TOWER

Tower Limited
Annual Report 2020

TOWER LIMITED ANNUAL REPORT 2020

Tower's 2020 result shows a strong, healthy business that continues to perform. We reported a profit of $12.3 million, including the $9.5 million impact of the EQC settlement.

UPDATE FROM CHAIR & CEO

In an uncertain world, where many businesses are now having to pivot, our digital-first strategy positioned Tower well this financial year.

Tower emerged from the initial response to the pandemic strong and resilient, demonstrated by our consistent performance and profitability growth.

Tower's 2020 result shows a strong, healthy business that continues to perform. We reported a profit of $12.3 million, including the $9.5 million impact of the EQC settlement.

When we exclude large, one-off events, our underlying business is up 23% on the previous year at $34.7 million. Our underlying net profit after tax of $28.4 million was just above the top end of our guidance.

Our relentless focus on customers and driving our digital and data programme forward remains vital. We now have a digital strategy that lays the groundwork to reshape the way we deliver insurance in New Zealand and the Pacific.

Tower's core insurance business remains robust. We have used more effective and efficient marketing to increase the number of people visiting our website. This is combined with more competitive pricing, plain language products and an easy to use digital self-service platform.

These initiatives contributed to an 11% rise in customer numbers to 300,000. That, in turn, has fed through to an 8% rise in gross written premiums to $385m[1]. It has also increased our market share in the personal insurance segment from 8.3% to 9.1%.

Our settlement with the EQC means Tower will receive $42.1m after disbursement to reinsurers and costs. The write off of the residual amount resulted in an impact of approximately $9.5m on our reported net profit for 2020.

The agreement is a significant step for us. It means we are able to draw a line under the issue and that management can move forward with our growth plan.

The transformation we embarked on five years ago has seen the Tower business turn around and deliver continued profit growth. We have modernised our many legacy systems and simplified complex product offerings.

To help accelerate our digital and data progress, we've entered new partnerships with the likes of the University of Auckland's Science Faculty, Ushur in the US, and Amodo in Croatia. We are also deepening our data relationships with existing partners such as RMS and Corelogic.

Digital and data allows us to reduce our operating ratios, by giving us the tools and insights we need to manage our claims expenses closely. Tower improved its loss ratio from 48% to 46% in FY20, which demonstrates our ability to grow the business while managing claims effectively and without a significant increase in our cost base.

When the Covid-19 pandemic disrupted the economy earlier this year, the Reserve Bank of New Zealand advised companies in the financial sector to take conservative solvency positions and preserve capital.

The RBNZ has since updated this advice, and we plan to resume dividend payments in the next financial year, subject to market conditions and consideration of growth opportunities.

With legacy challenges behind us, we look forward to an exciting year ahead. The whole Tower team is now free to focus entirely on our strategy of accelerated growth and pushing forward with innovation.

MICHAEL STIASSNY
Chairman

BLAIR TURNBULL
CEO

1 References to GWP in the annual report exclude the $7.2m being refunded to customers.

2020 YEAR IN REVIEW — A YEAR OF GOOD RESULTS

Continued customer and premium growth was a key driver of this year's solid result, which remains consistent with the last three years. Our business has shown a double-digit increase in underlying profit for each of the last three years.

The EQC settlement puts a line under a significant outstanding risk. The settlement enables us to pour all our energy into giving the business momentum and accelerating our growth plans.

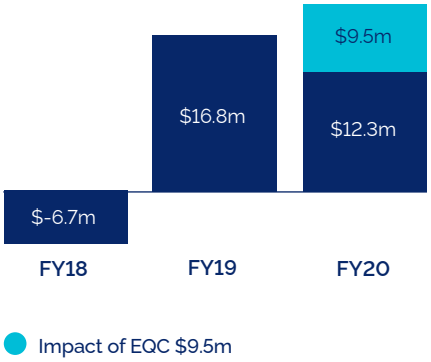
Digital and data continues to play an ever more important role in every part of our business. We are using it to build deeper, better quality relationships with customers.

Consistent growth & profitability

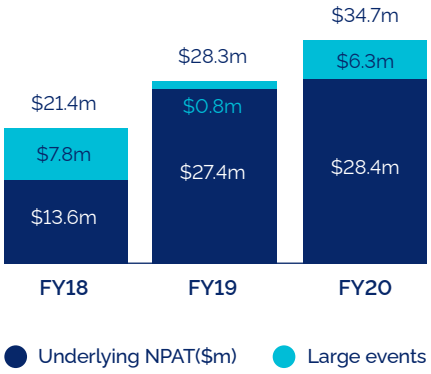
Tower's underlying business continues to move from strength to strength. We are growing the business while keeping costs under control.

REPORTED PROFIT

$12.3m



UNDERLYING NPAT



Continued growth was a key driver of this year's solid result, which remains consistent with the last three years. Our business has shown a double-digit increase in underlying profit for each of the last three years. Our underlying profit was up 23% on the previous year excluding large events.

Our claims ratio improved 2% on the prior year, excluding large events, and now sits at 46%. As a result of these improving figures, the underlying profit after tax (NPAT) including large events was up slightly at $28.4 million.

This year's NPAT came in higher than the top end of our guidance. The business' operating ratio remains steady at 88.5%, which shows the strength of Tower's core insurance fundamentals.

The settlement agreement with the Earthquake Commission marks a turning point for the business. Under the terms of the agreement, Tower will receive $42.1m after disbursements. That leaves a write off of $9.5m, which reduces the reported net profit in the 2020 financial year to $12.3 million.

In recent years we have worked to remove legacy risks. The EQC settlement puts a line under a significant outstanding risk. The settlement enables us to pour all of our energy into giving the business momentum and accelerating our growth plans.

Growth in customers & premiums

A commitment to innovation and our continued focus on delivering compelling customer offers helped us hit a significant milestone in 2020.

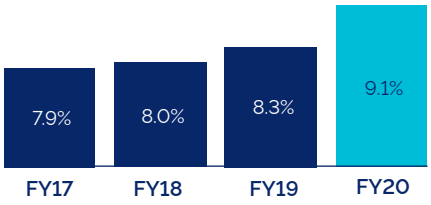
CUSTOMERS +11% on prior year

300,000

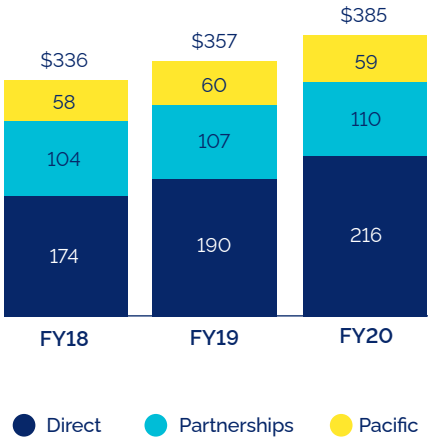
CUSTOMERS ON My Tower October 2020

50,000

TOWER NZ PERSONAL LINES MARKET SHARE



GWP GROWTH BY BUSINESS UNIT ($M)



The year saw customer numbers grow by 11%, taking the total to 300,000.

The growth in customer numbers has seen our GWP climb to $385m. This includes $12.6m of GWP from the Youi NZ business. The GWP total is up 8% on the previous year.

Fuelling this growth is more effective and efficient marketing. We have also moved to more competitive pricing, easier-to-understand plain language products and customer self-service. We will now build on this progress by using data to develop deeper customer relationships and provide more personalised offers.

Our improved online presence, the fruit of our recent transformation along with our digital and data strategy, plays a key role in our growth. We understand the need to give customers easy, online access and confidence in our systems.

Many are already comfortable transacting with us, buying insurance and making claims through My Tower, our online self-service portal. A measure of our success is that 50,000 customers registered with My Tower over the past year.

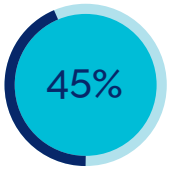
Our market share of New Zealand's personal lines insurance has climbed steadily in recent years from 7.9% in 2017 to 9.1% in the 2020 financial year.

Disciplined claims management

During the past 12 months, we have made significant progress in improving the way we underwrite insurance.

CLAIMS LODGED ONLINE IN SEPT 2020

27% in Sept 2019



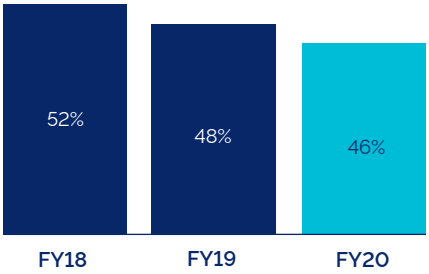
SIMPLE HOUSE CLAIMS

Straight to builder in FY20

AVERAGE MOTOR CLAIM COST +6% on prior year

$1,600

CLAIMS RATIO EXCL LARGE EVENTS



We also tightened our claims management processes. These changes are already showing clear performance gains.

As in previous years, we have continued to focus on claims leakage and recoveries. Our move to offering plain language products that are easily understood by customers started delivering tangible gains in terms of sales growth. This year we further refined the product descriptions, making them even clearer. We implemented new data practices to support risk selection and provide us with a more accurate picture of our portfolio.

In September 2020, our online claims process handled 45% of claims, compared with 29% for the year ended 30 September 2019. We are getting further efficiencies from our straight-through claims process that was launched during the year. It allows us to process low-value, low-risk claims straight through our suppliers. This allows us to reduce costs and cut customer wait times. In the financial year of 2020, 20% of simple house claims went straight to the builder.

These changes are giving us clear productivity gains. Together they have led to a 2% improvement in our claims ratio, excluding large events. This ratio now sits at 46%.

There are signs of inflation having an impact on our motor insurance business. This year the average claim cost was $1,600; a 6% increase on the previous year.

One reason for this is that there are now a higher number of expensive cars on New Zealand's roads. They tend to have increased levels of technology in areas such as windscreens and bumpers.

Data continues to play an ever more important role in every part of our business. We are using it to build deeper, better quality relationships with customers.

Product, pricing & underwriting enhanced through data

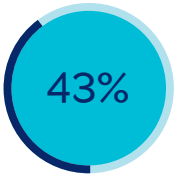
Data continues to play an ever more important role in every part of our business.

RISKS INSURED Average of 2 risks per customer

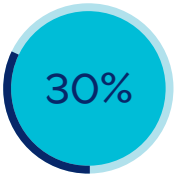
632,000

BALANCED PRODUCT MIX

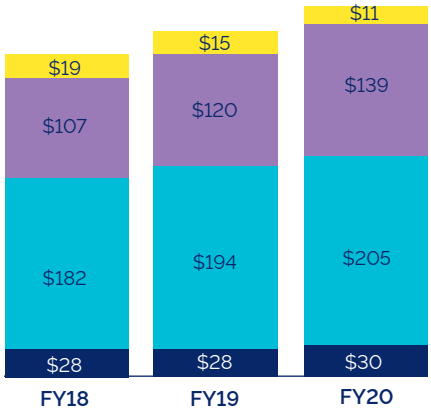
% of NZ risk portfolio in motor



PACIFIC PRODUCT VARIANTS ON SALE REDUCED BY



GWP PRODUCT MIX ($M)



Commercial
Home & contents
Motor
Other

We are using it to build deeper, better quality relationships with customers.

One area where data made an important impact in 2020 was in helping us to create a more balanced and profitable risk portfolio.

Two-thirds of our new business in New Zealand is in motor insurance. The sector now accounts for around 43% of all risks. A key priority for us is to build on growth in that area by deepening our relationship with customers. This gives us an opportunity to increase the number of policies each customer has with us. At the moment, on average, each customer holds two Tower policies.

We are also using data to rationalise our product offering. There were hundreds of products. We've managed to bring that down to a core set of 12 products, all of which are now described in plain language. It simplifies our business and ensures customers get a consistent, simple and rewarding experience with us.

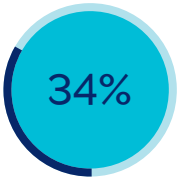
Complexity adds costs to doing business and slows delivery down. We are committed to rationalising and simplifying our business at every opportunity.

Now we are working to do the same simplification in our Pacific business. To date, we have managed to reduce product variations in the region by 30%.

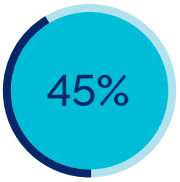
Management expenses fall, while investment continues

FY20 MANAGEMENT EXPENSE RATIOS

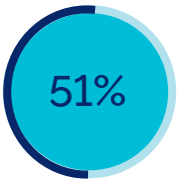
Direct



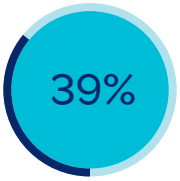
Partnerships



Pacific



Tower Group



Our Tower Direct business unit operates a management expense ratio of 34%.

The difference is that almost all the work in Tower Direct takes place on our cloud platform. It delivers significant efficiencies and underlines what is possible as more of our business functions take place online.

Elsewhere our digital and data strategy has increased the effectiveness of our marketing. We have reduced the cost of acquiring a new customer to 13% of the net earned premium. That's 2% less than in the previous year.

Although our business is growing, we have managed to reduce staff numbers to 601 full-time employees. Our focus is now on building new skill sets in strategic areas such as digital data.

Strong capital & solvency position

Tower remains in a strong capital position.

The business's solvency margin sat at 287% before taking the EQC settlement into account. As at 30 September 2020, Tower Limited NZ had $98m of solvency margin, $48m above the RBNZ licence condition.

The EQC settlement further strengthens that position and removes a legacy risk from the business. We have settled circa 15,000 Canterbury earthquake claims. At the end of September 2020, a total of 59 remained open. We continue to make good progress in achieving fair and efficient settlements.

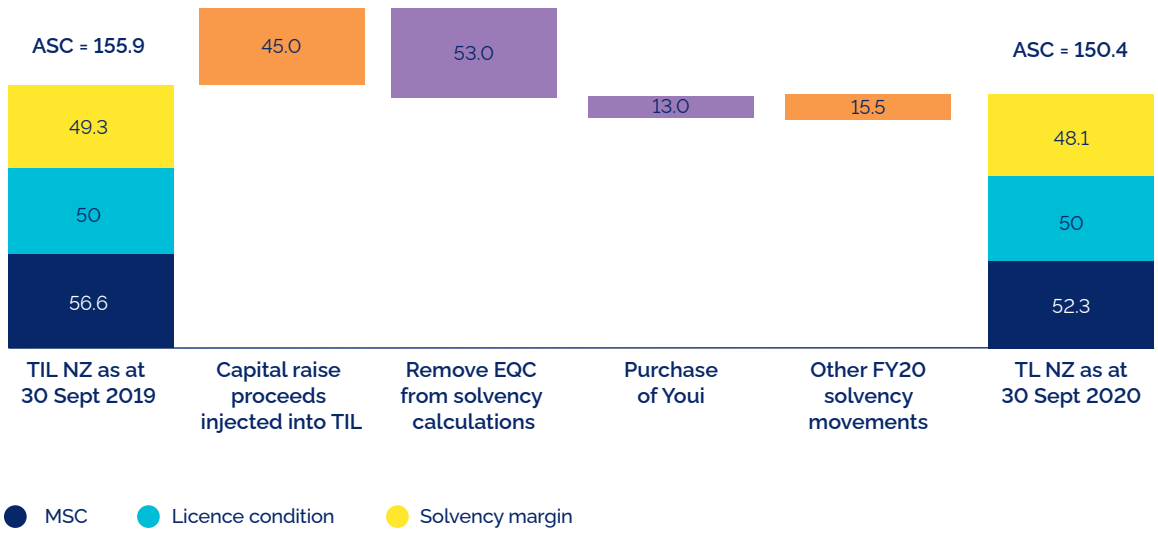
This year we amalgamated several business units in order to simplify the business. These changes had no effect on our financial strength rating, it remains at A- (excellent).

During the past six months, we have also repaid and closed our $15 million BNZ credit line. As a result, we now have no outstanding borrowings.

This year's Covid-19 pandemic caused serious disruption to the economy. As an early response to the uncertain economic outlook, the Reserve Bank of New Zealand advised companies in the financial sector to protect solvency positions and preserve capital. Since that time the economy has stabilised and the RBNZ has updated its guidance.

There will be no dividend paid for the 2020 financial year. However, we intend to resume dividend payments in the 2021 year. Our strong position means we are well placed to do so, but this remains subject to prevailing market conditions and growth opportunities which may arise.

ACTUAL SOLVENCY CAPITAL (ASC) ($M)



Resilience through Covid-19

The Tower team has achieved this strong result against the backdrop of the Covid-19 pandemic.

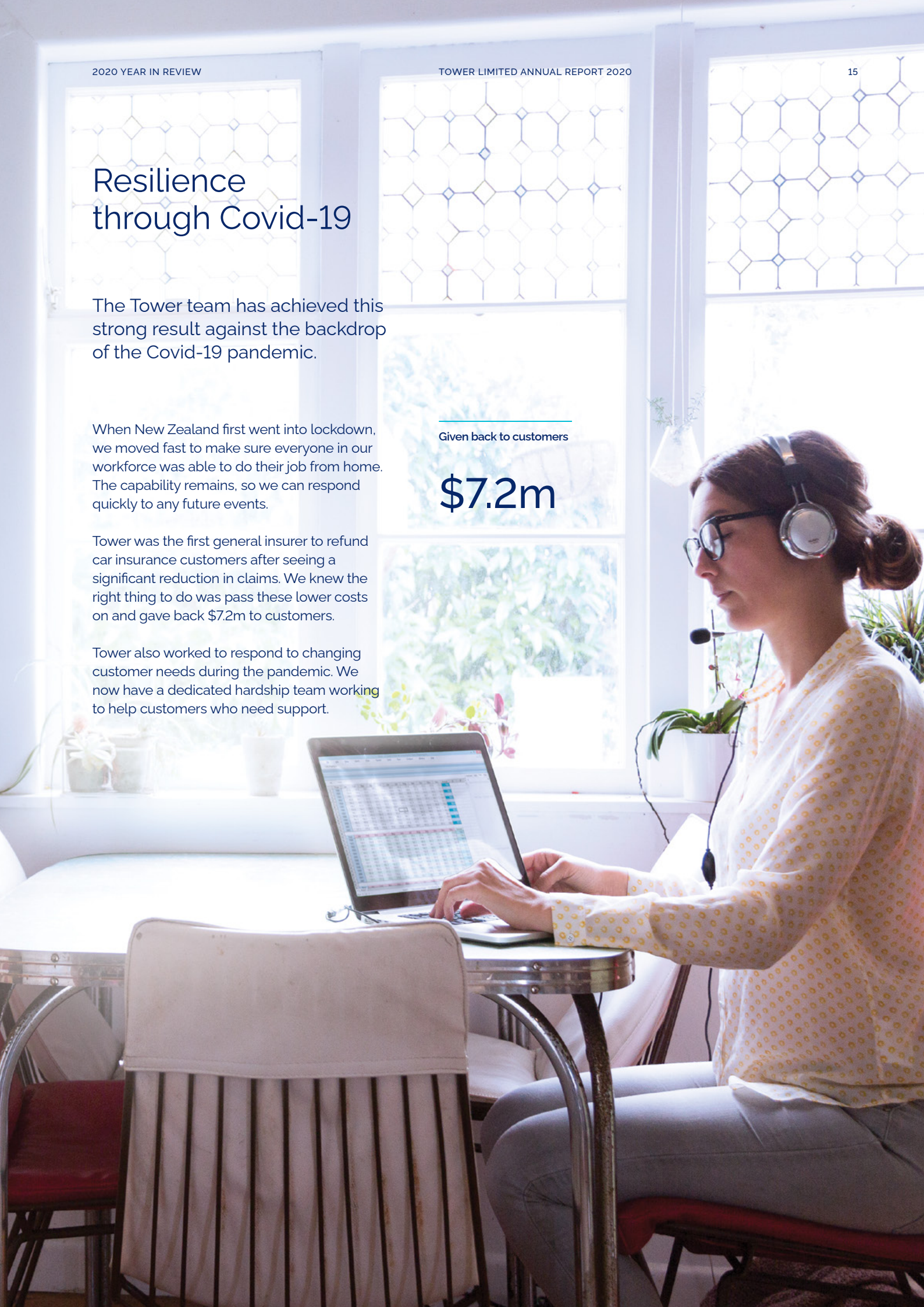
When New Zealand first went into lockdown, we moved fast to make sure everyone in our workforce was able to do their job from home. The capability remains, so we can respond quickly to any future events.

Tower was the first general insurer to refund car insurance customers after seeing a significant reduction in claims. We knew the right thing to do was pass these lower costs on and gave back $7.2m to customers.

Tower also worked to respond to changing customer needs during the pandemic. We now have a dedicated hardship team working to help customers who need support.

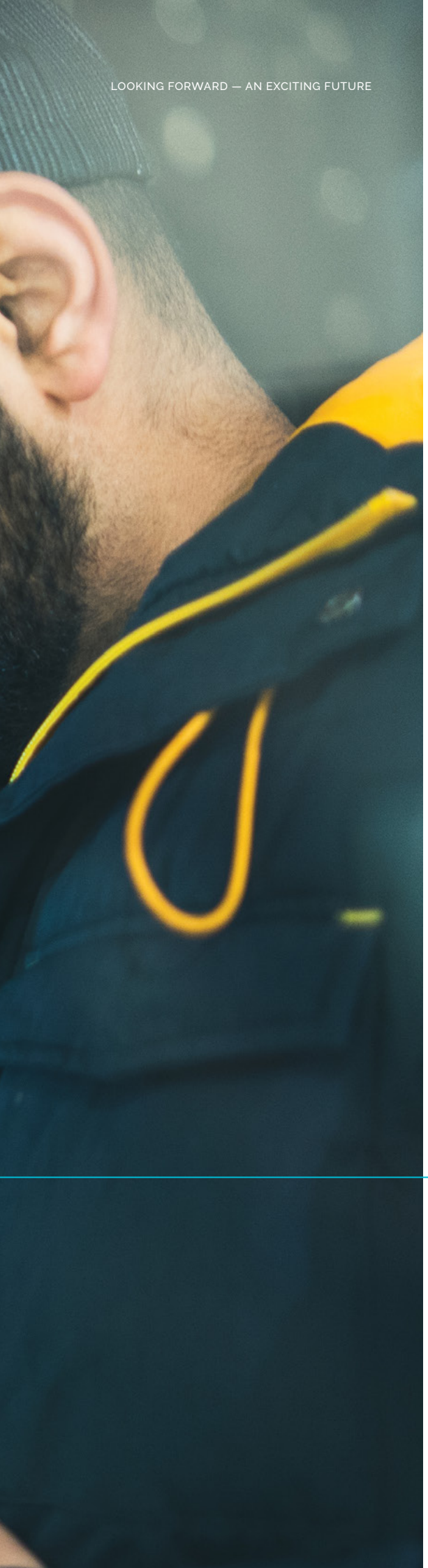
Given back to customers

$7.2m



LOOKING FORWARD — AN EXCITING FUTURE

We are relentlessly focused on delivering beautifully simple and rewarding experiences for our customers.



As we start to move into a new era of Tower, the business will look and behave differently.

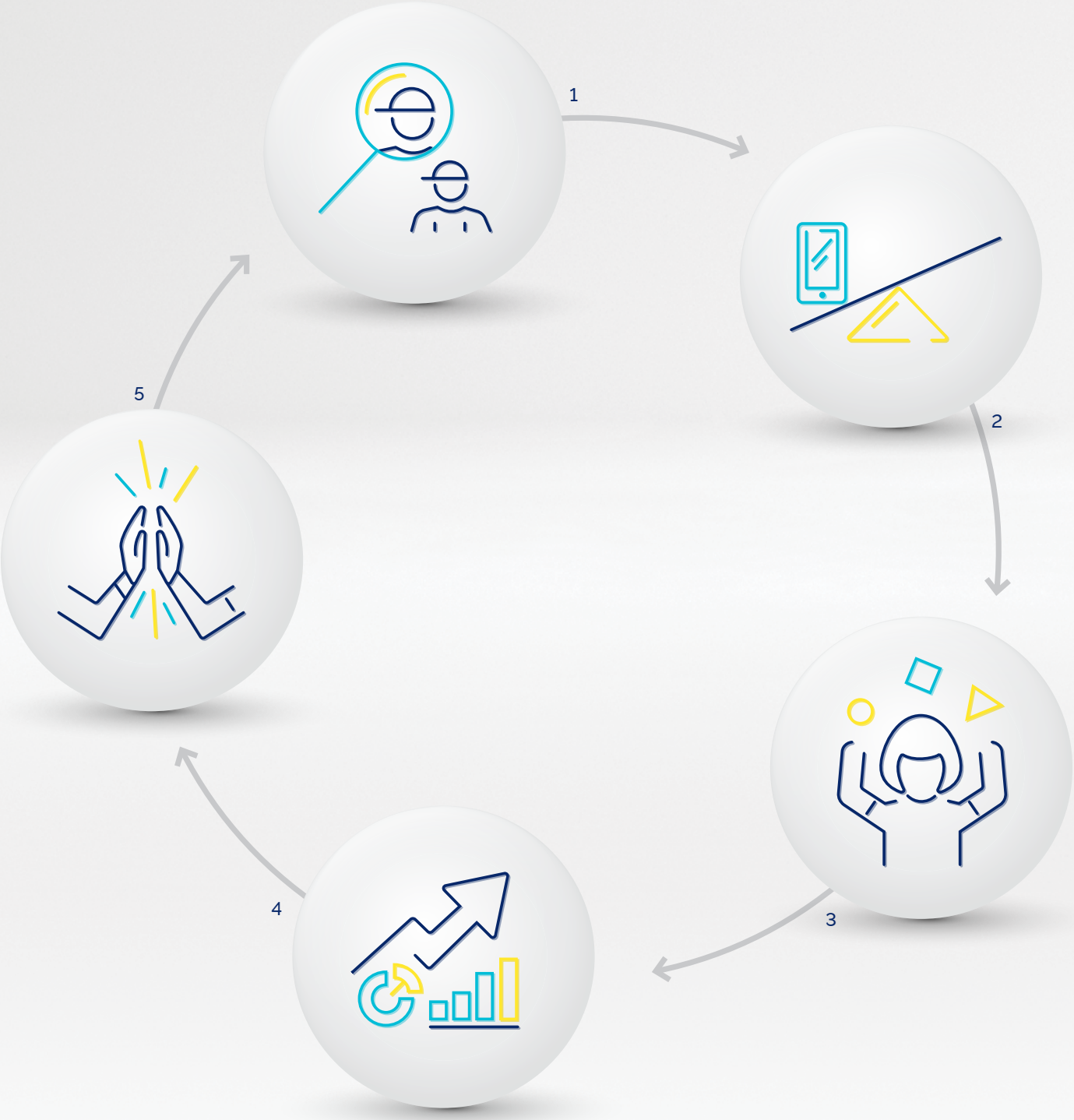
At Tower, we are choosing a direction that leads to higher growth through a relentless focus on our customers. We are more determined than ever, more energised than ever, and over the coming months we will be demonstrating that we are far more dynamic than ever before.

We have proven ourselves to be resilient and robust in a difficult time for the New Zealand economy and have an exciting, profitable future ahead of us. We have plotted a course that will lead us to higher, faster growth.

We are relentlessly focused on delivering beautifully simple and rewarding experiences for our customers.

To get there we have set out five clear strategic priorities. These will enable us to grow and innovate, as well as to build financial strength and capability as a company.

Having a cloud-based platform enables us to be agile and adapt to our rapidly changing world.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Strategic priorities

1 **CUSTOMER FOCUS**
A relentless focus on customer relationships. We will deliver beautifully simple and rewarding experiences through new rewards, products and offerings that make sense and drive value.

2 **DIGITAL AND DATA**
We will leverage digital and data everywhere. Our significant investment in cloud-based information technology allows us to use digital and data to deepen our relationships with our customers. At the same time, we will use our digital and data strengths to attract new customers.

3 **TALENT AND AGILE**
Tower will embrace agile and talent. We need the best people to grow our business capability and to keep up the pace of innovation. This means making sure Tower remains a great place to work and a place where talent wants to be. Our move to agile is already underway and we are seeing benefits in our delivery cadence.

4 **CAPITAL STRENGTH**
We will maintain a strong capital and solvency structure. Tower is committed to being a financially robust business that delivers value to customers and shareholders. Our solvency margin is strong and higher than required by the Reserve Bank of New Zealand.

5 **PARTNER EVERYWHERE**
Wherever possible Tower will work with partners. We will nurture and develop partnerships with the best organisations. They will help us to continue to innovate and improve our delivery.

Our three business units: Direct, Partnership and Pacific, each have end-to-end accountability for driving new growth and reducing costs.

Tower Direct is already operating on our new technology platform. As a result, it leads the way in managing expenses and delivering operational efficiencies. It points the way to where the rest of the business is heading.

Tower Direct uses digital technology and innovation to attract and engage with customers. We continue to encourage customers to use My Tower, our online sales and service portal.

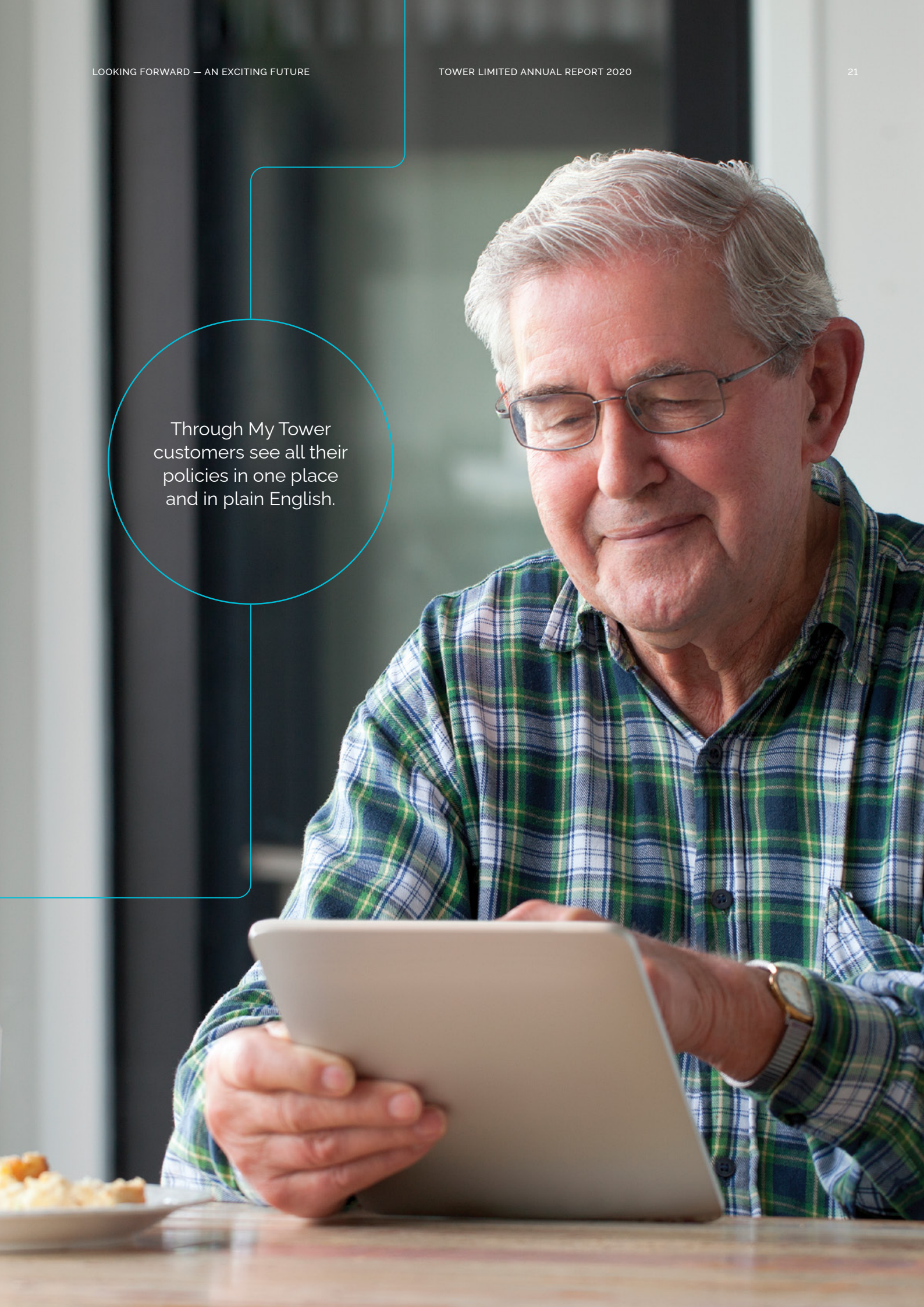
Customers see a simplified, easy-to-understand insurance buying process. Following our strategic priorities, we have partnered with data providers so customers only need to answer a few straightforward questions. Customers get automatic notification of insurance-related matters such as severe weather warnings and when their vehicle's warrant of fitness is due.

Tower Partnerships is well-positioned to grow in the coming years. Our platform gives our partners the support they need to improve their customer experience, drive growth and reduce costs. We are already underway moving TradeMe and TSB customers to the platform.

Our Pacific operation remains an important part of Tower, contributing 15% of gross written premiums (GWP).

In the past, it has suffered from complexity and remediation issues. The new digital and data platform will transform this business and make it more like Tower Direct. We are already rationalising the product set and our remediation work is almost complete.

Customers get automatic notification of insurance-related matters such as severe weather warnings and when their vehicle's warrant of fitness is due.



Through My Tower customers see all their policies in one place and in plain English.

Our commitment to sustainability is also a key part of our future. Tower is a member of the Sustainable Business Council and this year we will develop and report on a carbon action plan.

We recently began selling a new motor product for the Fiji market using our My Tower cloud-based system. Our other Pacific product lines will follow.

Tower's Suva office also provides capacity overflow and business continuity options for the New Zealand business. We process NZ customer claims in Suva.

Our technology platform means we can expand our risk-adjusted pricing. This means we can tailor every quote to the customer and pricing is an accurate reflection of individual risk. In the first half of 2021 we will extend this to include flood risk.

To leverage our data and digital resources even further we have formed a partnership with the University of Auckland's Science faculty. This partnership aligns academic research capabilities with real world industry needs.

As well as streamlining processes in areas of importance for Tower today, the collaboration will lay the groundwork for the data-driven future of the New Zealand insurance industry.

Our commitment to sustainability is also a key part of our future. Tower is a member of the Sustainable Business Council and this year we will develop and report on a carbon action plan. From next year we will be able to show the steps we have taken to reduce our carbon footprint and develop transparent climate reporting.

The last year has been a difficult time for many New Zealand businesses and individuals. Tower's strategy, put in place over recent years, has given the business the resilience needed to deal with the challenges.

We are in good shape with a strong balance sheet and healthy solvency margins. Our strategic priorities now focus us for growth and innovation, as well as towards building more financial strength and capability as a company.

The business is poised for further growth and at the heart of everything is our relentless focus on the customer and delivering them beautifully simple and rewarding experiences.

To leverage our data and digital resources even further we have formed a partnership with the University of Auckland's Science faculty. This partnership aligns academic research capabilities with real-world industry needs.

MICHAEL STIASSNY

LLB, BCom, FCA, CFInstD
Chairman
Non-Executive Director
Independent
Appointed Director: 12 October 2012

Michael is a Fellow of Chartered Accountants Australia and New Zealand. He has both a Commerce and Law degree from the University of Auckland. He is Chairman of Ngāti Whātua Ōrākei Whai Rawa Limited and is a director of a number of other companies.

Michael resides in Auckland, New Zealand.

GRAHAM STUART

BCom (Hons), MS, FCA

Non-Executive Director
Independent
Appointed Director: 24 May 2012

With over 30 years of senior management experience, Graham has held senior leadership roles with several major corporates, in New Zealand and overseas. The latest being the Sealord Group of which he was Chief Executive Officer for seven years.

Graham has a Bachelor of Commerce (First Class Hons) from the University of Otago, a Master of Science from Massachusetts Institute of Technology and is a Fellow of Chartered Accountants Australia and New Zealand. Graham has served on a number of government bodies including the Food & Beverge Taskforce and the Māori Economic Development Panel.

Graham resides in Auckland, New Zealand.

STEVE SMITH

BCom, CA, Dip Bus (Finance), CFInstD

Non-Executive Director
Independent
Appointed Director: 24 May 2012

Steve has been a professional Director since 2004. He has over 35 years of business experience, including being a specialist corporate finance partner at a leading New Zealand accountancy firm. He has a Bachelor of Commerce and Diploma in Business from the University of Auckland, is a member of Chartered Accountants Australia and New Zealand and a Chartered Fellow of the Institute of Directors in New Zealand (Inc). Steve is Chairman of Pascaro Investments Ltd, and a Director of Rimu S.A. (Chile) and the National Foundation for the Deaf Inc.

Steve resides in Auckland, New Zealand.

BOARD OF DIRECTORS

WARREN LEE

BCom, CA

Non-Executive Director
Independent
Appointed Director: 26 May 2015

Warren has extensive experience in the international financial services industry. Warren's two most recent executive positions were Chief Executive Officer of the Victorian Funds Management Corporation and Chief Executive Officer, Australia and New Zealand for AXA Asia Pacific Holdings Limited. Warren is currently a non-executive director of MetLife Limited, MyState Limited and Go Hold Limited. He has a Bachelor of Commerce from the University of Melbourne and is a member of Chartered Accountants Australia and New Zealand.

Warren resides in Melbourne, Australia.

WENDY THORPE

BA (French), BBus (Accounting), Grad Dip, Applied Fin & Inv, Harvard AMP, FFin, GAICD
Non-Executive Director
Independent
Appointed Director: 1 March 2018

Wendy has had an extensive executive career in Financial Services leading technology and operations in insurance and wealth management. Her most recent executive role was as Group Executive, Operations for AMP Ltd, and she was previously Chief Operations Officer and Chief Information Officer for AXA in Australia.

Wendy is also Chair of Online Education Services, and a Non-Executive Director of Ausgrid, Peoples' Choice Credit Union, Epworth Healthcare and Very Special Kids. Wendy has a Bachelor of Arts from LaTrobe University, a Bachelor of Business from Swinburne University and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. She completed the Advanced Management Program at Harvard Business School, is a Fellow of the Financial Services Institute of Australasia and a Graduate member of the Australian Institute of Company Directors.

Wendy resides in Melbourne, Australia.

MARCUS NAGEL

MBA (International Management), MBA (Banking and Finance)
Non-Executive Director
Not Independent
Appointed Director: 14 January 2019

Marcus has significant insurance industry experience.

For a decade he has performed senior leadership roles for Zurich in Europe and globally. In his last role at Zurich, he served as the Chief Executive Officer of Zurich Germany managing both life insurance and general insurance businesses. He has also held the position of Vice Chairman of the joint venture with ADAC, Germany's largest Automotive Club, Chairman of the direct insurer DA Direct and Chairman of the life insurer, Zurich Deutscher Herold. Prior to that, he also managed the independent financial adviser/broker business for Zurich Global Life.

Marcus holds a Master's Degree in Banking and Finance from Goethe University in Frankfurt, Germany and Master of International Management from the Arizona State University Thunderbird School of Global Management in Arizona, United States of America. Marcus was nominated by Bain Capital Credit LP (Bain Capital) to represent Bain Capital's stake in Tower (Bain Capital hold 19.99% of Tower's ordinary shares) and his appointment was supported by the Tower Board.

Marcus resides in Schindellegi, Switzerland.

CONSOLIDATED FINANCIAL STATEMENTS

Financial Statements

Notes to the consolidated financial statements

Independent Auditor's report

Appointed Actuary's report

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 30 SEPTEMBER 2020

	NOTE	2020 $000	2019 $000
Gross written premium		377,159	356,767
Unearned premium movement		(4,607)	(11,772)
Gross earned premium	2.1	372,552	344,995
Outward reinsurance premium		(58,030)	(55,054)
Movement in deferred reinsurance premium		810	79
Outward reinsurance premium expense		(57,220)	(54,975)
Net earned premium		**315,332**	290,020
Claims expense		(206,767)	(190,699)
Less: Reinsurance and other recoveries revenue	2.1	25,711	14,985
Net claims expense	2.2	(181,056)	(175,714)
Gross commission expense		(20,947)	(20,252)
Commission revenue	2.1	6,457	3,771
Net commission expense		(14,490)	(16,481)
Underwriting expense	2.3	(87,949)	(77,185)
Underwriting profit		**31,837**	20,640
Investment income	3.1	5,810	7,519
Investment expense		(466)	(418)
Corporate and other income		288	2,074
Corporate and other expense		(2,967)	(3,508)
Impairment of EQC receivable	2.7	(13,126)	–
Financing and other costs		(1,125)	(312)
Profit before taxation		**20,251**	25,995
Tax expense	7.1	(7,910)	(9,190)
Profit after taxation		**12,341**	16,805
Items that may be reclassified to profit or loss			
Currency translation differences		(1,374)	793
Items that will not be reclassified to profit or loss			
Gain on asset revaluation	5.3	41	305
Deferred income tax relating to asset revaluation	5.3	8	(32)
Other comprehensive (loss)/profit net of tax		**(1,325)**	1,066
Total comprehensive profit for the year		**11,016**	17,871
Earnings per share:			
Basic and diluted earnings per share (cents)		2.85	4.73
Profit after taxation attributed to:			
Shareholders		11,892	16,565
Non-controlling interests		449	240
		12,341	16,805
Total comprehensive profit attributed to:			
Shareholders		10,653	17,538
Non-controlling interests		363	333
		11,016	17,871

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

Consolidated balance sheet

AS AT 30 SEPTEMBER 2020

	NOTE	2020 $000	2019 $000
Assets			
Cash and cash equivalents	8.1	80,108	62,018
Investments	3.2	237,904	234,172
Receivables	2.7	250,746	247,501
Current tax asset	7.2a	12,892	13,589
Deferred tax asset	7.3a	26,832	30,308
Deferred insurance costs	2.6	34,667	32,530
Right-of-use assets	6.3a(i)	7,211	–
Property, plant and equipment	6.1	10,041	9,104
Intangible assets	6.2	84,954	74,211
Total assets		**745,355**	703,433
Liabilities			
Payables	2.8	66,600	75,907
Unearned premiums	2.5	203,452	187,855
Outstanding claims	2.4	107,747	124,060
Lease liabilities	6.3a(ii)	8,695	–
Provisions	2.9	9,531	6,802
Current tax liabilities	7.2b	821	229
Deferred tax liabilities	7.3b	1,346	991
Borrowings	5.1	–	14,931
Total liabilities		**398,192**	410,775
Net assets		**347,163**	292,658
Equity			
Contributed equity	5.2	492,424	209,990
(Accumulated losses) / Retained earnings		(42,990)	71,059
Reserves	5.3	(104,431)	9,808
Total equity attributed to shareholders		**345,003**	290,857
Non-controlling interests		2,160	1,801
Total equity		**347,163**	292,658

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

The financial statements were approved for issue by the Board on 25 November 2020.

Michael P Stanley
Chairman

Graham R Stuart
Director

Consolidated statement of changes in equity

YEAR ENDED 30 SEPTEMBER 2020

	ATTRIBUTED TO SHAREHOLDERS				
	CONTRIBUTED EQUITY $000	RETAINED EARNINGS $000	RESERVES $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
Year Ended 30 September 2020					
Balance as at 30 September 2019	**209,990**	**(36,101)**	**9,808**	**1,801**	**185,498**
Impact of amalgamation*	–	107,160	–	–	107,160
Balance post amalgamation	209,990	71,059	9,808	1,801	292,658
Adjustment on initial application of NZ IFRS 16	–	(1,333)	–	(4)	(1,337)
Restated balance at beginning of the year	**209,990**	**69,726**	**9,808**	**1,797**	**291,321**
Comprehensive income					
Profit for the year	–	11,892	–	449	12,341
Currency translation differences	–	–	(1,288)	(86)	(1,374)
Gain on asset revaluation	–	–	41	–	41
Deferred income tax relating to asset revaluation	–	–	8	–	8
Total comprehensive income	**–**	**11,892**	**(1,239)**	**363**	**11,016**
Transactions with shareholders					
Net proceeds of capital raise	45,000	(119)	–	–	44,881
Dividends written off	–	(99)	–	–	(99)
Other	–	44	–	–	44
Cancellation of shares on amalgamation*	(254,990)	254,990	–	–	–
Recognition of shares on amalgamation*	492,424	(379,424)	(113,000)	–	–
Total transactions with shareholders	**282,434**	**(124,608)**	**(113,000)**	**–**	**44,826**
At the end of the year	**492,424**	**(42,990)**	**(104,431)**	**2,160**	**347,163**
Year Ended 30 September 2019					
Balance as at 30 September 2018	209,990	(53,187)	8,835	1,468	167,106
Impact of amalgamation	–	107,673	–	–	107,673
Restated balance at beginning of the year	209,990	54,486	8,835	1,468	274,779
Comprehensive income					
Profit for the year	–	16,565	–	240	16,805
Currency translation differences	–	–	700	93	793
Gain on asset revaluation	–	–	305	–	305
Deferred income tax relating to asset revaluation	–	–	(32)	–	(32)
Total comprehensive income	–	16,565	973	333	17,871
Transactions with shareholders					
Other	–	8	–	–	8
Total transactions with shareholders	–	8	–	–	8
At the end of the year	209,990	71,059	9,808	1,801	292,658

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

* Refer to note 8.2 for further information.

Consolidated statement of cash flows

FOR THE YEAR ENDED 30 SEPTEMBER 2020

	2020 $000	2019 $000
Cash flows from operating activities		
Premiums received	366,738	343,411
Interest received	7,328	8,141
Fees and other income received	7,345	5,818
Reinsurance and other recoveries received	18,035	25,528
Motor premium refund payments	(5,849)	–
Reinsurance paid	(54,867)	(55,968)
Claims paid	(223,751)	(208,770)
Employee and supplier payments	(94,783)	(91,095)
Income tax paid	(1,317)	(2,453)
Net cash inflow from operating activities	**18,879**	24,612
Cash flows from investing activities		
Proceeds from sale of interest-bearing investments	112,484	73,479
Payments for purchase of interest-bearing investments	(117,734)	(115,102)
Payments for purchase of intangible assets	(7,361)	(35,741)
Payments for purchase of customer relationships*	(9,473)	–
Payments for purchase of property, plant and equipment	(3,122)	(1,886)
Net cash outflow from investing activities	**(25,206)**	(79,250)
Cash flows from financing activities		
Proceeds from share capital issuance	47,300	–
Payments for cost of share capital issuance	(2,419)	–
Repayment of borrowings	(15,000)	–
Proceeds from borrowings	–	15,000
Facility fees and interest paid	(1,115)	(352)
Payment relating to principal element of lease liabilities	(3,070)	–
Net cash inflow from financing activities	**25,696**	14,648
Net increase (decrease) in cash and cash equivalents	19,369	(39,990)
Effect of foreign exchange rate changes	(1,279)	7
Cash and cash equivalents at the beginning of the year	62,018	102,001
Cash and cash equivalents at the end of the year	**80,108**	62,018

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

* This represents the net cashflow associated with the purchase of Youi NZ Pty Ltd:'s insurance portfolio. It constitutes the gross purchase price (and associated costs) as disclosed in note 6.2 less the net insurance liabilities Tower absorbed as part of this transaction.

Notes to the consolidated financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2020

OVERVIEW

This section provides information that is helpful to an overall understanding of the financial statements and the areas of critical accounting judgements and estimates included in the financial statements. It also includes a summary of Tower's operating segments.

1.1 About this Report

a. Entities reporting

The financial statements presented are those of Tower Limited (the Company) and its subsidiaries. The Company and its subsidiaries together are referred to in this financial report as Tower or the Group. The address of the Company's registered office is 45 Queen Street, Auckland, New Zealand.

During the periods presented, the principal activity of the Group was the provision of general insurance. The Group predominantly operates in New Zealand with some of its operations based in the Pacific Islands region.

The financial statements were authorised for issue by the Board of Directors on 25 November 2020. The entity's owners or others do not have the power to amend the financial statements after issue.

b. Statutory base

Tower Limited is a company incorporated in New Zealand under the Companies Act 1993 and listed on the NZX Main Board and the Australian Securities Exchange. The Company is a reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

c. Basis of preparation

The Company is a for-profit entity and the financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with International Financial Reporting Standards (IFRS), New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for Tier 1 for-profit entities.

The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

The Group financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars. They have been prepared on a fair value measurement basis with any exceptions noted in the accounting policies below, or in the notes to the financial statements.

d. Change in comparatives

Refer to note 8.9 for details of change in comparatives. There is no change to net assets or the 2019 consolidated statement of comprehensive income.

1.2 Consolidation

a. Principles of consolidation

The Group financial statements incorporate the assets and liabilities of all subsidiaries of the Company at balance date and the results of all subsidiaries for the year.

Subsidiaries are those entities over which the consolidated entity has control, being power over the investee; exposure, or rights to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns.

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

The acquisition of controlled entities from external parties is accounted for using the acquisition method of accounting. Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of changes in equity and balance sheet respectively. Acquisition-related costs are expensed as incurred.

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.

b. Foreign currency

(i) Functional and presentation currencies

The financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. The Group financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars unless stated otherwise.

1.2 Consolidation (continued)

(ii) Transactions and balances

In preparing the financial statements of the individual entities, transactions denominated in foreign currencies are translated into New Zealand dollars 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 impact profit after tax in the consolidated statements of comprehensive income 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 (as part of comprehensive profit) in the statement of comprehensive income and the statement 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. Foreign currency translation differences are taken to the Foreign Currency Translation Reserve and recognised in the statement of comprehensive income and the statement of changes in equity.

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

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

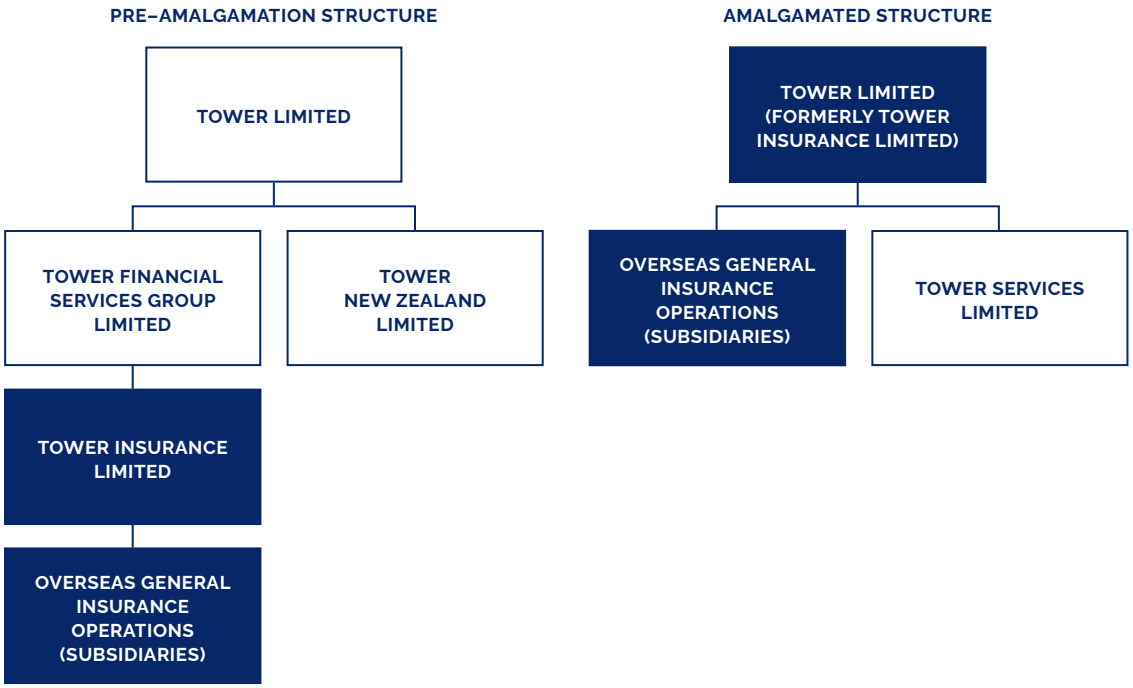
c. Subsidiaries

The table below lists Tower Limited's principal subsidiary companies and controlled entities. All entities have a balance date of 30 September.

Tower simplified its corporate structure on 30 September 2020 to make Tower Insurance Limited the listed parent. Tower Limited, Tower New Zealand Limited and Tower Financial Services Group Limited undertook a short-form amalgamation into Tower Insurance Limited. In addition, Tower Insurance Limited was renamed Tower Limited. The table below and diagram on the following page illustrate this change and further information is provided in note 8.2.

		HOLDINGS	
NAME OF COMPANY	**INCORPORATION**	**2020**	2019
Parent Company			
New Zealand general insurance operations			
Tower Limited (formerly named Tower Insurance Limited)	NZ	Parent	–
New Zealand holding company			
Tower Limited	NZ	–	Parent
Subsidiaries			
New Zealand general insurance operations			
Tower Insurance Limited	NZ	–	100%
Overseas general insurance operations			
Tower Insurance (Cook Islands) Limited	Cook Islands	100%	100%
Tower Insurance (Fiji) Limited	Fiji	100%	100%
Tower Insurance (PNG) Limited	PNG	100%	100%
National Pacific Insurance Limited ("NPI")	Samoa	71%	71%
Tower Insurance (Vanuatu) Limited	Vanuatu	100%	100%
Management service operations			
Tower Services Limited	NZ	100%	–
Tower New Zealand Limited	NZ	–	100%
Tower Financial Services Group Limited	NZ	–	100%

1.2 Consolidation (continued)



1.3 Critical accounting judgements and estimates

In preparing these financial statements, management is required to make estimates and related assumptions about the future. The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, and are reviewed on an ongoing basis. Revisions to the estimates are recognised in the period in which they are revised, or future periods if relevant. The key areas in which estimates and related assumptions are applied are as follows:

- Net outstanding claims note 2.4
- Liability adequacy test note 2.5
- Intangible assets note 6.2
- Deferred taxation note 7.3

Covid-19 Pandemic

An assessment of the impact of Covid-19 on Tower's balance sheet is set out below based on information available at the time of preparing these financial statements.

BALANCE SHEET	IMPACT
Investments	Investments are carried at fair value and reflect a lower interest rate environment.
Receivables	Immaterial impact. Provision for impairment of premium receivables and "other recoveries" has been updated to include an allowance for increased non-payment.
Right-of-use Assets	Immaterial impact. One minor lease was deemed onerous due to a branch office closure in Fiji and was impaired.
Intangible assets	No impact. Tower has assessed that its intangible assets have not been impaired.
Unearned premiums	Immaterial impact. Provision for unearned premium cancellation has been updated to include an allowance for increased non-payment.
Net outstanding claims	Immaterial impact. A small adjustment has been made for delay in the reporting and progressing of claims in the valuation of outstanding claims.
Provisions	Provisions have increased. First, there is a year-on-year increase due to outstanding motor premium refunds. Second, Tower's employee leave balances have increased due to a reduction in leave taken during the year (which Tower is actively managing).

RBNZ has been engaged with Tower on its response to Covid-19 and the sufficiency of its capital position. This is part of sector-wide regulatory engagement in response to Covid-19 focused on financial stability, dividend policy and operational changes/decisions that have customer impacts.

In November 2020, the RBNZ relaxed their guidance for dividend payments for New Zealand-based insurers. The RBNZ expects that insurers will only make dividend payments if it is prudent for that insurer to do so, having regard to their own stress testing and the elevated risks in the current environment.

1.4 Segmental reporting

a. Operating segments

Tower operates in two geographical segments, New Zealand and the Pacific region. New Zealand comprises the general insurance business underwritten in New Zealand. Pacific Islands comprises the general insurance business underwritten in the Pacific by Tower subsidiaries and branch operations. New Zealand Corporate includes head office expenses, financing costs, intercompany eliminations and recharges.

The Group does not derive revenue from any individual or entity that represents 10% or more of the Group's total revenue.

1.4 Segmental reporting (continued)

b. Financial performance

	NEW ZEALAND GENERAL INSURANCE $000	PACIFIC ISLANDS GENERAL INSURANCE $000	NEW ZEALAND CORPORATE $000	TOTAL $000
Year Ended 30 September 2020				
Gross written premium	317,478	59,681	–	377,159
Gross earned premium – external	311,671	60,881	–	372,552
Outwards reinsurance expense	(38,774)	(18,446)	–	(57,220)
Net earned premium	**272,897**	**42,435**	**–**	**315,332**
Net claims expense	(161,695)	(19,361)	–	(181,056)
Net commission expense	(12,027)	(2,463)	–	(14,490)
Underwriting expense	(74,752)	(13,197)	–	(87,949)
Underwriting profit	**24,423**	**7,414**	**–**	**31,837**
Net investment income	4,265	769	310	5,344
Impairment of EQC receivable	(13,126)	–	–	(13,126)
Other expenses	(286)	62	(3,580)	(3,804)
Profit before tax	**15,276**	**8,245**	**(3,270)**	**20,251**
Profit after tax	**9,907**	**4,789**	**(2,355)**	**12,341**
Year Ended 30 September 2019	296,598	60,169	–	356,767
Gross written premium	285,677	59,318	–	344,995
Gross earned premium – external	(37,816)	(17,159)	–	(54,975)
Outwards reinsurance expense	247,861	42,159	–	290,020
Net earned premium	(161,071)	(14,643)	–	(175,714)
Net claims expense	(13,585)	(2,896)	–	(16,481)
Net commission expense	(63,600)	(13,585)	–	(77,185)
Underwriting expense	9,605	11,035	–	20,640
Underwriting profit	6,574	44	483	7,101
Net investment income	(873)	1,050	(1,923)	(1,746)
Other expenses	15,306	12,129	(1,440)	25,995
Profit before tax	9,749	7,564	(508)	16,805
Profit after tax				

c. Financial position

Total assets 30 September 2020	**534,487**	**105,376**	**105,492**	**745,355**
Total assets 30 September 2019	480,694	98,454	124,285	703,433
Total liabilities 30 September 2020	**336,192**	**61,096**	**904**	**398,192**
Total liabilities 30 September 2019	334,810	58,842	17,123	410,775

Definition

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 (the Chief Executive Officer) who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance.

2. UNDERWRITING ACTIVITIES

This section provides information on Tower's underwriting activities.

Tower collects premiums from customers in exchange for providing insurance coverage. These premiums are recognised as revenue when they are earned by Tower, with a liability for unearned premiums recognised on the balance sheet.

When customers suffer a loss that is covered by their policy, Tower will make payments to customers or suppliers, which it recognises as claims expenses. To ensure that Tower's obligations to customers are properly recorded within the financial statements, Tower recognises provisions for outstanding claims.

To manage Tower's risk and optimise its returns, Tower reinsures some of its exposure with reinsurance companies. The premiums paid to reinsurers are recognised as an expense, while recoveries from reinsurers are recognised as revenue.

2.1 Underwriting Revenue

Composition

	2020 $000	2019 $000
Gross written premium	384,359	356,767
Motor premium refund*	(7,200)	–
Movement in unearned premium liability	(4,607)	(11,772)
Gross earned premium	**372,552**	**344,995**
Reinsurance and other recoveries revenue	**25,711**	**14,985**
Reinsurance commission	5,242	2,852
Insurance administration services commission	1,215	919
Commission revenue	**6,457**	**3,771**
Underwriting revenue	**404,720**	**363,751**

* Tower received lower motor vehicle claims in New Zealand due to travel restrictions imposed during the time spent in New Zealand government's Covid-19 alert level 3 and 4. On 21st April 2020 Tower Limited committed to returning the benefit of lower New Zealand motor claims to customers through motor vehicle premium refunds. Total premiums of $7.2m (excluding GST) are being refunded to motor customers. Gross Written Premiums were reduced accordingly and a provision created (see note 2.9) to recognise this obligation.

Recognition and measurement

Gross earned premium is recognised in the period in which the premiums are earned during the term of the contract, excluding taxes and levies collected on behalf of third parties. It includes a provision for expected future premium cancellations (which is offset against net premium receivables, see note 2.7) and customer premium refunds (see note 2.9 for more information). The proportion of premiums not earned in the consolidated statement of comprehensive income at reporting date is recognised in the balance sheet as unearned premiums.

Reinsurance and other recoveries on paid claims, reported claims not yet paid, claims incurred but not reported and claims incurred but not enough reported are recognised as revenue. Recoveries are measured as the expected future receipts and recognised when the claim is incurred.

Reinsurance commission revenue includes reimbursements by reinsurers to cover part of Tower's management and sales expense which are broadly recognised with the reference premium over the term of the reinsurance agreements. Reinsurance commission income can also include a proportion of expected profitability of business ceded to the reinsurer. The final value of the variable commission is based on the achievement of a hurdle rate over time. This revenue is recognised on a systematic basis and reassessed at each reporting date.

Insurance administration services commission includes a percentage of levies collected on behalf of third parties and is recognised at the point the levy was collected.

2.2 Net claims expense

Composition

	EXC. CANTERBURY EARTHQUAKE		CANTERBURY EARTHQUAKE		TOTAL	
	2020 $000	2019 $000	**2020 $000**	2019 $000	**2020 $000**	2019 $000
Gross claims expense	201,943	179,649	4,824	11,050	206,767	190,699
Reinsurance and other recoveries revenue	(24,698)	(12,335)	(1,013)	(2,650)	(25,711)	(14,985)
Net claims expense	**177,245**	167,314	**3,811**	8,400	**181,056**	175,714

Recognition and measurement

Net claims expense is measured as the difference between net outstanding claims liability at the beginning and end of the financial year plus any claims payments made net of reinsurance and other recoveries received during the financial year. Please refer to note 2.4 for more information.

Additional disclosures related to the Canterbury earthquake events in 2010 and 2011 are provided in note 2.4.

2.3 Underwriting expense

Composition

	2020 $000	2019 $000
People costs	73,821	82,098
People costs classified as a claims handling expense	(28,931)	(24,947)
People costs capitalised during the year	(4,187)	(19,235)
People costs classified as an underwriting expense	40,703	37,916
Technology	16,967	11,871
Amortisation	10,850	6,573
Marketing	8,181	8,770
External fees	7,137	6,639
Miscellaneous	937	4,794
Depreciation*	4,590	1,591
Movement in indirect deferred acquisition costs	(1,416)	(969)
Underwriting expenses	**87,949**	77,185

* Includes $2.6m (2019: nil) of depreciation on right-of-use assets. See note 6.3b for further information.

2.4 Net outstanding claims

a. Composition

	EXC. CANTERBURY EARTHQUAKE		CANTERBURY EARTHQUAKE		TOTAL	
	2020 $000	2019 $000	**2020 $000**	2019 $000	**2020 $000**	2019 $000
Central estimate of future cash flows	65,475	64,174	21,236	36,300	86,711	100,474
Claims handling expense	4,151	4,524	1,908	2,500	6,059	7,024
Risk margin*	4,325	3,762	10,652	12,800	14,977	16,562
Gross outstanding claims	**73,951**	72,460	**33,796**	51,600	**107,747**	124,060
Reinsurance recoveries	(9,643)	(8,657)	(3,246)	(4,800)	(12,889)	(13,457)
Net outstanding claims	**64,308**	63,803	**30,550**	46,800	**94,858**	110,603
Net claim payments within 12 months	56,110	53,084	12,220	35,100	68,330	88,184
Net claim payments after 12 months	8,198	10,719	18,330	11,700	26,528	22,419
Net outstanding claims	**64,308**	63,803	**30,550**	46,800	**94,858**	110,603

* Includes additional $5.0m (2019: $5.0m) for the Canterbury earthquake over and above the provision of the Appointed Actuary, which is set at the 75th percentile of sufficiency. The Board will continue to review this additional risk margin each half year and the $5.0m is expected to be released once the Canterbury outstanding claims liability has sufficiently run off.

b. Reconciliation of movements in net outstanding claims liability

	2020 $000			2019 $000		
	GROSS	**REINSURANCE**	**NET**	GROSS	REINSURANCE	NET
Balance brought forward	124,060	(13,457)	110,603	148,976	(28,985)	119,991
Claims expense – current year	209,766	(26,084)	183,682	177,786	(9,793)	167,993
Claims expense – prior year	(2,999)	373	(2,626)	12,913	(5,192)	7,721
Incurred claims recognised in the consolidated statement of comprehensive income	**206,767**	**(25,711)**	**181,056**	190,699	(14,985)	175,714
Claims paid and reinsurance and other recoveries raised	(223,654)	26,444	(197,209)	(216,104)	30,881	(185,223)
Foreign exchange	573	(165)	408	489	(368)	121
Outstanding claims	**107,747**	**(12,889)**	**94,858**	124,060	(13,457)	110,603

2.4. Net outstanding claims (continued)

c. Development of claims

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

ULTIMATE CLAIMS COST ESTIMATE	PRIOR $000	2016 $000	2017 $000	2018 $000	2019 $000	**2020 $000**	TOTAL $000
At end of incident year		130,341	139,066	148,684	147,184	158,728	
One year later		129,098	141,049	146,446	144,271		
Two years later		131,176	142,424	146,318			
Three years later		130,928	142,709				
Four years later		130,571					
Ultimate claims cost		130,571	142,709	146,318	144,271	158,728	
Cumulative payments		(129,348)	(141,112)	(144,536)	(138,622)	(113,699)	
Undiscounted central estimate	18,542	1,223	1,597	1,782	5,649	45,029	73,822
Claims handling expense							6,059
Risk margin							9,977
Additional risk margin – Canterbury							5,000
Net outstanding claims liabilities							94,858
Reinsurance recoveries							12,889
Gross outstanding claims liabilities							**107,747**

Prior year numbers have been restated at current year exchange rates to reflect the underlying development of claims.

d. Actuarial information

The estimation of outstanding claims as at 30 September 2020 has been carried out by:

(i) Geoff Atkins, BA (ActuarDc), FIAA, FIAL, FANZIIF, Appointed Actuary – Canterbury earthquake claims; and

(ii) John Feyter, B.Sc., FNZSA – all other outstanding claims

The New Zealand actuarial assessments are undertaken in accordance with the standards of the New Zealand Society of Actuaries, in particular Professional Standard No. 30 "Valuations of General Insurance Claims". 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 by the Actuaries 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.

2.4. Net outstanding claims (continued)

e. Canterbury earthquakes

Cumulative impact of Canterbury earthquakes

As at 30 September 2020, Tower has 59 claims remaining to settle (2019: 109) as a result of the earthquakes impacting the Canterbury region during 2010 and 2011. The following table presents the cumulative impact of the four main Canterbury earthquake events on the consolidated statement of comprehensive income. This excludes the value of EQC recovery receivable related to Canterbury earthquakes (disclosed in note 2.7).

	2020 $000	2019 $000
Earthquake claims estimate	(983,409)	(981,600)
Reinsurance recoveries	741,570	742,199
Claims expense net of reinsurance recoveries	**(241,839)**	(239,401)
Reinsurance expense	(25,045)	(25,045)
Additional risk margin	(5,000)	(5,000)
Cumulative impact of Canterbury earthquakes before tax	**(271,884)**	(269,446)
Income tax	76,128	75,445
Cumulative impact of Canterbury earthquakes after tax	**(195,756)**	(194,001)

Canterbury earthquake impact on profit or loss

	2020 $000	**2019 $000**
Net claims expense*	**2,438**	7,139

* Excludes any impact from changes in the value of the EQC receivable.

Recognition and measurement

Gross outstanding claims liability comprises a central estimate of future cash outflows and a risk margin for uncertainty. Tower has not applied a discount given the short tail nature of the portfolio and the low interest rate environment.

The outstanding claims liability is measured at the **central estimate of future cash outflows** relating to claims incurred prior to the reporting date including direct and indirect claims handling costs. The liability is measured based on the advice of the Appointed Actuary or on valuations which have been peer reviewed by the Appointed Actuary. It is intended to include no deliberate or unconscious bias toward over or under-estimation. Given the uncertainty in establishing the liability, it is likely the final outcome will differ from the original liability established. Changes in the claim estimates are recognised in profit or loss in the reporting period in which the estimates are changed.

The gross outstanding claim liabilities also include a **risk margin** that relates to the inherent uncertainty in the central estimate of the future payments. The risk margin represents the amount by which the liability recognised in the financial statements is greater than the actuarial estimate. Tower currently applies a 75% probability of adequacy to the outstanding claims liability which means there is a one-in-four chance all future claim payments will exceed the overall reserve held.

Uncertainties surrounding the liability estimation process include those relating to the available data, actuarial models and assumptions, the statistical uncertainty associated with the general insurance run-off process and external risks.

Net outstanding claims liability is calculated by deducting reinsurance and other recoveries from gross outstanding claims. Reinsurance and other recoveries on outstanding claims are recognised as income with the corresponding asset being recognised on the balance sheet.

2.4. Net outstanding claims (continued)

Critical accounting estimates and judgements

Outstanding claims liability (excluding Canterbury earthquakes)

The estimation of the outstanding claims liability involves a number of key assumptions. Tower's estimation uses company-specific data, relevant industry data and general economic data for each major class of business. The estimation process factors in a number of considerations including the risks which the business is exposed to at a point in time, claim frequency and severity, historical trends in the development of claims as well as legal, social and economic factors that may affect each class of business.

ASSUMPTION	**2020 $000**	2019 $000
Expected future claims development proportion	**50.5%**	41.3%
Claims handling expense ratio	**7.1%**	7.3%
Risk margin	**7.2%**	7.1%

Expected future claims development proportion

This is the proportion of additional claims cost that is expected to be recognised in the future for BAU claims that have already been reported. The assumption is expressed as a proportion of current case estimates for open claims and recognised in the balance sheet as an outstanding claims liability.

Claims handling expense ratio

This reflects the expected cost to administer future claims. The ratio is calculated based on historical experience of claims handling costs.

Risk margin

Risk margins are calculated for outstanding claims in each country separately and a diversification benefit is calculated taking into account the uncorrelated effect of random risk. The total risk margin percentage shown is calculated on a weighted average basis.

Canterbury earthquake outstanding claims liability

Assumptions are made for the estimation of outstanding claims related to the Canterbury earthquakes. The key assumptions are the number of new overcap or litigated claims and re-opened claims and associated costs. Other elements of judgement include costs (including expected building costs) for settling open claims, the apportionment of claim costs between the four main earthquake events, future claims management expenses and assessment of the risk margin.

ASSUMPTION	**2020 $000**	2019 $000
Number of new overcap and new litigated claims	**68**	88
Average cost of new overcap or new litigated claim	**$107,000**	$106,000
Number of re-opened claims	**373**	169
Average cost of re-opened claim	**$7,500**	$10,100

New overcap and new litigated claims

New overcap claims are typically for properties that have previously been managed by EQC but where damage is now assessed as being more extensive than previously thought and there is now an insurance claim payable.

New litigated claims are existing or future new claims that are referred to either the Insurance Tribunal or the High Court for resolution.

Number of re-opened claims

Re-opened claims arise where additional liability arises for additional scope not previously identified or where a repair has failed or where another expense is payable for a claim that is currently closed.

2.4. Net outstanding claims (continued)

f. Sensitivity analysis

The impact on profit or loss of changes in key assumptions used in the calculation of the outstanding claims liabilities is summarised below. Each change has been calculated in isolation from the other variables before income tax.

Outstanding claims excluding Canterbury earthquake

		IMPACT ON PROFIT OR LOSS	
	MOVEMENT IN ASSUMPTION	**2020 $000**	2019 $000
Expected future claims development	+ 10%	1,771	1,522
	- 10%	(1,771)	(1,522)
Claims handling expense ratio	+ 10%	415	448
	- 10%	(415)	(448)
Risk margin	+ 10%	431	370
	- 10%	(431)	(370)

Canterbury earthquake outstanding claims

		IMPACT ON PROFIT OR LOSS	
	MOVEMENT IN ASSUMPTION	**2020 $000**	2019 $000
Number of new overcap or new litigated claims	+ 35%	(2,560)	(3,260)
	-35%	2,560	3,260
Change in average cost of a new overcap or new litigated claim	+ 20%	(1,460)	(1,860)
	- 20%	1,460	1,860
Number of reopened claims	+ 35%	(980)	(600)
	- 35%	980	600
Change in average cost of a reopened claim	+ 20%	(560)	(340)
	- 20%	560	340

2.5 Unearned premium liability

Reconciliation

	2020 $000	2019 $000
Opening balance	**187,855**	175,551
Premiums written during the year	377,159	356,767
Premiums earned during the year	(372,552)	(344,995)
Unearned premium movement	4,607	11,772
Unearned premium balance purchased*	12,003	–
Foreign exchange movements	(1,013)	532
Unearned premium liability	**203,452**	187,855

* Unearned premium balance acquired through the purchase of customer relationships (see note 6.2). As at 30 September 2020 this had reduced to $1.2m representing $10.8m premium earned during the year.

The majority of unearned premiums is a current liability as at 30 September 2020 and is presented net of cancellation provisions.

2.5 Unearned premium liability (continued)

Recognition and measurement

Unearned premium liability is the portion of premiums written that are yet to be earned in the consolidated statement of comprehensive income. It is calculated based on the term of the risk and in accordance with the expected pattern of the incidence of risk underwritten using an appropriate pro-rate method.

Adequacy of unearned premium liability

Tower undertakes a **liability adequacy test ("LAT")** to determine whether the unearned premium liability is sufficient to pay future claims net of reinsurance recoveries.

If the present value of expected future net claims including a risk margin (central estimate net claims) exceeds the unearned premium liabilities adjusted for deferred reinsurance premium relating to future business not yet written (adjusted unearned premium), the unearned premium liability is deemed deficient. This deficiency is immediately recognised in profit or loss. In recognising the deficiency, Tower will first write down any related intangible assets and then deferred acquisition costs before recognising an unexpired risk liability.

The unearned premium liabilities as at 30 September 2020 were sufficient across all businesses except for Fiji, NPI and Vanuatu (2019: Fiji and NPI) where small deficits were recognised. The total deficit recognised as a charge against deferred acquisition cost was $440,000 (2019: $331,000).

%	**2020 $000**	2019 $000
Central estimate net claims as a % of unearned premium liability	**44.5%**	42.9%
Risk margin as a % of net claims	**10.2%**	10.0%

Critical accounting estimates and judgements

The LAT is conducted using a central estimate of premium liability adjusted for risk margin and it is carried out on an individual country basis. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

2.6 Deferred insurance costs

Reconciliation

	DEFERRED ACQUISITION COSTS		DEFERRED OUTWARDS REINSURANCE EXPENSE		DEFERRED INSURANCE COSTS	
	2020 $000	2019 $000	**2020 $000**	2019 $000	**2020 $000**	2019 $000
Balance brought forward	**23,736**	22,595	**8,794**	8,475	**32,530**	31,070
Costs deferred	42,136	44,977	15,396	14,763	57,532	59,740
Amortisation expense	(40,661)	(43,805)	(14,586)	(14,683)	(55,247)	(58,488)
Foreign exchange movements	9	(31)	(157)	239	(148)	208
Closing balance	**25,220**	23,736	**9,447**	8,794	**34,667**	32,530

Deferred insurance costs are expected to be amortised within 12 months from reporting date.

Recognition and measurement

Acquisition costs comprises costs incurred in obtaining and recording general insurance contracts such as advertising expenses, sales expenses and other underwriting expenses. These costs are initially capitalised and then expensed in line with the earning pattern of the related premium. **Deferred acquisition costs** at the reporting date represent the acquisition costs related to unearned premium.

Outwards reinsurance expense reflects premiums ceded to reinsurers and is recognised as an expense in accordance with the pattern of reinsurance service received. Deferred outwards reinsurance expense at the reporting date represents outwards reinsurance expenses related to unearned premium.

2.7 Receivables

Composition

	2020 $000	2019 $000
Gross premium receivables	171,041	154,983
Provision for impairment	(1,383)	(1,100)
Premium receivable	**169,658**	153,883
BAU reinsurance recoveries	15,105	8,604
Canterbury earthquake reinsurance recoveries	3,246	5,615
Other recoveries	5,262	5,097
Reinsurance and other recoveries	**23,613**	19,316
Canterbury earthquake	52,883	69,900
Kaikoura earthquake	–	363
EQC receivable	**52,883**	70,263
Prepayments	2,664	2,572
Miscellaneous receivables	1,928	1,467
Receivables	**250,746**	247,501
Receivable within 12 months	250,746	174,873
Receivable in greater than 12 months	–	72,628
Receivables	**250,746**	247,501

Recognition and measurement

Receivables (inclusive of GST) are recognised at fair value and are subsequently measured at amortised cost less any impairment.

Tower's premium receivables and reinsurance and other recoveries arise from insurance contracts. These receivables are impaired if there is objective evidence that Tower will not be able to collect all amounts due according to the original terms of the receivable.

The remainder of Tower's receivables are assessed for impairment based on expected credit losses. The EQC receivable is the only material item that falls into this category and is discussed further in the sub-note below.

EQC recovery receivable related to Canterbury earthquakes

On 24 November 2020, Tower Limited entered into a settlement agreement with EQC regarding the recovery of claims costs related to the 2010 and 2011 Christchurch Earthquakes. Under the settlement agreement Tower will receive $53.6m of the $70.3m gross recovery receivable recognised as of 30 September 2020. This has resulted in a write-off of the residual amount of $16.7m.

The write-off amount has been increased by expected costs to recover the receivable of $0.7m in legal costs and offset by an adjustment to the EQC-related reinsurance payable of $4.3m (note 2.8). This results in an impairment expense of $13.1m and an EQC receivable carrying value of $52.9m (2019: $69.9m).

2.8 Payables

Composition

	2020 $000	2019 $000
Trade payables	13,527	12,624
GST payable	20,519	18,395
EQC receivable payable to reinsurers	10,741	16,900
EQC & Fire Service levies payable	11,068	11,332
Reinsurance premium payable	3,414	5,494
Other	7,331	11,162
Payables	**66,600**	75,907
Payable within 12 months	66,600	59,007
Payable in greater than 12 months	–	16,900
Payables	**66,600**	75,907

Recognition and measurement

Payables are stated at the fair value of the consideration to be paid in the future inclusive of GST. GST payable represents the net amount payable to the respective tax authorities.

2.9 Provisions

Composition

	2020 $000	2019 $000
Annual leave and other employee benefits	6,901	6,802
Customer premium refunds	2,422	–
Other	208	–
Provisions	**9,531**	6,802
Payable within 12 months	9,157	6,406
Payable in greater than 12 months	374	396
Provisions	**9,531**	6,802

Recognition and measurement

Tower recognises a provision when it has a present obligation as a result of a past event and it is more likely than not that an outflow of resources will be required to settle the obligation. Tower's provision represents the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

2.10 Assets backing insurance liabilities

Tower has determined that all assets within its insurance companies are held to back insurance liabilities, with the exception of: (i) property, plant and equipment; (ii) right-of-use assets, (iii) intangible assets; and (iv) investments in operating subsidiaries. Assets backing insurance liabilities are managed in accordance with approved investment mandate agreements on a fair value basis and are reported to the board on that basis.

3. INVESTMENTS

Tower invests funds collected as premiums and provided by shareholders to ensure it can meet its obligations to pay claims and expenses and to generate a return to support its profitability. Tower has a low risk tolerance and therefore the majority of its investments are in investment grade supranational and government bonds, and term deposits.

3.1 Investment income

	2020 $000	2019 $000
Interest income	7,328	8,141
Net realised (loss)/gain	(1,277)	42
Net unrealised loss	(241)	(664)
Investment income	**5,810**	7,519

Net realised losses relate to the maturity of fixed interest bonds, with interest coupon rates higher than market rates, purchased at higher than face value. The corresponding higher interest received is reflected in the interest income amount.

Recognition and measurement

Tower's investment income is primarily made up of interest income on fixed interest investments and fair value gains or losses on its investment assets. Both are recognised in the period that they are earned through profit or loss.

3.2 Investments

	2020 $000	2019 $000
Fixed interest investments	237,298	233,527
Equity investment	572	611
Property investment	34	34
Investments	**237,904**	234,172

Recognition and measurement

Tower's investment assets are designated at fair value through profit or loss. Investment assets are initially recognised at fair value and are remeasured to fair value through profit or loss at each reporting date. Tower's approach to measuring the fair value of these assets is covered in the following note.

Purchases and sales of investments are recognised at the date which Tower commits to buy or sell the assets (i.e. trade date). Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

3.3 Fair value hierarchy

Tower designates its investments at fair value through profit or loss in accordance with its Treasury policy. It categorises its investments into three levels based on the inputs available to measure fair value:

Level 1 Fair value is calculated using quoted prices in active markets. Tower currently does not have any Level 1 investments.

Level 2 Investment valuations are based on direct or indirect observable data other than quoted prices included in Level 1. Level 2 inputs include: (1) quoted prices for similar assets or liabilities; (2) quoted prices for assets or liabilities that are not traded in an active market; or (3) other observable market data that can be used for valuation purposes. Tower investments included in this category include government and corporate debt where the market is considered to be lacking sufficient depth to be considered active and part ownership of a property that is rented out to staff.

Level 3 Investment valuation is based on unobservable market data. Tower's equity investment in the unlisted reinsurance company Pacific Re is the only investment in this category. Tower agreed to sell the investment to a third party in November 2020 at the carrying value reflected above.

3.3 Fair value hierarchy (continued)

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
As at 30 September 2020				
Fixed interest investments	–	237,298	–	**237,298**
Equity investment	–	–	572	**572**
Property investment	–	34	–	**34**
Investments	**–**	**237,332**	**572**	**237,904**
As at 30 September 2019				
Fixed interest investments	–	233,527	–	233,527
Equity investment	–	–	611	611
Property investment	–	34	–	34
Investments	–	233,561	611	234,172

There have been no transfers between levels of the fair value hierarchy during the current financial period (30 September 2019: nil).

4. RISK MANAGEMENT

Tower is exposed to multiple risks as it works to set things right for its customers and their communities whilst maximising returns for its shareholders. Everyone across the organisation is responsible for ensuring that Tower's risks are managed and controlled on a day-to-day basis.

4.1 Risk management overview

Tower's approach to achieving effective risk management is to embed a risk-aware culture where everyone across the organisation (including contractors and third parties) is responsible for managing risk.

Tower's Board expresses its appetite for risk in a Risk Appetite Statement, which:

(i) Gives clear concise guidance to management of parameters for risk taking.

(ii) Embeds risk management into strategic and decision-making processes.

(iii) Facilitates risk to be managed at all levels of the organisation through a structured process to identify risk, and the allocation of clear, personal responsibility for management of identified risks by assigned risk owners.

The Board then approves and adopts: (i) the Risk Management Strategy (RMS) which is the central document that explains how Tower effectively manages risk within the business; and (ii) the Reinsurance Management Strategy (ReMS) which describes the systems, structures, and processes which collectively ensures Tower's reinsurance arrangements and operations are prudently managed. These documents are approved annually by the Board.

The Board has delegated its responsibility to the Risk Committee to provide oversight of risk management practices and provide advice to the Board and management when required. In addition, the Risk Committee also monitors the effectiveness of Tower's risk management function which is overseen by the Chief Risk Officer (CRO). The CRO provides regular reports to the Risk Committee on the operation of the Risk Management Framework (RMF), the status of material risks, risk and compliance incidents and risk framework changes.

Tower has embedded an RMF with clear accountabilities and risk ownership to ensure that Tower identifies, manages, mitigates and reports on all key risks and controls through the three lines of defence model.

(i) First line: Operational management has ownership, responsibility and accountability for directly identifying, assessing, controlling and mitigating key risks which prevent them from achieving business objectives.

(ii) Second line: Tower's Risk and Compliance Functions are responsible for developing and implementing effective risk and compliance management processes; providing advisory support to the first line of defence and constructively challenging operational management and risk and obligation owners to ensure positive assurance.

(iii) Third line: Internal Audit is responsible and accountable for providing an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework. Internal audit, along with other groups such as external audit, report independently to the Board and/or the Audit Committee.

The RMF is supported by a suite of policies that address the risks and compliance obligations covered in this section.

4.2 Strategic risk

Strategic risk is the risk that internal or external factors compromise Tower's ability to execute its strategy or achieve its strategic objectives. Strategic risk is managed through:

(i) Monitoring and managing performance against Board-approved plan and targets

(ii) Board leading an annual strategy and planning process which considers our performance, competitor positioning and strategic opportunities

(iii) Identifying and managing emerging risks using established governance processes and forums

4.3 Insurance risk

Insurance risk is the risk that for any class of risk insured, the present value of actual claims payable will exceed the present value of actual premium revenues generated (net of reinsurance). This risk is inherent in Tower's operations and arises and manifests through underwriting, insurance concentration and reserving risk.

a. Underwriting risk

Underwriting risk refers to the risk that claims arising are higher (or lower) than assumed in pricing due to bad experience including catastrophes, weakness in controls over underwriting or portfolio management, or claims management issues. Tower has established the following key controls to mitigate this risk:

(i) Use of comprehensive management information systems and actuarial models to price products based on historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes, trended forward to recognise anticipated changes in claims patterns after making allowance for other costs incurred by the Group.

(ii) Passing elements of insurance risk to reinsurers. Tower's Board determines a maximum level of risk to be retained by the Group as a whole. Tower's reinsurance programme is structured to adequately protect the solvency and capital positions of the insurance business. The adequacy of reinsurance cover is modelled by 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.

(iii) Underwriting limits are in place to enforce appropriate risk selection criteria and pricing with specific underwriting authorities that set clear parameters for the business acceptance.

b. Concentration risk

Concentration risk refers to the risk of underwriting a number of like risks, where the same or similar loss events have the potential to produce claims from many of Tower's customers at the same time. Tower is particularly subject to concentration risks in the following variety of forms:

(i) Geographic concentration risk – Tower purchases a catastrophe reinsurance programme to protect against a modelled 1-in-1000 years whole of portfolio catastrophe loss. In addition it takes out additional aggregate reinsurance cover for large events which fall outside the catastrophe reinsurance programme and tends to cover weather events in New Zealand and across the Pacific.

(ii) Product concentration risk – Tower's business is weighted towards the NZ general insurance market where its risks are concentrated in house insurance (Home & Contents) and motor insurance. Tower limits its exposure through proportionate reinsurance arrangements. The table below illustrates the diversity of Tower's operations.

	2020			2019		
GROSS WRITTEN PREMIUM (%)	**NZ**	**PACIFIC**	**TOTAL**	NZ	PACIFIC	TOTAL
Home	51%	4%	**55%**	51%	4%	55%
Motor	30%	5%	**35%**	29%	5%	34%
Commercial	1%	6%	**7%**	2%	5%	7%
Liability	1%	0%	**1%**	1%	0%	1%
Workers compensation	0%	1%	**1%**	0%	1%	1%
Other	0%	1%	**1%**	1%	1%	2%
Total	**83%**	**17%**	**100%**	83%	17%	100%

Tower has limited exposure to long-tail classes (which comprises part of "liability" and "workers compensation"). Long-tail classes have increased uncertainty of the ultimate cost of claims due to the additional period of time to settlement.

4.3 Insurance risk (continued)

c. Reserving risk

Reserving risk is managed through the actuarial valuation of insurance liabilities and monitoring of the probability of adequacy booked reserves. The valuation of the net central estimate is performed by qualified and experienced actuaries. The central estimate is subject to a comprehensive review at least annually.

4.4 Credit risk

Credit risk is the risk of loss that arises when a counterparty fails to meet their financial obligations to Tower in accordance with the agreed terms. Tower's exposure to credit risk primarily results from transactions with security issuers, reinsurers and policyholders.

a. Investment and treasury

Tower manages its investment and treasury credit risks in line with limits set by the Board:

(i) New Zealand cash deposits that are internally managed are limited to banks with a minimum Standard & Poor's (S&P) AA- credit rating.

(ii) Cash deposits and investments that are managed by external investment managers are limited to counterparties with a minimum S&P A- credit rating.

(iii) Tower Insurance holds deposits and invests in Pacific regional investment markets through its Pacific Island operations to comply with local statutory requirements and in accordance with Tower Insurance investment policies. These deposits and investments generally have low credit ratings representing the majority of the value included in the 'Below BBB' and unrated categories in the table below. This includes deposits and investments with Australian bank subsidiaries that comprise 83% (2019: 66%) of "not rated" category.

	CASH AND CASH EQUIVALENTS		FIXED INTEREST INVESTMENTS		TOTAL	
	2020 $000	2019 $000	**2020 $000**	2019 $000	**2020 $000**	2019 $000
AAA	–	–	106,805	111,950	**106,805**	111,950
AA	55,478	47,585	90,859	89,735	**146,337**	137,320
A	–	–	29,737	8,027	**29,737**	8,027
BBB	–	–	–	–	**–**	–
Below BBB	5,409	2,898	3,456	11,892	**8,865**	14,790
Not rated	19,221	11,535	6,441	11,923	**25,662**	23,458
Total	**80,108**	62,018	**237,298**	233,527	**317,406**	295,545

b. Reinsurance

Tower manages its reinsurance programme in line with the ReMS. Tower seeks to manage the quantum and volatility of insurance risk in order to reduce exposure and overall cost.

Tower's policy is to only deal with reinsurers with a credit rating of S&P "A-" or better unless local statutory requirements dictate otherwise. Additional requirements of the policy are for no individual reinsurer to have more than 25% share of the overall programme and Tower is prohibited from offering inwards reinsurance to external entities. The following table provides details on Tower's exposure to reinsurance recoveries:

	REINSURANCE ON:					
	OUTSTANDING CLAIMS		PAID CLAIMS		TOTAL	
	2020 $000	2019 $000	**2020 $000**	2019 $000	**2020 $000**	2019 $000
AAA	–	–	–	–	**–**	–
AA	6,738	5,052	3,490	185	**10,228**	5,237
A	6,106	8,215	1,986	572	**8,092**	8,787
BBB	–	–	–	–	**–**	–
Below BBB	–	–	–	–	**–**	–
Not rated	29	190	2	6	**31**	196
Total	**12,873**	13,457	**5,478**	763	**18,351**	14,220

4.4 Credit risk (continued)

The following table provides further information regarding the ageing of reinsurance recoveries on paid claims at the balance date.

		PAST DUE				
	NOT DUE $000	1 MONTH $000	1 TO 2 MONTHS $000	2 TO 3 MONTHS $000	OVER 3 MONTHS $000	TOTAL $000
As at 30 September 2020						
Reinsurance recoveries on paid claims	5,379	–	–	–	99	**5,478**
As at 30 September 2019						
Reinsurance recoveries on paid claims	685	–	–	78	–	763

c. Premium receivable

Tower's premium receivable balance primarily relates to policies which are paid on either a fortnightly or monthly basis. Payment default or policy cancellation – subject to the terms of the policyholder's contract – will result in the termination of the insurance contract eliminating both the credit risk and insurance risk.

		PAST DUE				
	NOT DUE* $000	1 MONTH $000	1 TO 2 MONTHS $000	2 TO 3 MONTHS $000	OVER 3 MONTHS $000	TOTAL $000
As at 30 September 2020						
Net premium receivable	162,935	3,705	1,992	986	40	**169,658**
As at 30 September 2019						
Net premium receivable	143,331	5,552	3,371	991	638	153,883

* this includes premiums that are less than 30 days outstanding (which are owed but not past due) of $7.1m (2019: $5.6m).

4.5 Market risk

Market risk is the risk of adverse impacts on investment earnings resulting from changes in market factors. Tower's market risk is predominately as a result of changes in the value of the New Zealand dollar (currency risk) and interest rate movements. Tower's approach to managing market risk is underpinned by its Treasury Policy as approved by the Board.

a. Currency risk

Tower's currency exposure arises from the translation of foreign operations into Tower's functional currency (currency translation risk) or due to transactions denominated in a currency other than the functional currency of a controlled entity (operational currency risk). The currencies giving rise to this risk are primarily the US dollar, Fijian dollar and PNG kina.

Tower's principal currency risk is currency translation (where movement impacts equity). Tower generally elects not to hedge this risk as it is difficult given the size and nature of the currency markets in the Pacific. Tower seeks to minimise its net exposure to foreign operational risk by actively seeking to return surplus cash and capital to the parent company.

Operational currency risk impacts profit and generally arises from:

(i) Procurement of goods and services denominated in foreign currencies. Tower may enter into hedges for future transactions, using authorised instruments, provided that the timing and amount of those future transactions can be estimated with a reasonable degree of certainty.

(ii) Investment assets managed by the external investment manager that are denominated in foreign currencies. Tower's Board sets limits for the management of currency risk based on prudent asset management practice. Regular reviews are conducted to ensure that these limits are adhered to.

4.5 Market risk (continued)

The following table demonstrates the impact of the New Zealand dollar weakening or strengthening against the most significant currencies for which Tower has foreign exchange exposure holding all other variables constant.

	DIRECT IMPACT ON EQUITY		IMPACT ON PROFIT OR LOSS	
	2020 $000	2019 $000	**2020 $000**	2019 $000
New Zealand Dollar – USD				
Currency strengthens by 10%	(407)	(271)	17	30
Currency weakens by 10%	497	331	(20)	(37)
New Zealand Dollar – Fijian Dollar				
Currency strengthens by 10%	(1,350)	(1,229)	(73)	(74)
Currency weakens by 10%	1,650	1,502	90	90
New Zealand Dollar – PNG Kina				
Currency strengthens by 10%	(1,078)	(965)	57	39
Currency weakens by 10%	1,318	1,180	(70)	(48)

b. Interest rate risk

Tower is exposed to interest rate risk through its holdings in interest-bearing assets. Interest-bearing assets with a floating interest rate expose Tower to cash flow interest rate risk, whereas fixed-interest investments expose Tower to fair value interest rate risk.

Tower's interest rate risk primarily arises from fluctuations in the valuation of fixed-interest investments recognised at fair value and from the underwriting of general insurance contracts, which creates exposure to the risk that interest rate movements materially impact the fair value of the insurance liabilities. Interest rate risk arises to the extent that there is a mismatch which arises between the two.

Fixed-interest investments are measured at fair value through profit or loss. Movements in interest rates impact the fair value of interest-bearing financial assets and therefore impact profit or loss (there is no direct impact on equity). The impact of a 0.5% increase or decrease in interest rates on fixed interest investments is shown below (holding everything else constant). The assumption made for 0.5% decrease in interest rates is that the lower bound is capped at 0% as negative rates on fixed interest investments are highly unlikely.

	IMPACT ON PROFIT OR LOSS	
	2020 $000	2019 $000
Interest rates increase by 0.5%	**(921)**	(690)
Interest rates decrease by 0.5%	**750**	765

Tower manages its interest rate risk through Board-approved investment management guidelines that have regard to policyholder expectations and risks and to target surplus for solvency as advised by the Appointed Actuary.

4.6 Liquidity risk

Liquidity risk arises where liabilities cannot be met as they fall due as a result of insufficient funds and/or illiquid asset portfolios. Tower mitigates this risk through maintaining sufficient liquid assets to ensure that it can meet all obligations on a timely basis.

Tower is primarily exposed to liquidity risk through its obligations to make payment for claims of unknown amounts on unknown dates. Fixed-interest investments can generally be readily sold or exchanged for cash to settle claims and are managed in accordance with the policy of broadly matching the overall maturity profile to the estimated pattern of claim payments. This is illustrated in the table below.

	NET OUTSTANDING CLAIMS LIABILITY		CASH AND INVESTMENTS	
	2020 $000	2019 $000	**2020 $000**	2019 $000
Floating interest rate (at call)	–	–	80,108	62,018
Within 3 months	32,943	46,797	36,982	16,306
3 to 6 months	15,140	24,430	53,797	48,467
6 to 12 months	20,246	16,957	55,352	50,266
After 12 months	26,529	22,419	91,167	118,488
Total	**94,858**	110,603	**317,406**	295,545

4.7 Capital management risk

Capital risk is the risk that capital is insufficient or not of the best form to provide a buffer against losses arising from unanticipated events, while also maximising the efficient use of capital with a view to enhancing growth and returns and adding long-term value to Tower's shareholders.

Tower has a documented description of its capital management process which sets out Tower's principles, approaches, and processes in relation to capital management that enables it to operate at an appropriate level of target solvency capital which is within the bounds of Tower's risk appetite.

The capital management process allows the Board, management, rating agencies and the regulator to understand Tower's approach to capital management, including requirements for formulating capital targets, and monitoring, reporting and remediating capital as required.

The operation of the capital management process is reported annually to the Board together with a forward-looking estimate of expected capital utilisation and capital resilience. In addition, Tower carries out stress, reverse stress and scenario testing to ensure the level of capital is appropriate given its risk appetite.

a. Regulatory solvency capital

The Reserve Bank of New Zealand (RBNZ) is the prudential regulator and supervisor of all insurers carrying on insurance business in New Zealand, and is responsible for administering the Insurance (Prudential Supervision) Act 2010. Tower measures the adequacy of capital against the Solvency Standards for Non-life Insurance Business published by the RBNZ alongside additional capital held to meet RBNZ minimum requirements and any further capital as determined by the Board.

Foreign operations are subject to regulatory oversight in the relevant jurisdiction. It is Tower's policy to ensure that each of the licenced insurers in the Group maintain an adequate capital position within the requirements of the relevant regulator.

During the year ended 30 September 2020 the Group complied with all externally imposed capital requirements (2019: complied).

The RBNZ requires that Tower maintains a minimum solvency margin of at least $50.0m (2019: $50.0m). Tower Limited's group and parent solvency margin are illustrated in the table below.

	2020* $000		2019 $000	
	PARENT	**GROUP**	PARENT	GROUP
Actual solvency capital	150,451	181,214	155,894	182,197
Minimum solvency capital	52,342	65,728	56,598	73,276
Solvency margin	**98,110**	**115,485**	99,296	108,921
Solvency ratio	**287%**	**276%**	275%	249%

* The solvency figures presented above for 2020 are based on the new amalgamated structure that came into effect 30 September 2020 whereas those for 2019 represent those of Tower Insurance Limited . The solvency margin reduced by $2.5m at 30 September 2020 for the Parent and Group as a result of the amlagamation.

4.7 Capital management risk (continued)

Tower's license condition was amended during the year (effective 31 October 2019) where the net EQC receivable (2020: $42.1m; 2019: $53.0m) is specifically excluded from the calculation of solvency. As a result Tower issued $45m of ordinary share capital on 31 October 2019. If the change to the license condition and the share issue had both applied at 30 September 2019, the net impact would have been a reduction in Tower Insurance Limited's solvency margin by $7.6m.

The solvency presented as of 30 September 2020 does not reflect any possible change to the license condition as a result of the commercial settlement of the EQC receivable on 24 November 2020.

b. Capital composition

The balance sheet capital mix at reporting date is shown in the table below:

	2020 $000	2019 $000
Total shareholder equity	345,003	290,857
Standby credit (facility)	–	15,000
Total	**345,003**	305,857

c. Financial strength rating

Tower Limited has an insurer financial strength rating of 'A-' (Excellent) and a long-term issuer credit rating of 'A-' as affirmed by international rating agency AM Best Company Inc. with an effective date of 2 October 2020. This rating has been calculated for the amalgamated entity.

4.8 Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes or systems, human error or from external events.

Tower's approach is to proactively manage our operational risks to mitigate potential customer detriment, regulatory or legal censure, financial and reputational impacts.

Tower has in place appropriate operational processes and systems, including prevention and detection measures. These include processes which seek to ensure Tower can absorb and/or adapt to internal or external occurrences that could disrupt business operations.

Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities. Failures in controls are recorded and then actively monitored and managed. Incidents are managed by the first line of defence and overseen by the second line of defence, with ongoing reporting to management and the Risk Committee.

4.9 Regulatory and compliance risk

Regulatory and compliance risk is defined as the risk of legal, regulatory or reputational impacts arising from failure to manage compliance obligations, or failure to anticipate and prepare for changes in the regulatory environment.

Tower engages with regulators and regularly monitors developments in regulatory requirements to support ongoing compliance.

4.10 Conduct risk

Conduct risk is defined as the risk that conduct may contribute to poor outcomes for customers.

Tower manages conduct risk through a number of measures including undertaking ongoing product reviews to ensure products are delivering good customer outcomes, reviewing customer feedback to identify conduct trends or issues, managing vulnerable customers, holding workshops with frontline staff to identify potential conduct issues and embedding and monitoring controls across the business to deliver good customer outcomes.

There is robust governance in place to oversee Tower's conduct risk management programme including reporting to the Board, Executive Committees and monthly conduct working groups with representatives from across Tower.

4.11 Cyber risk

Cyber risk is any risk associated with financial loss, disruption or damage to the reputation of Tower resulting from either the failure, or unauthorised or erroneous use of its information systems.

Tower's approach to cyber risk is to proactively identify, protect against, monitor for and respond to those cyber threats seen to be targeting the organisation. Tower has identified the top cyber risks facing it and there is a programme of work in place to deliver risk reduction initiatives to bring those risks within Tower's risk appetite. A dedicated security function is responsible for providing ongoing management of security technical controls, operational tasks and processes across the organisation.

An Information Security Governance Forum meets on a quarterly basis to set the security policy direction, to review security programme risk reduction progress and overall security function effectiveness.

5. CAPITAL STRUCTURE

This section provides information about how Tower finances its operations through equity. Tower's capital position provides financial security to its customers, employees and other stakeholders whilst operating within the capital requirements set by regulators.

5.1 Borrowings

During September 2020 Tower repaid the total amount drawn down under the cash advance facility agreement of $15.0m. At the same time, it reached agreement with Bank of New Zealand to bring forward the expiry date of the agreement to 30 September 2020 (2019: 27 March 2023).

Total borrowing costs for the year were $0.8m (2019: $0.3m), none of which were capitalised.

5.2 Contributed equity

	2020 $000	2019 $000
Opening balance	209,990	209,990
Issue of share capital (i)	45,000	–
Cancellation of shares on amalgamation (ii)	(254,990)	–
Recognition of shares on amalgamation (ii)	492,424	–
Total contributed equity	**492,424**	209,990
Represented by:		
Opening balance	211,107,758	211,107,758
Issued shares (i)	45,000,000	–
Cancellation of shares on amalgamation (ii)	(256,107,758)	–
Recognition of shares on amalgamation (ii)	421,647,258	–
Total shares on issue	**421,647,258**	211,107,758

(i) On 24 September 2019 the prior Tower Limited invited its eligible shareholders to subscribe to a rights issue of 1 new share for every 4 existing shares held at the record date on 2 October 2019 at a price of NZD0.56 (or AUD0.54) for each new share. The issue was fully subscribed on 23 October 2019. Subsequent to this, on 31 October 2019 the Company issued $45m of new capital to its immediate shareholder, Tower Financial Services Group Limited.

(ii) On 30 September 2020, Tower Insurance Limited was renamed Tower Limited (the Company) and was amalgamated by way of a short-form amalgamation under the Companies Act 1993 with its ultimate parent, Tower Limited (the prior Tower Limited); its parent, Tower Financial Services Group Limited; and another subsidiary of Tower Limited, Tower New Zealand Limited. At this date the Company's existing share capital of $255m (including the issue of $45m new share capital) was cancelled without payment or other consideration, and instead the shares of the prior Tower Limited (of $492m) became the shares of the Company, so that the shareholders of the prior Tower Limited became shareholders of the Company.

Ordinary shares issued by the Company are classified as equity and are recognised at fair value less direct issue costs. All shares rank equally with one vote attached to each share. There is no par value for each share.

5.3 Reserves

	2020 $000	2019 $000
Opening balance	(3,697)	(4,397)
Currency translation differences arising during the year	(1,288)	700
Foreign currency translation reserve	**(4,985)**	(3,697)
Opening balance	1,515	1,242
Gain on revaluation	41	305
Deferred tax on revaluation	8	(32)
Asset revaluation reserve	**1,564**	1,515
Capital reserve	**11,990**	11,990
Opening balance	–	–
Impact of amalgamation	(113,000)	–
Separation reserve	**(113,000)**	–
Reserves	**(104,431)**	9,808

Recognition and measurement

The assets and liabilities of entities whose functional currency is not the New Zealand dollar are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at a rate approximating the spot rate at the transaction date. Exchange rate differences are taken to the **foreign currency translation reserve**.

Tower's land and buildings are valued at fair value less accumulated depreciation. Any surplus on revaluation of these items is transferred directly to the **asset revaluation reserve** unless it offsets a previous decrease in value recognised in profit or loss in which case it is recognised in the consolidated statement of comprehensive income.

On 30 September 2020, the Company was amalgamated with other Tower entities, as described in note 8.2. On this date, the separation reserve was recognised. The **separation reserve** was originally created in the prior Tower Limited in 2007 at the time of the demerger of the New Zealand and Australian businesses in accordance with a ruling provided by the Australian Tax Office (ATO). It will be carried forward indefinitely to meet the requirements of the ATO.

5.4 Net tangible assets per share

	2020 $000	2019 $000
Net tangible assets per share	**0.56**	0.56

Net tangible assets per share has been calculated using the net assets as per the balance sheet adjusted for intangible assets (including goodwill) and deferred tax assets divided by total shares on issue. Net tangible assets per share as at 30 September 2019 has been calculated using the number of ordinary shares of the prior Tower Limited as at that date.

5.5 Earnings per share

	2020 $000	2019 $000
Profit attributable to shareholders ($ thousands)	**11,892**	16,565
Weighted average number of ordinary shares for basic and diluted earnings per share (number of shares)	**417,172,654**	350,442,688
Basic and diluted earnings per share (cents)	2.85	4.73

5.5 Earnings per share (continued)

The Group has used the ordinary shares of the prior Tower Limited up to 30 September 2020, and of the Company from that date, for the purposes of calculating the weighted average number of ordinary shares. The prior Tower Limited issued an additional 84,322,958 shares as per its 1-for-4 rights offer (refer to Note 5.2). The shares were issued at NZ$0.56 which represented a 19% discount to the share price of NZ$0.69 as at 15 October 2019 (the date immediately prior to the exercise of rights). As a result, 13,118,388 shares issued as part of the rights offer are treated as a bonus issue. The weighted average number of ordinary shares on issue in both 2020 and 2019 have been adjusted in accordance with NZ IAS 33 *Earnings per share*.

6. OTHER BALANCE SHEET ITEMS

This section provides information about assets and liabilities not included elsewhere.

6.1 Property, plant and equipment

Composition:

30 September 2020

	LAND AND BUILDINGS $000	OFFICE EQUIPMENT & FURNITURE $000	MOTOR VEHICLES $000	COMPUTER EQUIPMENT $000	TOTAL $000
Composition:					
Cost	4,035	8,599	1,748	15,622	**30,004**
Accumulated depreciation	–	(5,610)	(665)	(13,688)	**(19,963)**
Property, plant and equipment	**4,035**	**2,989**	**1,083**	**1,934**	**10,041**
Reconciliation:					
Opening balance	4,082	4,002	205	815	**9,104**
Depreciation	–	(1,048)	(205)	(751)	**(2,004)**
Additions	–	31	1,211	2,004	**3,246**
Revaluations	41	–	–	–	**41**
Disposals	–	21	(125)	(130)	**(234)**
Foreign exchange movements	(88)	(17)	(3)	(4)	**(112)**
Closing balance	**4,035**	**2,989**	**1,083**	**1,934**	**10,041**
30 September 2019					
Composition:					
Cost	4,082	9,257	1,157	13,640	28,136
Accumulated depreciation	–	(5,255)	(952)	(12,825)	(19,032)
Property, plant and equipment	4,082	4,002	205	815	9,104
Reconciliation:					
Opening balance	3,404	4,438	239	429	8,510
Depreciation	–	(1,018)	(112)	(461)	(1,591)
Additions	337	562	97	862	1,858
Revaluations	305	–	–	–	305
Disposals	–	(3)	(4)	(1)	(8)
Foreign exchange movements	36	23	(15)	(14)	30
Closing balance	4,082	4,002	205	815	9,104

6.1 Property, plant and equipment (continued)

Recognition and measurement

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

Depreciation is calculated using the straight line method to allocate the asset's 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.

Furniture & fittings	5-9 years
Leasehold property improvements	3-12 years
Motor vehicles	5 years
Computer equipment	3-5 years

Land and buildings are shown at fair value, based on periodic 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.

6.2 Intangible assets

a. Amounts recognised in the balance sheet

30 September 2020

	GOODWILL $000	SOFTWARE $000	CUSTOMER RELATIONSHIPS* $000	TOTAL $000
Composition:				
Cost	17,744	98,351	14,222	**130,317**
Accumulated amortisation	–	(43,379)	(1,984)	**(45,363)**
Intangible assets	**17,744**	**54,972**	**12,238**	**84,954**
Reconciliation:				
Opening balance	17,744	56,467	–	**74,211**
Amortisation	–	(8,866)	(1,984)	**(10,850)**
Additions	–	7,534	14,222	**21,756**
Disposals	–	(43)	–	**(43)**
Transfers	–	(120)	–	**(120)**
Closing balance	**17,744**	**54,972**	**12,238**	**84,954**
30 September 2019				
Composition:				
Cost	17,744	90,981	–	108,725
Accumulated amortisation	–	(34,514)	–	(34,514)
Intangible assets	17,744	56,467	–	74,211
Reconciliation:				
Opening balance	17,744	27,298	–	45,042
Amortisation	–	(6,527)	–	(6,527)
Additions	–	36,343	–	36,343
Disposals	–	–	–	–
Transfers	–	(647)	–	(647)
Closing balance	17,744	56,467	–	74,211

* Tower purchased Youi NZ Pty Ltd.'s insurance portfolio in December 2019. The transaction is treated as an intangible asset as Tower purchased the customer relationships (and associated assets and liabilities) and not Youi NZ's business systems or processes. The amount capitalised includes the price paid for the portfolio and associated acquisition costs.

6.2a. Amounts recognised in the balance sheet (continued)

Recognition and measurement

Intangible assets are assets without physical substance. They are recognised as an asset if it is probable that expected future economic benefits attributable to the asset will flow to Tower and that costs can be measured reliably.

Application software and customer relationships are recorded at cost less accumulated amortisation and impairment. Application software is amortised on a straight line basis over the estimated useful life of the software. Customer relationships are amortised over the estimated useful life in accordance with the pattern of economic benefit consumption.

Internally generated intangible assets are recorded at cost which comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Amortisation of internally generated intangible assets begins when the asset is available for use and is amortised on a straight line basis over the estimated useful life.

The useful lives for each category of intangible assets with a finite life are as follows:

— capitalised software: 3-5 years for general use computer software and 3-10 years for core operating system software

— customer relationships: 10 years

Goodwill (i.e. assets with an indefinite useful life) generated as a result of business acquisition is initially measured as the excess of the purchase consideration over the fair value of the net identifiable assets and liabilities acquired. Goodwill is not subject to amortisation but is tested for impairment annually or more frequently where there are indicators of impairment.

b. Impairment testing

An impairment charge is recognised in profit or loss when the carrying value of the asset, or cash-generating unit (CGU), exceeds the calculated recoverable amount.

(i) Software and customer relationships

Software and customer relationships are reviewed at each reporting date by determining whether there is an indication that the carrying values may be impaired. If an indication exists, the asset is tested for impairment. A loss is recognised for the amount by which the carrying value exceeds the asset's recoverable value.

There were no indications of impairment during the year and therefore these assets were not tested for impairment (2019: no indications).

Critical accounting estimates and judgements

The recoverable amount for software and customer relationships has been determined by reference to a value-in-use calculation based on (i) cash flow forecasts that combine past experience with future expectations based on prevailing and anticipated market factors; and (ii) a discount rate that appropriately reflects the time value of money and the specific risks associated with the assets.

Value-in-use calculations involve the use of accounting estimates and assumptions to determine the projected net cash flows, which are discounted using an appropriate discount rate to reflect current market assessment of the risks associated with the assets. An impairment charge for capitalised software is incurred where there is evidence that the economic performance of the asset is not as intended by management. Customer relationships represent the present value of future benefits expected to arise from existing customer relationships. The assumptions for the useful life are based on historical information.

(ii) Goodwill

Goodwill is deemed to have an indefinite useful life and is tested annually for impairment or more frequently where there is an indication that the carrying value may not be recoverable.

Goodwill is allocated to cash generating units (CGUs) expected from synergies arising from the acquisition giving rise to goodwill. Tower's goodwill is allocated to the general insurance CGU.

Tower undertook an annual impairment review and no loss has been recognised in 2020 as a result (2019: nil). Covid-19 impacts were taken into account when performing the review.

6.2 Intangible assets (continued)

Critical accounting estimates and judgements

The recoverable amount of the general insurance business is assessed with reference to its appraisal value, which is a common practice for insurance companies. A base discount rate of 10.5% was used in the calculation (2019: 12.5%). The cash flows are in line with the FY21 – FY23 operational plan (2019: FY20 – FY22) and longer-term profitability is assumed to continue at 2% per annum. The projected cash flows are determined based on past performance and management's expectations for market developments with a terminal growth rate of 2% (2019: 2%).

The overall valuation is sensitive to a range of assumptions including the forecast combined operating ratio used in terminal value calculation, discount rate, and terminal value long-term growth rate. Reasonable changes to these assumptions will not result in an impairment.

6.3 Leases

a. Amounts recognised in the Balance Sheet

(i) Right-of-use assets

	OFFICE SPACE $000	MOTOR VEHICLES $000	2020 $000
Composition:			
Cost	9,619	53	**9,672**
Accumulated depreciation	(2,430)	(31)	**(2,461)**
Right-of-use assets	**7,189**	**22**	**7,211**
Reconciliation:			
Opening balance	10,097	86	**10,183**
Depreciation	(2,518)	(68)	**(2,586)**
Additions	961	4	**965**
Disposals	(1,249)	–	**(1,249)**
Revaluations	(96)	–	**(96)**
Impairment	(27)	–	**(27)**
Net foreign exchange movements	21	–	**21**
Right-of-use assets	**7,189**	**22**	**7,211**

Recognition and measurement

Right-of-use assets are recognised when Tower has the right to use the assets. Right-of-use assets are measured at cost comprising the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received; and indirect costs; and restoration costs. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

6.3a. Amounts recognised in the Balance Sheet (continued)

(ii) Lease liabilities

	2020 $000
Composition:	
Current	2,721
Non-current	5,974
Lease liabilities	**8,695**
Due within 1 year	2,721
Due within 1 to 2 years	2,584
Due within 2 to 5 years	3,534
Due after 5 years	418
Discount	(562)
Lease liabilities	**8,695**

Recognition and measurement

Lease liabilities are recognised at the date Tower has the right to use the corresponding asset. Lease liabilities are initially measured as the present value of expected lease payments under lease arrangements. Lease liability will include any option to extend where it is reasonably certain that the option will be exercised. The lease payments are discounted using the incremental borrowing rate as the interest rate in the lease cannot be readily determined. Incremental borrowing rates used during the year ranged between 2.3% and 3.6%.

Subsequent repayments are split between principal and interest cost where the finance cost represents the time value of money and is charged to the profit or loss over the lease period. The discount rate applied is unchanged from the applied at the initial recognition of the lease, unless there are material changes to that lease.

b. Amounts recognised in the consolidated statement of comprehensive income

	CLASSIFICATION	2020 $000
Depreciation and impairment	Underwriting expense & corporate and other expenses	(2,598)
Interest expense	Finance costs	(369)
Gain on disposal	Underwriting expense	167
Lease expense		**(2,800)**

c. Amounts recognised in the consolidated statement of cash flows

	2020 $000
Total cash outflow for lease principal payments	**(3,070)**

7. TAX

This section provides information on Tower's tax expense during the year and its position at balance date.

7.1 Tax expense

Composition

	2020 $000	2019 $000
Current tax	3,621	2,757
Deferred tax	4,340	6,407
Adjustments in respect of prior years	(51)	26
Tax expense	**7,910**	9,190

Reconciliation of prima facie tax to income tax expense

	2020 $000	2019 $000
Net profit before tax	20,251	25,995
Prima facie tax expense at 28% (2019: 28%)	5,670	7,279
Adjustments in respect of prior years	(51)	26
Tax effect of non-deductible expenses and non-taxable income	788	(522)
Foreign tax credits written off	1,127	2,149
Other	376	258
Tax expense	**7,910**	9,190

Recognition and measurement

Tax expense is calculated on the basis of the applicable tax rates that have been enacted or substantively enacted at the end of the reporting period in the jurisdictions Tower operates in. There have been no tax rate changes during the year in these jurisdictions. Current tax expense relates to tax payable for the current financial reporting period while deferred tax will be payable in future periods.

7.2 Current tax

a. Current tax asset

	2020 $000	2019 $000
Excess tax payments related to prior periods*	12,038	12,038
Excess tax payments/tax payable related to current period**	854	1,551
Current tax assets	**12,892**	13,589

*Expected to be recovered from 2022 as per the Board-approved operational plan for 2021 to 2024.
** Excess tax payment made in the Pacific Islands during the reporting period.

b. Current tax liability

The current tax liability balance of $821k (2019: $229k) relates to taxes payable to offshore tax authorities in the Pacific Islands.

7.2 Current tax (continued)

Recognition and measurement

Overpayment of tax in the current and prior periods is recognised as a **current tax asset**. Current tax assets are measured at the amount expected to be recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

7.3 Deferred tax

a. Deferred tax asset

Composition

	2020 $000	2019 $000
Tax losses recognised	25,720	24,527
Property, plant and equipment	3,304	7,684
Provisions and accruals	3,882	4,149
Recognised in profit or loss	**32,906**	36,360
Right-of-use impact	501	–
Recognised in comprehensive profit or loss	**33,407**	36,360
Set-off of deferred tax liabilities pursuant to NZ IAS 12	(6,575)	(6,052)
Deferred tax asset	**26,832**	30,308

Reconciliation of movements

	2020 $000	2019 $000
Opening balance	36,360	42,115
IFRS 16 adoption	501	–
Movements recognised in consolidated statement of comprehensive income	(3,454)	(5,755)
Deferred tax asset pre NZ IAS 12 set off	**33,407**	36,360

b. Deferred tax liability

Composition

	2020 $000	2019 $000
Deferred acquisition costs	(6,588)	(6,045)
Other*	(911)	(560)
Recognised in profit or loss	**(7,499)**	(6,605)
Asset revaluation	(422)	(438)
Recognised in comprehensive profit or loss	**(7,921)**	(7,043)
Set-off of deferred tax liabilities pursuant to NZ IAS 12	6,575	6,052
Deferred tax liability	**(1,346)**	(991)

* Primarily relates to withholding tax on undistributed profit from the Pacific Islands.

7.3 Deferred tax (continued)

Reconciliation of movements

	2020 $000	2019 $000
Opening balance	(7,043)	(6,328)
Movements recognised in consolidated statement of comprehensive income	(886)	(683)
Movements recognised in equity	8	(32)
Deferred tax liability pre NZ IAS 12 set off	**(7,921)**	(7,043)

7.4 Imputation credits

The Group imputation credit account reflects the imputation credits held by the Company as the representative member of the Group.

	2020 $000	2019 $000
Imputation credits available for use in subsequent reporting periods	**271**	271

Recognition and measurement

Deferred tax is income tax which is expected to be payable or recoverable in the future as a result of the unwinding of temporary differences. These arise from differences in the recognition of assets and liabilities for financial reporting and from the filing of income tax returns. Deferred tax is recognised on all temporary differences, other than those arising from (i) goodwill or (ii) from the initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the accounting nor taxable profit or loss.

At the reporting date, the Group has recognised a deferred tax asset in respect of its unused tax losses of $92.2m (2019: $87.6m).

Deferred tax is calculated at the tax rates that are expected to apply to the year when the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Critical accounting judgements and estimates

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.

This assessment is completed on the basis of the approved strategic plans of Tower Limited and subsidiaries. If future profits do not occur as expected, or there is a significant change in ownership, Tower may not be able to utilise all of these tax losses.

8. OTHER INFORMATION

This section includes additional disclosures which are required by financial reporting standards.

8.1 Notes to the Consolidated Cash Flow Statement

Composition

	2020 $000	2019 $000
Cash at bank	**61,892**	34,563
Deposits at call	**18,071**	26,428
Restricted cash	**145**	1,027
Cash and cash equivalents	**80,108**	62,018

The average interest rate at 30 September 2020 for deposits at call is 0.47% (2019: 1.44%).

Reconciliation of profit for the year to cash flows from operating activities

	2020 $000	2019 $000
Profit for the year	**12,341**	16,805
Adjusted for non-cash items		
Depreciation of property, plant and equipment	2,004	1,598
Depreciation, impairment and disposals of right-of-use assets	2,432	–
Amortisation of intangible assets	10,850	6,573
Fair value losses on financial assets	1,518	622
Change in deferred tax	8,005	6,439
Adjusted for movements in working capital		
Change in receivables	(2,659)	(2,012)
Change in payables	(15,313)	(6,061)
Change in taxation	(1,414)	297
Adjusted for financing activities		
Facility fees and interest paid	1,115	352
Net cash inflows from operating activities	**18,879**	24,612

8.2 Entity amalgamation

The financial statements presented are the consolidated financial statements comprising Tower Limited previously Tower Insurance Limited (the Company) and its subsidiaries (together, Tower, or the Group).

On 30 September 2020, Tower Insurance Limited was amalgamated by way of a short-form amalgamation under the Companies Act 1993 with its ultimate parent, Tower Limited (the prior Tower Limited); its parent, Tower Financial Services Group Limited; and another subsidiary of Tower Limited, Tower New Zealand Limited. Tower Insurance Limited has continued as the amalgamated company, and changed its name to Tower Limited as part of the amalgamation.

As a result of the amalgamation, all of Tower Limited's subsidiaries and operations which were previously sitting outside of Tower Insurance Limited were brought into the Group.

The Company and Group have accounted for the amalgamation using the predecessor value method, which they have applied retrospectively. Consequently, unless otherwise stated the comparatives presented are for what was, in the prior year, the Tower Limited consolidated group, except for equity and reserves, which are of Tower Insurance Limited.

8.3 Related party disclosures

Tower considers key management personnel to consist of the Board of Directors, Chief Executive Officer and executive leadership team. Information regarding individual director and executive compensation is provided in the Corporate Governance section of the annual report.

	2020 $000	2019 $000
Salaries and other short term employee benefits paid	4,736	5,720
Independent director fees	624	584
Related party remuneration	**5,360**	6,304

Tower insurance products are available to all key management personnel on the same terms as available to other employees. In addition, Tower purchases indemnity insurance for all directors both past and present covering liabilities and legal expenses incurred whilst in office.

Definition

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

8.4 Auditor's remuneration

	2020 $000	2019 $000
Audit of financial statements (1)	550	528
Other assurance services (2)	46	46
Non-assurance agreed procedures (3)	12	12
Total fees paid to Group's auditors	**608**	**586**
Fees paid to subsidiaries' auditors different to Group auditors:		
Audit of financial statements (4)	15	14
Auditors remuneration	**623**	**600**

(1) Audit of financial statements includes fees for both the audit of annual financial statements and the review of the interim financial statements. This also includes the fees for the audits of subsidiaries. PwC Fiji and PwC PNG provide audit opinions on the financial statements of Tower Insurance (Fiji) Limited and Tower Insurance (PNG) Limited, where the majority of the work is performed by the group auditor.

(2) Other assurance services includes annual solvency return assurance and Pacific Island regulatory return audits.

(3) Agreed procedures on Pacific Island regulatory return and Annual Shareholders' Meeting procedures.

(4) The audit of Tower Insurance (Vanuatu) Limited was performed by Law Partners (2019: Law Partners).

8.5 Contingent liabilities

The Group is occasionally subject to claims and disputes as a commercial outcome of conducting insurance business. Provisions are recorded for these claims or disputes when it is probable that an outflow of resources will be required to settle any obligations. Best estimates are included within claims reserves for any litigation that has arisen in the usual course of business.

The Group has no other contingent liabilities.

8.6 Subsequent events

EQC Receivable (adjusting event)

On 24 November 2020 Tower Limited entered into a commercial agreement with EQC, for a settlement value of $53.6m relating to the EQC receivable.

The commercial settlement agreement provides Tower Limited evidence of the EQC receivable's recoverable value as at the end of the reporting period, and therefore Tower Limited has adjusted the amounts recognised in the FY20 financial statements, along with updating the relevant disclosures in the financial statements to reflect the commercial settlement agreement.

8.6 Subsequent events (continued)

The adjustment for the EQC receivable's recoverable value for the commercial settlement agreement is primarily reflected as an impairment expense within the Statement of comprehensive income, and a reduction to the EQC receivable's carrying value on the Balance sheet. Tower holds an associated reinsurance payable, which is directly related to the amount of EQC costs recovered. The reinsurance payable has been adjusted to reflect the decrease in reinsurance payable as a result of the settlement agreement.

The result of the commercial settlement is a reduction in net profit after tax to Tower of $9.5m.

Large events (non-adjusting event)

Tower limited has had two large events subsequent to the balance date: (i) Lake Ōhau fires ($6.0m provided); and (ii) Napier floods ($3.0m – $4.0m preliminary estimate). The impacts of both events will be reflected in FY21 reporting.

8.7 Capital commitments

As at 30 September 2020, Tower has capital commitments of $0.4m (2019: $0.2m) related to the implementation and delivery of a new ERP system, $0.1m (2019: $0.1m) relating to a new automated reinsurance system, and $0.2m (2019: nil) relating to general use computer software. Total capital commitments for 2020 are $0.7m (2019: $1.7m).

8.8 Impact of new accounting standards

a. Issued and effective

Context

The Group adopted NZ IFRS 16 Leases during the period. NZ IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard replaced the guidance in NZ IAS17 Leases, and was effective from 1 October 2019 for Tower.

NZ IFRS 16 requires lessees to recognise a right-of-use asset and a corresponding lease liability reflecting future lease payments for most lease contracts. The standard allows exemptions for short-term leases (less than 12 months) and for leases on low value assets. The main impact of the new standard was on leases which were previously classified as operating leases, being predominantly office building and motor vehicle related leases.

Accounting policy change

As a result of the adoption of NZ IFRS 16, Tower has recognised depreciation expense on right-of-use assets, on a straight line basis over the lease term, and interest expense on lease liabilities.

Tower applied the standard using the modified retrospective approach. The cumulative effect of adopting NZ IFRS 16 was recognised as an adjustment to the opening balance of retained earnings on October 1 2019, with no restatement of comparative information.

The modified retrospective approach allows entities to use a number of practical expedients on adoption of the new standard, of which Tower elected to use the following:

(i) Not to apply NZ IFRS 16 for short-term leases;

(ii) apply a single discount rate to the portfolio of leases with reasonably similar characteristics;

(iii) use hindsight in determining the lease term where the contract contains options to extend or terminate a lease; and

(iv) rely on an assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application.

Impact of accounting policy change

The impact of the adoption of NZ IFRS 16 Tower's balance sheet as at 1 October 2019 is shown in the table below. There was also an immaterial impact on the pattern of expense recognition.

	2020 $000
Right-of-use assets	10,183
Lease liabilities	(11,982)
Deferred tax asset	462
Retained earnings	(1,337)

Tower's weighted average incremental borrowing rate at the transition date was 3.60%.

8.8 Impact of new accounting standards (continued)

The table below presents a reconciliation of the operating lease commitments as disclosed in the Group's 30 September 2019 financial statements, to the lease liability recognised on transition date:

	2020 $000
Operating lease commitment – 30 September 2019	9,802
Impact of reassessment of lease terms under NZ IFRS 16	3,281
Impact of discounting future lease payments at the weighted average incremental borrowing rate	(997)
Other (including short-term leases not recognised as a lease liability)	(104)
Lease liability recognised on transition date – 1 October 2019	11,982

b. Issued and not yet effective

NZ IFRS 17 *Insurance Contracts* is effective for periods beginning on or after 1 January 2023 (subject to approval of proposed one year delay). Tower will apply the standard for the year ending 30 September 2024. The standard replaces the current guidance in NZ IFRS 4 *Insurance Contracts,* and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. Tower has started a programme with dedicated resource to assess the impact of adopting NZ IFRS 17 and to project manage the transition to the new standard. It is expected that the majority of Tower's insurance contracts will meet the requirements of the simplified approach. However, there are expected to be significant changes in the presentation of the financial standards and disclosures. Due to the complexity of the requirements within the standard the final impact may not be determined until global interpretations and regulatory responses to the new standard are developed.

8.9 Change in comparatives

Tower has reclassified certain items from prior years' financial statements to conform to the current year's presentation basis. The key changes are listed below.

a. Consolidated statement of comprehensive income – presentation changes

The Income statement and statement of comprehensive income have been merged into a combined consolidated statement of comprehensive income to simplify financial performance presentation. In addition, the consolidated statement of comprehensive income has been redesigned to disclose the underwriting result for the reporting period. This has resulted in some classification changes. There was no impact to 2019 profit as a result of these changes.

b. Consolidated statement of cash flows – presentation changes

A number of changes have been made to the presentation of the consolidated statement of cash flows. First, cash flows related to the sale and purchase of interest-bearing investments are now shown on a gross basis (previously it was disclosed on a net basis). Second, cash flows from the purchase of intangible assets and property, plant and equipment are shown separately (previously combined). Third, cash received from non-reinsurance recoveries has been included with reinsurance recoveries received as opposed to being netted off in claims paid – as a result, claims paid and reinsurance and other recoveries have both increased by $7.1m in 2019. Finally, net realised investment gains was moved from operating activities cash flows (reducing by $42,000 in 2019) to investment cash flows (increasing by $42,000 in 2019).

c. Consolidated balance sheet – presentation changes

Deferred outwards reinsurance costs have been combined with deferred acquisition costs to show a combined deferred insurance cost. Previously, deferred reinsurance costs were grouped with receivables (which reduced by $8.8m in 2019 to reflect the change in classification).

d. Credit risk (note 4.4) Investment and Treasury credit ratings – Reclassification

Some cash and investments balances in 2019's credit exposure by credit rating table were incorrectly classified and have been reclassified in the current year. The reclassification has resulted in a $0.1m decrease in balances categorised under "AA" credit rating, $17.0m decrease in balances categorised under "A" credit rating, $0.3m decrease in balances categorised under "Below BBB" credit rating and $17.4m increase in balances categorised under "Not rated". The net impact resulting from these reclassifications is nil.

e. Consolidated balance sheet – Reclassification between cash and cash equivalents and investments

Within the consolidated balance sheet, $5.0m of term deposits with maturity dates greater than three months from the date of acquisition have been reclassified from cash and cash equivalents to investments per NZ IAS 7 Statement of Cash Flows.

Changes for internal consistency have also been made to the consolidated cash flow statement, Note 3.2 Investments, Note 3.3 Fair value hierarchy, Note 4.4(a) Investment and treasury credit risk, Note 4.5(b) Market risk – interest risk, Note 4.6 Liquidity risk and Note 8.1 Notes to the consolidated cash flow statement.

INDEPENDENT AUDITOR'S REPORT

pwc

Independent auditor's report

To the shareholders of Tower Limited

We have audited the consolidated financial statements which comprise:

- the consolidated balance sheet as at 30 September 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying consolidated financial statements of Tower Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 September 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group. These services are assurance services in respect of solvency and regulatory insurance returns and agreed upon procedures in respect of voting at the Annual Shareholders Meeting and a regulatory insurance return. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Description of the key audit matter	How our audit addressed the key audit matter
(1) Valuation of outstanding claims ***(2020: $107,747,000, 2019: $124,060,000)*** We considered the valuation of outstanding claims a key audit matter because this involves an estimation process combined with significant judgements and assumptions made by management to estimate future claims cash outflows. The outstanding claims liability includes a central estimate of the future cash outflows relating to claims incurred, as at and prior to the reporting date, and the expected costs of handling those claims. There is uncertainty over the amount that reported claims and claims incurred at the reporting date but not yet reported to the Group will ultimately be settled at. The estimation process relies on the quality of underlying claims data and the use of informed estimates to determine the quantum of the ultimate loss. Key actuarial assumptions applied in the valuation of outstanding claims (excluding Canterbury earthquakes) include: • expected future claims development proportion; and • claims handling expense ratios. Outstanding claims in relation to the Canterbury earthquakes have a greater degree of uncertainty and judgement. This mainly arises due to the Earthquake Commission (EQC) reporting new claims to the Group which have gone over the $100,000 statutory liability cap (over cap claims), new litigation claims, reopening of closed claims, expected claims costs for open claims and estimates of future claims management expenses. Changes in assumptions can lead to significant movements in the outstanding claims. The outstanding claims liability includes a risk margin that allows for the inherent uncertainty in the central estimate of future claim cash outflows. In determining the risk margin, the Group makes judgements about the volatility of each class of business written and the correlation between each division and between	Claims data is a key input to the actuarial estimates. Accordingly, we: • evaluated the design effectiveness and tested controls over claims processing; • assessed a sample of claim case estimates at the year end to check that they were supported by appropriate management assessment and documentation; • assessed on a sample basis the accuracy of the previous claim case estimates by comparing to the actual amount settled during the year and analysed any escalation in the claim case estimate to determine whether such escalation was based on new information available during the year; • inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation and approved within delegated authority limits; and • tested the integrity of data used in the actuarial models by agreeing the relevant model inputs, such as claims data, to source. Together with our actuarial experts, we: • considered the work and findings of the actuaries engaged by the Group; • evaluated the actuarial models and methodologies used, and any changes to them, by comparing with generally accepted models and methodologies applied in the sector; • assessed key actuarial judgements and assumptions and challenged them by comparing with our expectations based on the Group's experience, our own sector knowledge and independently observable industry trends (where applicable), taking into consideration COVID-19 impacts; • assessed the risk margin, by comparing known industry practices. In particular we focused on the assessed level of uncertainty in the central estimate; and

different geographical locations. The Directors include an additional $5 million risk margin in respect of the Christchurch earthquake claims. *Relevant references in the consolidated financial statements.* Refer to note 2.4, which also describes the elements that make up this balance.	• considered the Directors' $5 million Christchurch earthquake additional risk margin with reference to the inherent uncertainty in the remaining Christchurch earthquake claims and its consistency with prior periods.
(2) Valuation of EQC recovery receivable related to the Canterbury earthquakes ***(2020: $52,883,000, 2019: $69,900,000)*** The EQC recovery receivable relates to amounts paid by the Group for land and building damage arising from the Canterbury earthquake events in respect of EQC's statutory liability under the Earthquake Commission Act 1993. The EQC and the Group were in disagreement on the quantum of damage paid by the Group on EQC's behalf with the Group having commenced litigation in respect of this matter. We considered the valuation of the EQC recovery receivable to be a key audit matter because significant management judgement was required to estimate the expected recoveries from the EQC in respect of land and building damage. However, on 24 November 2020, the Group and the EQC agreed to settle all amounts outstanding for $53,600,000 (excluding GST) resulting in the Group impairing the previously recorded receivable and reducing the amounts payable to reinsurers by $13,126,000 (before tax). The settlement, being agreed after the end of the financial reporting period, but before the financial statements were authorised for issue, provides evidence of conditions that existed at the end of the reporting period and therefore is an adjusting event under the accounting standards. The financial statements have been adjusted to reflect the agreed settlement. *Relevant references in the consolidated financial statements* Refer to note 2.7 to the consolidated financial statements.	We understood how the Group had determined their initial estimate of the receivable at 30 September 2020 by: • reviewing reports of the experts engaged by the Group and holding discussions with them to understand the legal and technical arguments and judgements considered in the estimation of the receivable; • testing on a sample basis the claims detail used in the experts' calculations to the Group's claim records and with the data used in previous years to estimate the receivable; and • holding discussions with management and the Directors to understand the progress of the litigation and of any discussions with the EQC about possible settlement. Following the agreement of a settlement on 24 November 2020 between the Group and the EQC, we reviewed the signed settlement agreement, confirmed this was an adjusting event as defined in the accounting standards and ensured the financial statements appropriately reflected the settlement agreed, including the disclosure thereof.

(3) Recoverability of the deferred tax asset arising from tax losses ***(2020: $25,720,000 2019: $24,527,000)*** The majority of the Group's deferred tax asset arises from tax losses. We considered recoverability of the deferred tax asset a key audit matter because utilisation of the asset is sensitive to the Group's expected future profitability and sufficient continuity of the ultimate shareholders. Management judgement is involved in forecasting the timing and quantum of future taxable profits, which are inherently uncertain, and whether it is probable the tax losses will be utilised in the foreseeable future. *Relevant reference in the consolidated financial statements* Refer to note 7.3 to the consolidated financial statements.	Together with our tax experts, we: • understood the progress made by management in improving the profitability of the business in recent periods; • compared the previous management budget with actual results to assess the reliability of management's forecasts; • considered the reasonableness of the assumptions in the FY21 operational plan on the forecast utilisation of tax losses; and • assessed the Group's ability to maintain sufficient continuity of the ultimate shareholders and its entitlement to offset the tax losses against future taxable profits.

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

Overall Group materiality: $3.7 million, which represents approximately 1% of gross earned premium.

We chose gross earned premium as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Group and is a generally accepted benchmark for insurance companies. The 1% is based on our professional judgement, noting that it is also within the range of commonly accepted revenue related thresholds.

As reported above, we have three key audit matters, being:

- Valuation of outstanding claims
- Valuation of EQC recovery receivable related to the Canterbury earthquakes
- Recoverability of the deferred tax asset arising from tax losses.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Our Group audit mostly focused on the Company, which contributes approximately 84% of the Group's gross earned premium. We performed audit procedures over material balances and transactions of the non-significant subsidiaries and the consolidation of the Group's subsidiaries.

Information other than the consolidated financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Karen Shires.

For and on behalf of:

Chartered Accountants Auckland
25 November 2020

APPOINTED ACTUARY'S REPORT

finity
Actuarial and Insurance Consultants

24 November 2020

The Directors
Tower Limited

Dear Directors

Review of Actuarial Information contained in the financial statements

As required by Section 78 of IPSA the Appointed Actuary, Geoff Atkins of Finity Consulting, has reviewed the actuarial information contained in, or used in the preparation of, the financial statements at 30 September 2020. Geoff Atkins and Finity have no relationship with or interest in Tower other than being a provider of actuarial services.

I prepared the actuarial valuation of liabilities remaining from the Canterbury Earthquakes and reviewed the actuarial valuations of insurance liabilities for the New Zealand business and the Pacific Islands businesses. I reviewed the other actuarial information as specified by IPSA in Section 77, including the solvency calculations for the financial statements. The EQC recovery receivable related to the Canterbury Earthquakes does not form part of the actuarial information at the balance date; the valuation of this asset is the responsibility of the Board.

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

Nothing has come to my attention that would lead me to believe that any of the actuarial information contained in, or used in the preparation of, the financial statements is not appropriate.

In my opinion the company has maintained a solvency margin in excess of the minimum required as at 30 September 2020.

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

Yours sincerely

Geoff Atkins
Appointed Actuary

Anagha Pasche

Fellows of the New Zealand Society of Actuaries

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CORPORATE GOVERNANCE AT TOWER LIMITED (TOWER)

This section of the Annual Report provides an overview of the corporate governance principles, policies and processes adopted and followed by Tower's Board during the year ending 30 September 2020 (FY20)

The Board is committed to achieving the highest standards of corporate governance, ethical behaviour, and accountability and has implemented corporate governance practices that are consistent with best practice. Where developments arise in corporate governance, the Board reviews Tower's practices and incorporates change where appropriate.

On 30 September 2020, Tower completed an amalgamation of its New Zealand entities (Amalgamation). Tower Limited amalgamated down into Tower Insurance Limited, which then changed its name to Tower Limited. This annual report covers the corporate governance practices of Tower prior to the Amalgamation.

For the reporting period to 30 September 2020, the Board considers that Tower's corporate governance practices have materially adhered to the NZX Corporate Governance Code (NZX Code). Further information about the extent to which Tower has complied with each of the NZX Code recommendations is set out in Tower's corporate governance statement, available on Tower's website at tower.co.nz/investor-centre.

The following policies and company documentation are available on Tower's website (https://www.tower.co.nz/investor-centre/corporate-governance/policies):

- Tower Limited Constitution
- Board Charter
- Board Protocols
- Audit Committee Terms of Reference*
- Risk Committee Terms of Reference*
- Remuneration & Appointments Committee Terms of Reference
- Director and Executive Remuneration Policy
- Insider Trading and Market Manipulation Policy
- Corporate Disclosure Policy
- External Audit Independence Policy
- Health and Safety Policy
- Code of Ethics Policy
- Diversity Policy

* During FY20, Tower Limited had a joint audit and risk committee (ARC) and the terms of reference for the ARC were available on Tower's website until 30 September 2020. Tower Limited now has two separate committees, the Audit Committee and the Risk Committee. The respective terms of reference for each of these committees (which are currently available on Tower's website) are on materially the same terms as the terms of reference for the ARC.

DIVERSITY

The below table provides a quantitative breakdown as to the gender composition of Tower's Directors and Officers

	2019-2020		2018-2019	
GROUP	**% GROUP**	**NUMBER**	% GROUP	NUMBER
Board of Directors				
Males	83%	5	83%	5
Females	17%	1	17%	1
Executive Leadership team [1]				
Males	56%	5	56%	5
Females	44%	4	44%	4
Business Leadership team [2]				
Males	51%	19	68%	19
Females	49%	18	32%	9
Employees				
Males	40%	230	42%	263
Females	60%	346	58%	359
Total company [3]				
Males	41%	254	44%	287
Females	59%	368	56%	372
Total employees		622		659

1 'Executive Leadership Team' includes the Chief Executive Officer, and those employees who report directly to the Chief Executive Officer.

2 'Business Leadership Team' consists of various senior and specialised roles that are influential in driving the Tower strategy, of which 24 were part of the Senior Leadership Team. 2018-2019 is based on the previous Senior Leadership Team category.

3 'Total Company' figures do not include the Board of Directors. Both the 2018-2019 and 2019-2020 figures include Tower's Pacific Island subsidiaries and are inclusive of Permanent and Fixed Term employees.

Evaluation from the Board on Tower's performance with respect to its diversity policy

Tower has a clear diversity policy and clear measurable diversity and inclusion objectives under the following categories.

- Gender diversity
- Age and career progression
- Ethnicity and Pacific and Māori inclusion
- LGBTIQ+ inclusion
- Accessibility

The Board considers Tower has implemented key initiatives over the past 12 months in respect of Tower's diversity policy and Tower's diversity and inclusion objectives. A number of the initiatives implemented include re-accreditation of the Rainbow Tick, a focus on Unconscious Bias and a parental leave offering (as detailed further in a Tower's corporate governance statement).

BOARD COMMITTEES

For FY20, the Tower Board had the following committees:

Audit and Risk Committee

Members: Graham Stuart (Chair), Michael Stiassny, Steve Smith, Warren Lee, Wendy Thorpe, Marcus Nagel.

Remuneration and Appointments Committee

Members: Michael Stiassny (Chair), Graham Stuart, Steve Smith, Warren Lee, Wendy Thorpe, Marcus Nagel.

Other committees

Tower's Board has the ability to establish additional sub-committees from time to time.

During FY20, Tower Insurance Limited (the regulated insurer) had the same Board of Directors as Tower Limited. Separate board and committee meetings were held by Tower Insurance Limited, to meet the requirements of the RBNZ. Tower Insurance Limited had a joint Audit and Risk Committee for the period 1 October 2019 to 31 May 2020. During that period, the Audit and Risk Committee had a Risk Sub-Committee (members of which were Warren Lee (Chair), Steve Smith and external member John Trowbridge). From 1 June 2020 to 30 September 2020, Tower Insurance Limited separated the Audit and Risk Committee into two separate committees, the Audit Committee and the Risk Committee.

Board and Committee meeting attendance

The following numbers of Board and Committee meetings were held during the year from 1 October 2019 to 30 September 2020:

- Board meetings – 13
- Audit and Risk Committee meetings – 4
- Remuneration and Appointments Committee – 2

The Chief Executive Officer and Chief Financial Officer (sometimes in part) attend all Board meetings. The Chief Executive Officer, Chief Financial Officer and Chief Risk Officer attend all Audit and Risk Committee meetings (sometimes in part). All meetings are attended by an appropriately qualified person who is responsible for taking accurate minutes of each meeting and ensuring that Board procedures are observed.

Director attendance at these meetings is set out below.

FY20 Tower Limited directors' attendance record

	TOWER LIMITED BOARD	AUDIT AND RISK COMMITTEE	REMUNERATION AND APPOINTMENTS COMMITTEE
Meetings held (to 30 September 2020)			
Michael Stiassny	13	3	2
Steve Smith	13	4	2
Graham Stuart	13	4	2
Warren Lee	13	4	2
Wendy Thorpe	13	4	2
Marcus Nagel	13	4	2

STATUTORY DISCLOSURES

Remuneration

Director Remuneration

The Board's approach is to remunerate directors at a similar level to comparable Australasian companies, with a small premium to reflect the complexity of the insurance and financial services sector. At the Annual Shareholders' Meeting in February 2004 shareholders approved an increase in non-executive director annual remuneration to the current maximum of NZ$900,000 per annum.

Tower seeks external advice when reviewing Board remuneration. The Remuneration and Appointments Committee is responsible for reviewing directors' fees. Non-executive directors are also paid additional annual fees for sitting on certain Board Committees.

TOWER LIMITED BOARD/COMMITTEE	CHAIR (NZ$)	MEMBER (NZ$)
Base fee – Board of directors	130,000	78,570
Audit and Risk Committee	15,000	9,000
Remuneration and Appointments Committee [1]	–	–

1. The Board determined that from 1 December 2012 no fees would be payable for sitting on the Remuneration and Appointments Committee

Additional fees may be paid to non-executive directors for one-off tasks and/or additional appointments where required.

2019/2020 directors' remuneration and benefits of Tower and its subsidiaries

Amounts in the table below reflect fees paid and accrued for the year ended 30 September 2020.

Fees include base fees and additional fees in the financial year for one-off tasks and additional appointments.

DIRECTORS OF TOWER LIMITED REMUNERATION AND BENEFITS

FOR THE YEAR TO 30 SEPTEMBER 2020	FEE (NZ$)
Michael Stiassny	139,000
Graham Stuart	93,570
Steve Smith [1]	95,903
Warren Lee [2]	104,237
Wendy Thorpe	87,570
Marcus Nagel [3]	87,570

1. During FY20, Steve Smith was a member of the Tower Insurance Limited Risk Sub-Committee which operated for eight months. Steve received a total of $8,333 as a base fee for being a member of the Risk Sub-Committee.
2. During FY20, Warren Lee was the chair of the Tower Insurance Limited Risk Sub-Committee which operated for eight months. Warren received a total of $16,667 as a base fee for being the chair of the Risk Sub-Committee.
3. NZ$ amount shown is converted to, and paid in, Euros (using conversion rate at time of monthly invoice).

DIRECTORS OF TOWER LIMITED SUBSIDIARIES REMUNERATION AND BENEFITS

FOR THE YEAR TO 30 SEPTEMBER 2020	FEES ($)
Alden Godinet [1^]	1,875
Rodney Reid [1]	7,500
Isikeli Tikoduadua [2]	18,000
Barry Whiteside [2]	20,000

^ Alden Godinet was a director of National Pacific Insurance Limited for one quarter of FY20.

1. Fees earned in capacity as director of National Pacific Insurance Limited (NPI). NPI fees are paid in Western Samoan Tala.
2. Fees earned in capacity as director of Tower Insurance (Fiji) Limited. Tower Insurance (Fiji) Limited fees are paid in Fijian Dollars.

CEO and senior executive remuneration

The Board's approach to remunerating the Chief Executive Officer and other key executives is to provide market-based remuneration packages comprising a blend of fixed and variable remuneration, with clear links between individual and company performance, and reward. The Remuneration and Appointments Committee reviews the remuneration packages of the Chief Executive Officer and other key executives at least annually. This approach is intended to encourage Tower's executives to meet Tower's short and long term objectives.

The current Chief Executive Officer, Mr Blair Turnbull (appointed 1 August 2020), is remunerated through a combination of fixed base pay of $650,000 and variable performance incentives including Short Term Incentive (STI) and Long Term Incentive (LTI). The maximum STI is currently $325,000 per annum based on meeting key financial and non-financial and operational performance measures. The maximum LTI per annum is currently $975,000 based on Tower delivering Total Shareholder Return performance relative to the performance of companies within the NZX50 index.

Mr Turnbull is not entitled to any Short Term Incentive or Long Term Incentive for the year ended 30 September 2020.

The outgoing Chief Executive Officer, Mr Richard Harding (CEO to 1 August 2020), was remunerated through a combination of fixed base pay, variable performance incentives and contractual entitlements to allowances for travel and accommodation.

- Mr Harding has been awarded an STI payment of $265,000 for the year ended 30 September 2020 and was awarded an STI of $260,000 for the year ended 30 September 2019 (52% of achievement criteria).
- Mr Harding is not entitled to any Long Term Incentive payments.

The table below sets out the remuneration payments to Mr Turnbull and Mr Harding in the years ended 30 September 2020 and 2019.

	2020 $000	2019 $000
Mr Blair Turnbull		
Base salary	100	-
Total Mr Turnbull remuneration [1]	100	-
Mr Richard Harding		
Base salary including annual leave paid out	805	773
Compensation for changes to contractual terms [2]	410	-
Short-term incentive payments [3]	525	-
Total Mr Harding remuneration [1]	1,740	773

1 In addition to the above, Mr Turnbull received a relocation expense entitlement of $78,000. Mr Harding had an expense allowance for travel and accommodation of $145,000 for 2020 (2019: $145,000). The actual amount paid in 2020 was $145,000 (2019: $217,000). The amount paid in 2019 varies due to timing differences and prepayments.

2 Compensation for changes to contractual terms relates to retention payments to extend Mr Harding's fixed term contract, from December 2019 to December 2020.

3 STI for the year ended 30 September 2020 was paid in the year ended 30 September 2020, together with the STI payment made in respect of the year ended 30 September 2019. The payment made during the year ended 30 September 2019 related to the year ended 30 September 2018.

Employee remuneration

The table on the right sets out the number of employees or former employees of Tower, excluding directors and former directors, who received remuneration and other benefits valued at or exceeding $100,000 for the years ended 30 September 2020 and 2019. Remuneration includes base salary, performance payments and redundancy or other termination payments. The table does not include company contributions of 3% of gross earnings for those individuals who are members of a KiwiSaver scheme. The remuneration bands are expressed in New Zealand Dollars.

FROM	**TO**	**2020**	2019
100,000	109,999	21	19
110,000	119,999	21	18
120,000	129,999	18	18
130,000	139,999	18	11
140,000	149,999	13	10
150,000	159,999	13	8
160,000	169,999	6	6
170,000	179,999	6	2
180,000	189,999	3	6
190,000	199,999	3	5
200,000	209,999	5	3
210,000	219,999	0	3
220,000	229,999	3	6
230,000	239,999	2	2
240,000	249,999	3	1
250,000	259,999	2	2
260,000	269,999	1	2
270,000	279,999	1	2
280,000	289,999	2	2
290,000	299,999	4	0
300,000	309,999	0	5
310,000	319,999	1	1
320,000	329,999	0	0
330,000	339,999	1	0
350,000	359,999	0	1
360,000	369,999	2	0
370,000	379,999	0	0
380,000	389,999	0	0
390,000	399,999	1	0
400,000	409,999	1	0
410,000	419,999	0	0
450,000	459,999	0	0
460,000	469,999	0	0
470,000	479,999	0	1
480,000	489,999	0	0
490,000	499,999	0	0
500,000	509,999	1	1
530,000	539,999	0	1
540,000	549,999	1	0
570,000	579,999	0	0
610,000	619,999	0	0
650,000	659,999	0	1
780,000	789,999	1	0
860,000	869,999	0	0
1,590,000	1,599,999	0	1
1,880,000	1,890,000	1	0
Total		**155**	**138**

Substantial product holders (as at 30 September 2020)

The names and holdings of Tower's substantial product holders based on notices filed with Tower under the Financial Markets Conduct Act 2013 as at 30 September 2020 were:

NAME	TOTAL ORDINARY SHARES [1]
Bain Capital Credit LP, Bain Capital Investments (Europe) Limited and Dent Issuer Designated Activity Company	67,464,858
Salt Funds Management Limited	61,476,815
Accident Compensation Corporation	32,621,151
Investment Services Group Limited	26,916,217
Westpac Banking Corporation including Guardian Nominees No.2 Limited and BT Funds Management Limited	27,437,613
New Zealand Funds Management Limited on behalf of itself and its wholly owned subsidiary New Zealand Funds Superannuation Limited	17,690,793

1. Total ordinary shares held by the substantial product holder is the number of shares disclosed in the latest Substantial Product Holder notice filed with Tower as at 30 September 2020, which may differ from the stated holdings right.

Principal shareholders (as at 21 October 2020)

The names and holdings of the 20 largest registered Tower shareholders as at 21 October 2020 were:

NAME	TOTAL ORDINARY SHARES	%
Dent Issuer Designated Activity Company	84,329,386	19.99
Accident Compensation Corporation	41,859,897	9.93
HSBC Nominees (New Zealand) Limited	32,588,861	7.73
Citibank Nominees (New Zealand) Limited	29,447,350	6.98
BNP Paribas Nominees (NZ) Limited	27,436,080	6.51
National Nominees Limited	14,454,066	3.43
JBWere (NZ) Nominees Limited	12,944,785	3.07
HSBC Nominees (New Zealand) Limited A/C State Street	10,058,511	2.39
Philip George Lennon	10,000,000	2.37
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	6,171,846	1.46
UBS Nominees Pty Limited	5,018,974	1.19
Public Trust	4,150,000	0.98
BNP Paribas Nominees (NZ) Limited	4,088,534	0.97
JP Morgan Chase Bank NA NZ Branch - Segregated Clients Acct	3,393,363	0.80
BNP Paribas Nominees (NZ) Limited <COGN40>	3,273,089	0.78
TEA Custodian Limited Client Property Trust Account	3,037,132	0.72
One Managed Invt Funds Ltd	2,500,000	0.59
Investment Custodial Services Limited	2,485,081	0.59
Leveraged Equities Finance Limited	2,400,000	0.57
Forsyth Barr Custodians Limited	2,365,624	0.56

Directors' shareholdings

At 30 September 2020, Tower Limited directors held the following interests in Tower Limited shares:

ORDINARY SHARES

DIRECTOR	BENEFICIAL
Michael Stiassny	494,330
Graham Stuart	125,000
Steve Smith	23,075
Wendy Thorpe	6,250
Warren Lee	45,500
Marcus Nagel	62

Director trading in Tower securities

Directors disclosed the following acquisitions and disposals of relevant interests in Tower securities during the financial year ending 30 September 2020 pursuant to section 148 of the Companies Act 1993.

DIRECTOR	DATE OF DISCLOSURE	INTEREST	NUMBER ACQUIRED (DISPOSED)	CONSIDERATION (NZ$)
Wendy Thorpe	23 Oct 2019	Beneficial	1,250	700.00
Michael Stiassny	23 Oct 2019	Beneficial	98,866	55,364.96
Graham Stuart	23 Oct 2019	Beneficial	25,000	14,000.00
Steve Smith	23 Oct 2019	Beneficial	4,615	2,584.40
Warren Lee	23 Oct 2019	Beneficial	9,100	5,096.00
Marcus Nagel	23 Oct 2019	Beneficial	12	6.72

Shareholder analysis

Tower's shares are quoted on both the NZSX and ASX. As at 21 October 2020, 17,630 Tower shareholders held less than A$500 of Tower shares (i.e. less than a marketable parcel as defined in the ASX Listing Rules), amounting to a total of 7,347,114 of the Tower shares on issue. In comparison, a 'minimum holding' under the NZX Listing Rules means a holding of shares having a value of at least NZ$1,000. As at 21 October 2020, 20,524 Tower shareholders held less than NZ$1,000 of Tower Shares (being, a parcel size of 1,852 at $0.54 per share), amounting to a total of 11,220,393 of the Tower shares on issue.

Total voting securities

In October 2019, Tower raised additional capital through a pro rata renounceable entitlement offer. As at 21 October 2020, Tower had 421,647,258 ordinary shares held by 24,984 holders. By comparison, on 28 November 2019 (i.e. the date used for the 2019 Annual Report), Tower had 421,647,258 ordinary shares held by 25,383 holders. Tower's ordinary shares each carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney.

The address and telephone number of the office at which the register of Tower securities is kept is set out in the directory at the back of this Annual Report.

Tower Limited shareholder statistics (as at 21 October 2020)

HOLDING RANGE	HOLDER COUNT	HOLDER COUNT %	HOLDING QUANTITY (ORDINARY SHARES)	HOLDING QUANTITY %
1 - 1,000	17,713	70.90	7,429,950	1.76
1,001 - 5,000	4,974	19.91	10,252,139	2.43
5,001 - 10,000	831	3.33	5,942,546	1.41
10,001 - 100,000	1,257	5.03	39,147,712	9.28
100,001 and over	209	0.84	358,874,911	85.11
Total	**24,984**	**100**	**421,647,258**	**100**

Credit rating

Global rating organisation A.M. Best Company issued the following ratings of companies:

Tower Insurance Limited
Financial Strength Rating A- (Excellent)
Issuer Credit Rating A-
Effective 16 March 2020

Tower Limited
Issuer Credit Rating BBB- (Good)
Effective 16 March 2020

Waivers

There were no applications to NZX or ASX for any waivers, or any waivers relied upon by Tower, in the financial year ending 30 September 2020.

Interests register

Tower and its subsidiaries are required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests register for Tower Limited is available for inspection on request by shareholders. Tower's constitution provides that an 'interested' director may not vote on a matter in which he or she is interested unless the director is required to sign a certificate in relation to that vote pursuant to the Companies Act 1993, or the matter relates to a grant of an indemnity pursuant to section 162 of the Companies Act 1993.

General disclosures of interest

During the financial year, Tower's directors disclosed interests, or a cessation of interests (indicated by an asterisk (*)), in the following entities pursuant to section 140 of the Companies Act 1993.

Any cessation of interest that occurred after 30 September 2020 is indicated by two asterisks (**). Any disclosure of new interests that occurred after 30 September 2020 is indicated by three asterisks (***).

Warren Lee	
MyState Limited	Director
MyState Bank Limited	Director
TPT Wealth Limited	Director
MyState Queensland Limited *[1]	Director
Go Hold Limited	Director
Go Blank Limited	Director
MetLife Insurance Limited	Director
MetLife General Insurance Limited	Director
Steve Smith	
Kinrich Trust	Trustee
Kinrich Holdings Limited	Director
Summerlee Investments Limited	Director
Unison Securities Limited	Director
Unison Capital Advisors Limited	Director
Pascaro Investments Limited	Chair
Trebol Investments Limited and subsidiary companies	Director
Rimu SA (Chile) and subsidiary companies	Director
The National Foundation for the Deaf Incorporated	Board Member
Good Soundz Limited	Board Member
Michael Stiassny	
Bengadol Corporation Limited	Director
Emerald Group Limited	Director
Gadol Corporation Limited	Director
Geffen Holdings Limited	Director
Michael Spencer Limited	Director
Ngāti Whātua Ōrākei Housing Trustee Limited	Director
Ngāti Whātua Ōrākei Whai Rawa Limited	Chair
Plan B Limited *[2]	Director
Poukawa Estate Limited	Director
Queenstown Airport Corporation Limited **[3]	Director
Sasha Properties Limited *[4]	Director
Ted Kingsway Limited	Director
The Institute of Directors in New Zealand Limited *[5]	Director
UCI Holdings Limited *[6]	Director
Financial Markets Authority *[7]	Board Member
Whai Rawa GP Limited	Director
Whai Rawa Kainga Development Limited	Director
LPF Group Limited	Director
New Zealand Transport Agency *[8]	Chairman
MS10 Limited	Director
Morgan HoldCo Limited	Director
Remuera Investments Limited	Director
Te Waenga Ltd	Director
Graham Stuart	
Leroy Holdings Limited	Director
EROAD Limited	Chair
VinPro Limited	Director
NorthWest Healthcare Properties Management Limited	Director
Metro Performance Glass Limited *[9]	Director
Wendy Thorpe	
Online Education Services Pty Limited	Chair
Very Special Kids	Director
Epworth Foundation	Director
Ausgrid Asset Partnership	Director
Ausgrid Operator Partnership	Director
Plus ES Partnership	Director
Australian Central Credit Union Ltd T/A People's Choice Credit Union	Director
Marcus Nagel	
3Arrow AG *[10]	Director

1. Warren Lee's directorship of MyState Queensland Limited ceased on 20 February 2020
2. Michael Stiassny's directorship of Plan B Limited ceased on 3 April 2018
3. Michael Stiassny's directorship of Queenstown Airport Corporation Limited ceased on 30 October 2020
4. Michael Stiassny's directorship of Sasha Properties Limited ceased on 20 August 2020
5. Michael Stiassny's directorship of The Institute of Directors in New Zealand Limited ceased on 15 June 2017
6. Michael Stiassny's directorship of UCI Holdings Limited ceased on 2 February 2018
7. Michael Stiassny's Board membership of the Financial Markets Authority ceased on 29 September 2020
8. Michael Stiassny's chair and directorship of New Zealand Transport Agency ceased on 26 April 2019
9. Graham Stuart's directorship of Metro Performance Glass Limited commenced on 1 December 2019
10. Marcus Nagel's directorship of 3Arrow AG commenced prior to his appointment as director of Tower

The following declarations of interest were made by directors of Tower subsidiaries during the year ended 30 September 2020:

Barry Whiteside *[1]	
Kontiki Finance	Director
Pacific Catastophe Risk Insurance Company	Director
Bayly Trust	Director/Trustee

1. Barry Whiteside is a director of Tower Insurance (Fiji) Limited and Southern Pacific Insurance Company (Fiji) Limited (appointed on 27 July 2020) and was appointed to the companies disclosed in the table above prior to his appointment as a director of the Tower subsidiaries.

Specific disclosures of interest

During the financial year, no subsidiary of Tower entered into any transaction in which directors were interested. Accordingly, no disclosures of interest were made.

Donations

During the financial year ended 30 September 2020, donations made by Tower Limited and its subsidiaries totalled $106,091.60.

Tower subsidiary company director disclosures

The following persons held office as directors of subsidiary companies at 30 September 2020. Those who were appointed during the financial year are footnoted.

TOWER SUBSIDIARY COMPANY DIRECTOR DISCLOSURES

Tower Insurance Limited*	Warren Lee, Steve Smith, Michael Stiassny, Graham Stuart, Wendy Thorpe, Marcus Nagel
Tower Financial Services Group Limited*	Warren Lee, Steve Smith, Michael Stiassny, Graham Stuart, Wendy Thorpe, Marcus Nagel
The National Insurance Company of New Zealand Limited	Blair Turnbull[1] and Jeffrey Wright
Tower New Zealand Limited*	Blair Turnbull[1] and Jeffrey Wright
National Insurance Company (Holdings) Pte Limited	Blair Turnbull[1], Isikeli Tikoduadua, Jeffrey Wright and Michelle James
Southern Pacific Insurance Company (Fiji) Limited	Blair Turnbull[1], Isikeli Tikoduadua, Jeffrey Wright, Michelle James and Barry Whiteside[2]
Tower Insurance (Fiji) Limited	Blair Turnbull[1], Isikeli Tikoduadua, Jeffrey Wright, Michelle James and Barry Whiteside[2]
Tower Insurance (Cook Islands) Limited	Blair Turnbull[1], Jeffrey Wright, Michelle James
Tower Insurance (PNG) Limited	Blair Turnbull[1], Jeffrey Wright, Michelle James and Jeremy Norton
National Pacific Insurance Limited	Blair Turnbull[1], Rodney Reid, Jeffrey Wright and Michelle James
National Pacific Insurance (Tonga) Limited	Blair Turnbull[1], Rodney Reid, Jeffrey Wright and Michelle James
Tower Insurance (Vanuatu) Limited	Blair Turnbull[1], Jeffrey Wright, Michelle James and Stephen Grant Ives
National Pacific Insurance (American Samoa)	Blair Turnbull[1], Rodney Reid, Jeffrey Wright and Michelle James

* On 30 September 2020, Tower undertook an amalgamation of certain New Zealand entities (Tower Financial Services Group Limited (317878), Tower Insurance Limited (143050), Tower New Zealand Limited (411059) and Tower Limited (979635). From 30 September 2020, the continuing company was Tower Insurance Limited (143050) which was renamed to Tower Limited.

1. Blair Turnbull was appointed as director on 1 August 2020
2. Barry Whiteside was appointed as director on 27 July 2020

No employee appointed as a director of a subsidiary receives any remuneration in their role as a director. The number of employees who receive remuneration of more than $100,000 is included in the remuneration table on page 82. Auditor fees paid on behalf of Tower and its subsidiaries are disclosed in the financial statements.

OTHER MATTERS

Indemnity and insurance

In accordance with section 162 of the Companies Act 1993 and Tower's constitution, Tower has provided insurance for and indemnities to, directors and employees of Tower for losses from actions undertaken in the course of their duties. The insurance includes indemnity costs and expenses incurred to defend an action that falls outside the scope of the indemnity. Particulars have been entered in the Interests Register pursuant to section 162 of the Companies Act 1993.

Limits on acquisition of securities under New Zealand law

Tower undertook to the ASX, at the time it granted Tower a full listing (July 2002), to include the following information in its annual report. Except for the limitations detailed below, Tower securities are freely transferable under New Zealand law.

The New Zealand Takeovers' Code, in general terms, prohibits a person (and its associates) from holding or controlling more than 20% of Tower's voting rights, or increasing such holding or control, except in accordance with the Takeovers Code or by way of a scheme of arrangement under the Companies Act 1993. The exceptions under the Takeovers Code include a full or partial takeover offer in accordance with the Takeovers Code, an acquisition or an allotment approved by an ordinary resolution of shareholders, a creeping acquisition (in defined circumstances) and a compulsory acquisition once a shareholder holds or controls 90% or more of the voting rights in Tower.

The New Zealand Overseas Investment Act and related regulations regulate certain investments in New Zealand by overseas persons. Generally, the Overseas Investment Office's (OIO) consent is required if an 'overseas person' acquires an ownership or control interest in more than 25% of Tower's shares, or increases such interest. Further, in certain circumstances, if Tower itself becomes an 'overseas person' by reason of an acquisition of its shares by an 'overseas person', that overseas person will need the OIO's consent.

The New Zealand Commerce Act is likely to prevent a person from acquiring Tower shares if the acquisition would, or would be likely to, substantially lessen competition in a market.

Corporations Act 2001 (Australia)

Tower is not subject to Chapters 6, 6A, 6B or 6C of the Corporations Act 2001 (Australia) dealing with the acquisition of shares (such as substantial holdings and takeovers).

The Annual Report is signed on behalf of the Board by

Michael Stiassny
Chair

Graham Stuart
Director

Tower Directory

Enquiries

For customer enquiries, call Tower on 0800 808 808 or visit www.tower.co.nz

For investor enquires:
Telephone: +64 9 369 2000

Email: investor.relations@tower.co.nz

Website: www.tower.co.nz

Board of Directors

Michael Stiassny (Chair)
Warren Lee
Steve Smith
Graham Stuart
Wendy Thorpe
Marcus Nagel

Chief Executive Officer

Blair Turnbull (from 1 August 2020)
Richard Harding (to 1 August 2020)

Company Secretary

Hannah Snelling (on parental leave from 7 September 2020)

Rachael Watene (covering parental leave from 7 September 2020)

Executive Leadership Team

Blair Turnbull (from 1 August 2020)
Richard Harding (to 1 August 2020)
Jeff Wright
Gavin Pearce
Jane Hardy
Michelle James
Michelle McBride
Peter Muggleston
Ronald Mudaliar
Paula ter Brake

Registered Office

New Zealand Level 14 Tower Centre
45 Queen Street
PO Box 90347
Auckland

Telephone: +64 9 369 2000

Australia
C/– PricewaterhouseCoopers Nominees (N.S.W) Pty Ltd
PricewaterhouseCoopers Darling Park Tower 2
Level 1
201 Sussex Street
Sydney NSW 2000 Australia

Auditor

PricewaterhouseCoopers

Lawyers

MinterEllisonRuddWatts

Banker

Westpac New Zealand Limited

Company numbers for FY20

Tower Limited
(Incorporated in New Zealand)

NZ Incorporation 979635
(143050 from 30 September 2020)
NZBN 9429 0374 84576
(9429040323299 from 30 September 2020)
ARBN 088 481 234

Stock exchanges

The Company's ordinary shares are listed on the NZSX and the ASX. On Wednesday 18 May 2016, Tower's ASX admission category changed to "ASX Foreign Exempt Listing".

Registrar

New Zealand

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road,
Takapuna, Auckland
Private Bag 92119
Auckland 1142
Freephone within New Zealand: 0800 222 065
Telephone New Zealand: +64 9 488 8777

Australia

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
GPO Box 3329
Melbourne Vic 3000
Freephone within Australia: 1800 501 366
Telephone Australia: +61 3 9415 4083
Email: enquiry@computershare.co.nz
Website: www.computershare.com/nz

You can also manage your holdings electronically by using Computershare's secure website www.investorcentre.com/nz

This website enables holders to view balances, change addresses, view payment and tax information and update payment instructions and report options.

Tower recommends shareholders elect to have any payments direct credited to their nominated bank account in New Zealand or Australia to minimise the risk of fraud and misplacement of cheques.

We also encourage shareholders to receive investor communications electronically as it keeps costs down, delivery of our communications to you is faster and it is better for the environment. All you need to do is log in to www.investorcentre.com/nz and update your 'Communication Preference' to enable us to send all your investor correspondence electronically where possible.

Please quote your CSN number or shareholder number when contacting Computershare.

TOWER.CO.NZ