

28. CONTINGENT LIABILITIES

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.

The Group has no other contingent liabilities (2012: nil).

29. CAPITAL COMMITMENTS

The Group has no capital commitments at reporting date (2012: nil).

30. 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 and are interest free. 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. TOWER Managed Funds Limited and TOWER Asset Management Limited ceased to be related parties on 2 April 2013 following the sale of TOWER's investment business.

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

Related party	2013 $000	2012 $000	Nature of Relationship	Type of Transaction
National Pacific Insurance Limited	(49)	24	Subsidiary	Service fee, reinsurance premiums & reinsurance claims
TOWER Health & Life Limited	1	57	Fellow subsidiary	Commission
TOWER Insurance (Cook Islands) Limited	729	(14)	Subsidiary	Service fee & reinsurance premiums
TOWER Insurance (Fiji) Limited	(524)	99	Subsidiary	Service fee, reinsurance premiums & reinsurance claims
TOWER Insurance (PNG) Limited	2,190	173	Subsidiary	Service fee & reinsurance premiums
TOWER Managed Funds Limited	-	8	Fellow subsidiary	Operating expenses
TOWER New Zealand Limited	1,532	(927)	Fellow subsidiary	Management expenses, loan and tax losses

30. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

Related party	2013 $000	2012 $000	Nature of Relationship	Type of Transaction
National Pacific Insurance Limited	501	275	Subsidiary	Service Fee
National Pacific Insurance Limited	758	948	Subsidiary	Dividend
National Pacific Insurance Limited	1,911	1,573	Subsidiary	Reinsurance Premiums
National Pacific Insurance Limited	(933)	(187)	Subsidiary	Reinsurance Claims
TOWER Asset Management Limited	(204)	(314)	Fellow subsidiary	Investment management fees
TOWER Financial Services Group Limited	107,090	20,000	Parent	Issue of share capital
TOWER Health & Life Limited	5	153	Fellow subsidiary	Commission
TOWER Health & Life Limited	29,090	-	Fellow subsidiary	Purchase of TOWER Life (N.Z.) Limited
TOWER Insurance (Cook Islands) Limited	200	168	Subsidiary	Service Fee
TOWER Insurance (Cook Islands) Limited	2,600	-	Subsidiary	Dividend
TOWER Insurance (Cook Islands) Limited	-	(80)	Subsidiary	Interest
TOWER Insurance (Cook Islands) Limited	505	358	Subsidiary	Reinsurance Premiums
TOWER Insurance (Fiji) Limited	779	767	Subsidiary	Service Fee
TOWER Insurance (Fiji) Limited	-	41	Subsidiary	Interest
TOWER Insurance (Fiji) Limited	1,197	796	Subsidiary	Reinsurance Premiums
TOWER Insurance (Fiji) Limited	(35)	-	Subsidiary	Reinsurance Claims
TOWER Insurance (PNG) Limited	938	668	Subsidiary	Service Fee
TOWER Insurance (PNG) Limited	896	-	Subsidiary	Reinsurance Premiums
TOWER Insurance (PNG) Limited	11,525	-	Subsidiary	Dividend
TOWER Insurance (PNG) Limited	-	823	Subsidiary	Interest
TOWER Limited	2,785	1,391	Ultimate parent	Group tax loss offset
TOWER New Zealand Limited	(29,195)	(39,386)	Fellow subsidiary	Management expenses

(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 Limited pays 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 (2012: Nil).

(D) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

31. BUSINESS COMBINATION

On 31 July 2013 the Company acquired TOWER Life (N.Z.) Limited from TOWER Health & Life Limited, a company under common control of the ultimate parent, TOWER Limited.

The assets, liabilities and reserves arising from the acquisition were as follows:

	Acquiree's Carrying Amount $000
Cash and cash equivalents	8,101
Financial assets at fair value through profit or loss	618,736
Derivative financial assets	54,576
Current tax assets	9,737
Receivables	43,378
Deferred tax assets	9,968
Liabilities ceded under reinsurance	14,132
Total assets	758,628
Payables	4,200
Derivative financial liabilities	2,866
Provisions	98
Insurance liabilities	6,682
Life insurance contract liabilities	689,000
Life investment contract liabilities	27,254
Total liabilities	730,100
Net assets	**28,528**

Recognised amounts	**2013 $000**
Cash consideration	29,090
Net assets at 31 July 2013	28,528
Difference taken to business combinations reserve	562

32. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE

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

	Group		Company	
	2013 $000	2012 $000	2013 $000	2012 $000
Profit for the year from discontinued operations / disposal groups				
Profit / (loss) for the year from discontinued operations				
Non-participating life business (A)	-	-	-	-
Participating life business (B)	489	-	-	-
Australian liabilities (C)	(7,114)	(2,332)	(7,114)	(2,332)
(Loss) from discontinued operations	**(6,625)**	**(2,332)**	**(7,114)**	**(2,332)**
Gain on disposal of business				
Non-participating life business (A)	10,422	-	-	-
	10,422	-	-	-
Profit / (loss) from discontinued operations / disposal groups	**3,797**	**(2,332)**	**(7,114)**	**(2,332)**

32. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE (CONTINUED)

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Cash flows from discontinued operations / disposal groups				
Participating life business [B]	298	-	-	-
Australian liabilities [C]	(3,006)	7	(3,006)	7
Total cash (outflow) / inflow	**(2,708)**	**7**	**(3,006)**	**7**
Net assets / (liabilities) held for sale				
Participating life business [B]	39,439	-	-	-
Australian liabilities [C]	(17,067)	-	(17,067)	-
Total net assets held for sale	**22,372**	**-**	**(17,067)**	**-**

(A) SALE OF NON PARTICIPATING GROUP RISK LIFE INSURANCE BUSINESS

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

The operating results of the group risk life insurance business have been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as a discontinued operation. The business had no operating results or cash flow during the period as the business was purchased on 31 of July 2013 and sold on 1 of August 2013 before trading commenced.

The financial position of the group risk life insurance business was as follows:

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Assets				
Liabilities ceded under reinsurance	14,132	-	-	-
Total assets	**14,132**	-	-	-
Liabilities				
Payables	1	-	-	-
Life insurance contract liabilities	24,553	-	-	-
Total liabilities	**24,554**	-	-	-
Net assets	**(10,422)**	-	-	-

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Gain on disposal				
Cash consideration	-	-	-	-
Net assets at 1 August 2013	(10,422)	-	-	-
Profit on disposal	**10,422**	**-**	**-**	**-**

(B) TOWER LIFE (N.Z.) LIMITED HELD FOR SALE

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

The operating results and financial position of the life business have been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as a discontinued operation and disposal group held for sale. A more detailed breakdown of the financial performance, position and cash flows of the remaining life business is presented on the next page.

32. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE (CONTINUED)

The results of the remaining life business were as follows:

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Premium revenue from insurance contracts	1,510	-	-	-
Less: Outwards reinsurance expense	5	-	-	-
Net premium revenue	**1,515**	**-**	**-**	**-**
Investment revenue	4,187	-	-	-
Management fees	3	-	-	-
Other income	59		-	
Gain on disposal	10,422	-	-	-
Net operating revenue	**16,186**	**-**	**-**	**-**
Claims expense	(5,188)	-	-	-
Less: reinsurance recoveries revenue	-	-	-	-
Net claims expense	**(5,188)**	**-**	**-**	**-**
Decrease in policy liabilities	1,210	-	-	-
Management and sales expenses	(870)	-	-	-
Net claims and operating expenses	**(4,848)**	**-**	**-**	**-**
Profit before taxation	11,338	-	-	-
Income tax expense	(427)	-	-	-
Profit after tax from discontinued operations	**10,911**	**-**	**-**	**-**

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Cash flows of the business				
Operating cash (outflow)	(9,477)	-	-	-
Investing cash inflow	1,188	-	-	-
Financing cash inflow	8,587	-	-	-
Total cash inflow	**298**	**-**	**-**	**-**

The financial position of the remaining life business was as follows

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Assets				
Cash and cash equivalents	8,399	-	-	-
Financial assets at fair value through profit or loss	625,663	-	-	-
Derivative financial assets	48,082	-	-	-
Current tax assets	3,479	-	-	-
Receivables	37,574	-	-	-
Deferred tax assets	16,103	-	-	-
Total assets	**739,300**	**-**	**-**	**-**
Liabilities				
Payables	3,092	-	-	-
Derivative financial liabilities	5,086	-	-	-
Provisions	57	-	-	-
Insurance liabilities	7,008	-	-	-
Life insurance contract liabilities	660,945	-	-	-
Life investment contract liabilities	23,589	-	-	-
Deferred tax liabilities	84	-	-	-
Total liabilities	**699,861**	**-**	**-**	**-**
Net assets	**39,439**	**-**	**-**	**-**

32. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE (CONTINUED)

(C) DISPOSAL OF AUSTRALIAN LIABILITIES

These financial statements present the Group and Company's general insurance run-off business in its Australian branch as a discontinued operation and disposal group held for sale. The Australian branch insurance liabilities will be disposed to a third party, subject to a court approved scheme of arrangement. The transaction will include disposing of all policies written or assumed by the branch and all the associated liabilities under those policies. Net claims expense in the current year includes $6.031m resulting from the revaluation of these associated liabilities to fair value.

The sale amount will be settled in cash on the transfer date, which will be determined by an Australian Federal Court subject to approval of the scheme. Subsequent to the disposal of the policy liabilities, the balance of the Australian branch assets will be repatriated to New Zealand and the operations of the branch will be discontinued.

The results associated with the Australian business held for sale were as follows

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Claims expense	(6,718)	(2,363)	(6,718)	(2,363)
Less: Outwards reinsurance expense	(340)	298	(340)	298
Net claims expense	**(7,058)**	**(2,065)**	**(7,058)**	**(2,065)**
Management and sales expenses	(56)	(267)	(56)	(267)
Net claims and operating expenses	**(7,114)**	**(2,332)**	**(7,114)**	**(2,332)**
(Loss) before taxation	**(7,114)**	**(2,332)**	**(7,114)**	**(2,332)**
Income tax expense	-	-	-	-
(Loss) after tax from discontinued operations	**(7,114)**	**(2,332)**	**(7,114)**	**(2,332)**

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Cash flows of disposal group held for sale				
Operating cash (outflow) / inflow	(3,006)	7	(3,006)	7
Total cash outflow	**(3,006)**	**7**	**(3,006)**	**7**

The financial position of the Australian business held for sale was as follows

	Group		Company	
	2013	2012	2013	2012
	$000	$000	$000	$000
Assets				
Reinsurance receivables	623	-	623	-
Total assets	**623**	**-**	**623**	**-**
Liabilities				
Insurance liabilities	17,690	-	17,690	-
Total liabilities	**17,690**	**-**	**17,690**	**-**
Net liabilities	**(17,067)**	**-**	**(17,067)**	**-**

33. LIFE INSURANCE BUSINESS

(A) SOLVENCY REQUIREMENTS

The minimum solvency capital required to be retained to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 are shown below. The actual solvency capital exceeds the minimum requirements for the life insurance business by $23.727 million.

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

33. LIFE INSURANCE BUSINESS (CONTINUED)

On 26 August the Reserve Bank of New Zealand imposed a condition of license requirement for TOWER Life (N.Z.) Limited to maintain a minimum solvency margin of $15.0 million.

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standard for Life Insurance Business published by the Reserve Bank of New Zealand.

(B) SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS – LIFE INSURANCE

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2013. The Appointed Actuary, Charles Hett, FNZSA, FIA, Head of Actuarial Services, Deloitte, has calculated policy liabilities for TOWER Life (N.Z.) Limited. The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

This note summarises the assumptions made and methods adopted for the calculation of policy liabilities and solvency requirements.

(a) Policy liabilities

Policy liabilities for the life insurance business of TOWER Life (N.Z.) Limited have been determined in accordance with Professional Standard No.3 "Determination of Life Insurance Policy Liabilities" issued by the New Zealand Society of Actuaries. This standard requires that policy liabilities be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins as services are provided to policyholders.

Valuation of policy liabilities

Policy liabilities comprise the amount required to pay the expected future benefits and expenses after receiving expected future premiums and investment earnings.

The value of policy liabilities may also include a component for profit margins on existing business that will be earned as services are provided to policy owners over the time the relevant policies are held with the Group.

The Group incurs costs in selling new policies. Any costs not recovered by specific charges received from the policy owner at inception are normally deferred. New business selling costs (or acquisition costs) related to the acquisition of new business are deferred as long as the underlying policies are expected to be profitable. Where costs are deferred, they are recovered from premiums or charges receivable in the future.

Methods used to value policy liabilities

(i) Projection method

The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, expenses) plus profit margins to be released in future periods, to establish the value of policy liabilities. The value of expected future premiums is deducted from the value of expected benefit and expense payments to arrive at the obligation to policy owners.

(ii) Accumulation method

The accumulation method is only used if the results are not materially different from the projection method. Under the accumulation method for risk policies the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported. For investment policies, the policy liability is determined as the policy account balance including accrued interest to the balance date, plus investment fluctuation reserves subject to a minimum of the current surrender value.

Methods used

Where the policy liability is determined by the projection method, actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called 'profit carriers'. The profit carriers adopted for the major product groups are shown in the table on the following page.

33. LIFE INSURANCE BUSINESS (CONTINUED)

Major product groups	Method	Profit carriers (for business valued using project method)
Traditional participating	Projection	Cost of supportable bonus
Traditional non participating, renewal and level term and mortgage repayment insurance	Projection	Expected death claims
Annuities	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance	Projection	Expected claims
Non participating investment account	Accumulation	
Investment linked	Accumulation	
Group risk insurances and renewable insurances	Accumulation	

(b) Disclosure of assumptions

The following table summarises the key assumptions used in the calculation of policy liabilities, together with notes on any significant changes in the assumptions

Required assumption	Basis of assumption (by product group)	Assumptions
Discount rates for participating business	As the value of benefits is contractually linked to the performance of assets, a discount rate based on the market return on the asset backing policy liabilities is used. The discount rate assumed in calculating policyholder liabilities was derived from the expected long term average rates of return for the assets pool backing this business, based on the benchmark asset mix. Discount rates assumed are net of taxation and investment expense.	The discount rate used was 3.6% net of tax
Discount rates for non participating life insurance contracts	Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on the swap rates, depending on the nature structure and term of the contract liabilities.	The discount rates used, net of tax were as follows: Annuities (discount rates net of tax) were 3.4% Non participating (discount rates net of tax) were 3.3%
Inflation	Benefit indexation is before allowance for the proportion of policyholders who take up indexation.	Benefit indexation was 2.0% Expense inflation was 2.0%
Future expenses	Future maintenance expenses have been set based on experience analyses conducted by the various companies as well as the actuaries' expectations of future expense levels. Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.	Per policy expenses Participating business were $50 p.a Annuities were $55 p.a.
Rates of taxation	Rates of taxation have been assumed to remain at current levels.	The corporate tax rate used was 28.0% GST rate was 15.0%

33. LIFE INSURANCE BUSINESS (CONTINUED)

Required assumption	Basis of assumption (by product group)	Assumptions
Mortality – risk products	Standard mortality tables, primarily NZ97 in New Zealand. These are adjusted for company experience.	Factors applied to NZ97 were 20.6% to 61.2% for non smokers. Additional loading for smokers.
Mortality – annuities	Standard mortality tables (New Zealand use PML80C10) adjusted for company experience.	Historical and future improvement factors were 1% to 3% p.a. depending on age
Disability income	Standard morbidity tables (IAD89-93) adjusted for company experience. Specific company experience is used for certain wholesale schemes.	CIDA85 adjusted
Discontinuances	Discontinuance rates have been assumed to be consistent with the experience of recent years. Assumed discontinuance rates vary by sub-grouping within a class and vary according to the length of time tranches of business have been in-force and other relevant factors.	Annual discontinuance rates for main risk product lines were 0% to 13.5% p.a. Additional discontinuances were assumed for ages over 65 years
Surrender values	Surrender values are based on current practice.	
Rates of future supportable participating benefits	Assumed future supportable bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. The rate of shareholder participation assumed is generally at the maximum allowable of 25% of the value of bonuses distributed to participating policyholders subject to policy conditions. Additional policy bonuses will emerge from the assets representing policyholders' unvested benefits.	Future supportable bonus rates as at percentage of sum assured were 0.4% to 2.6% Future supportable bonus rates as a percentage of reversionary bonus were 0.5% to 0.6% Future terminal bonus was 10.6% to 34.3%

Effect of changes in actuarial assumptions during the reporting period
The liabilities for life insurance contracts include the value of future profit margins that are to be released over future reporting periods. The impact of assumption changes on non participating business are absorbed by the future profit margins, provided sufficient future margins exist, such that there is no change in the contract liability in the current period.

For participating business, the impact of assumption changes is absorbed by the value of future supportable bonus. The current period contract liability is impacted by the change in cost of current period supportable bonus.

The impact of the assumption changes in the current period on future profit margins in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at the valuation date) are shown below.

Where the value of future profit margins are insufficient to absorb the assumption changes, the resulting losses are recognised in the current year via a change in the contract liability. These losses may be reversed in subsequent periods should experience improve.

The life insurance contract liability calculations include the use of published market yields, such as government bond and swap rates. The changes in these yields do not represent actuarial assumption changes and they impact both life insurance contract liabilities and asset values as at the balance date.

33. LIFE INSURANCE BUSINESS (CONTINUED)

The impact of assumption changes for life insurance contracts made during the year is shown below.

Group

	Change in future shareholder profit margins	Change in next financial year's shareholder planned profit	Change in current period contract liability	Change in current period shareholder profit
	$000	$000	$000	$000
2013				
Assumption change				
Mortality and Morbility	(2)	(2)	-	-
Expenses	4,475	(28)	(1,671)	334

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

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Company will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims costs and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming temporarily or totally and permanently disabled and, in the case of temporary disablement, the duration which they remain temporarily disabled. Higher than expected incidence and duration would increase claim costs, reducing profit and shareholder equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and shareholder equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market risk	For benefits which are not contractually linked to the underlying assets, the Company is exposed to market risk.

The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. 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.

Group

Variable	**Change in following financial year's shareholder profit and equity net of reinsurance**			
	2013		**2012**	
	+ 10%	**- 10%**	**+ 10%**	**- 10%**
	$000	**$000**	**$000**	**$000**
Mortality	(84)	84	-	-
Annuitant mortality	155	(155)	-	-
Lapses and surrenders	65	(65)	-	-
Renewal expenses	(35)	35	-	-

33. LIFE INSURANCE BUSINESS (CONTINUED)

(d) Life insurance risk
The life insurance business of the Group involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders.

Key objectives in managing insurance risk are
(i) To ensure sound business practices are in place for underwriting risks and claims management;
(ii) To achieve a target return on capital that is invested in order to take on insurance risk;
(iii) To ensure solvency and capital requirements are met.

Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Chief Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

(i) Underwriting management procedures
Underwriting is managed by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Group provides appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies are underwritten on the merits of an employee group as a whole, subject to certain limits for individual members.

(ii) Claim management procedures
Claims are managed through a dedicated claims team, with appropriate training and development of staff to ensure procedures are adhered to. Claims are managed to ensure timely and correct payment in accordance with policy conditions. Claims experience is reviewed regularly and appropriate actuarial reserves are established.

(iii) Reinsurance management procedures
The Group holds appropriate reinsurance arrangements to limit exposure to individual and catastrophe risks. All reinsurance arrangements are approved by the Chief Actuary.

(iv)Terms and conditions of life insurance contracts
The nature of the terms of the insurance contracts written by the Group is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cash flows are dependent.

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Non participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability including renewable term)	Guaranteed benefits paid on death, permanent and temporary disablement or maturity that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities
Life annuity contracts	These policies provide a guaranteed regular income for the life of the insured in return for an initial single premium.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, benefit inflation, expenses and market earnings on assets backing the liabilities
Traditional life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a defined initial guaranteed sum assured that is payable on death. The guarantee amount is increased throughout the duration of the policy by the addition of bonuses annually that once added are not removed. An additional (terminal) bonus is payable on claims paid as a result of death or maturity. Terminal bonus amounts are not guaranteed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to policyholders via bonuses.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities

33. LIFE INSURANCE BUSINESS (CONTINUED)

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Investment account contracts with discretionary participating features	The gross value of the premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early termination. On certain contracts withdrawals can be deferred over limited time periods.	

(e) Concentration of insurance risk

The Group aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographical locations for the individual and group risk business. The Group uses reinsurance to limit the insurance risk exposure for any one individual. The group risk business unit offers insurance in respect of groups of employees. The Group is exposed to a greater risk of loss from events affecting a location where groups of insured employees work. The Group has purchased catastrophe reinsurance to limit the exposure from any one group event.

(f) Liquidity risk and future net cash outflows

The table below shows the estimated timing of future cash outflows resulting from life insurance contract liabilities. This includes estimated future claims offset by expected future premiums and reinsurance recoveries. All values are discounted to the valuation date.

Group

	Total	Less than one year	One to two years	Two to three years	Three to five years	Over five years
	$000	$000	$000	$000	$000	$000
30 September 2013	92,423	668	880	958	48,145	41,772

34. IMPACT OF CHRISTCHURCH EARTHQUAKES

For the year ended 30 September 2013, the income statement includes gross incurred claims and claims management team expenses of $72,245,982 (2012: $64,986,944) less reinsurance recoveries of $51,878,598 (2012: $46,094,128) in respect of the 4 September 2010, 22 February 2011, 13 June 2011 and 23 December 2011 earthquakes, resulting in a pre tax net claims related expense of $20,367,384 (2012: $18,892,816). Of this pre tax net claims related expense $19,700,000 is a result of the 22 February 2011 earthquake and $667,384 is a result of the 23 December 2011 earthquake. The net risk margin disclosed in note 23 includes $15,900,000 associated with the Christchurch earthquakes.

In October 2013, TOWER Limited confirmed the successful placement of its reinsurance programme for the TOWER Limited Group for the 2013/14 financial year. The programme again involves reinsurance cover for two catastrophe events. TOWER has continued to enhance its reinsurance programme, with the limit for 2013/14 increased to $585 million per event (2012: $525 million) (the excess for an event in 2013/14 is $10.0 million compared with $11.7 million for the 2012/13 programme).

35. SUBSEQUENT EVENTS

On 1 October 2013, TOWER Life (N.Z) Limited established a statutory fund in accordance with the Insurance (Prudential Supervision) Act 2010 (IPSA). All life insurance policies within TOWER Life (N.Z.) Limited at 1 October are referable to the fund, named Statutory Fund No. 1. Assets sufficient to meet TOWER Life (N.Z.) Limited's minimum solvency requirements calculated under Reserve Bank requirements have been transferred to Statutory Fund No. 1 on establishment. The purpose of a statutory fund is to ensure that the funds received and paid out in respect of life insurance policies are separately identifiable as being part of the statutory fund.

On 26 November 2013 the Directors declared a dividend of $14,000,000 which equates to approximately $0.0795 per share. The dividend will be paid in January 2014.