TOWER

29 November 2012

Market Information
NZX Limited
Level 2, NZX Centre
11 Cable Street
PO Box 2959
Wellington
New Zealand

**TOWER Capital Limited - copy of TOWER Limited results for the year ended 30 September 2012**

A copy of the results of TOWER Limited, the parent company of TOWER Capital Limited, for the year ended 30 September 2012 is attached.

Bronwyn Walsh
Company Secretary
**TOWER Limited**

29 November 2012

Market Information
NZX Limited
Level 2, NZX Centre
11 Cable Street
PO Box 2959
Wellington
NEW ZEALAND

Company Announcements Office
ASX Limited
Exchange Centre
Level 6, 20 Bridge Street
Sydney
NSW 2000
AUSTRALIA

**TOWER Limited - Results for announcement to the market**

Attached are the following documents in relation to TOWER Limited's preliminary announcement for the year ended 30 September 2012:

1. Media release
2. NZX Appendix 1
3. ASX Appendix 4E
4. Financial Statements
5. Independent Auditors' Report
6. Results announcement presentation

Bronwyn Walsh
Company Secretary & Compliance Manager
**TOWER Limited**
ARBN 088 481 234 Incorporated in New Zealand

**MEDIA RELEASE**

For immediate release

29 November 2012

**TOWER REPORTS 67% PROFIT INCREASE, PLANS $120M CAPITAL REPAYMENT**

(Auckland – NZ) TOWER Limited today reported a $55.8 million net profit after tax for the full year to 30 September 2012, a 67% increase over the $33.4 million reported for the comparable period last year.

The result reflects improved performance across all business units, compared with the same period last year.

Strong revenue growth was reported by the Life, Health and General Insurance businesses and there was a drop in the level of insurance claims. Premium income growth for the Health business countered the impact of claims' inflation while price increases in General Insurance policies covered rising reinsurance costs. The Investments business continues to grow with funds under management surpassing $4.2 billion.

Net asset backing improved to $1.85 per share, up from $1.72 per share, and gearing (debt to debt plus equity) dropped to 14.1%, an improvement from around 15%. TOWER has capital in excess of the new Reserve Bank solvency standards.

Given TOWER's solid financial position, the Board is pleased to announce that a final dividend of 6 cents per share will be paid on 1 February 2013. This brings the annual unimputed dividend to 11 cents per share.

Group Managing Director, Rob Flannagan, said that TOWER had posted an excellent financial result for the year to September 2012 by getting the basics right, resulting in revenue growth, cost reduction and superior investment performance.

"The Group is recovering well from the Canterbury earthquakes and the strong financial performance highlighted the benefits of its streamlined and cohesive operating structure which included business-to-business alliances and partnerships with distributors," Mr Flannagan said. The year's financial result includes further claim costs associated with the earthquakes of $13.6 million after taxation.

Capital management is a key focus for the Board which will be recommending a capital return to shareholders of $120 million - this is subject to Court and shareholder approval.

The repayment of capital will comprise the proceeds of the sale of the Health business and existing surplus capital. The repayment is likely to be via a scheme of arrangement. The intention is for shareholders to approve this at TOWER's annual shareholder meeting, which will be scheduled for March 2013.

With the return of capital planned, the company's dividend reinvestment plan will not operate for this dividend payment and all shareholders will receive their dividend in cash.

Interim TOWER Chairman, Steve Smith, said that the financial result for the year to September was very pleasing in the difficult economic operating conditions. TOWER continues to explore proposals arising from its strategic review, with this process expected to be completed by the annual meeting in March 2013

ENDS

For further information please contact:

Rob Flannagan
Group Managing Director
**TOWER Limited**
Tel:  +64 9 369 2057

## FULL YEAR PRELIMINARY ANNOUNCEMENTS AND FULL YEAR RESULTS

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

| TOWER LIMITED | |
|---|---|
| Reporting Period | 12 months to 30 September 2012 |
| Previous Reporting Period | 12 months to 30 September 2011 |

| | Amounts (000s) | Percentage change |
|---|---|---|
| Revenue from ordinary activities | NZ$ 483,325 | 23 % increase |
| Net profit from ordinary activities after tax attributable to shareholders | NZ$ 55,339 | 67 % increase |
| Net profit attributable to shareholders | NZ$ 55,339 | 67 % increase |

| Final Dividend | Amount per security | Imputed amount per security |
|---|---|---|
| | NZ 6.0 cents | Nil |
| Record Date | 18 January 2013 | |
| Dividend Payment Date | 1 February 2013 | |

| | |
|---|---|
| Comments | Total revenue from ordinary activities has increased from prior year primarily as a result of higher investment income, and increased premium revenue in general insurance.<br><br>Net profit from ordinary activities in the year to 30 September 2012 includes a gain of NZ$9 million (2011: gain NZ $2.4 million) being the after tax effect of movements in the discount rate. This arises from changes in global investment markets, which in turn affects the discount rate applied under the relevant accounting standards when valuing individual life risk policy liabilities.<br><br>Net profit for the year ended 30 September 2012 including minority interest of $0.5 million was $55.8 million (2011: $33.4 million including minority interest of $0.3 million). |

| | |
|---|---|
| Additional Information | TOWER's dividend reinvestment plan will not apply for the final dividend. |

**Refer attached 2012 audited Financial Statements for TOWER Limited and its subsidiaries and Presentation for more detailed analysis and explanation**

**TOWER Limited**

**APPENDIX 4E**
**PRELIMINARY FINAL REPORT**
**28 November 2012**
**ASX LISTING RULES 4.3A**

## TOWER LIMITED PRELIMINARY FINAL REPORT

| | |
|---|---|
| Current Reporting Period | 12 Months ended 30 September 2012 |
| Previous Reporting Period | 12 Months ended 30 September 2011 |

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

| | **Year Ended 30 September 2012** 000's | **Movement** |
|---|---|---|
| Total revenue from ordinary activities | NZ$ 483,325 | +23% |
| Net profit from ordinary activities after tax attributable to shareholders | NZ$ 55,339 | +67% |
| Net profit attributable to shareholders | NZ$ 55,339 | +67% |

**FINAL DIVIDEND**
A final dividend of NZ 6.0 cents per share has been declared. The Record Date is 18 January 2013. The dividend will have no imputation credits attached and will be paid net of withholding tax (where applicable) on 1 February 2013. No franking credits apply. Participation in TOWER's dividend reinvestment plan will not apply for the final dividend.

**ADDITIONAL COMMENTS**
Total revenue from ordinary activities has increased from prior year primarily as a result of higher investment income, and increased premium revenue in general insurance.

Net profit from ordinary activities in the year to 30 September 2012 includes a gain of NZ$9 million (2011: gain NZ $2.4 million) being the after tax effect of movements in the discount rate. This arises from changes in global investment markets, which in turn affects the discount rate applied under the relevant accounting standards when valuing individual life risk policy liabilities

Net profit for the year ended 30 September 2012 including minority interest of $0.5 million was $55.8 million (2011: $33.4 million including minority interest of $0.3 million).

**Refer attached 2012 audited Financial Statements for TOWER Limited and its subsidiaries and Presentation for more detailed analysis and explanation**

# TOWER LIMITED

## FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 SEPTEMBER 2012

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

**Table of Contents**

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

| | Note | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Premium revenue from insurance contracts | | 333,046 | 297,189 | - | - |
| Less: Outwards reinsurance expense | | (61,083) | (61,867) | - | - |
| Net premium revenue | 4 | 271,963 | 235,322 | - | - |
| Investment revenue | 5 | 118,921 | 62,842 | 22,137 | 21,572 |
| Fee and other revenue | 6 | 31,358 | 33,759 | - | - |
| **Net operating revenue** | | **422,242** | **331,923** | **22,137** | **21,572** |
| **Expenses** | | | | | |
| Claims expense | | 253,869 | 599,190 | - | - |
| Less: Reinsurance recoveries revenue | | (59,841) | (417,412) | - | - |
| **Net claims expense** | 7 | **194,028** | **181,778** | **-** | **-** |
| Increase/(decrease) in policy liabilities | 8 | 8,878 | (29,013) | - | - |
| Management and sales expenses | 9(A) | 139,440 | 136,508 | 693 | 679 |
| **Net claims and operating expenses** | | **342,346** | **289,273** | **693** | **679** |
| Financing costs | 9(B) | 7,903 | 7,856 | - | - |
| **Total expenses** | | **350,249** | **297,129** | **693** | **679** |
| **Profit before taxation** | | **71,993** | **34,794** | **21,444** | **20,893** |
| Tax expense attributed to policyholders' returns | 10(A) | (17,522) | (4,798) | - | - |
| **Profit attributed to shareholders before taxation** | | **54,471** | **29,996** | **21,444** | **20,893** |
| Tax expense attributed to shareholders' profits | 10(A) | (11,897) | (6,247) | (1,054) | (880) |
| **Profit for the year from continuing operations** | 41 | **42,574** | **23,749** | **20,390** | **20,013** |
| Profit for the year from discontinued operations | 45 | 13,250 | 9,631 | - | - |
| **Profit for the year** | | **55,824** | **33,380** | **20,390** | **20,013** |
| **Profit attributed to:** | | | | | |
| Shareholders | | 55,339 | 33,066 | 20,390 | 20,013 |
| Minority interests | | 485 | 314 | - | - |
| | | **55,824** | **33,380** | **20,390** | **20,013** |
| | | **Cents** | **Cents** | | |
| Basic and diluted earnings per share for continuing operations | 40 | 15.78 | 8.91 | | |
| Basic and diluted earnings per share from discontined operations | 40 | 4.97 | 3.66 | | |

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

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

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| | Note | $000 | $000 | $000 | $000 |
| **Profit for the year** | | **55,824** | **33,380** | **20,390** | **20,013** |
| **Other comprehensive income:** | | | | | |
| Gains on asset revaluation | | 327 | - | - | - |
| Deferred income tax relating to asset revaluation | | (91) | - | - | - |
| Currency translation differences | | (115) | (629) | - | - |
| **Other comprehensive income/(loss) net of taxation** | | **121** | **(629)** | - | - |
| **Total comprehensive income for the year** | | **55,945** | **32,751** | **20,390** | **20,013** |
| **Total comprehensive income attributed to:** | | | | | |
| Shareholders | | 56,252 | 32,378 | 20,390 | 20,013 |
| Minority interests | | (307) | 373 | - | - |
| | | 55,945 | 32,751 | 20,390 | 20,013 |
| **Total comprehensive income attributed equity shareholders arises from:** | | | | | |
| Continuing operations | | 42,695 | 23,120 | 20,390 | 20,013 |
| Assets of disposal group held for sale | | 13,250 | 9,631 | - | - |
| | | 55,945 | 32,751 | 20,390 | 20,013 |

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

# TOWER LIMITED
# BALANCE SHEETS
## As at 30 September 2012

| | Note | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 32(A) | 186,477 | 223,981 | 72,928 | 89,939 |
| Receivables | 11 | 532,162 | 612,959 | 2,252 | 3,281 |
| Financial assets at fair value through profit or loss | 28 | 853,427 | 883,645 | - | - |
| Derivative financial assets | 28 | 91,026 | 75,080 | - | - |
| Liabilities ceded under reinsurance | 26 | 17,617 | 20,026 | - | - |
| Property, plant and equipment | 15 | 5,529 | 6,298 | - | - |
| Prepaid tax assets | 10(B) | - | 12,795 | - | 2,111 |
| Current tax assets | | 3,615 | 7,347 | 1,271 | 1,560 |
| Deferred acquisition costs | 14 | 23,467 | 42,383 | - | - |
| Investments in subsidiaries | 13 | - | - | 235,237 | 215,145 |
| Deferred tax assets | 10(C) | 15,906 | 19,294 | - | - |
| Intangible assets | 12 | 68,822 | 72,741 | - | - |
| | | 1,798,048 | 1,976,549 | 311,688 | 312,036 |
| Assets of disposal group classified as held for sale | 45 | 167,546 | - | - | - |
| **Total Assets** | | **1,965,594** | **1,976,549** | **311,688** | **312,036** |
| **Liabilities** | | | | | |
| Payables | 16 | 56,772 | 57,502 | 190,154 | 198,747 |
| Current tax liabilities | | - | - | - | - |
| Provisions | 17 | 7,097 | 5,325 | - | - |
| Derivative financial liabilities | 28 | 170 | 1,903 | - | - |
| Interest bearing liabilities | 18 | 81,990 | 81,263 | - | - |
| Insurance liabilities | 19 | 563,779 | 710,709 | - | - |
| Deferred tax liabilities | 10(C) | 47,472 | 48,770 | - | - |
| Life insurance contract liabilities | 26 | 591,458 | 587,476 | - | - |
| Life investment contract liabilities | 26 | 27,476 | 28,084 | - | - |
| | | 1,376,214 | 1,521,032 | 190,154 | 198,747 |
| Liabilities of disposal group classified as held for sale | 45 | 90,591 | - | - | - |
| **Total Liabilities** | | **1,466,805** | **1,521,032** | **190,154** | **198,747** |
| **Net Assets** | | **498,789** | **455,517** | **121,534** | **113,289** |
| **Equity** | | | | | |
| Contributed equity | 20 | 572,805 | 567,031 | 572,805 | 567,031 |
| Accumulated profit/(losses) | 21 | 33,546 | (4,352) | (340,085) | (342,786) |
| Reserves | 22 | (109,005) | (109,688) | (111,186) | (110,956) |
| **Total equity attributed to shareholders** | | **497,346** | **452,991** | **121,534** | **113,289** |
| Minority interests | | 1,443 | 2,526 | - | - |
| **Total Equity** | | **498,789** | **455,517** | **121,534** | **113,289** |

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

Stephen J Smith
Chairman

John L Spencer
Director

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

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

| Group | Attributed to shareholders | | | | | |
|---|---|---|---|---|---|---|
| | Contributed equity $000 | Accumulated losses/profits $000 | Reserves $000 | Total $000 | Minority interests $000 | Total equity $000 |
| **Year ended 30 September 2012** | | | | | | |
| At the beginning of the year | **567,031** | **(4,352)** | **(109,688)** | **452,991** | **2,526** | **455,517** |
| **Comprehensive income** | | | | | | |
| Profit for the year | - | 55,339 | - | **55,339** | 485 | **55,824** |
| ***Other comprehensive income*** | | | | | | |
| Gains on asset revaluation | - | - | 327 | **327** | - | **327** |
| Deferred income tax relating to asset revaluation | - | - | (91) | **(91)** | - | **(91)** |
| Currency translation differences | - | - | 677 | **677** | (792) | **(115)** |
| **Total comprehensive income** | **-** | **55,339** | **913** | **56,252** | **(307)** | **55,945** |
| **Transactions with shareholders** | | | | | | |
| Shares issued under dividend reinvestment plan | 5,774 | - | - | **5,774** | - | **5,774** |
| Shares issued under employee share options scheme | - | - | - | **-** | - | **-** |
| Movement in share based payment reserve | - | 322 | (230) | **92** | - | **92** |
| Dividends paid | - | (18,622) | - | **(18,622)** | - | **(18,622)** |
| Minority interest dividend paid | - | - | - | **-** | (392) | **(392)** |
| Other | - | 859 | - | **859** | (384) | **475** |
| **Total transactions with shareholders** | 5,774 | (17,441) | (230) | **(11,897)** | (776) | **(12,673)** |
| **At the end of the year** | **572,805** | **33,546** | **(109,005)** | **497,346** | **1,443** | **498,789** |
| **Year ended 30 September 2011** | | | | | | |
| At the beginning of the year | **558,762** | **(12,021)** | **(108,332)** | **438,409** | **2,923** | **441,332** |
| **Comprehensive income** | | | | | | |
| Profit for the year | - | 33,066 | - | **33,066** | 314 | **33,380** |
| Currency translation differences | - | - | (688) | **(688)** | 59 | **(629)** |
| **Total comprehensive income** | - | 33,066 | (688) | **32,378** | 373 | **32,751** |
| **Transactions with shareholders** | | | | | | |
| Shares issued under dividend reinvestment plan | 7,628 | - | - | **7,628** | - | **7,628** |
| Shares issued under employee share options scheme | 608 | - | - | **608** | - | **608** |
| Movement in share based payment reserve | - | 802 | (668) | **134** | - | **134** |
| Dividends paid | - | (26,199) | - | **(26,199)** | - | **(26,199)** |
| Minority interest dividend paid | - | - | - | **-** | (770) | **(770)** |
| Movement in treasury shares | 33 | - | - | **33** | - | **33** |
| **Total transactions with shareholders** | 8,269 | (25,397) | (668) | **(17,796)** | (770) | **(18,566)** |
| **At the end of the year** | **567,031** | **(4,352)** | **(109,688)** | **452,991** | **2,526** | **455,517** |

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

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

| Company | Contributed equity $000 | Accumulated losses $000 | Reserves $000 | Total equity $000 |
|---|---|---|---|---|
| **Year ended 30 September 2012** | | | | |
| At the beginning of the year | **567,031** | **(342,786)** | **(110,956)** | **113,289** |
| **Comprehensive income** | | | | |
| Profit for the year | - | 20,390 | - | **20,390** |
| **Total comprehensive income** | - | 20,390 | - | **20,390** |
| **Transactions with shareholders** | | | | |
| Shares issued under dividend reinvestment plan | 5,774 | - | - | **5,774** |
| Shares issued under employee share options scheme | - | - | - | **-** |
| Movement in share based payment reserve | - | 322 | (230) | **92** |
| Dividends paid | - | (18,622) | - | **(18,622)** |
| Other | - | 611 | - | **611** |
| **Total transactions with shareholders** | 5,774 | (17,689) | (230) | **(12,145)** |
| **At the end of the year** | **572,805** | **(340,085)** | **(111,186)** | **121,534** |
| **Year ended 30 September 2011** | | | | |
| At the beginning of the year | **558,762** | **(337,402)** | **(110,288)** | **111,072** |
| **Comprehensive income** | | | | |
| Profit for the year | - | 20,013 | - | **20,013** |
| **Total comprehensive income** | - | 20,013 | - | **20,013** |
| **Transactions with shareholders** | | | | |
| Shares issued under dividend reinvestment plan | 7,628 | - | - | **7,628** |
| Shares issued under employee share options scheme | 608 | - | - | **608** |
| Movement in share based payment reserve | - | 802 | (668) | **134** |
| Dividends paid | - | (26,199) | - | **(26,199)** |
| Movement in treasury shares | 33 | - | - | **33** |
| **Total transactions with shareholders** | 8,269 | (25,397) | (668) | **(17,796)** |
| **At the end of the year** | **567,031** | **(342,786)** | **(110,956)** | **113,289** |

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

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

| | Note | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Premiums received | | 480,212 | 439,689 | - | - |
| Interest received | | 36,415 | 38,823 | 3,218 | 3,551 |
| Dividends received | | 2,138 | 2,623 | 18,960 | 18,000 |
| Investment income | | 63,167 | 27,266 | - | - |
| Non-life company fee income | | 33,297 | 33,719 | - | - |
| Reinsurance received | | 147,116 | 34,390 | - | - |
| Reinsurance paid | | (65,430) | (56,652) | - | - |
| Claims paid | | (439,607) | (320,580) | - | - |
| Payments to suppliers and employees | | (170,996) | (187,441) | (26) | - |
| Interest paid | | (7,175) | (6,533) | - | - |
| Income tax paid | | (8,619) | (9,950) | - | - |
| **Net cash inflow/(outflow) from operating activities** | 32(B) | **70,518** | **(4,646)** | **22,152** | **21,551** |
| **Cash flows from investing activities** | | | | | |
| Net (payments)/receipts for financial assets | | (71,799) | 63,564 | - | - |
| Net payments for purchase of property, plant and equipment and intangible assets | | (12,915) | (23,647) | - | - |
| Cash from acquisition of subsidiary | | 3,389 | - | - | - |
| **Net cash (outflow)/inflow from investing activities** | | **(81,325)** | **39,917** | **-** | **-** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of share capital | | - | 1,224 | - | - |
| Dividends paid | | (12,848) | (18,572) | (12,848) | (18,572) |
| Payment of supplementary dividends | | (200) | (1,014) | (200) | (1,014) |
| Payment of minority interest dividends | | (392) | (770) | - | - |
| Investment in subsidiary | | - | - | (20,000) | - |
| Net advances from subsidiaries | | - | - | (6,115) | 2,554 |
| **Net cash outflow from financing activities** | | **(13,440)** | **(19,132)** | **(39,163)** | **(17,032)** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(24,247)** | **16,139** | **(17,011)** | **4,519** |
| Cash and cash equivalents at the beginning of year | | 223,981 | 207,842 | 89,939 | 85,420 |
| Cash reclassified to disposal group held for sale | | (13,257) | - | - | - |
| **Cash and cash equivalents at the end of year** | 32(A) | **186,477** | **223,981** | **72,928** | **89,939** |

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied to all the periods presented, unless otherwise stated.

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

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

During all periods presented, the principal activity of the TOWER Limited Group was provision of health, life and general insurance and investment management services. The Group predominantly operates in New Zealand with some of its general insurance operations based in the Pacific Islands region.

On 2 November 2012, TOWER Limited announced the sale of its health insurance business, TOWER Medical Insurance Limited. The sale of TOWER Medical Insurance Limited has resulted in the health insurance business segment being treated as a discontinued operation, which has been disclosed as a disposal group held for sale in these financial statements. The sale is disclosed in more detail in note 45.

*Compliance with International Financial Reporting Standards (IFRS)*
The consolidated financial statements and notes of TOWER Limited comply with International Financial Reporting Standards (IFRS).

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

The Company's owners or others do not have the power to amend the financial statements after they have been authorised for issue.

### PRINCIPLES OF CONSOLIDATION

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

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

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

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

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.

### INVESTMENT IN SUBSIDARIES

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

### PRINCIPLES UNDERLYING THE CONDUCT OF LIFE INSURANCE BUSINESS

The life insurance operations of the Group comprise the selling and administration of contracts which are classified as either life insurance contracts or life investment contracts. Contracts that include both investment and insurance elements are separated into these two elements and reported accordingly.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the life insurer, and the financial risks are substantially borne by the life insurer. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held. While the underlying assets are registered in the name of the life insurer and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the investment performance. The life insurer derives fee income from the administration of investment-linked policies. Participating policy owner benefits, both vested and unvested, are treated as expenses when incurred and liabilities until paid.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### SPECIFIC ACCOUNTING POLICIES

### (A) PREMIUM REVENUE

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

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

*(iii) Health and General insurance contracts*
Premium revenue is recognised in the period in which the premiums are earned during the term of the contract.

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

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

### (B) FEE AND OTHER REVENUE

Fee revenue on investment contracts and other services provided by the Group is recognised in the period the services are provided.

### (C) INVESTMENT REVENUE

Investment revenue is recognised as follows:

*(i) Dividends and distributions*
Revenue is recognised on an accrual basis when the right to receive payment is established.

*(ii) Property income*
Property income is recognised on an accrual basis.

*(iii) Interest income*
Interest income is recognised using the effective interest method.

*(iv) Fair value gains and losses*
Fair value gains and losses on financial assets at fair value through profit or loss are recognised through the income statement in the period in which they arise.

### (D) CLAIMS EXPENSE

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

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

*(iii) General insurance contracts*
Claims expenses are recognised when claims are notified with the exception of claims incurred not reported for which a provision is estimated (discussed in note 2(B)).

### (E) BASIS OF EXPENSE APPORTIONMENT

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

The apportionment process is adopted by applying the following methodology:

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

### (F) POLICY ACQUISITION COSTS

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

*(ii) Other contracts*
Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs are initially recorded in the income statement, with any amounts to be deferred then taken to the balance sheet as a deferred acquisition cost. Deferred acquisition costs are recognised for the products noted below.

- *Superannuation and medical products*
  The acquisition costs of establishing contracts for certain superannuation and medical products are deferred. These costs are amortised over the periods of expected future benefit. A comparison to recoverable value is carried out annually, with any variance below carrying value taken to the income statement in that year.

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

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

### (G) OUTWARDS REINSURANCE

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment.

### (H) REINSURANCE RECOVERIES

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

### (I) FINANCING COSTS

Financing costs include interest on external debt (borrowing costs), and amortisation of transaction costs and are recognised on an effective interest method basis.

### (J) TAXATION

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

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

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

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

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*(v) Life Insurance tax*
From 1 July 2010, life insurers have been subject to a new tax regime. Two tax bases are maintained; the shareholder base which is subject to tax on life risk products (premiums less claims) and net investment income from shareholder funds, and the policyholder base which is subject to tax on net investment income from policyholder funds. The life insurer pays tax on both bases at the prevailing corporate tax rate of 28% (2011: 30%). As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

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

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

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

### (K) FOREIGN CURRENCY

*(i) Functional and presentation currencies*
The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. The consolidated Group financial statements are presented in New Zealand dollars and rounded off to the nearest thousand dollars.

*(ii) Transactions and balances*
In preparing the financial statements of the individual entities transactions denominated in foreign currencies are translated into the reporting currency using the exchange rates in effect at the transaction dates. Monetary items receivable or payable in a foreign currency, including forward exchange contracts, are translated at reporting date at the closing exchange rate.

Translation differences on non-monetary items such as financial assets held at fair value through profit or loss are reported as part of their fair value gain or loss.

Exchange differences arising on the settlement or retranslation of monetary items at year end exchange rates are recognised in the income statement.

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

### (L) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within cash and cash equivalents on the balance sheet if the net position is an asset due to TOWER Group's right to offset overdrafts within its banking facility.

### (M) PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of any residual amounts, over their useful lives. The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount.

| | |
|---|---|
| Computer equipment | 3-5 years |
| Office equipment and furniture | 5 years |
| Motor vehicles | 5 years |
| Buildings | 50-100 years |
| Leasehold property improvements | 3 – 12 years |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (N) ASSETS BACKING INSURANCE BUSINESS

The Group has determined that:

- all assets of the life insurance companies are assets backing the policy liabilities of the life insurance business including life insurance contract liabilities and life investment contract liabilities, with the exception of investments in operating subsidiaries;
- all assets within the general insurance companies are held to back general insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries; and
- all assets within the health insurance company are held to back health insurance liabilities, with the exception of investments in operating subsidiaries.

As these assets are managed in accordance with approved investment mandate agreements on a fair value basis and are reported to the Board on this basis. They have been measured at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as follows:

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

### (O) EARNINGS PER SHARE

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements of ordinary shares issued during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (P) INTANGIBLES

*(i) Goodwill*

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the entity acquired, at the date of acquisition.

Following initial recognition, goodwill on acquisition of a business combination is not amortised but is tested for impairment bi-annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Any impairment is recognised immediately in the income statement.

On disposal of an entity the carrying value of any associated goodwill is included in the calculation of the gain or loss on sale.

*(ii) Software*

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

Internally generated intangible assets are recorded at cost which includes all the directly attributable costs necessary to create, produce and prepare the asset 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.

| | |
|---|---|
| General use computer software | 3-5 years |
| Core operating system software | 10 years |

### (Q) IMPAIRMENT OF NON FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested bi-annually for impairment. Assets with a finite useful life are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell, and value in use.

For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (R) DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

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

All purchases and sales of financial assets classified as fair value through profit or loss that require delivery within the timeframe established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date the Group commits to purchase or sell the assets. Loans and receivables are recognised at settlement date, which is the date that the assets are delivered or received.

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

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

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

Derivatives are categorised as held for trading unless they are designated as hedges. All derivatives entered into by the Group are classified as held for trading as the Group does not apply hedge accounting.

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

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

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

### (S) IMPAIRMENT OF FINANCIAL ASSETS

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

For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

For all financial assets, other than trade receivables, the carrying amount is reduced by the impairment loss directly. For trade receivables the carrying amount is reduced via an allowance account, against which an uncollectible trade receivable is written off.

A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Group will be unable to collect the amount. Changes in the carrying amount of the allowance account are recognised in the income statement.

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (T) LEASED ASSETS

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the services are received over the period of the lease.

Benefits received and receivable for entering into an operating lease are recognised on a straight line basis over the term of the lease.

### (U) INTEREST BEARING LIABILITIES

Interest bearing debt and overdrafts are initially measured at fair value, net of transaction costs incurred and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of liability is recognised over the term of the liability.

### (V) PAYABLES

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

### (W) PROVISIONS

Provisions are only recognised when the Group has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

### (X) EMPLOYEE ENTITLEMENTS

Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, annual leave and long service leave, but excludes share-based payments. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided up to the balance date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities which have terms to maturity approximating the terms of the related liability.

### (Y) CAPITAL GUARANTEES

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

### (Z) LIFE INSURANCE LIABILITIES

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

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

*(i) Life investment contract liabilities*

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

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

*(ii) Life insurance contract liabilities*

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

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

Life insurance contract liabilities are determined using either the projection method or accumulation method as referred to in note 26. Under the projection method the policy liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future. When the benefits under the life insurance contract liability are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate on those assets. Where the benefits are not linked to the performance of the backing assets, a risk free discount rate is used. The risk free discount rate is determined by the Chief Actuary based on the zero coupon swap rates, depending on the nature, structure and term of the contract liabilities.

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (AA) GENERAL AND HEALTH INSURANCE LIABILITIES

General insurance outstanding claims are measured at the central estimate of the present value of expected future payments after allowing for inflation and superimposed inflation and discounted at the risk free rate. Health insurance outstanding claims are measured at the central estimate of the present value of expected future payments after allowing for historical claims cost escalation and discounted at the risk free rate. In addition a risk margin is added to the claims provision to recognise the inherent uncertainty of the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs. Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

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

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

### (AB) PREMIUM PAYBACK LIABILITIY

For health premium payback business an additional unearned premium liability has been established representing the accrued amount of premium expected to be repaid to policyholders. This liability is discounted at the risk-free rate and a liability adequacy test has been performed incorporating a risk margin to cover uncertainty in the central estimate.

### (AC) CONTRIBUTED EQUITY

*(i) Ordinary share capital*

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

### (AD) SHARE BASED PAYMENTS

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

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

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

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

### (AE) SEGMENT REPORTING

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

### (AF) CASH FLOWS

The statements of cash flows present the net cash flows for financial assets, property, plant and equipment, intangible assets and advances to subsidiaries. TOWER considers that knowledge of gross receipts and payments is not essential to understanding the activities of TOWER and it is considered acceptable to report only the net cash flows for these items. This is based on the fact that either the turnover of these items is quick, the amounts are large, and the maturities are short or the value of the sales are immaterial.

### (AG) DISCONTINUED OPERATIONS AND DISPOSAL GROUPS

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

Assets and liabilities of a disposal group are measured at the lower of carrying amount and fair value less costs to sell and disclosed on the balance sheet. Items in the Income Statements and Statements of Comprehensive Income relating to the discontinued operations are shown separately on the face of the statements.

Cash flows associated with discontinued operations are disclosed in note 45.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (AH) BUSINESS COMBINATION

Identifiable assets acquired and liabilities assumed in business combination are measured at fair value at acquisition date with any excess of cost over the fair value of the net assets acquired recognised as goodwill on the balance sheet.

If there is negative goodwill then this is recognised directly in the income statement.

### (AI) COMPARATIVES

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

As required by NZ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the sale of TOWER Medical Insurance Limited (the "health business") has resulted in the reclassification of balances into single line items. Income statement balances for 2012 and 2011 years have been reclassified into a single line, 'Profit for the year from discontinued operations'. 2012 balance sheet items have been reclassified into two lines 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale'. The cash flow statement continues to include health related cash flows within each line item. A summary of health-only related cash flows is presented in note 45 – Discontinued operations, which contains full details of the health business disposal.

### (AJ) CHANGES IN ACCOUNTING POLICY

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

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### (A) POLICY LIABILITIES

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

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

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

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Group shares experience on mortality, morbidity, persistency and investment results with its customers, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 26.

### (B) CLAIMS LIABILITIES UNDER HEALTH AND GENERAL INSURANCE CONTRACTS

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group.

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

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims has happened. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based on statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Group processes which might accelerate or slow down the development and (or) recording of paid or incurred claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks; and
- medical and technological developments.

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Group has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based on the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 27.

### (C) ASSETS ARISING FROM REINSURANCE CONTRACTS

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

### (D) TAXATION

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

## 3. IMPACT OF AMENDMENTS TO NZ IFRS

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

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

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

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

- NZ IFRS 10 'Consolidated Financial statements' (effective from 1 January 2013). The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in NZ IAS 27 Consolidated and Separate Financial Statements. The standard is not expected to have a material impact on the financial statements.

- NZ IFRS 12 'Disclosure of Interests in Other Entities' (effective from 1 January 2013). The standard requires extensive disclosure of information that enables users of the financial statements to evaluate the nature of, and risks associated with, interests in other entities. The Company is in the process of evaluating the potential effect of this standard.

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

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

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

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

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

## 4. PREMIUM REVENUE

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$000** | **$000** | **$000** | **$000** |
| Life insurance premiums | 94,187 | 88,884 | - | - |
| Life investment premiums | 365 | 396 | - | - |
| **Total life premiums** | **94,552** | **89,280** | **-** | **-** |
| Less: Deposits recognised as an increase in policy liabilities | (365) | (419) | - | - |
| **Life insurance contract premiums recognised as revenue** | **94,187** | **88,861** | **-** | **-** |
| General insurance premiums | 238,859 | 208,328 | - | - |
| **Premium revenue from insurance contracts** | **333,046** | **297,189** | **-** | **-** |
| Less: Outwards reinsurance expense | (61,083) | (61,867) | - | - |
| **Total net premium revenue** | **271,963** | **235,322** | **-** | **-** |

## 5. INVESTMENT REVENUE

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **Fixed interest securities** (1) | | | | |
| Interest income | 32,486 | 35,272 | 3,165 | 3,572 |
| Net realised gain | 10,933 | 2,406 | - | - |
| Net unrealised (loss)/gain | (5,092) | 2,398 | - | - |
| | **38,327** | **40,076** | **3,165** | **3,572** |
| **Equity securities** (1) | | | | |
| Dividend income | 2,138 | 2,623 | 18,960 | 18,000 |
| Net realised loss | 5,336 | (3,074) | - | - |
| Net unrealised gain/(loss) | 17,915 | (7,775) | - | - |
| | **25,389** | **(8,226)** | **18,960** | **18,000** |
| **Property securities** (1) | | | | |
| Property income | 1,993 | 2,302 | - | - |
| Net realised gain | 12,068 | 426 | - | - |
| Net unrealised (loss)/gain | (10,521) | 1,871 | - | - |
| | **3,540** | **4,599** | **-** | **-** |
| **Other** (2) | | | | |
| Other investment income | 203 | 172 | 12 | - |
| Net realised gain | 27,084 | 18,617 | - | - |
| Net unrealised gain | 24,378 | 7,604 | - | - |
| | **51,665** | **26,393** | **12** | **-** |
| **Total investment revenue** | | | | |
| Total investment revenue | 36,820 | 40,369 | 22,137 | 21,572 |
| Total net realised gain | 55,421 | 18,375 | - | - |
| Total net unrealised gain | 26,680 | 4,098 | - | - |
| | **118,921** | **62,842** | **22,137** | **21,572** |

(1) The income and loss in these categories has been generated by financial assets designated on initial recognition at fair value through profit or loss.
(2) Other investment gains and losses has been generated by derivative financial assets and financial liabilities classified as held for trading at fair value through profit or loss.

## 6. FEE AND OTHER REVENUE

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| Investment and management fees | 31,188 | 33,596 | - | - |
| Other revenue | 170 | 163 | - | - |
| **Total fee and other revenue** | **31,358** | **33,759** | **-** | **-** |

## 7. CLAIMS EXPENSE

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| Life insurance claims | 82,470 | 93,570 | - | - |
| Life investment contract payments | 3,361 | 3,238 | - | - |
| **Total life claims and payments** | **85,831** | **96,808** | - | - |
| Less: Withdrawals recognised as a decrease in policy liabilities | (3,460) | (11,386) | - | - |
| **Life insurance claims recognised as expense** | **82,371** | **85,422** | **-** | **-** |
| General insurance claims | 171,498 | 513,768 | - | - |
| **Claims expense** | **253,869** | **599,190** | **-** | **-** |
| Less: Reinsurance recoveries revenue | (59,841) | (417,412) | - | - |
| **Total net claims expense** | **194,028** | **181,778** | **-** | **-** |

## 8. MOVEMENT IN POLICY LIABILITIES

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| Increase/(decrease) in life insurance contract liabilities | 6,470 | (28,179) | - | - |
| Increase/(decrease) in life investment contract liabilities | 2,408 | (834) | - | - |
| **Increase/(decrease) in policy liabilities** | **8,878** | **(29,013)** | **-** | **-** |

## 9. OTHER EXPENSES

### (A) MANAGEMENT AND SALES EXPENSES

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **Life insurance contracts** | | | | |
| Policy acquisition expenses: | | | | |
| Commission | 10,897 | 13,677 | - | - |
| Other acquisition expenses | 3,783 | 2,372 | - | - |
| Policy maintenance expenses: | | | | |
| Commission | 7,051 | 6,654 | - | - |
| Other maintenance expenses | 3,463 | 4,524 | - | - |
| Investment management expenses | 14 | 266 | - | - |
| **Total life insurance expenses** | **25,208** | **27,493** | - | - |
| **Life investment contracts** | | | | |
| Policy maintenance expenses: | | | | |
| Commission | 39 | 11 | - | - |
| **Total life investment expenses** | **39** | **11** | **-** | **-** |
| Other non-life expenses | 114,193 | 109,004 | 693 | 679 |
| **Total management and sales expenses** | **139,440** | **136,508** | **693** | **679** |

## 9. OTHER EXPENSES (CONTINUED)

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$000** | **$000** | **$000** | **$000** |
| **Included in total management and sales expenses are the following:** | | | | |
| Amortisation of non-life deferred acquisition costs | 23,166 | 22,214 | - | - |
| Bad debts written off | 87 | 123 | - | - |
| Change in provision for doubtful debts | 171 | 88 | - | - |
| Amortisation of software | 2,697 | 2,307 | - | - |
| Depreciation: | | | | |
| Office equipment and furniture | 513 | 634 | - | - |
| Motor vehicles | 389 | 305 | - | - |
| Computer equipment | 1,305 | 2,649 | - | - |
| Directors' fees | 600 | 632 | 600 | 632 |
| Operating leases | 4,227 | 4,029 | - | - |
| Employee benefits expense | 64,848 | 66,836 | - | - |
| Net loss on fair value of employee share option derivative | - | 948 | - | - |
| Gain/(loss) on disposal of property, plant and equipment | 131 | (364) | - | - |
| *Auditors' remuneration* | | | | |
| Fees paid to Company's auditors: | | | | |
| Audit of financial statements | 1,046 | 1,087 | - | - |
| Other assurance related services | 40 | - | - | - |
| Tax related services | 49 | 20 | - | - |
| Non-assurance advisory related services | 7 | 239 | - | - |
| Fees paid to subsidiary's auditors: | | | | |
| Audit of financial statements | 30 | 25 | - | - |

Other assurance related services in the current year relate to work performed on the proposed sale of TOWER Medical Insurance Limited. In the prior year non-assurance services relate predominantly to work performed in relation to internal forecasting models for the Group and other minor projects.

| **(B) FINANCING COSTS** | | | | |
|---|---|---|---|---|
| Interest expense | 7,677 | 7,612 | - | - |
| Other costs | 226 | 244 | - | - |
| **Total financing costs** | **7,903** | **7,856** | **-** | **-** |

## 10. TAXATION

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **(A) CURRENT TAX EXPENSE** | | | | |
| **Analysis of taxation expense** | | | | |
| Current taxation | 19,727 | 7,961 | 696 | 863 |
| Deferred taxation | 9,670 | 1,618 | - | 14 |
| Under provided in prior years | 22 | 1,466 | 358 | 3 |
| **Income tax expense for the year** | **29,419** | **11,045** | **1,054** | **880** |
| Income tax expense attributed to policyholders | 17,522 | 4,798 | - | - |
| Income tax expense attributed to shareholders | 11,897 | 6,247 | 1,054 | 880 |
| | **29,419** | **11,045** | **1,054** | **880** |

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

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| Profit before taxation | 71,993 | 34,794 | 21,444 | 20,893 |
| Income tax at the current rate of 28% (2011: 30%) | 20,158 | 10,438 | 6,004 | 6,268 |
| Taxation effect of non deductible expenses / non-assessable revenue: | | | | |
| Life insurance companies permanent differences | 13,530 | 1,995 | - | - |
| Change in tax rates | - | (601) | - | 15 |
| Recognition of prior period current tax | 22 | 1,466 | 358 | (3) |
| Non taxable Policyholder Australasian equity (gains)/losses | (5,708) | 3,055 | - | - |
| Release of deferred tax liability on Policyholder Australasian equity gains | - | (2,870) | - | - |
| Non deductible (income)/losses from PIEs | (92) | 1,406 | - | - |
| Benefit of imputation credits received | (374) | (517) | - | - |
| Non deductible expenditure | 1,082 | 513 | - | - |
| Non taxable dividend from subsidiaries | - | - | (5,308) | (5,400) |
| Adjustment to value of prepaid tax assets | - | (4,590) | - | - |
| Other | 801 | 750 | - | - |
| **Income tax expense** | **29,419** | **11,045** | **1,054** | **880** |

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

The Group taxation expense includes both tax on shareholder profits and on returns attributed to policyholders. The allocation of tax expense between shareholders and policyholders has been disclosed in the income statement.

### (B) PREPAID TAX ASSETS

The prepaid tax asset has been fully utilised during the year ended 30 September 2012 to meet a portion of policyholders' tax payable.

## 10. TAXATION (CONTINUED)

### (C) DEFERRED TAX ASSETS AND LIABILITIES

| Group<br>2012 | Opening balance at 1 October $000 | Charged/ (credited) to income statement $000 | Credited to statement of comprehensive income $000 | Reclassified to current tax $000 | Acquired on Acquisition of Subsidiary $000 | Assets of Disposal Group Held for Sale $000 | Closing balance at 30 September $000 |
|---|---|---|---|---|---|---|---|
| **Movements in deferred tax assets** | | | | | | | |
| Provisions and accruals | 1,415 | 421 | - | - | - | (77) | 1,759 |
| Tax losses | - | 26 | - | - | 11,677 | - | 11,703 |
| Insurance Liabilities | 15,686 | (70) | - | - | - | (14,439) | 1,177 |
| Fixed Assets | 1,682 | (434) | - | - | - | - | 1,248 |
| Other | 511 | (492) | - | - | - | - | 19 |
| **Total deferred tax assets** | **19,294** | **(549)** | **-** | **-** | **11,677** | **(14,516)** | **15,906** |
| **Movements in deferred tax liabilities** | | | | | | | |
| Deferred acquistion costs | 14,052 | 802 | - | - | - | (8,931) | 5,923 |
| Unrealised gains | 1,294 | (130) | - | - | (16) | - | 1,148 |
| Life insurance contract liabilities | 32,687 | 7,097 | - | - | - | - | 39,784 |
| Other | 737 | (211) | 91 | - | - | - | 617 |
| **Total deferred tax liabilities** | **48,770** | **7,558** | **91** | **-** | **(16)** | **(8,931)** | **47,472** |
| **Net deferred tax** | **(29,476)** | **(8,107)** | **(91)** | **-** | **11,693** | **(5,585)** | **(31,566)** |
| **2011** | | | | | | | |
| **Movements in deferred tax assets** | | | | | | | |
| Provisions and accruals | 2,576 | (1,161) | - | - | - | - | 1,415 |
| Insurance Liabilities | 16,624 | (938) | - | - | - | - | 15,686 |
| Fixed Assets | - | 1,682 | - | - | - | - | 1,682 |
| Other | 406 | 105 | - | - | - | - | 511 |
| **Total deferred tax assets** | **19,606** | **(312)** | **-** | **-** | **-** | **-** | **19,294** |
| **Movements in deferred tax liabilities** | | | | | | | |
| Deferred acquistion costs | 14,782 | (730) | - | - | - | - | 14,052 |
| Fair value | 609 | (609) | - | - | - | - | - |
| Unrealised gains | 4,104 | (2,810) | - | - | - | - | 1,294 |
| Life insurance contract liabilities | 27,610 | 5,077 | - | - | - | - | 32,687 |
| Other | 405 | 781 | - | (449) | - | - | 737 |
| **Total deferred tax liabilities** | **47,510** | **1,709** | **-** | **(449)** | **-** | **-** | **48,770** |
| **Net deferred tax** | **(27,904)** | **(2,021)** | **-** | **449** | **-** | **-** | **(29,476)** |

| | Group 2012 $000 | Group 2011 $000 |
|---|---|---|
| **Net deferred tax** | | |
| Expected to crystallise in the next 12 months | 4,840 | (893) |
| Not expected to crystallise in the next 12 months | (36,406) | (28,583) |
| | **(31,566)** | **(29,476)** |

Deferred tax liabilities of $3,758,000 have not been recognised in respect of temporary differences associated with investments in subsidiaries (2011: $$2,828,000).

## 10. TAXATION (CONTINUED)

### (D) IMPUTATION CREDITS

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

| | Group 2012 $000 | Group 2011 $000 |
|---|---|---|
| Imputation credits available for use in subsequent reporting periods | 337 | (3,397) |

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

i) Imputation credits that will arise from the payment of the amount of the provision for income tax;
ii) Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
iii) Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

## 11. RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| Reinsurance recovery receivables | 376,427 | 464,032 | - | - |
| Outstanding premiums and trade receivables | 139,235 | 125,786 | - | - |
| Unsettled investment sales | 857 | 596 | - | - |
| Unearned commission | - | 9,672 | - | - |
| Related party receivables | - | - | 1,975 | 2,951 |
| Other | 15,643 | 12,873 | 277 | 330 |
| **Total receivables** | **532,162** | **612,959** | **2,252** | **3,281** |
| **Analysed as:** | | | | |
| Current | 363,267 | 227,155 | 2,252 | 3,281 |
| Non current | 168,895 | 385,804 | - | - |
| | **532,162** | **612,959** | **2,252** | **3,281** |

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

| | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|---|---|---|---|---|
| Outstanding premiums and trade receivables | 141,187 | 127,843 | - | - |
| Allowance for doubtful debts | (1,952) | (2,057) | - | - |
| | **139,235** | **125,786** | - | - |
| Balance at 1 October | 2,057 | 1,734 | - | - |
| Provisions added during the year | 249 | 1,744 | - | - |
| Impairment loss recognised during the year | (55) | (126) | - | - |
| Provisions released during the year | (23) | (1,295) | - | - |
| Reclassified to disposal group held for sale | (276) | - | - | - |
| **Balance at 30 September** | **1,952** | **2,057** | **-** | **-** |

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

## 12. INTANGIBLE ASSETS

| Group | | Software | | | |
|---|---|---|---|---|---|
| | Goodwill $000 | Acquired $000 | Internally developed $000 | Under development $000 | Total $000 |
| **Year ended 30 September 2012** | | | | | |
| **Cost:** | | | | | |
| At 1 October 2011 | 30,811 | 2,790 | 15,004 | 39,479 | 88,084 |
| Additions | - | 653 | - | 11,192 | 11,845 |
| Reclassified to disposal group held for sale | (13,067) | - | - | - | (13,067) |
| Transfers | - | 42 | 44,794 | (44,794) | 42 |
| **At 30 September 2012** | **17,744** | **3,485** | **59,798** | **5,877** | **86,904** |
| **Accumulated amortisation:** | | | | | |
| At 1 October 2011 | - | (1,764) | (13,579) | - | (15,343) |
| Amortisation charge | - | (739) | (1,958) | - | (2,697) |
| Transfers | - | (42) | - | - | (42) |
| **At 30 September 2012** | **-** | **(2,545)** | **(15,537)** | **-** | **(18,082)** |
| **At 30 September 2012** | | | | | |
| At cost | 17,744 | 3,485 | 59,798 | 5,877 | 86,904 |
| Accumulated amortisation | - | (2,545) | (15,537) | - | (18,082) |
| **Net book value at 30 September 2012** | **17,744** | **940** | **44,261** | **5,877** | **68,822** |

| Group | | Software | | | |
|---|---|---|---|---|---|
| | Goodwill $000 | Acquired $000 | Internally developed $000 | Under development $000 | Total $000 |
| **Year ended 30 September 2011** | | | | | |
| **Cost:** | | | | | |
| At 1 October 2010 | 30,811 | 1,386 | 14,289 | 21,572 | 68,058 |
| Additions | - | 1,404 | 715 | 17,907 | 20,026 |
| **At 30 September 2011** | **30,811** | **2,790** | **15,004** | **39,479** | **88,084** |
| **Accumulated amortisation:** | | | | | |
| At 1 October 2010 | - | (889) | (12,147) | - | (13,036) |
| Amortisation charge | - | (875) | (1,432) | - | (2,307) |
| **At 30 September 2011** | **-** | **(1,764)** | **(13,579)** | **-** | **(15,343)** |
| **At 30 September 2011** | | | | | |
| At cost | 30,811 | 2,790 | 15,004 | 39,479 | 88,084 |
| Accumulated amortisation | - | (1,764) | (13,579) | - | (15,343) |
| **Net book value at 30 September 2011** | **30,811** | **1,026** | **1,425** | **39,479** | **72,741** |

## 12. INTANGIBLE ASSETS (CONTINUED)

**Impairment testing for goodwill**
Goodwill attributable to the health insurance business has been reclassified to disposal group held for sale pending completion of the sale of TOWER Medical Insurance Limited. Remaining goodwill is allocated to general insurance cash generating unit. In the prior year goodwill was allocated to two individual cash-generating units (operating units) of the Group: health insurance and general insurance. The carrying amount of goodwill allocated to each of the cash generating units is shown below:

| | Health Insurance $000 | General Insurance $000 | Total $000 |
|---|---|---|---|
| **2012** | | | |
| Carrying amount of goodwill | - | 17,744 | **17,744** |
| **2011** | | | |
| Carrying amount of goodwill | 13,067 | 17,744 | **30,811** |

The amount of goodwill is subject to impairment testing at the cash-generating unit level every six months. No impairment loss has been recognised in 2012 as a result of the impairment review for each unit (2011: Nil).

**Impairment review method overview**
*General Insurance*
The recoverable amount of the general insurance business has been assessed with reference to its appraisal value to determine its value in use. A base discount rate of 10.1% was used in the calculation (2011: 10.4%) other assumptions used are consistent with the actuarial assumptions in note 27 in respect of TOWER Insurance. The projected cash flows have been determined using a steady average growth rate of 4% (2011: 4%). The cash flows were projected over the expected life of the policies. The projected cash flows are determined based on past performances and management expectations for market developments.

**Sensitivity to changes in assumptions**
Management considers that the recoverable amounts from general insurance businesses, as determined by the appraisal values, will exceed the carrying value under a reasonable range of adverse scenarios.

## 13. INVESTMENT IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2012** | **2011** |
| | **$000** | **$000** |
| Investments in controlled entities carried at cost | 235,237 | 215,145 |

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

Principal trading subsidiary companies and controlled entries at 30 September 2012 and 2011 are as follows:

| Name of Company | Holdings 2012 | Holdings 2011 | Nature of Business |
|---|---|---|---|
| **Incorporated in New Zealand** | | | |
| TOWER Asset Management Limited | 100% | 100% | Investment management services |
| TOWER New Zealand Limited | 100% | 100% | Management services |
| TOWER Health & Life Limited | 100% | 100% | Term, disability and medical insurance |
| TOWER Insurance Limited | 100% | 100% | Fire and general insurance |
| TOWER Investments Limited | 100% | 100% | Holding company |
| TOWER Life (N.Z.) Limited | 100% | 100% | Life insurance and superannuation management |
| TOWER Managed Funds Limited | 100% | 100% | Life insurance administration and personal superannuation management |
| TOWER Medical Insurance Limited | 100% | 100% | Health insurance (disposal group held for sale) |
| TOWER Financial Services Group Limited | 100% | 100% | Holding company |
| TOWER Option Scheme Limited | 100% | 100% | Trustee for executive share options |
| TOWER Capital Limited | 100% | 100% | Holding company for fixed rate senior unsecured bonds |
| TOWER Employee Benefits Limited | 100% | 100% | Holding company |
| TOWER Managed Funds Investment Limited | 100% | 100% | Holding company |
| TAM International Trust Income Fund | 100% | 52% | Unitised equity investment trust |
| **Incorporated in Fiji** | | | |
| TOWER Insurance (Fiji) Limited | 100% | 100% | Fire and general insurance |
| **Incorporated in Cook Islands** | | | |
| TOWER Insurance (Cook Islands) Limited | 100% | 100% | Fire and general insurance |
| **Incorporated in PNG** | | | |
| TOWER Insurance (PNG) Limited | 100% | 100% | Fire and general insurance |
| **Incorporated in Samoa** | | | |
| National Pacific Insurance Limited | 71% | 71% | Fire and general insurance |

## 14. DEFERRED ACQUISITION COSTS (NON LIFE)

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$000** | **$000** | **$000** | **$000** |
| Balance at 1 October | 42,383 | 43,587 | - | - |
| Acquisition costs deferred during the year | 26,617 | 20,920 | - | - |
| Current period amortisation | (23,166) | (22,124) | - | - |
| Reclassified as disposal group held for sale | (22,367) | - | - | - |
| **Balance at 30 September** | **23,467** | **42,383** | **-** | **-** |
| **Analysed as:** | | | | |
| Current | 17,783 | 20,011 | - | - |
| Non current | 5,684 | 22,372 | - | - |
| | **23,467** | **42,383** | **-** | **-** |

### 15. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Office equipment and furniture | Group Motor vehicles | Computer equipment | Total |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| **Year ended 30 September 2012** | | | | | |
| **Cost:** | | | | | |
| At 1 October 2011 | 1,938 | 7,460 | 1,902 | 9,408 | 20,708 |
| Additions | - | 323 | 397 | 582 | 1,302 |
| Revaluation | 327 | - | - | - | 327 |
| Disposals | - | (102) | (269) | (172) | (543) |
| Foreign exchange movements | (58) | (61) | (9) | (1) | (129) |
| Transfers | - | - | - | (42) | (42) |
| **At 30 September 2012** | **2,207** | **7,620** | **2,021** | **9,775** | **21,623** |
| **Accumulated Depreciation:** | | | | | |
| At 1 October 2011 | - | (6,304) | (969) | (7,137) | (14,410) |
| Depreciation charge | - | (513) | (389) | (1,305) | (2,207) |
| Disposals | - | 37 | 263 | 130 | 430 |
| Foreign exchange movements | - | 53 | (1) | (1) | 51 |
| Transfers | - | - | - | 42 | 42 |
| **At 30 September 2012** | **-** | **(6,727)** | **(1,096)** | **(8,271)** | **(16,094)** |
| **At 30 September 2012** | | | | | |
| At cost | 2,207 | 7,620 | 2,021 | 9,775 | 21,623 |
| Accumulated depreciation | - | (6,727) | (1,096) | (8,271) | (16,094) |
| **Net book value at 30 September 2012** | **2,207** | **893** | **925** | **1,504** | **5,529** |
| **Year ended 30 September 2011** | | | | | |
| **Cost:** | | | | | |
| At 1 October 2010 | 1,936 | 7,653 | 1,595 | 7,161 | 18,345 |
| Additions | - | 760 | 340 | 2,652 | 3,752 |
| Disposals | - | (986) | (131) | (413) | (1,530) |
| Foreign exchange movements | 2 | 33 | 98 | 8 | 141 |
| **At 30 September 2011** | **1,938** | **7,460** | **1,902** | **9,408** | **20,708** |
| **Accumulated Depreciation:** | | | | | |
| At 1 October 2010 | - | (6,152) | (724) | (4,840) | (11,716) |
| Depreciation charge | - | (634) | (305) | (2,649) | (3,588) |
| Disposals | - | 536 | 121 | 392 | 1,049 |
| Foreign exchange movements | - | (54) | (61) | (40) | (155) |
| **At 30 September 2011** | **-** | **(6,304)** | **(969)** | **(7,137)** | **(14,410)** |
| **At 30 September 2011** | | | | | |
| At cost | 1,938 | 7,460 | 1,902 | 9,408 | 20,708 |
| Accumulated depreciation | - | (6,304) | (969) | (7,137) | (14,410) |
| **Net book value at 30 September 2011** | **1,938** | **1,156** | **933** | **2,271** | **6,298** |

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

Had land and buildings been recognised under the cost model the carrying amount would have been $1,880,000. The revaluation surplus for the period is recorded in other comprehensive income and has no restrictions on the distribution of the balance to shareholders.

The Company does not hold any property, plant and equipment.

## 16. PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$000** | **$000** | **$000** | **$000** |
| Trade payables | 22,435 | 22,571 | - | - |
| Reinsurance payables | 8,583 | 12,931 | - | - |
| Unsettled investment purchases | 21 | 188 | - | - |
| Other payables | 25,733 | 21,812 | 1,554 | 2,014 |
| Related party payables | - | - | 188,600 | 196,733 |
| **Total payables** | **56,772** | **57,502** | **190,154** | **198,747** |
| **Analysed as:** | | | | |
| Current | 56,772 | 57,167 | 190,154 | 198,747 |
| Non current | - | 335 | - | - |
| | **56,772** | **57,502** | **190,154** | **198,747** |

## 17. PROVISIONS

| | | | | |
|---|---|---|---|---|
| Employee benefits | 7,095 | 5,268 | - | - |
| Restructuring | 2 | 57 | - | - |
| **Total provisions** | **7,097** | **5,325** | **-** | **-** |
| **Analysed as:** | | | | |
| Current | 7,097 | 5,325 | - | - |
| | **7,097** | **5,325** | **-** | **-** |

Employee benefits include provisions for holiday pay and long service leave.

**Movement in provisions**
Movements in each class of provision other than employee benefits during the financial year are set out below:

| | | | | |
|---|---|---|---|---|
| **Restructuring** | | | | |
| Opening balance at 1 October | 57 | 1,041 | - | - |
| Amount utilised in the year | (55) | (984) | - | - |
| **Closing balance at 30 September** | **2** | **57** | **-** | **-** |

## 18. INTEREST BEARING LIABILITIES

| | | | | |
|---|---|---|---|---|
| Fixed rate senior unsecured bonds | 83,219 | 83,219 | - | - |
| Unamortised capitalised costs | (1,229) | (1,956) | - | - |
| | **81,990** | **81,263** | **-** | **-** |
| **Analysed as:** | | | | |
| Current | 659 | 732 | - | - |
| Non current | 81,331 | 80,531 | - | - |
| | **81,990** | **81,263** | **-** | **-** |

*Fixed rate senior unsecured bonds*
On 24 March 2009, the Group issued $81,759,000 of fixed rate senior unsecured bonds, bearing a fixed interest rate of 8.5% per annum. The bonds mature on 15 April 2014.

The above total of $81,990,000 includes $1,460,000 of accrued interest (2011: $1,460,000). The Group capitalised $3,499,000 of costs associated with the issuance of the bonds. These costs are amortised over the five year term of the bonds using the effective interest method. The bonds are carried at amortised cost using the effective interest method. The amortised issuance costs during the period to 30 September 2012 were $727,000 (2011: $661,000)

The fair value of fixed rate senior unsecured bonds as at 30 September 2012 is $86,104,000 (2011: $86,109,000). This has been estimated using the method outlined in note 29 (D).

## 19. INSURANCE LIABILITIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $000 | $000 | $000 | $000 |
| Unearned premiums – general insurance | 127,309 | 108,430 | - | - |
| Unearned premiums – health | - | 15,959 | - | - |
| Outstanding claims – general and health insurance | 427,396 | 522,633 | - | - |
| Outstanding claims – life and other | 9,074 | 10,016 | - | - |
| Premium payback | - | 53,671 | - | - |
| | **563,779** | **710,709** | **-** | **-** |
| **Analysed as:** | | | | |
| Current | 396,926 | 255,175 | - | - |
| Non current | 166,853 | 455,534 | - | - |
| | **563,779** | **710,709** | **-** | **-** |

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

| | | | | |
|---|---|---|---|---|
| **Unearned premiums - general insurance** | | | | |
| Opening balance at 1 October 2011 | 108,430 | 99,604 | - | - |
| Premiums written | 257,738 | 217,154 | - | - |
| Premiums earned | (238,859) | (208,328) | - | - |
| **Closing balance at 30 September 2012** | **127,309** | **108,430** | **-** | **-** |
| **Unearned premiums - health** | | | | |
| Opening balance at 1 October 2011 | 15,959 | 15,290 | **-** | **-** |
| Premiums written | 145,711 | 141,273 | - | - |
| Premiums earned | (146,230) | (140,604) | - | - |
| Reclassified to disposal group held for sale | (15,440) | - | - | - |
| **Closing balance at 30 September 2012** | **-** | **15,959** | **-** | **-** |

## 20. CONTRIBUTED EQUITY

| | | | | |
|---|---|---|---|---|
| Ordinary share capital (fully paid) | 572,805 | 567,031 | 572,805 | 567,031 |
| **Total contributed equity** | **572,805** | **567,031** | **572,805** | **567,031** |

| **Represented by:** | **Number of shares** | | **Number of shares** | |
|---|---|---|---|---|
| Ordinary shares | 269,091,094 | 265,176,580 | 269,091,094 | 265,176,580 |
| **Movements in ordinary shares** | | | | |
| Balance at 1 October | 265,176,580 | 260,631,787 | 265,176,580 | 260,631,787 |
| Dividend reinvestment plan shares issued | 3,914,514 | 4,250,669 | 3,914,514 | 4,250,669 |
| Employee share options scheme shares issued | - | 294,124 | - | 294,124 |
| **Balance at 30 September** | **269,091,094** | **265,176,580** | **269,091,094** | **265,176,580** |

| | **$000** | **$000** | **$000** | **$000** |
|---|---|---|---|---|
| **Movements in ordinary share capital** | | | | |
| Balance at 1 October | 567,031 | 558,795 | 567,031 | 558,795 |
| Dividend reinvestment plan shares issued | 5,774 | 7,628 | 5,774 | 7,628 |
| Employee share options scheme shares issued | - | 608 | - | 608 |
| **Balance at 30 September** | **572,805** | **567,031** | **572,805** | **567,031** |

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

## 21. ACCUMULATED PROFITS/(LOSSES)

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **Accumulated losses** | | | | |
| Balance at 1 October | (4,352) | (12,021) | (342,786) | (337,402) |
| Profit for the year | 55,339 | 33,066 | 20,390 | 20,013 |
| Movement in share based payments reserve | 322 | 802 | 322 | 802 |
| Dividends paid | (18,622) | (26,199) | (18,622) | (26,199) |
| Other | 859 | - | 611 | - |
| **Balance at 30 September** | **33,546** | **(4,352)** | **(340,085)** | **(342,786)** |

## 22. RESERVES

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **Foreign currency translation reserve (FCTR)** | | | | |
| Balance at 1 October | 1,268 | 1,956 | - | - |
| Currency translation differences arising during the year | 677 | (688) | - | - |
| **Balance at 30 September** | **1,945** | **1,268** | **-** | **-** |

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

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **Share based payments reserve** | | | | |
| Balance at 1 October | 2,044 | 2,712 | 2,044 | 2,712 |
| Movement in share based payments reserve | (230) | (668) | (230) | (668) |
| **Balance at 30 September** | **1,814** | **2,044** | **1,814** | **2,044** |

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

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **Separation reserve** | **(113,000)** | **(113,000)** | **(113,000)** | **(113,000)** |

The separation reserve was created at the time of the demerger in 2007 of the New Zealand and Australian businesses in accordance with the ruling provided by the Australian Tax Office (ATO). It will be carried forward indefinitely as a non equity style reserve to meet the requirements of the ATO.

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **Asset Revaluation Reserves** | | | | |
| Opening balance at 1 October | - | - | - | - |
| Gain on revaluation during the year | 236 | - | - | - |
| **Balance at 30 September** | **236** | **-** | **-** | **-** |

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

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **Total reserves** | **(109,005)** | **(109,688)** | **(111,186)** | **(110,956)** |

## 23. NET ASSETS PER SHARE

| | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|---|---|---|---|---|
| Net assets per share (dollars) | 1.85 | 1.72 | 0.45 | 0.43 |
| Net tangible assets per share (dollars) | 1.67 | 1.55 | 0.45 | 0.43 |

Net assets per share represents the value of the Group's total assets divided by the number of ordinary shares on issue at the balance date. Net tangible assets per share represents the net assets per share adjusted for the effect of intangible assets and deferred tax balances.

## 24. DISTRIBUTIONS TO SHAREHOLDERS

On 24 November 2011 the Directors declared a final dividend for the 2011 financial year of 2 cents per share. The total amount payable was $5,503,217 including a supplementary dividend, of which $1,612,882 was paid in TOWER shares under the dividend reinvestment plan and $3,890,335 was paid in cash. The dividend was paid on 1 February 2012.

An interim dividend was declared by the Board of Directors on the 24 May 2012 for the half year ended 31 March 2012 of 5 cents per share. There were imputation credits attached to the dividend. The total amount payable was $13,318,566 of which $4,161,232 was paid in TOWER shares under the dividend reinvestment plan and $9,157,324 paid in cash. The dividend was paid on 2 July 2012.

## 25. SEGMENTAL REPORTING

| 30 September 2012 | Life Insurance $000 | General Insurance $000 | Investments $000 | Other (Holding companies and eliminations) $000 | Total $000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Revenue - external | 153,431 | 211,271 | 31,518 | 26,022 | 422,242 |
| Revenue - internal | 22,878 | 153 | 3,681 | (26,712) | - |
| **Total revenue** | **176,309** | **211,424** | **35,199** | **(690)** | **422,242** |
| **Earnings before interest, tax, depreciation and amortisation** | **44,166** | **20,064** | **9,666** | **(1,598)** | **72,298** |
| Interest expense | - | - | - | (7,903) | (7,903) |
| Depreciation and amortisation | - | (236) | - | (4,668) | (4,904) |
| **Profit before income tax** | **44,166** | **19,828** | **9,666** | **(14,169)** | **59,491** |
| Income tax (expense)/credit (1) | (20,436) | (6,590) | (2,707) | 3,815 | (25,918) |
| **Profit for the year before discount rate effect** | **23,730** | **13,238** | **6,959** | **(10,354)** | **33,573** |
| Add discount rate (2) | 9,001 | - | - | - | 9,001 |
| **Profit for the year** | **32,731** | **13,238** | **6,959** | **(10,354)** | **42,574** |
| Total assets | 882,916 | 764,947 | 30,295 | 119,890 | **1,798,048** |
| Total liabilities | 676,315 | 603,321 | 4,580 | 91,998 | **1,376,214** |
| Acquisition of property, plant and equipment, intangibles and other non current assets | - | 299 | - | 12,848 | **13,147** |

### 25. SEGMENTAL REPORTING (CONTINUED)

| 30 September 2011 | Life Insurance $000 | General Insurance $000 | Investments $000 | Other (Holding companies and eliminations) $000 | Total $000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Revenue - external | 113,601 | 179,184 | 33,788 | 5,349 | 331,922 |
| Revenue - internal | - | 240 | 4,566 | (4,806) | - |
| **Total revenue** | **113,601** | **179,424** | **38,354** | **543** | **331,922** |
| **Earnings before interest, tax, depreciation and amortisation** | **23,964** | **7,654** | **9,920** | **3,343** | **44,881** |
| Interest expense | - | - | - | (7,612) | (7,612) |
| Depreciation and amortisation | (12) | (248) | (5) | (5,630) | (5,895) |
| **Profit before income tax** | **23,952** | **7,406** | **9,915** | **(9,899)** | **31,374** |
| Income tax (expense)/credit [(1)] | (5,149) | (4,862) | (3,098) | 3,090 | (10,019) |
| **Profit for the year before discount rate effect** | **18,803** | **2,544** | **6,817** | **(6,809)** | **21,355** |
| Add discount rate [(2)] | 2,394 | - | - | - | 2,394 |
| **Profit for the year** | **21,197** | **2,544** | **6,817** | **(6,809)** | **23,749** |
| Total assets [(3)] | 852,341 | 794,764 | 34,133 | 129,753 | **1,810,991** |
| Total liabilities | 672,012 | 665,970 | 9,442 | 78,755 | **1,426,179** |
| Acquisition of property, plant and equipment, intangibles and other non current assets | - | 370 | - | 23,408 | **23,778** |

[(1)] *Tax expense of individual segments has been impacted by intercompany reclassifications which have been eliminated for management and segmental reporting. This has a nil impact on the Group.*

[(2)] *The discount rate effect, as discussed in note 41, has been adjusted for tax and shown separately to provide a more meaningful comparison between the reported periods.*

[(3)] *The health business has been excluded from the above disclosure as the results, assets and liabilities of this segment are contained within note 45.*

**(A) DESCRIPTION OF SEGMENTS AND OTHER SEGMENT INFORMATION**
The operating segments are based on assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments.

Management has determined the operating segments based on the internal reporting reviewed by the Board of Directors (Chief Operating Decision Maker) for the purpose of making decisions on resource allocation and assessing performance.

Life insurance includes all life and disability insurance in New Zealand. General Insurance includes all general insurance services in New Zealand and the Pacific Islands. Investments include all wealth management services in New Zealand. Other includes head office expenses, financing costs and eliminations. The health business has been excluded from the above disclosure as the results of this segment are contained within note 45.

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

The Group is domiciled in New Zealand. Revenue from external customers in New Zealand (excluding disposal group held for sale) is $378,027,000 (2011: $304,014,000) and total revenue from external customers from other countries is $44,215,000 (2011: $27,908,000).

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

## 25. SEGMENTAL REPORTING (CONTINUED)

### (B) RECONCILIATION OF SEGMENTAL PROFIT

For management purposes, the Group reclassifies some deferred acquisition costs and the gain or loss recognised on individual life risk policyholder liabilities from the movement in discount rates (refer note 41) differently from the requirements of NZ IFRS. This impacts the profit before tax of the segments. The table below represents a reconciliation of total segmental profit before tax to Group profit before tax recorded in the income statement.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **Total segmental profit before tax** | **59,491** | **31,374** |
| Adjustments to: | | |
| Discount rate | 12,502 | 3,420 |
| **Total Group profit before tax** | **71,993** | **34,794** |

## 26. LIFE INSURANCE BUSINESS

### (A) POLICY LIABILITIES

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **Life insurance contract liabilities** | | | | |
| *Value of policy liabilities – Projection Method* | | | | |
| Future policy benefits | 939,446 | 879,290 | - | - |
| Future bonuses | 122,385 | 158,914 | - | - |
| Future expenses | 177,095 | 182,433 | - | - |
| Reinsurance | (4,146) | (6,212) | - | - |
| Future profit margins | 163,702 | 194,586 | - | - |
| Future premiums | (857,603) | (874,714) | - | - |
| | 540,879 | 534,297 | - | - |
| *Value of policy liabilities – Accumulation Method* | | | | |
| Future policy benefits | 10,488 | 9,447 | - | - |
| Unvested policy benefits | 22,475 | 23,707 | - | - |
| **Net policy liabilities - life insurance contracts** | **573,842** | **567,451** | **-** | **-** |
| **Reconciliation of movements in life insurance contract policy liabilities** | | | | |
| Gross life insurance liabilities at 1 October | 587,476 | 619,820 | - | - |
| Increase in liabilities ceded under reinsurance | (2,409) | 3,961 | - | - |
| Increase/(decrease) in life insurance contract liabilities recognised in the income statement | 6,470 | (28,179) | - | - |
| Deposits recognised as an increase in policy liabilities | 20 | 23 | - | - |
| Withdrawals recognised as a decrease in policy liabilities | (99) | (8,149) | - | - |
| **Gross life insurance liabilities at 30 September** | **591,458** | **587,476** | **-** | **-** |
| **Life investment contract liabilities** | | | | |
| *Value of policy liabilities – Accumulation Method* | | | | |
| Future policy benefits | 27,476 | 28,084 | - | - |
| **Gross policy liabilities - life investment contracts** | **27,476** | **28,084** | **-** | **-** |

## 26. LIFE INSURANCE BUSINESS (CONTINUED)

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **Reconciliation of movements in investment contract policy liabilities** | | | | |
| Gross life investment contract liabilities at 1 October | 28,084 | 31,759 | - | - |
| Increase/(decrease) in life investment contract liabilities recognised in the income statement | 2,408 | (834) | - | - |
| Deposits recognised as an increase in policy liabilities | 345 | 396 | - | - |
| Withdrawals recognised as a decrease in policy liabilities | (3,361) | (3,237) | - | - |
| **Gross life investment contract liabilities at 30 September** | **27,476** | **28,084** | **-** | **-** |
| **Total gross policy liabilities** | **618,934** | **615,560** | **-** | **-** |
| **Liabilities ceded under reinsurance** | | | | |
| Balance at 1 October | 20,026 | 16,065 | - | - |
| Movement in income statement | (2,409) | 3,961 | - | - |
| **Balance at 30 September** | **17,617** | **20,026** | **-** | **-** |
| **Net policy liabilities** | **601,317** | **595,534** | **-** | **-** |
| **Gross policy liabilities analysed as:** | | | | |
| Current | 18,606 | 19,088 | - | - |
| Non current | 600,328 | 596,472 | - | - |
| | **618,934** | **615,560** | **-** | **-** |
| **Liabilities ceded under reinsurance analysed as:** | | | | |
| Current | 7,405 | 3,198 | - | - |
| Non current | 10,212 | 16,828 | - | - |
| | **17,617** | **20,026** | **-** | **-** |

The Group has designated life investment contract liabilities at fair value through profit or loss. The impact on the fair value of these liabilities resulting from changes in credit risk recognised during the year is nil (2011: Nil), except where the fair value of investment assets backing these liabilities is impacted by changes in credit risk. Any such impact on the investment assets is reflected in the movement in the fair value of these contracts.

### (B) ANALYSIS OF LIFE INSURANCE AND LIFE INVESTMENT CONTRACT RESULTS

| | Group 2012 $000 | Group 2011 $000 | Company 2012 $000 | Company 2011 $000 |
|---|---|---|---|---|
| **Life insurance contracts** | | | | |
| Planned profit margins | 11,937 | 11,653 | - | - |
| Experience profit/loss | 11,170 | 1,896 | - | - |
| Capitalised loss recognition | 198 | (372) | - | - |
| Investment earnings on assets in excess of policy liabilities of life companies | 9,164 | 7,748 | - | - |
| **Operating profit after tax attributable to shareholders arising from life insurance contracts** | **32,469** | **20,925** | **-** | **-** |
| **Life investment contracts** | | | | |
| Planned profit margins | 25 | 47 | - | - |
| Experience profit | 236 | 225 | - | - |
| **Operating profit after tax attributable to shareholders arising from life investment contracts** | **261** | **272** | **-** | **-** |

All operating profit after tax arising from life insurance and life investment contracts is attributed to the shareholders.

## 26. LIFE INSURANCE BUSINESS (CONTINUED)

### (C) SOLVENCY REQUIREMENTS OF LIFE FUNDS

Separate to policy liabilities recognised in the balance sheet, the life insurance funds maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance companies.

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standard for Life Insurance Business published by the Reserve Bank of New Zealand. In 2011 the solvency requirement was assessed in accordance with Professional Standard No. 5.01 'Solvency Reserving for Life Insurance Business' issued by the New Zealand Society of Actuaries. The new solvency requirements issued by the Reserve Bank of New Zealand, was introduced under the new Prudential (Insurance Supervision) Act 2010 enacted on the 7 September 2010. The new standard requires an increase in the amount of capital to be held, as a result the solvency margin as at 30 September 2012 is lower than the excess assets shown as at 30 September 2011.

The minimum equity required to be retained to meet solvency requirements over and above the policy liabilities for each of the life insurance funds in the Group are shown below. The shareholder equity retained in each of the life insurance funds exceeds the minimum requirements.

| | | TOWER Life (NZ) | TOWER Health & Life |
|---|---|---|---|
| **2012** | | **$000** | **$000** |
| Actual Solvency Capital | | 12,415 | 179,338 |
| Minimum Solvency Capital | | 11,494 | 144,312 |
| Solvency Margin | | **921** | **35,026** |
| Excess assets to meet solvency requirement | | **921** | **35,026** |
| **2011** | | **$000** | **$000** |
| Solvency requirement | A | 695,743 | 131,795 |
| Represented by: | | | |
| Policy liabilities | | 674,191 | (102,356) |
| Other liabilities | | 18,700 | 40,998 |
| Solvency reserve | B | 2,852 | 193,153 |
| **Solvency requirement** | | **695,743** | **131,795** |
| Assets available to meet solvency reserve: | | 52,643 | 227,527 |
| Solvency reserve: | B | 2,852 | 193,153 |
| **Excess assets** | | **49,791** | **34,374** |
| Coverage of required solvency reserve | | 18.5 | 1.2 |

[(A)] *The 2011 solvency requirement is calculated in accordance with Professional Standard No. 5.01 'Solvency Reserving for Life Insurance Business' issued by the New Zealand Society of Actuaries.*

[(B)] *The 2011 solvency reserve represents the assets required to be held in excess of policy and other liabilities in order to meet the solvency requirement.*

## 26. LIFE INSURANCE BUSINESS (CONTINUED)

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

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2012. The Chief Actuary, John Feyter, BSc, FNZSA, FIA has calculated policy liabilities for TOWER Life (NZ) Limited and TOWER Health & Life Limited. The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

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

***(a) Policy liabilities***

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

***Valuation of policy liabilities***

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

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

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

***Methods used to value policy liabilities***

*(i) Projection method*

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

*(ii) Accumulation method*

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

***Methods used***

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

| MAJOR PRODUCT GROUPS | METHOD | PROFIT CARRIERS (for business valued using projection method) |
|---|---|---|
| Traditional participating | Projection | Cost of supportable bonus |
| Traditional non-participating, renewal and level term and mortgage repayment insurance | Projection | Expected death claims |
| Annuities | Projection | Expected annuity payments |
| Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance | Projection | Expected claims |
| Non-participating investment account | Accumulation | |
| Group risk insurances and renewable insurances | Accumulation | |

## 26. LIFE INSURANCE BUSINESS (CONTINUED)

***(b) Disclosure of assumptions***

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

| REQUIRED ASSUMPTION | BASIS OF ASSUMPTION (By product group) | ASSUMPTION |
|---|---|---|
| Discount rates for participating business | As the value of benefits is contractually linked to the performance of assets, a discount rate based on the market return on the asset backing policy liabilities is used. The discount rate assumed in calculating policyholder liabilities was derived from the expected long term average rates of return for the asset pool backing this business, based on the benchmark asset mix. Discount rates assumed are net of taxation and investment expense. | The discount rates used are as follows:<br><br>September 2012 : 3.1% net of tax<br>September 2011 : 4.7% net of tax |
| Discount rates for non-participating life insurance contracts | Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on swap rates, depending on the nature structure and term of the contract liabilities. Discount rates are assumed net of investment management expenses. | The discount rates used are as follows:<br><br>Risk Business (discount rates gross of tax)<br>September 2012: 3.3% to 3.5%<br>September 2011: 4.4%<br><br>Annuities (discount rates net of tax)<br>September 2012: 2.6%<br>September 2011: 3.0% |
| Inflation | Benefit indexation is before allowance for the proportion of policyholders who take up indexation. | Benefit Indexation<br>September 2012 2.0%<br>September 2011 2.0%<br><br>Expense inflation<br>September 2012 2.0%<br>September 2011 2.0% |
| Future expenses | Future maintenance expenses have been set based on experience analyses conducted by the various companies as well as the actuary's expectations of future expense levels.<br><br>Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies. | Per policy expenses<br>Participating Business:<br>September 2012: $50 p.a.<br>September 2011: $97 p.a.<br><br>Risk business:<br>September 2012: $55 to $226 p.a.<br>September 2011: $153 to $225 p.a.<br><br>Annuities:<br>September 2012: $55 p.a.<br>September 2011: $68 p.a. |
| Rates of taxation | Rates of taxation have been assumed to remain as under current legislation or legislation substantively enacted at the valuation date.<br><br>Risk policy liabilities have been calculated on a gross of tax basis. As such there is no allowance for tax within those policy liabilities (excluding GST).<br><br>GST has been allowed for at the current rate applicable. | The corporate tax rate used is:<br>September 2012: 28%<br>September 2011: 28%<br><br>GST rate:<br>September 2012: 15%<br>September 2011: 15% |
| Mortality – participating business | Mortality assumption is based on NZ97 table adjusted for company experience.<br><br>No changes were made to assumptions at September 2012. | Factors applied to NZ97:<br>September 2012: 46% to 77%<br>September 2011: 46% to 77% |

## 26. LIFE INSURANCE BUSINESS (CONTINUED)

| REQUIRED ASSUMPTION | BASIS OF ASSUMPTION (By product group) | ASSUMPTION |
|---|---|---|
| Mortality – risk products | Mortality assumption is based on NZ07 table adjusted for company experience. No changes were made to assumptions at September 2012. | Mortality rates for main risk product lines:<br>Factors applied to NZ07:<br>September 2012: 20.6% to 84% for non-smokers. Additional loading for smokers.<br>September 2011: 20.6%to 84% for non-smokers. Additional loading for smokers. |
| Mortality – annuities | Mortality assumption is based on PML80C10 table projected to 1994 and adjusted for company experience. Factors were applied to take into account both historical (from 1994) and prospective mortality improvement. A small change was made at September 2011 to increase mortality improvement factors for middle ages. | Historical and Future Improvement factors:<br>September 2012: 1% to 3% p.a. depending on age and sex.<br>September 2011: 1% to 3% p.a. depending on age and sex. |
| Disability – lump sum (Trauma) | Based upon recent company and reinsurer experience adjusting for different product definitions. Some wholesale schemes use specific company experience. | September 2012: 105% to 139% of reinsurance tables<br>September 2011: 105% to 139% of reinsurance tables |
| Disability income | Standard morbidity tables (CIDA) adjusted for company experience. Specific company experience is used for certain wholesale schemes. There has been no material change to incidence. | September 2012: CIDA85 adjusted<br>September 2011: CIDA85 adjusted |
| Discontinuances | Assumed discontinuance rates vary by sub-grouping within a class and vary according to the length of time tranches of business have been in-force and other relevant factors. | Annual discontinuance rates for main risk product lines:<br>September 2012: 0% to 15% p.a.<br>September 2011: 0% to 13.5% p.a.<br><br>In both years additional discontinuances were assumed for ages over 65 years. |
| Surrender values | Surrender values are based on current practice. | |
| Rates of future supportable participating benefits | Assumed future supportable bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business.<br><br>Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. The rate of shareholder participation is 25% of the value of bonuses distributed to participating policyholders subject to policy conditions.<br><br>Additional policy bonuses will emerge from the assets representing policyholders' unvested benefits. | Future supportable bonus rates as a percentage of Sum Assured:<br>September 2012: 0.2% to 1.3%<br>September 2011: 0.65% to 2.1%<br><br>Future supportable bonus rates as a percentage of Reversionary Bonus:<br>September 2012: 0.5% to 0.6%<br>September 2011: 1.1% to 1.9%<br><br>Future terminal bonus:<br>September 2012: 10.6% to 34.3%<br>September 2011: 6.4% to 30.1% |
| Premium rates. | Premium rates are assumed to be equivalent to those being charged by the Group at the reporting date. | During 2011 there was an increase in premium rates of 3% for some lines of yearly renewable term life insurance business. The assumed premium rates reflect this increase. |

### 26. LIFE INSURANCE BUSINESS (CONTINUED)

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

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

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

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

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

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

| | Change in future shareholder profit margins | Change in next financial year's shareholder planned profit | Change in current period contract liability | Change in current period shareholder profit |
|---|---|---|---|---|
| **2012** | **$000** | **$000** | **$000** | **$000** |
| **Assumption change** | | | | |
| Mortality and Morbidity | - | - | - | - |
| Discontinuances | (27,610) | (1,791) | - | - |
| Expenses | 10,894 | 504 | (1,201) | 201 |
| Tax | - | - | - | - |
| Other | - | - | - | - |
| **2011** | | | | |
| **Assumption change** | | | | |
| Mortality and Morbidity | (388) | (45) | 372 | (372) |
| Discontinuances | (1,188) | (61) | - | - |
| Expenses | (1,113) | (186) | 29 | (6) |
| Tax | - | - | - | - |
| Other | 4,059 | 363 | - | - |

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

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

## 26. LIFE INSURANCE BUSINESS (CONTINUED)

The valuations included in the reported results are calculated using certain assumptions about these variable as disclosed above. The movement in any key variable will impact the performance and equity of the Group. The table below describes how the change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit or loss and equity net of reinsurance to changes in assumptions.

| Variable | Change in following financial year's shareholder profit and equity net of reinsurance | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | + 10% | - 10% | + 10% | - 10% |
| | $000 | $000 | $000 | $000 |
| Mortality | (1,042) | 1,042 | (997) | 997 |
| Morbidity claims costs | (622) | 622 | (635) | 635 |
| Annuitant mortality | 188 | (188) | (175) | 175 |
| Lapses and surrenders | (801) | 801 | (1,083) | 1,083 |
| Renewal expenses | (994) | 994 | (971) | 971 |

The impact from changes to interest rates has been reflected in note 29 (F).

***(d) Life insurance risk***
The life insurance business of the Group involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders. Financial risks involving the Group are in note 29.

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

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

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

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

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

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

## 26. LIFE INSURANCE BUSINESS (CONTINUED)

| Type of contract | Details of contract workings | Nature of compensation for claims | Key variables affecting future cash flows |
|---|---|---|---|
| Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability including renewable term) | Guaranteed benefits paid on death, permanent and temporary disablement or maturity that are fixed and guaranteed and not at the discretion of the issuer. | Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as whole. | Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities |
| Life annuity contracts | These policies provide a guaranteed regular income for the life of the insured in return for an initial single premium. | The amount of the guaranteed regular income is set at inception of the policy including any indexation. | Longevity, benefit inflation, expenses and market earnings on assets backing the liabilities |
| Traditional life insurance contracts with discretionary participating benefits (endowment and whole of life) | These policies include a defined initial guaranteed sum assured that is payable on death. The guarantee amount is increased throughout the duration of the policy by the addition of bonuses annually that once added are not removed. An additional (terminal) bonus is payable on claims paid as a result of death or maturity. Terminal bonus amounts are not guaranteed. | Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to policyholders via bonuses. | Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities |
| Investment account contracts with discretionary participating features | The gross value of the premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly. | The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early termination. On certain contracts withdrawals can be deferred over limited time periods. | Fees, lapses, expenses and market earnings on assets backing the liabilities |

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

***(f) Liquidity risk and future net cash outflows***

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

| | Total $000 | Less than one year $000 | One to two years $000 | Two to three years $000 | Three to five years $000 | Over five years $000 |
|---|---|---|---|---|---|---|
| 30 September 2012 | 201,098 | 778 | 1,421 | 2,697 | 5,945 | 190,257 |
| 30 September 2011 | 170,319 | 4,178 | 4,674 | 3,972 | 8,143 | 149,352 |

***(g) Insurer financial strength rating***
TOWER Health & Life Limited and TOWER Life (NZ) Limited have insurer financial strength ratings of ‘A-’ (Excellent) issued by international rating agency A.M. Best Company Inc. with effective dates of 27 July 2012.

## 27. GENERAL AND HEALTH INSURANCE BUSINESS

These disclosures include an analysis of general insurance business, and where relevant include amounts relating to the health business which has been reclassified as disposal group held for sale.

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$000** | **$000** | **$000** | **$000** |
| **(A) ANALYSIS OF GENERAL INSURANCE OPERATING RESULT** | | | | |
| Premium revenue | 238,859 | 208,328 | - | - |
| Outward reinsurance expense | (41,137) | (41,102) | - | - |
| **Net premium income** | **197,722** | **167,226** | **-** | **-** |
| Claims expense | 171,498 | 513,768 | - | - |
| Reinsurance recoveries | (44,878) | (402,087) | - | - |
| **Net claims incurred** | **126,620** | **111,681** | **-** | **-** |
| Acquisition costs | 35,621 | 33,609 | - | - |
| Other underwriting expenses | 29,354 | 25,999 | - | - |
| **Underwriting result** | **6,127** | **(4,063)** | **-** | **-** |
| **Investment income** | 13,701 | 11,470 | **-** | **-** |
| **Operating profit before taxation** | **19,828** | **7,407** | **-** | **-** |
| **Profit before taxation from general insurance** | **19,828** | **7,407** | **-** | **-** |

**(B) NET GENERAL INSURANCE CLAIMS INCURRED**

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Risks borne current** | **Risks borne prior years** | **Total** | **Risks borne in current year** | **Risks borne in prior years** | **Total** |
| | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| **Gross claims expense** | | | | | | |
| Direct claims - undiscounted | 119,569 | 44,167 | 163,736 | 428,000 | 93,266 | 521,266 |
| Movement in discount | (132) | 7,894 | 7,762 | (450) | (7,048) | (7,498) |
| **Gross claims expense** | **119,437** | **52,061** | **171,498** | **427,550** | **86,218** | **513,768** |
| **Reinsurance and other recoveries** | | | | | | |
| Reinsurance and other recoveries revenue - undiscounted | (4,975) | (38,955) | (43,930) | (312,937) | (90,908) | (403,845) |
| Movement in discount | 4 | (952) | (948) | 43 | 1,715 | 1,758 |
| **Reinsurance recoveries** | **(4,971)** | **(39,907)** | **(44,878)** | **(312,894)** | **(89,193)** | **(402,087)** |
| **Net claims incurred** | **114,466** | **12,154** | **126,620** | **114,656** | **(2,975)** | **111,681** |

Current year amounts relates to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years arising due to the Christchurch earthquake. Refer to note 43.

## 27. GENERAL AND HEALTH INSURANCE BUSINESS (CONTINUED)

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$000** | **$000** | **$000** | **$000** |
| Central estimate of expected present value of future payments for claims incurred | 69,775 | 86,785 | - | - |
| Risk margin | 6,248 | 7,432 | - | - |
| Claims handling costs | 7,007 | 6,191 | - | - |
| | 83,030 | 100,408 | - | - |
| Discount | (12,329) | (19,142) | - | - |
| **Outstanding claims liability** | **70,701** | **81,266** | **-** | **-** |

### (C) OUTSTANDING CLAIMS

#### *(a) Assumptions adopted in calculation of general and health insurance provisions*

Estimates of the outstanding claims as at 30 September 2012 have been carried out by the following Actuaries:

| | |
|---|---|
| General Insurance: | J. Feyter, B.Sc, FNZSA, FIA; |
| | P. Davies, B.Bus.Sc, FNZSA, FIA; and |
| | C. Hett, FIA, FNZSA, Head of Actuarial Services, Deloitte |
| Health Insurance: | J. Feyter, B.Sc, FNZSA, FIA |

The New Zealand actuarial assessments are in accordance with the standards of the New Zealand Society of Actuaries. The Actuaries were satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

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

| | **2012** | **2011** |
|---|---|---|
| Inflation rates for succeeding year | 1.5% to 4.25% | 0.5% to 5.25% |
| Inflation rates for following years | 1.5% to 4.25% | 0.5% to 4.5% |
| Discount rates for succeeding year | 2.9% to 6.75% | 3.0% to 7.8% |
| Discount rates for following years | 2.9% to 6.75% | 3.0% to 7.8% |
| Claims handling expense ratio | 4.7% to 22.97% | 4.2% to 14.5% |
| Risk margin | 15% to 25% | 15% to 20% |

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

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

The following assumptions have been made in determining health insurance net outstanding claims liabilities reclassified as disposal group held for sale:

| | **2012** | **2011** |
|---|---|---|
| Discount rates for succeeding year | 2.8% to 3.2% | 4.4% to 5.5% |
| Discount rates for following years | 2.8% to 3.2% | 4.4% to 5.5% |
| Claims handling expense ratio | 3.4% | 1.7% |
| Risk margin | 5% | 5% |

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

| | | |
|---|---|---|
| Short tail claims | 2.11 months | 1.96 months |

**Inflation rate**

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

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

**Discount rate**

General insurance outstanding claims liabilities are discounted at a rate equivalent to that inherent in a portfolio of risk free fixed interest securities with coupon and redemption cash flows exactly matching the projected inflation claim cash flows.

## 27. GENERAL AND HEALTH INSURANCE BUSINESS (CONTINUED)

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

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

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

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

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

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

The following analysis is in respect of the general and health insurance businesses:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Gross $000 | Reinsurance $000 | Net $000 | Gross $000 | Reinsurance $000 | Net $000 |
| **Reconciliation of movements in discounted outstanding claims liability** | | | | | | |
| **Balance brought forward** | **522,633** | **(441,367)** | **81,266** | **151,805** | **(75,446)** | **76,359** |
| Effect of change in foreign exchange rates | (5,336) | 190 | **(5,146)** | (3,565) | 1,236 | (2,329) |
| Effect of changes in assumptions | 3,480 | (657) | **2,823** | 3,205 | (579) | 2,626 |
| Decrease in claims incurred anticipated over year | (4,092) | - | **(4,092)** | (2,078) | - | (2,078) |
| Incurred claims recognised in the income statement | 272,789 | (44,878) | **227,911** | 612,917 | (402,088) | 210,829 |
| Claim (payment) / recoveries during the year | (351,120) | 130,017 | **(221,103)** | (239,651) | 35,510 | (204,141) |
| Reclassified as disposal group held for sale | (10,958) | - | **(10,958)** | - | - | - |
| **Balance carried forward** | **427,396** | **(356,695)** | **70,701** | **522,633** | **(441,367)** | **81,266** |
| **Reconciliation of undiscounted claims to liability for outstanding claims** | | | | | | |
| Outstanding claims undiscounted | 29,720 | (3,892) | 25,828 | 49,974 | (4,731) | 45,243 |
| Discount | (13,874) | 1,791 | (12,083) | (21,881) | 2,739 | (19,142) |
| Outstanding claims | **15,846** | **(2,101)** | **13,745** | **28,093** | **(1,992)** | **26,101** |
| Short tail outstanding claims | | | 56,956 | | | 55,165 |
| **Total outstanding claims as per balance sheet** | | | **70,701** | | | **81,266** |

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

### 27. GENERAL AND HEALTH INSURANCE BUSINESS (CONTINUED)

| Variable | Movement | Change in following financial year's shareholder profit and equity net of reinsurance 2012 $000 | 2011 $000 |
|---|---|---|---|
| Claim settlement period | + 0.5 years | (267) | (310) |
| | - 0.5 years | 275 | 303 |
| Claims expenses ratio | increase of 1% | 122 | 106 |
| | decrease of 1% | (122) | (106) |
| Inflation rates | increase of 1% | 2,074 | 1,412 |
| | decrease of 1% | (1,685) | (1,176) |
| Discount rates | increase of 1% | (1,745) | (1,240) |
| | decrease of 1% | 2,119 | 1,472 |

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

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| **Expected Claims Run Off** | **Health Insurance $000** | **General Insurance $000** | **Total $000** | **Health Insurance $000** | **General Insurance $000** | **Total $000** |
| Reclassified as disposal group held for sale | (10,958) | - | (10,958) | - | - | - |
| Within 3 months | 10,958 | 28,997 | 39,955 | 9,688 | 28,760 | 38,448 |
| 3 to 6 months | - | 9,985 | 9,985 | 1,021 | 9,899 | 10,920 |
| 6 to 12 months | - | 9,917 | 9,917 | 533 | 9,710 | 10,243 |
| After 12 months | - | 21,802 | 21,802 | 71 | 21,584 | 21,655 |
| **Total** | **-** | **70,701** | **70,701** | **11,313** | **69,953** | **81,266** |

### (D) RISK MANAGEMENT POLICIES AND PROCEDURES
The financial condition and operations of the general insurance business are affected by a number of key risks including insurance risk, interest rate risk, currency risk, market risk, financial risk, compliance risk, fiscal risk and operational risk, refer to note 29. Notes on the policies and procedures employed in managing these risks in the general insurance business are set out below.

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

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

The key processes and controls in place to mitigate risk arising from writing general insurance contracts include:

- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- monitoring natural disasters such as earthquakes, floods, storms and other catastrophes using models; and
- the use of reinsurance to limit the Group's exposure to individual catastrophic risks.

***(b) Terms and conditions of insurance contracts that have a material effect on amount timing and uncertainty of cash flows***

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. Certain policies within the health insurance business have premium payback clauses that allow for the return of premiums after claim payments. These liabilities are matched with suitable assets.

***(c) Concentration of insurance risk***

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

## 27. GENERAL AND HEALTH INSURANCE BUSINESS (CONTINUED)

***(d) Development of claims***

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

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

### (E) LIABILITY ADEQUACY TEST

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

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

| | **Central estimate claim % of premium** | | **Risk Margin** | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| General Insurance | 42.3% | 49.5% | 11.4% | 10.2% |
| Health Insurance | 60.59% | 62.29% | 8.75% | 8.75% |

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

### (F) INSURER FINANCIAL STRENGTH RATING

TOWER Insurance Limited and TOWER Medical Insurance Limited have insurer financial strength ratings of ‘A-’ (Excellent) issued by international rating agency A.M. Best Company Inc. with effective dates of 27 July 2012 for TOWER Insurance Limited and 6 September 2012 for TOWER Medical Insurance Limited.

### (G) REINSURANCE PROGRAMME

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

## 27. GENERAL AND HEALTH INSURANCE BUSINESS (CONTINUED)

### (H) NON-CURRENT HEALTH INSURANCE CONTRACT LIABILITY

A number of the Group's health insurance policies have a benefit whereby policyholders receive a proportion of premiums paid less claims received over the life of their policy, 'premium payback', if certain conditions are met. This liability represents a long term health insurance contract liability. The liability was determined based on the discounted value of the accumulated excess of premiums over claims at individual policy level. A liability adequacy test with a risk margin to cover uncertainty in the central estimate is also applied to confirm the sufficiency of the liability in aggregate.

***Assumptions Used in the Calculation of the Liability and associated Liability Adequacy Test***:

| | 2012 | 2011 |
|---|---|---|
| **Liability:** | | |
| Discount rate for succeeding year | 2.28% net of tax | 2.77% net of tax |
| Discount rate for following years | 2.28% net of tax | 2.77% net of tax |
| Lapse Rate until 3 years from premium payback date | 1% p.a. | 1% p.a. |
| Lapse Rate within 3 years of premium payback date | 0% to 1% p.a. | 0% to 1% p.a. |
| **Liability Adequacy Test** | **2012** | **2011** |
| Discount rate for succeeding and following years | | |
| Claims and Premium Inflation rate for succeeding and following years | 9% p.a. | 9% p.a. |
| Lapse rates | 0% to 25% p.a. | 0% to 25% p.a. |
| GST rate | 15% | 15% |
| Income Tax rate | 28% | 28% |
| Administration expense per member | $74.00 | $74.20 |
| Expense Inflation for succeeding and following years | 2% p.a. | 2% p.a. |

The table below includes the reconciliation of the liability as at the reporting date.

| | Group | | Company | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$000** | **$000** | **$000** | **$000** |
| Balance at 1 October | 53,671 | 56,212 | - | - |
| New funding | 8,776 | 5,924 | - | - |
| Benefits paid | (12,081) | (11,954) | - | - |
| Other | 2,794 | 3,489 | - | - |
| Reclassified as disposal group held for sale | (53,160) | - | - | - |
| **Balance at 30 September** | **-** | **53,671** | **-** | **-** |

*(a) Liquidity risk and future net cash outflows*

The table below shows the estimated timing of cash outflows resulting from premium payback liabilities.

| | **Total** | **Less than one year** | **One to two years** | **Two to three years** | **Three to five years** | **Over five years** |
|---|---|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| 30 September 2012 (reclassified to disposal group held for sale) | **-** | - | - | - | - | - |
| 30 September 2011 | **53,671** | 9,444 | 8,475 | 4,862 | 7,217 | 23,673 |

## 27. GENERAL AND HEALTH INSURANCE BUSINESS (CONTINUED)

### (I) SOLVENCY REQUIREMENTS OF GENERAL AND HEALTH BUSINESS

The Minimum Solvency Capital required to be retained to meet solvency requirements are shown below. The Actual Solvency Capital exceeds the minimum requirements by $39,008,000 for TOWER Insurance and $16,548,000 for TOWER Medical Insurance.

| | TOWER INSURANCE 2012 $000 | TOWER MEDICAL INSURANCE 2012 $000 |
|---|---|---|
| Actual Solvency Capital | 120,902 | 28,668 |
| Minimum Solvency Capital | 81,894 | 12,120 |
| Solvency Margin | 39,008 | 16,548 |

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

## 28. FINANCIAL INSTRUMENTS CATEGORIES

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

| Group | Total | Loans and Receivables | Fair value through profit or loss | |
|---|---|---|---|---|
| | | | Designated | Held for trading |
| | $000 | $000 | $000 | $000 |
| **As at 30 September 2012** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | **186,477** | 186,477 | - | - |
| Reinsurance recoveries receivable | **376,427** | 376,427 | - | - |
| Outstanding premiums and trade receivables | **139,235** | 139,235 | - | - |
| Unsettled investments sale | **857** | 857 | - | - |
| Other receivables | **10,928** | 10,928 | - | - |
| Derivative financial assets | **91,026** | - | - | 91,026 |
| Investment in equity securities | **97,617** | - | 97,617 | - |
| Investment in fixed interest securities | **700,609** | - | 700,609 | - |
| Investment in property securities | **55,201** | - | 55,201 | - |
| **Total financial assets** | **1,658,377** | 713,924 | 853,427 | 91,026 |
| | | | | |
| **As at 30 September 2011** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | **223,981** | 223,981 | - | - |
| Reinsurance recoveries receivable | **464,032** | 464,032 | - | - |
| Outstanding premiums and trade receivables | **125,786** | 125,786 | - | - |
| Unsettled investments sale | **596** | 596 | - | - |
| Other receivables | **6,656** | 6,656 | - | - |
| Derivative financial assets | **75,080** | - | - | 75,080 |
| Investment in equity securities | **180,277** | - | 180,277 | - |
| Investment in fixed interest securities | **614,830** | - | 614,830 | - |
| Investment in property securities | **88,538** | - | 88,538 | - |
| **Total financial assets** | **1,779,776** | 821,051 | 883,645 | 75,080 |

## 28. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

| Group | | Fair value through profit or loss | | Financial liabilities at amortised cost |
|---|---|---|---|---|
| | Total | Designated | Held for trading | |
| **As at 30 September 2012** | $000 | $000 | $000 | $000 |
| **Financial liabilities** | | | | |
| Trade payables | **22,237** | - | - | 22,237 |
| Reinsurance payables | **8,583** | - | - | 8,583 |
| Unsettled investment purchases | **21** | - | - | 21 |
| Other payables | **12,720** | - | - | 12,720 |
| Interest bearing liabilities | **81,990** | - | - | 81,990 |
| Derivative financial liabilities | **170** | - | 170 | - |
| Life investment contract liabilities | **27,476** | 27,476 | - | - |
| **Total financial liabilities** | **153,197** | 27,476 | 170 | 125,551 |
| | | | | |
| **As at 30 September 2011** | | | | |
| **Financial liabilities** | | | | |
| Trade payables | **22,260** | - | - | 22,260 |
| Reinsurance payables | **12,931** | - | - | 12,931 |
| Unsettled investment purchases | **188** | - | - | 188 |
| Other payables | **12,769** | - | - | 12,769 |
| Interest bearing liabilities | **81,263** | - | - | 81,263 |
| Derivative financial liabilities | **1,903** | - | 1,903 | - |
| Life investment contract liabilities | **28,084** | 28,084 | - | - |
| **Total financial liabilities** | **159,398** | 28,084 | 1,903 | 129,411 |

| Company | Total | Loans and Receivables |
|---|---|---|
| **As at 30 September 2012** | $000 | $000 |
| **Financial assets** | | |
| Cash and cash equivalents | **72,928** | 72,928 |
| Other receivables | **277** | 277 |
| Related party receivables | **1,975** | 1,975 |
| **Total financial assets** | **75,180** | 75,180 |
| | | |
| **As at 30 September 2011** | | |
| **Financial assets** | | |
| Cash and cash equivalents | **89,939** | 89,939 |
| Other receivables | **330** | 330 |
| Related party receivables | **2,951** | 2,951 |
| **Total financial assets** | **93,220** | 93,220 |

| Company | Total | Financial liabilities at amortised cost |
|---|---|---|
| | $000 | $000 |
| **As at 30 September 2012** | | |
| **Financial liabilities** | | |
| Other payables | **1,554** | 1,554 |
| Related party payables | **188,600** | 188,600 |
| **Total financial liabilities** | **190,154** | 190,154 |
| | | |
| **As at 30 September 2011** | | |
| **Financial liabilities** | | |
| Other payables | **2,014** | 2,014 |
| Related party payables | **196,733** | 196,733 |
| **Total financial liabilities** | **198,747** | 198,747 |

## 29. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION

The financial condition and operating results of the Group are affected by a number of key financial and non-financial risks. Financial risks include market risk, credit risk, financing and liquidity risk. The non-financial risks include insurance risk, compliance risk and operational risk. The Group's objectives and policies in respect of insurance risks are disclosed in notes 26 and 27, while the managing of financial and other non financial risks are set out in the remainder of this section.

TOWER's objective is to satisfactorily manage these risks in line with the Board approved Group Risk and Compliance framework policy. Various procedures are in place to help identify, mitigate and monitor the risks faced by the Group. Business managers are responsible for understanding and managing their risks including operational and compliance risk. The consolidated entity's exposure to all high and critical risks is reported monthly to the board and quarterly to the Group Audit and Compliance Committee.

The Board has delegated to the Group Audit and Compliance Committee the responsibility to review the effectiveness and efficiency of management processes, internal audit services, group risk management and internal financial controls and systems as part of their duties. A Group Risk and Compliance team is in place in an oversight and advisory capacity and to manage the risk and compliance framework.

Financial risks are generally monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored to ensure that there are no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits.

The Board has delegated to the Group Investment Committee the responsibility for:
- reviewing investment policy for TOWER shareholder and policyholder funds;
- reviewing the risk management policy and statements in respect of investment management, including the derivative policy;
- considering the establishment, adjustment or deletion of limits and counter-party approvals, and the scope of financial instruments to be used in the management of TOWER's investments;
- reviewing the appointment of external investment managers;
- monitoring investment and fund manager performance; and
- monitoring compliance with investment policies and client mandates.

### (A) MARKET RISK

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

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

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

TOWER's principal transactions are carried out in New Zealand Dollars and its exposure to foreign exchange risk arises primarily with respect to the Pacific Island General Insurance business, which does not form a significant part of the Group's operations.

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

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

The Group enters into forward foreign exchange contracts in accordance with its investment policies as economic hedges of foreign currency exposure in investments in international equities through its holdings in international equities funds. The main foreign currencies exposure of the funds is to Australian and US dollars, Japanese Yen, Euro's and British Pounds. The notional amounts and contractual cash flows of these derivatives are included in (E) below.

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

The Board is responsible for the management of the interest rate risk arising from external borrowings . As at 30 September 2012 there were no interest rate swaps in place in relation to external borrowings (2011: Nil). The Group manages interest rate risk arising from its interest bearing investments in accordance with Group Investment Committee approved policies.

## 29. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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

*Health insurance*
Interest rate risk arises in health insurance to the extent that there is a mismatch between fixed interest portfolios used to back the health non-current liabilities and those health non-current liabilities. Interest rate risk is managed by matching the duration profiles of investment assets and health non-current liabilities.

*Life insurance*
Interest rate risk and other market risks arise in life insurance to the extent that there is a mismatch between the policyholder liabilities and assets backing those liabilities. These mismatches could impact current period operating profits.

The primary areas of mismatch for the Group's life insurance business are:

- For non-participating life insurance contracts, the mismatch between risk free discount rates used in the policy liability calculations and the backing asset values.
- For a portion of the life investment contract business, the mismatch between the value of the financial instrument liabilities (including the discount rates used in their calculation, if applicable) and the backing asset values.

Interest rate and other market risks are managed by the Group through a strategic asset allocation policy and an investment management policy that has regard to policyholder expectations and risks and to target surplus for solvency as advised by the Chief Actuary.

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

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

### (B) CREDIT RISK

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

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

The Company has no significant exposure to credit risk. The credit exposure in respect of the Company's cash balance is AA.

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

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

| | Carrying value | |
|---|---|---|
| | **2012** | **2011** |
| | **$000** | **$000** |
| New Zealand government | 58,965 | 59,573 |
| Other government agencies | 109,141 | 165,602 |
| Banks | 778,296 | 645,265 |
| Financial institutions | 11,466 | 14,662 |
| Other non-investment related receivable | 508,554 | 579,443 |
| Other industries | 39,137 | 35,278 |
| **Total financial assets with credit exposure** | **1,505,559** | **1,499,823** |

## 29. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

*(ii) Maximum exposure to credit risk*
The Group's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements, is as follows:

| | Carrying value | |
|---|---|---|
| | **2012** | **2011** |
| | **$000** | **$000** |
| Cash and cash equivalents | 186,477 | 223,981 |
| Loans and receivables | 527,447 | 597,070 |
| Financial assets at fair value through profit or loss | 700,609 | 603,692 |
| Derivative financial assets | 91,026 | 75,080 |
| **Total credit risk** | **1,505,559** | **1,499,823** |

For policies with a surrender or investment value, outstanding premiums are supported by the underlying assets invested. When outstanding premiums reach the value of the surrender or investment value, the assets are realised and offset against the outstanding debt. Policies with no surrender value are lapsed when outstanding premiums exceed a set value and the outstanding premiums are written off. The fully secured balance for the year ended 30 September 2012 is $28,778,387 (2011: 29,491,346).

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

| | | |
|---|---|---|
| ***Credit exposure by credit rating*** | | |
| AAA | 315,839 | 213,948 |
| AA | 605,413 | 589,169 |
| A | 21,850 | 16,142 |
| BBB | - | 578 |
| Below BBB | 15,579 | 4,851 |
| **Total counterparties with external credit rating by Standard and Poor's** | 958,681 | 824,688 |
| Group 1 | 486,671 | 558,949 |
| Group 2 | - | 537 |
| Group 3 | 38,712 | 95,693 |
| Total counterparties with no external credit rating | 525,383 | 655,179 |
| **Total financial assets neither past due nor impaired with credit exposure** | **1,484,064** | **1,479,867** |

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

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

*(iv) Financial assets that would otherwise be past due whose terms have been renegotiated*
None of the financial assets that are fully performing have been renegotiated in the past year (2011: Nil).

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

| | Past due but not impaired | | | | |
|---|---|---|---|---|---|
| **As at 30 September 2012** | **Less than 30 days $000** | **31 to 60 days $000** | **61 to 90 days $000** | **Over 90 days $000** | **Total $000** |
| Reinsurance recoveries receivable | 2,854 | 1,113 | 853 | 2,750 | 7,570 |
| Outstanding premiums and trade receivables | 8,250 | 3,428 | 1,679 | 568 | 13,925 |
| **Total** | **11,104** | **4,541** | **2,532** | **3,318** | **21,495** |
| **As at 30 September 2011** | | | | | |
| Reinsurance recoveries receivable | 2,494 | 1,307 | 729 | 2,532 | 7,062 |
| Outstanding premiums and trade receivables | 4,063 | 3,188 | 2,023 | 3,620 | 12,894 |
| **Total** | **6,557** | **4,495** | **2,752** | **6,152** | **19,956** |

The parent company does not have past due financial assets as at 30 September 2012 (2011: Nil).

## 29. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

*(vi) Financial assets that are individually impaired*

| | Carrying value 2012 $000 | 2011 $000 |
|---|---|---|
| Outstanding premiums and trade receivables | - | - |
| **Total** | **-** | **-** |

For policies with a surrender or investment value, outstanding premiums are supported by the underlying assets invested. When outstanding premiums reach the value of the surrender or investment value, the assets are realised and offset against the outstanding debt. Policies with no surrender value are lapsed when outstanding premiums exceed a set value and the outstanding premiums are written off. The secured balance for the year ended 30 September 2012 is $28,778,387 (2011: 29,491,346).

### (C) FINANCING AND LIQUIDITY RISK

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

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

*(i) Financial liabilities and guarantees by contractual maturity*

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

| Group | Carrying value $000 | Total contractual cash flows $000 | Less than one year $000 | One to two years $000 | Two to four years $000 | Over five years $000 | On demand $000 |
|---|---|---|---|---|---|---|---|
| **As at 30 September 2012** | | | | | | | |
| **Financial liabilities and guarantees** | | | | | | | |
| Trade payables | 22,237 | 22,237 | 22,237 | - | - | - | - |
| Reinsurance payables | 8,583 | 8,583 | 8,583 | - | - | - | - |
| Unsettled investment purchases | 21 | 21 | 21 | - | - | - | - |
| Other payables | 12,720 | 12,720 | 12,720 | - | - | - | - |
| Derivative financial liabilities [1] | 170 | 5,599 | 5,498 | 67 | 34 | - | - |
| Interest bearing liabilities | 81,990 | 92,460 | 6,950 | 85,510 | - | - | - |
| Life investment contract liabilities | 27,476 | 27,476 | - | - | - | - | 27,476 |
| Funds invested guarantee | 880 | 880 | - | - | - | - | 880 |
| **Total financial liabilities and guarantees** | **154,077** | **169,976** | **56,009** | **85,577** | **34** | **-** | **28,356** |
| **As at 30 September 2011** | | | | | | | |
| **Financial liabilities and guarantees** | | | | | | | |
| Trade payables | 22,260 | 22,260 | 22,260 | - | - | - | - |
| Reinsurance payables | 12,931 | 12,931 | 12,931 | - | - | - | - |
| Unsettled investment purchases | 188 | 188 | 188 | - | - | - | - |
| Other payables | 12,769 | 12,769 | 12,434 | 253 | - | 82 | - |
| Derivative financial liabilities [1] | 1,903 | 91,417 | 91,417 | - | - | - | - |
| Interest bearing liabilities | 81,263 | 99,410 | 6,950 | 6,950 | - | 85,510 | - |
| Life investment contract liabilities | 28,084 | 28,084 | - | - | - | - | 28,084 |
| Funds invested guarantee | 958 | 958 | - | - | - | - | 958 |
| **Total financial liabilities and guarantees** | **160,356** | **268,017** | **146,180** | **7,203** | - | **85,592** | **29,042** |

[1] *Please see note 29E for total cash flows for forward foreign exchange contracts*

## 29. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

| Company | Carrying value $000 | Total contractual cash flows $000 | Less than one year $000 | On demand $000 |
|---|---|---|---|---|
| **As at 30 September 2012** | | | | |
| **Financial liabilities** | | | | |
| Related party payables | 188,600 | 188,600 | - | 188,600 |
| Other payables | 1,554 | 1,554 | 1,554 | - |
| **Total financial liabilities** | **190,154** | **190,154** | **1,554** | **188,600** |
| **As at 30 September 2011** | | | | |
| **Financial liabilities** | | | | |
| Related party payables | 196,733 | 196,733 | - | 196,733 |
| Other payables | 2,014 | 2,014 | 2,014 | - |
| **Total financial liabilities** | **198,747** | **198,747** | **2,014** | **196,733** |

### (D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value of financial instruments traded in active markets is based on quoted market prices at balance date. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Valuation techniques used to value life investments contract liabilities are described in notes 26. Refer below for details of valuation methods used for each remaining category of financial assets and liabilities.

The carrying amounts of all financial assets and liabilities reasonably approximate their fair values with the exception of senior unsecured bonds which is disclosed in note 18.

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

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

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

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

*(iv) Derivative financial liabilities*
The fair value of derivative financial liabilities is determined by reference to the quoted market price of the underlying equity securities

*(v) Interest bearing liabilities*
The fair value of senior unsecured bonds is determined by reference to the quoted market price of the underlying debt securities.

## 29. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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

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

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

| **Group** | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **$000** |
| **As at 30 September 2012** | | | | |
| **Assets** | | | | |
| Derivative financial assets | 91,026 | - | 91,026 | - |
| Investment in equity securities | 97,617 | 46,334 | 48,032 | 3,251 |
| Investments in fixed Interest securities | 700,609 | - | 700,609 | - |
| Investments in property securities | 55,201 | - | 55,201 | - |
| **Total financial assets** | **944,453** | **46,334** | **894,868** | **3,251** |
| **Liabilities** | | | | |
| Derivative financial liabilities | 170 | - | 170 | - |
| Life investment contract liabilities | 27,476 | - | 27,476 | - |
| **Total financial liabilities** | **27,646** | **-** | **27,646** | **-** |
| **As at 30 September 2011** | | | | |
| **Assets** | | | | |
| Derivative financial assets | 75,080 | - | 75,080 | |
| Investment in equity securities | 180,277 | 48,934 | 131,343 | |
| Investments in fixed Interest securities | 614,830 | - | 614,830 | |
| Investments in property securities | 88,538 | - | 88,538 | |
| **Total financial assets** | **958,725** | **48,934** | **909,791** | |
| **Liabilities** | | | | |
| Derivative financial liabilities | 1,903 | - | 1,903 | |
| Life investment contract liabilities | 28,084 | - | 28,084 | |
| **Total financial liabilities** | **29,987** | **-** | **29,987** | |

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

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

## 29. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. At 30 September 2012, the level 3 category includes an investment in equity securities of $3,251,000. Previously these investments were included in level 2 and were immaterial. This investment is unlisted and its fair value is calculated based on the net assets of the investment as per its most recently available financial information.

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

| | Investment in equity securities $000 |
|---|---|
| **Opening balance** | - |
| Total gains and losses recognised in profit and loss | 1,119 |
| Transfers in/out | 2,132 |
| **Closing balance** | **3,251** |

The following table shows the sensitivity of Level 3 measurements to reasonably possible favourable or unfavourable changes in assumptions used to determine the fair value of the financial asset. If the market value of the investment in equity securities were to change by +/- 10% the impact is outlined below:

| | Carrying Amount $000 | Favourable changes of 10% $000 | Unfavourable changes of 10% $000 |
|---|---|---|---|
| Investment in equity securities | 3,251 | 325 | (325) |

Specific valuation techniques used to value financial instruments include:

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

### (E) DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises derivative financial instruments to reduce investment risk. Specifically, derivatives are used to achieve cost effective short-term re-weightings of asset class, sector and security exposures and to hedge portfolios, as an economic hedge, when a market is subject to significant short-term risk.

Derivative financial instruments used by the Group include interest rate swaps and foreign exchange forward contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair values of interest rate swaps are calculated by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates. The average interest rate is based on the outstanding balances at the start of the financial year.

The table below details the notional principal amounts (amounts used to calculate payments made on swap contracts), fair values and remaining terms of interest rate swap contracts outstanding as at reporting date:

| | Average contracted fixed | | Notional principal amount | | Fair value | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | % | % | $000 | $000 | $000 | $000 |
| Less than 1 year | 0% | 4% | - | 2,000 | - | 12 |
| 1 to 2 years | 0% | 0% | - | - | - | - |
| 2 to 5 years | 3% | 0% | 10,400 | - | - | - |
| over 5 years | 7% | 6% | 360,588 | 404,700 | 91,026 | 75,068 |
| | | | **370,988** | **406,700** | **91,026** | **75,080** |

Foreign exchange forward contracts are settled on a gross basis. All contracts mature within 12 months of the reporting date and their carrying values reasonably approximate undiscounted cash flows because the impact of discounting is not significant.

## 29. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

| Group | Total contractual cash flows $000 | Less than one year $000 |
|---|---|---|
| **As at 30 September 2012** | | |
| Forward foreign exchange contracts | | |
| Outflow | (62,948) | (62,948) |
| Inflow | 63,173 | 63,173 |
| **As at 30 September 2011** | | |
| Forward foreign exchange contracts | | |
| Outflow | 91,417 | 91,417 |
| Inflow | 89,514 | 89,514 |

### (F) SENSITIVITY ANALYSIS

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

*(i) Interest rate*
The impact of a 50 basis point change in New Zealand and international interest rates as at the reporting date on the Group's profit after tax and equity is included in the table below. The sensitivity analysis assumes changes in interest rates only. All other variables are held constant.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Impact on | | Impact on | |
| | profit after tax $000 | equity $000 | profit after tax $000 | equity $000 |
| *Change in variables* | | | | |
| *+50 basis points* | (3,145) | (3,145) | (5,055) | (5,055) |
| *-50 basis points* | 3,262 | 3,262 | 5,213 | 5,213 |

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

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

The impact of changes in market interest rates presented here excludes insurance contract liabilities, which are also affected by the changes in market interest rates that determine the discount rates applicable to these contracts.

The table below provides a sensitivity analysis in respect of changes in interest rates as applied to insurance contract liabilities. A combined effect is necessary to appreciate the sensitivity of the Group's profit to movements in interest rates.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Impact on | | Impact on | |
| | profit after tax $000 | equity $000 | profit after tax $000 | equity $000 |
| *Change in variables* | | | | |
| *+50 basis points* | (4,375) | (4,375) | (3,331) | (3,331) |
| *-50 basis points* | 4,343 | 4,343 | 3,331 | 3,331 |

Sensitivity to interest rates has been assessed by reference to internal investigations of the movement in insurance contract liabilities to movements in discount rates consistent with that used for internal management reporting.

*(ii) Foreign currency*
The table below demonstrates the impact of a 10% movement of currency rates against the New Zealand dollar on the Group's shareholder profit after tax and equity. The analysis assumes changes in foreign currency rates only, with all other variables held constant. The potential impact on the profit and equity of the Group is due to the changes in fair value of currency sensitive monetary assets and liabilities as at the reporting date.

## 29. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Impact on | | Impact on | |
| | profit after tax | equity | profit after tax | equity |
| | $000 | $000 | $000 | $000 |
| *Change in variables* | | | | |
| *10% appreciation of New Zealand dollar* | 970 | (10,435) | (56) | (56) |
| *10% depreciation of New Zealand dollar* | (1,182) | 12,757 | 56 | 56 |

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

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

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

The table below demonstrates the impact of a 10% movement in New Zealand equities on the profit after tax and equity of the Group. The potential impact is assumed as at the reporting date. The analysis below excludes investment linked business, which is disclosed in note 39. Investment linked business can be excluded because any asset movement will flow through to the policyholder.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Impact on | | Impact on | |
| | profit after tax | equity | profit after tax | equity |
| | $000 | $000 | $000 | $000 |
| *Change in variables* | | | | |
| *+10% in New Zealand equities* | 44 | 44 | 133 | 133 |
| *-10% in New Zealand equities* | (44) | (44) | (133) | (133) |

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

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

*(iv) Other price*
Other price sensitivity includes sensitivity to unit price fluctuations. Unit price risk is the risk that the fair value of investments in property fund units and international equities held in unit trusts will decrease as a result of changes in the value of these units. The Group holds all of its investments in property securities, international equities and other unit trusts at fair value through profit or loss.

The table below demonstrates the impact of a 10% movement in the value of property funds, international equities and other unit trusts on the profit after tax and equity of the Group. The potential impact is assumed as at the reporting date.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Impact on | | Impact on | |
| | profit after tax | equity | profit after tax | equity |
| | $000 | $000 | $000 | $000 |
| *Change in variables* | | | | |
| *+10% property funds and other unit trusts* | 787 | 787 | 1,498 | 1,498 |
| *-10% property funds and other unit trusts* | (787) | (787) | (1,498) | (1,498) |
| *+10% in International equities* | 130 | 130 | 5,059 | 5,059 |
| *-10% in International equities* | (130) | (130) | (5,059) | (5,059) |

International equity assets are held via a unit trust which invests in a number of different countries. The sensitivity for each individual country is small so a breakdown by country has not been provided.

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

## 30. CAPITAL RISK MANAGEMENT

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

The Group's capital resources include ordinary equity and interest bearing liabilities.

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| | $000 | $000 |
| Interest bearing liabilities (Note 18) | 81,990 | 81,263 |
| TOWER shareholder equity | 497,346 | 452,991 |
| Total capital resources | **579,336** | **534,254** |

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

From 31 December 2012 the Group will be required to retain the following fixed capital under the solvency standards:

TOWER Health and Life Limited – $5,000,000
TOWER Life New Zealand Limited - $5,000,000
TOWER Medical Insurance Limited - $3,000,000
TOWER Insurance Limited - $3,000,000

From 31 December 2012 the Group will be required to maintain a solvency margin of $ nil for each of the above entities. From this date actual solvency capital as determined under the solvency standards should be at or above the minimum solvency capital level. The amount retained as minimum solvency capital is shown in Note 26 (C) and Note 27 (I).

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

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

## 31. OPERATING LEASES

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $000 | $000 | $000 | $000 |
| **As lessee** | | | | |
| Rent paid under non-cancellable operating leases during the year | 4,227 | 4,029 | - | - |
| Rent payable under non-cancellable operating leases to the end of the lease terms are: | | | | |
| – Not later than one year | 5,694 | 5,238 | - | - |
| – Later than one year and not later than five years | 2,524 | 6,527 | - | - |
| – Later than five years | 553 | 16 | - | - |
| | **8,771** | **11,781** | - | - |

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

## 32. CASH AND CASH EQUIVALENTS

### (A) RECONCILIATION OF CASH AT THE END OF THE YEAR

| | Group 2012 | Group 2011 | Company 2012 | Company 2011 |
|---|---|---|---|---|
| Cash at bank and in hand | 22,763 | 8,990 | 2,448 | 2,201 |
| Deposits at call | 163,714 | 214,991 | 70,480 | 87,738 |
| **Total cash and cash equivalents** | **186,477** | **223,981** | **72,928** | **89,939** |

The effective interest rate for deposits at call is 3.0% (2011: 3.0%). The balances primarily mature within three months of balance date.

## 32. CASH AND CASH EQUIVALENTS (CONTINUED)

### (B) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $000 | $000 | $000 | $000 |
| **Profit after tax for the year** | 55,824 | 33,380 | 20,390 | 20,013 |
| **Add/(less) non-cash items** | | | | |
| Depreciation of property, plant and equipment | 2,207 | 3,588 | - | - |
| Amortisation of software | 2,697 | 2,307 | - | - |
| Change in life insurance and life investment contract liabilities | 5,783 | (39,980) | - | - |
| Unrealised gain on financial assets | (20,258) | (2,180) | - | - |
| Share based payments expense and movement in fair value of employee share option derivative | 92 | 1,082 | - | - |
| Decrease in deferred tax | 8,198 | 1,572 | - | - |
| (Gain)/loss on disposal of property, plant and equipment | (131) | 364 | - | - |
| | 54,412 | 133 | 20,390 | 20,013 |
| **Add/(less) movements in working capital (excluding the effects of exchange differences on consolidation)** | | | | |
| Decrease/(increase) in receivables | 64,434 | (390,839) | 53 | (21) |
| (Decrease)/Increase in payables | (66,013) | 383,316 | 1,709 | 1,559 |
| Decrease in taxation | 16,958 | 2,083 | - | - |
| | 15,379 | (5,440) | 1,762 | 1,538 |
| **Add other items classified as financing activities** | | | | |
| Decrease in capitalised costs | 727 | 661 | - | - |
| **Net cash inflow/(outflow) from operating activities** | **70,518** | **(4,646)** | **22,152** | **21,551** |

## 33. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at reporting date (2011: Nil). The Group is occasionally subject to claims and disputes as a commercial outcome of conducting its insurance and investment businesses. 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.

## 34. CAPITAL COMMITMENTS

The Group has capital commitments of approximately $6,792,000 at reporting date related to software under development (2011: Nil).

## 35. SHARE BASED PAYMENTS

The Company has four active executive share option schemes. Each is equity settled and has differing conditions which are set out in the tables below. The exercise prices are set at the average of the share price for the 5 days before grant date. Subject to the discretion of the Board, options are forfeited if an employee leaves the Group before the options vest.

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

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

| Terms of share schemes | Tranche D | Tranche E | Tranche F | Tranche G | Tranche I |
|---|---|---|---|---|---|
| Exercise price after rights issue | $2.46 | $1.94 | $2.10 | $1.38 | $1.93 |
| Grant date | 4-Apr-06 | 1-Oct-06 | 11-Dec-07 | 5-Dec-08 | 22-Dec-09 |
| Vesting date | 3-Apr-09 | 16-Oct-09 | 1-Dec-10 | 1-Dec-11 | 3-Dec-12 |
| Expiry date | 4-Apr-12 | 16-Oct-12 | 1-Dec-13 | 1-Dec-14 | 2-Dec-15 |
| Expected volatility | 20% | 20% | 20% | 40% | 30% |
| Risk free rate | 5.71% | 5.71% | 5.71% | 4.88% | 6.03% |
| Amount expensed during 2012 year ($000) | - | - | - | 11 | 81 |
| Amount expensed during 2011 year ($000) | - | - | 43 | 46 | 45 |

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

The expected life is based on best estimates of management allowing for non-transferability, exercise restrictions and behavioural considerations. No share options were issued in 2012 (2011: Nil).

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

| | Number of options | | | | | Weighted average exercise |
|---|---|---|---|---|---|---|
| **30 September 2012** | **Tranche D** | **Tranche E** | **Tranche F** | **Tranche G** | **Tranche I** | **price** |
| Outstanding at start of year | 300,000 | 3,000,000 | 500,000 | 200,000 | 300,000 | $1.97 |
| Forfeited | (300,000) | - | (200,000) | - | - | $2.32 |
| **Outstanding at the end of the year** | **-** | **3,000,000** | **300,000** | **200,000** | **300,000** | **$1.92** |
| **Exercisable at the end of the year** | - | 3,000,000 | 300,000 | 200,000 | - | $1.92 |

| **30 September 2011** | Number of options | | | | Weighted average exercise |
|---|---|---|---|---|---|
| | **Tranche B** | **Tranche C** | **Tranche D** | **Tranche E** | **price** |
| Outstanding at start of year | 300,000 | 300,000 | 500,000 | 3,000,000 | $1.97 |
| Forfeited | - | - | (200,000) | - | $1.96 |
| Exercised | (300,000) | (300,000) | - | - | $2.04 |
| **Outstanding at the end of the year** | **-** | **-** | **300,000** | **3,000,000** | **$1.97** |
| **Exercisable at the end of the year** | - | | 300,000 | 3,000,000 | $2.00 |

| | **Tranche F** | **Tranche G** | **Tranche H** | **Tranche I** | |
|---|---|---|---|---|---|
| Outstanding at start of year | 1,000,000 | 400,000 | 100,000 | 600,000 | $1.97 |
| Forfeited | (500,000) | (200,000) | (100,000) | (300,000) | $1.96 |
| **Outstanding at the end of the year** | **500,000** | **200,000** | **-** | **300,000** | **$1.97** |
| **Exercisable at the end of the year** | 500,000 | 200,000 | - | - | $2.00 |

Tranches D to G have been fully vested as at 30 September 2012. No share options were exercised in 2012. The weighted average share price at the date of exercise of share options in 2011 was $2.02.

The range of exercise prices for options outstanding as at 30 September 2012 is $1.38 to $2.10 (2011: $1.38 to $2.46) and the weighted average remaining contractual life is 0.5 years (2011: 1.4 years).

## 36. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The Group holds a number of equity securities portfolios across a large number of New Zealand and overseas entities. A significant part of these investments are held by TOWER Life (NZ) Limited for the purposes of meeting the requirements of the life insurance business of the Group. These portfolios, which are managed by specialist investment managers within TOWER, may from time to time include investments in companies that themselves have a shareholding in the Group.

Guinness Peat Group Plc (GPG) holds approximately 34% of TOWER's shares, which makes it a related party to the Group. The Group did not have any material transactions or balances with GPG during the year, other than in the normal course of its investment activities, as discussed above.

### (A) SUBSIDIARIES

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

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

| Related party | 2012 $000 | 2011 $000 | Nature of Relationship | Type of Transaction |
|---|---|---|---|---|
| TOWER Financial Services Group Limited | (178,453) | (178,453) | Subsidiary | Advance |
| TOWER New Zealand Limited | (10,147) | (18,280) | Subsidiary | Advance |
| TOWER consolidated tax group members | 1,975 | 1,945 | Subsidiary | Tax losses |
| TOWER Option Scheme Limited | - | 1,006 | Subsidiary | Advance |

The receivable owing from the TOWER consolidated tax group members in 2012 of $1,975,000 (2011: $1,945,000) represents the benefit of tax losses offset by TOWER Limited as a member of the TOWER consolidated tax group. All subsidiary companies incorporated in New Zealand listed in note 13, except for TOWER Investments Limited and TOWER Option Scheme Limited are members of the TOWER consolidated tax group.

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

| Related party | 2012 $000 | 2011 $000 | Nature of Relationship | Type of Transaction |
|---|---|---|---|---|
| TOWER New Zealand Limited | (8,133) | 699 | Subsidiary | Settlement/Advance |
| TOWER Financial Services Group Limited | 18,960 | 18,000 | Subsidiary | Dividend |
| TOWER Option Scheme Limited | 1,006 | 608 | Subsidiary | Settlement/Advance |
| TOWER Health & Life Limited | (8,331) | - | Subsidiary | Group tax loss offset |
| TOWER Medical Insurance Limited | 7,919 | - | Subsidiary | Group tax loss offset |
| TOWER Life (NZ) Limited | 10,548 | - | Subsidiary | Group tax loss offset |
| TOWER Managed Funds Limited | 2,543 | - | Subsidiary | Group tax loss offset |
| TOWER Insurance Limited | (1,391) | - | Subsidiary | Group tax loss offset |
| TOWER New Zealand limited | (5,030) | - | Subsidiary | Group tax loss offset |
| TOWER Asset Management Limited | 2,888 | - | Subsidiary | Group tax loss offset |
| TOWER Option Scheme Limited | 9 | - | Subsidiary | Group tax loss offset |
| TOWER Financial Services Group Limited | (8,338) | - | Subsidiary | Group tax loss offset |
| TOWER Capital Limited | 709 | - | Subsidiary | Group tax loss offset |

## 36. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### (B) TRUSTS ADMINISTERED AND MANAGED BY THE GROUP

During the year the Group received investment management and other fees of $24,918,000 (2011:$ 26,694,000) from the following Trusts administered and managed by the Group:

Future Plan
TOWER Cash Fund
GAM Multi-trading Fund
TOWER International Equity
TOWER NZ Equity Trust
TOWER KiwiSaver
Investment Linked Superannuation Fund
TOWER Property Fund
Freedom Plan
GAM Global Gateway
Bond Plus Mortgage Plus
Focus Int'l Equity
TOWER Global Fund
TOWER Multi Sector
TOWER LifeSaver

All fees were calculated in accordance with the relevant management agreements pertaining to the related party involved.

Amounts receivable as at 30 September 2012 due from the related parties above were $2,209,000 (2011: $2,577,000).

### (C) KEY MANAGEMENT PERSONNEL COMPENSATION

The remuneration of key management personnel during the year was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $000 | $000 | $000 | $000 |
| Salaries and other short-term employee benefits paid | 3,342 | 4,222 | - | - |
| Termination benefits | 273 | 613 | - | - |
| Share based payments | 89 | 76 | - | - |
| Independent directors fees | 600 | 632 | 600 | 632 |
| | **4,304** | **5,543** | **600** | **632** |

Information regarding individual directors and executives compensation is provided in the Corporate Governance section of the Annual Report.

### (D) LOANS TO KEY MANAGEMENT PERSONNEL

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

### (E) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

## 37. DISCLOSURES ON ASSET RESTRICTIONS AND MANAGED ASSETS

**Restrictions on assets**
Investments and other assets held in each of the life insurance companies can only be used to meet the liabilities and expenses of that company, to acquire investments to further the business of the company or as distributions to shareholders. Distributions may be made to shareholders only when regulatory capital requirements are met and sufficient equity remains for the ongoing operation of the business.

**Managed assets**
TOWER conducts investment and other fiduciary activities that result in the holding or placing of assets on behalf of individuals, managed funds, trusts, retirement benefit plans and other institutions. These assets are not the property of TOWER and accordingly are not included in these financial statements.

The value of assets subject to funds management and other fiduciary activities were:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | **$000** | **$000** |
| Superannuation funds | 1,527,930 | 1,338,846 |
| Unit trust and group investment funds | 1,964,919 | 1,919,795 |
| **Non-TOWER funds under management** | **3,492,849** | **3,258,641** |

TOWER life companies hold funds under management of $731,887,000, making total funds under management of $4,224,736,000.

Arrangements are in place to ensure that the asset management activities of these funds continue to be managed separately from TOWER's financial services and life insurance operations.

## 38. GUARANTEED RETURNS ON FUNDS INVESTED – LIFE INSURANCE COMPANIES

TOWER or its subsidiaries guarantee capital contributed by policyholders together with any declared dividends for the following funds.

At balance date the policy liabilities of these funds were:

| | **2012** | **2011** |
|---|---|---|
| | **$000** | **$000** |
| VITAL Investment Account and VITAL Retirement Account | 880 | 958 |
| **Total** | **880** | **958** |

## 39. INVESTMENT LINKED AND NON-INVESTMENT LINKED BUSINESS OF LIFE INSURANCE COMPANIES

| | Group | | | |
|---|---|---|---|---|
| | **2012** | | **2011** | |
| | **Investment linked** | **Non-investment linked** | **Investment linked** | **Non-investment linked** |
| | **$000** | **$000** | **$000** | **$000** |
| Investment assets | 27,476 | 838,347 | 28,084 | 799,841 |
| Other assets | - | 17,617 | - | 20,026 |
| Policyholder liabilities | (27,476) | (591,457) | (28,084) | (587,477) |
| Other liabilities | - | (57,905) | - | (52,061) |
| **Net assets** | **-** | **206,601** | **-** | **180,329** |
| **Retained earnings** | - | 189,065 | - | 176,967 |
| | | | | |
| Net premium revenue | - | 74,241 | - | 68,097 |
| Investment revenue | 3,177 | 98,892 | (193) | 45,709 |
| Net claims expense | - | (67,407) | - | (70,096) |
| Other operating expenses | (183) | (43,174) | (238) | (44,918) |
| Change in policyholder liabilities | (2,408) | (6,470) | 834 | 28,178 |
| **Operating profit before taxation** | **586** | **56,082** | **403** | **26,970** |
| Taxation (expense)/credit | (325) | (23,613) | (131) | (6,043) |
| **Operating profit/(deficit) after taxation** | **261** | **32,469** | **272** | **20,927** |

Investment revenue allocated to policyholders was $3,177,000 (2011: $193,000).

## 40. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributed to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by dividing the net profit attributed to shareholders of the Company by the weighted average number of ordinary shares on issue during the year adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

There was no dilutive impact of outstanding share options on basic earnings per share for 2012 (2011: Nil).

| | **Group** | |
|---|---|---|
| | **2012** | **2011** |
| | **$000** | **$000** |
| Profit attributable to shareholders | 55,339 | 33,066 |
| | **Number of shares** | **Number of shares** |
| Weighted average number of ordinary shares for basic and diluted earnings per share | 266,639,339 | 263,042,500 |
| | **Cents** | **Cents** |
| Basic and diluted earnings per share from continuing operations | 15.78 | 8.91 |
| Basic and diluted earnings per share from discontinued operations | 4.97 | 3.66 |

## 41. LIFE INSURANCE LIABILITY DISCOUNT

Profit after tax includes movements in the discount rate applied to value individual life risk policy liabilities which is based on current risk-free interest rates. The decline in risk-free interest rates led to a change in the value of individual life risk policy liabilities, generating a net gain of $9,001,000 for the year (2011: $2,394,000). The movement in the discount rate during the 2012 and 2011 periods impacted the individual life risk policy liabilities and increased the Group profit after tax.

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | **$000** | **$000** | **$000** | **$000** |
| Profit for the year | 42,574 | 23,749 | 20,390 | 20,013 |
| Includes: | | | | |
| Discount rate effect before tax - (gain) | (12,502) | (3,420) | - | - |
| Income tax on discount rate effect | 3,501 | 1,026 | - | - |
| **Discount rate effect after tax - (gain)** | **(9,001)** | **(2,394)** | **-** | **-** |
| **Profit excluding discount rate** | **33,573** | **21,355** | **20,390** | **20,013** |

## 42. BUSINESS COMBINATION

On 24 September 2012, TOWER Life (N.Z.) Limited moved from 52% to 100% ownership of the units in TAM International Income Fund (the Fund), a unitised equity investment trust.

The Fund is held for the benefit of policyholders, and reported revenues of ($967,000) and a net loss of ($1.04 million) during the 6 day period from 24 September 2012 to 30 September 2012. If the increase in units held to 100% had occurred on 1 October 2011, revenues from the Fund would have been $19.2m and profit would have been $19.8m.

No cash was paid as consideration for the additional ownership. Control was obtained through the withdrawal of funds by other members of the Fund.

The assets and liabilities arising from the acquisition are as follows:

| | Fair Value $000 | Acquiree's carrying amount $000 |
|---|---|---|
| Cash and cash equivalents | 3,389 | 3,389 |
| Receivables | 1,857 | 1,857 |
| Financial assets at fair value through profit and loss | 161,669 | 161,669 |
| Other assets - intercompany receivable | 11 | 11 |
| Deferred tax asset | 11,693 | 11,693 |
| **Total assets** | 178,619 | 178,619 |
| Payables | 84,352 | 84,352 |
| **Total liabilities** | 84,352 | 84,352 |
| **Net assets** | **94,267** | **94,267** |

## 43. IMPACT OF CHRISTCHURCH EARTHQUAKES

For the year ended 30 September 2012, the income statement includes gross incurred claims of $7,752,108 less reinsurance recoveries of $1,859,292 in respect of the 23 December 2011 earthquake, resulting in a pre tax net claims expense of $5,892,816. For the 4 September 2010, 22 February 2011 and 13 June 2011 earthquakes, the 2012 income statement includes gross incurred claims of $53,836,695 less reinsurance recoveries of $40,836,695 resulting in a pre tax net claims expense of $13,000,000. Comparative income statement figures for the prior year ended 30 September 2011 include gross incurred claims of $402,045,000 less reinsurance recoveries of $386,834,000 resulting in a net amount of $15,211,000 representing incurred claims expenses for 4 September 2010, 22 February 2011 and 13 June 2011 earthquakes.

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

## 44. SUBSEQUENT EVENTS

### DIVIDEND DECLARED

On 29 November 2012 the Directors declared a dividend of 6 cents per share. There will be no imputation credits attached to the dividend. The dividend will be paid on 1 February 2013 (Payment Date) to all shareholders on the register as at 5pm on Friday, 18 January 2013 (Record Date). The estimated dividend payable is $16,145,466.

TOWER will not be operating the Dividend Reinvestment Plan for the final dividend.

TOWER will withhold resident and non-resident withholding tax where applicable.

## 45. DISCONTINUED OPERATIONS AND DISPOSAL GROUP

### TOWER MEDICAL INSURANCE LIMITED HELD FOR SALE

On 2 November 2012, TOWER Limited announced the sale of its health insurance business, TOWER Medical Insurance Limited to Australian health insurer, nib holdings limited for approximately $102 million. The sale followed a strategic review of TOWER Group's businesses announced earlier in the year. The sale, which is subject to certain conditions customary for a transaction of this type, is expected to settle prior to 31 December 2012. The sale of TOWER Medical Insurance Limited has resulted in the health insurance business segment being treated as a discontinued operation of the Group.

The operating results and financial position of TOWER Medical Insurance Limited have been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as a disposal group held for sale. A more detailed breakdown of the financial performance, position and cash flows of TOWER Medical Insurance Limited is presented below.

The results of the disposal group reclassified as held for sale were as follows:

| | 2012<br>$000 | 2011<br>$000 |
|---|---|---|
| Premium revenue from insurance contracts | 146,230 | 140,603 |
| Less: Outwards reinsurance expense | - | - |
| Net premium revenue | **146,230** | **140,603** |
| Investment revenue | 5,761 | 5,933 |
| **Net operating revenue** | **151,991** | **146,536** |
| Claims expense | 97,199 | 97,072 |
| **Net claims expense** | **97,199** | **97,072** |
| Decrease in policy liabilities | (510) | (2,542) |
| Management and sales expenses | 36,899 | 38,225 |
| **Net claims and operating expenses** | **133,588** | **132,755** |
| **Profit before taxation** | **18,403** | **13,781** |
| Income tax expense | 5,153 | 4,150 |
| **Profit after tax from discontinued operations** | **13,250** | **9,631** |

| **Cash flows of disposal group held for sale:** | **2012**<br>**$000** | **2011**<br>**$000** |
|---|---|---|
| Operating cash inflow/(outflow) | 10,782 | (10,713) |
| Investing cash (outflow)/inflow | (18,691) | 21,973 |
| Financing cash (outflow) | (7,000) | - |
| **Total cash (outflow)/inflow** | **(14,909)** | **11,260** |

## 45. DISCONTINUED OPERATIONS AND DISPOSAL GROUP (CONTINUED)

| | 2012 |
|---|---|
| **Assets** | **$000** |
| Cash and cash equivalents | 13,257 |
| Receivables | 2,576 |
| Financial assets at fair value through profit or loss | 88,914 |
| Derivative financial assets | 3,318 |
| Deferred commission | 9,530 |
| Deferred acquisition costs | 22,367 |
| Deferred tax asset | 14,517 |
| Attributed goodwill (1) | 13,067 |
| **Total assets** | **167,546** |
| | |
| **Liabilities** | |
| Payables | 1,834 |
| Current tax liability | 234 |
| Insurance liabilities | 26,397 |
| Derivative financial liability | 34 |
| Deferred tax liability | 8,931 |
| Premium payback liability | 53,161 |
| **Total liabilities** | **90,591** |
| **Net assets** | **76,955** |

(1) Goodwill which is allocated to the health business has been included within the disposal group held for sale as attributed goodwill.

# *Independent Auditors' Report*

to the shareholders of TOWER Limited

## *Report on the Financial Statements*

We have audited the financial statements of TOWER Limited ("the Company") on pages 2 to 68, which comprise the balance sheets as at 30 September 2012, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 September 2012 or from time to time during the financial year.

### *Directors' Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

We have no relationship with, or interests in, TOWER Limited or any of its subsidiaries other than in our capacities as auditors and providers of other assurance, taxation and advisory services. These services have not impaired our independence as auditors of the Company and the Group.

# *Independent Auditors' Report*
TOWER Limited

***Opinion***

In our opinion, the financial statements on pages 2 to 68:

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

(ii) comply with International Financial Reporting Standards; and

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

## *Report on Other Legal and Regulatory Requirements*

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

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

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

## *Restriction on Distribution or Use*

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

PricewaterhouseCoopers

Chartered Accountants Auckland
28 November 2012

Insurance
Investments
KiwiSaver

TOWER

TOWER Group

# Analysts' Briefing Full Year Results

30 September 2012

Rob Flannagan
Group Managing Director

Michael Boggs
Chief Operating Officer

- **Results Overview**
- **Business Performance**
- **Strategic Update**

# TOWER Group Financial Summary

## Full Year Results – 30 September 2012

| | | | |
|---|---|---|---|
| Net profit after taxation (including minorities) | $55.8m | ↑ | 67% |
| Discount rate | $9.0m | | |
| Profit before discount rate | $46.8m | ↑ | 51% |
| Total equity | $498.8m | ↑ | 10% |
| Final dividend (unimputed) | 6 cps | | |
| Capital return (subject to approvals) | $120.0m | | |

*Changes are compared to full year 30 September 2011*

# TOWER Group Results

## Profit Summary

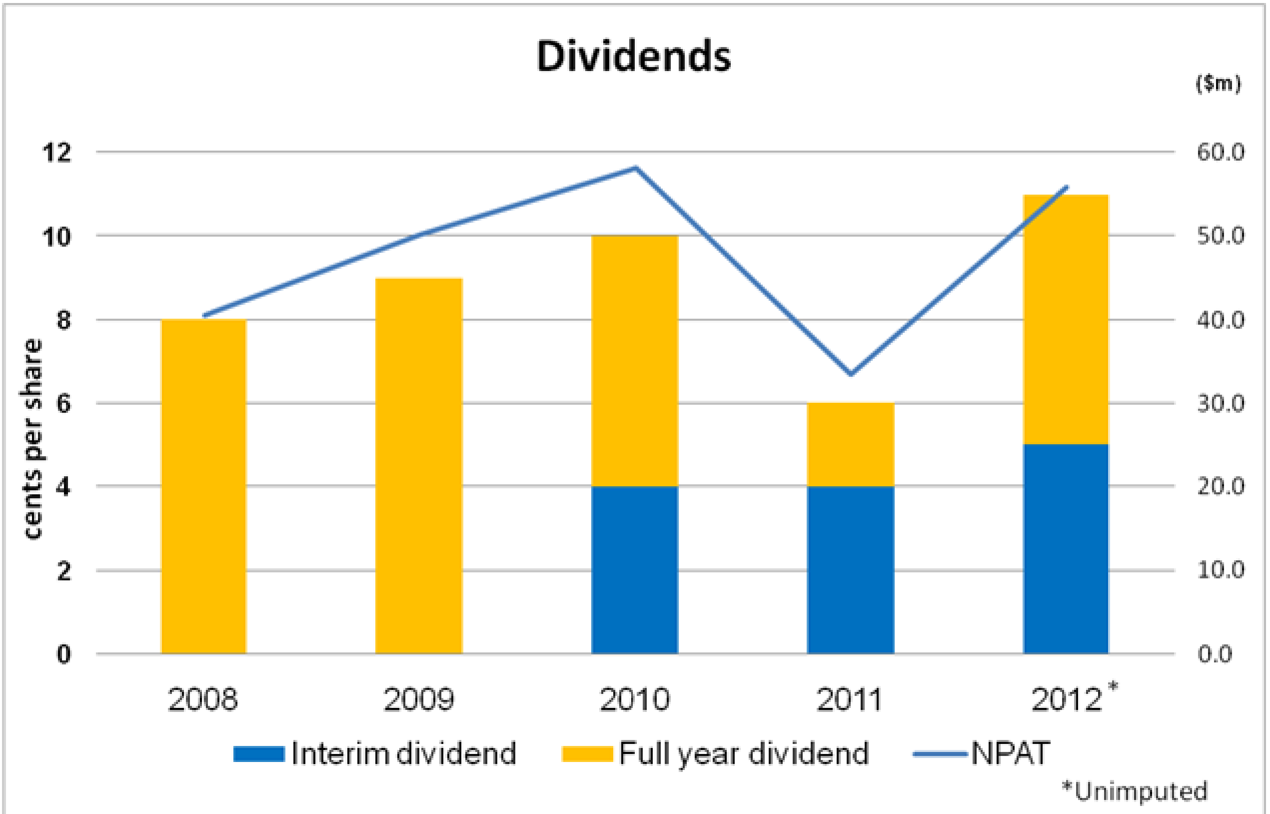
| $ MILLIONS | 2012 | 2011 | 2010 |
|---|---|---|---|
| | FULL YEAR ENDED SEPTEMBER | | |
| General Insurance | 13.2 | 2.5 | 21.9 |
| Life | 23.7 | 18.8 | 27.4 |
| Investments | 7.0 | 6.8 | 2.8 |
| Health * | 13.3 | 9.7 | 7.5 |
| **Business unit net profit after tax** | **57.2** | **37.8** | **59.6** |
| Finance and corporate expenses | (10.4) | (6.8) | (5.8) |
| **Profit excluding the impact of discount rate** | **46.8** | **31.0** | **53.8** |
| Discount rate effect | 9.0 | 2.4 | 4.3 |
| **Net profit after tax** | **55.8** | **33.4** | **58.1** |

| % CHANGE | |
|---|---|
| Profit excluding the impact of discount rate | 51% |
| **Net profit after tax** | 67% |

* Classified as discontinued operations in the Group financials in accordance with accounting standards.

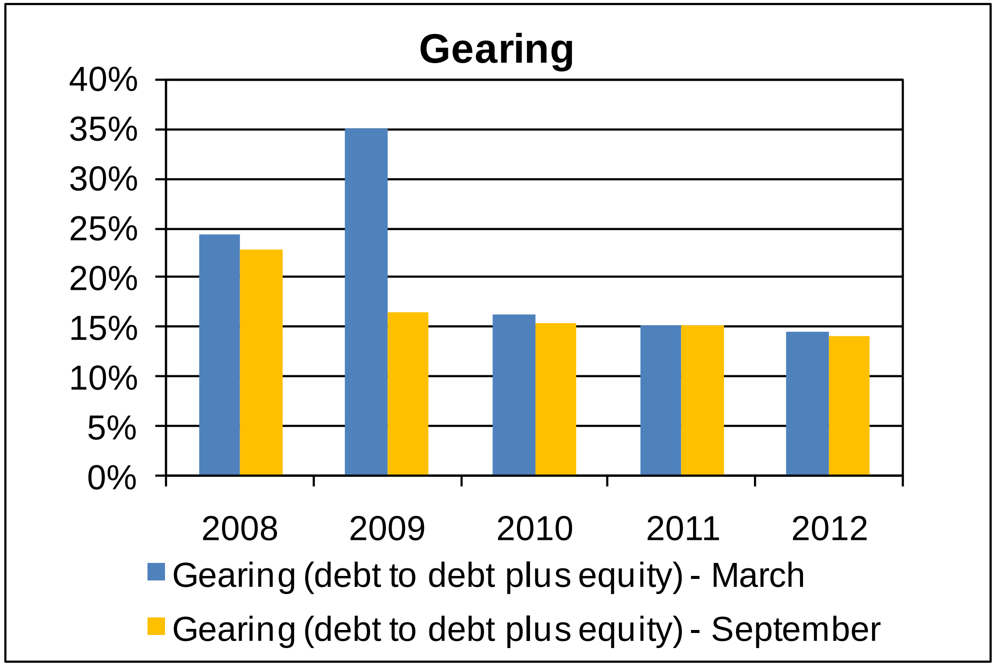
- A strong full year result
- All business units maintained improvement against FY11
- FY12 includes $9.4m after tax additional provisions related to the February 2011 earthquake

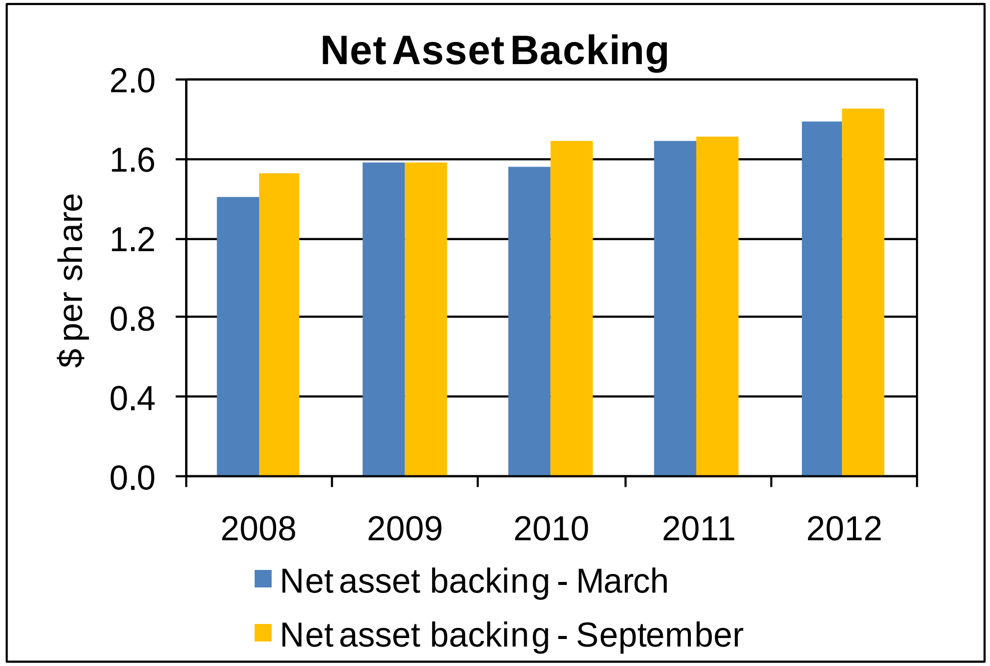
# TOWER Business Performance
## Dividend Trends




- Full dividend for FY12 is 11 cents per share, but unimputed

# TOWER Business Performance
## Gearing and Net Asset Backing Trends




Note: March 2009 includes both bank borrowings and capital notes.

- Gearing reduced to 14.1%
- Net Asset Backing per share increased to $1.85

# TOWER Group Results

## Summary

- **TOWER's net profit after tax for the full year to 30 September 2012 is $55.8 million**
- **The Board has declared an unimputed final dividend of 6 cents per share**
- **A capital return to shareholders of $120m is planned, subject to approvals**


Insurance
Investments
KiwiSaver
TOWER
Business
performance

# TOWER – General Insurance
## Analysis of Profit

| $ MILLIONS | 2012 | 2011 | 2010 |
|---|---|---|---|
| | FULL YEAR ENDED SEPTEMBER | | |
| Net premiums | 197.8 | 167.3 | 183.3 |
| - Gross earned premiums | 238.9 | 208.3 | 206.3 |
| - Reinsurance | (41.1) | (23.4) | (21.6) |
| - Catastrophe reinsurance reinstatement | 0.0 | (17.6) | (1.4) |
| Claims | (91.3) | (86.4) | (94.3) |
| Claims catastrophe* | (20.2) | (14.1) | (5.0) |
| Management and sales expenses | (78.9) | (70.9) | (65.9) |
| **Underwriting result** | **7.4** | **(4.1)** | **18.1** |
| Investment income on assets backing insurance liabilities | 7.4 | 6.7 | 8.6 |
| **Insurance profit/(loss)** | **14.8** | **2.6** | **26.7** |
| Investment income on shareholders' funds | 5.0 | 4.8 | 5.4 |
| **Profit/(loss) before tax** | **19.8** | **7.4** | **32.1** |
| Income tax expense | (6.6) | (4.9) | (10.2) |
| **Profit after tax** | **13.2** | **2.5** | **21.9** |

*Events >$1m. Includes $9.4m after tax provision in relation to the February 2011 event

| % CHANGE | |
|---|---|
| Profit after tax | 428% |

- Price increases have been successful in recovering the increased cost of reinsurance
- The business continues to grow, whilst maintaining a lower claims ratio
- Significant catastrophe costs were absorbed in FY12

# TOWER – Life
## Analysis of Profit

| $ MILLIONS | 2012 | 2011 | 2010 |
|---|---|---|---|
| | FULL YEAR ENDED SEPTEMBER | | |
| Net premiums | 74.0 | 68.5 | 64.4 |
| Policyholder maturities | (42.2) | (54.4) | (45.8) |
| Life claims | (28.5) | (25.8) | (23.5) |
| Life claims catastrophe | 0.0 | (1.2) | 0.0 |
| Management and sales expenses | (39.9) | (41.0) | (41.6) |
| Movement in policy liabilities | (17.7) | 36.5 | (20.4) |
| Investment income on assets backing policy liabilities | 87.1 | 30.2 | 93.9 |
| **Insurance profit** | **32.8** | **12.8** | **27.0** |
| Investment income on shareholders' funds | 11.4 | 11.1 | 27.8 |
| **Profit before tax** | **44.2** | **23.9** | **54.8** |
| Income tax (expense)/credit | (20.5) | (5.1) | (27.4) |
| **Profit excluding the impact of discount rate** | **23.7** | **18.8** | **27.4** |
| Discount rate effect | 9.0 | 2.4 | 4.3 |
| **Profit after tax** | **32.7** | **21.2** | **31.7** |

% CHANGE

| | |
|---|---|
| Profit excluding the impact of discount rate | 26% |
| **Profit after tax** | **54%** |

- FY12 net premium growth of 8%
- Favourable claims experience continued in second half of FY12

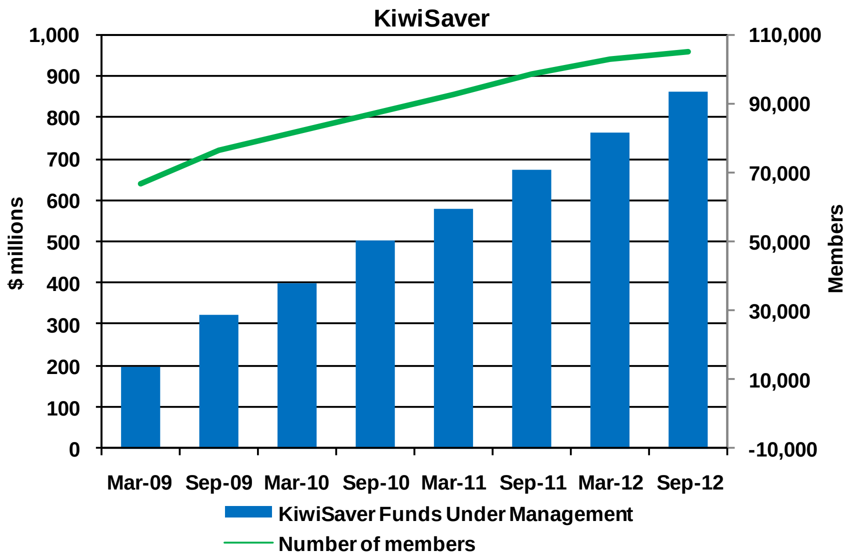
# TOWER – Investments
## Analysis of Profit

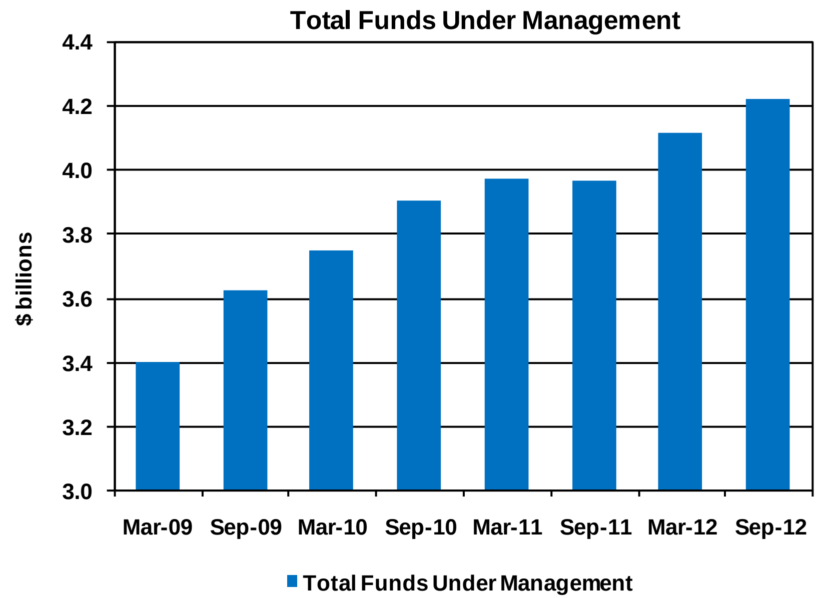
| $ MILLIONS | 2012 | 2011 | 2010 |
|---|---|---|---|
| | FULL YEAR ENDED SEPTEMBER | | |
| Income | 35.2 | 38.3 | 38.1 |
| Management and sales expenses | (25.5) | (28.4) | (34.2) |
| **Profit before tax** | **9.7** | **9.9** | **3.9** |
| Income tax expense | (2.7) | (3.1) | (1.1) |
| **Profit after tax** | **7.0** | **6.8** | **2.8** |

| % CHANGE | |
|---|---|
| **Profit after tax** | **2.9%** |

- FUM is in excess of $4.2 billion
- Bringing investment management in house has realised cost benefits

# TOWER – Investments
## KiwiSaver




- The average value of KiwiSaver funds per member in the TOWER scheme is $8,189 25% higher than the overall market average of $6,560.

- TOWER's total FUM has grown by $250 million since September 2011 to $4.22 billion

# TOWER – Health
## Analysis of Profit

| $ MILLIONS | 2012 | 2011 | 2010 |
|---|---|---|---|
| | FULL YEAR ENDED SEPTEMBER | | |
| Net premium | 146.2 | 140.6 | 135.9 |
| Incurred claims | (78.6) | (77.0) | (82.0) |
| Premium payback payments | (18.6) | (20.1) | (13.3) |
| Management and sales expenses | (38.2) | (36.4) | (35.6) |
| Movement in policy liabilities | 2.2 | 1.0 | (3.6) |
| Investment income on assets backing policy liabilities | 3.5 | 2.8 | 8.3 |
| **Insurance profit** | **16.5** | **10.9** | **9.7** |
| Investment income on shareholders' funds | 1.9 | 2.9 | 1.5 |
| **Profit before tax** | **18.4** | **13.8** | **11.2** |
| Income tax expense | (5.1) | (4.1) | (3.7) |
| **Profit after tax** | **13.3** | **9.7** | **7.5** |

[1] Classified as discontinued operations in the Group financials in accordance with accounting standards.

| % CHANGE | |
|---|---|
| Insurance profit | 51% |
| **Profit after tax** | **37%** |

- The Health business had a strong year as we readied it for sale
- The sale of Health to nib is expected to complete shortly
- There is a close working relationship with nib to ensure successful completion and a smooth transition

# TOWER Group
## Balance Sheet Summary

| $ MILLIONS | 2012 | 2011 | 2010 |
|---|---|---|---|
| Cash & call deposits | 199.7 | 152.9 | 138.5 |
| Total investment assets | 1,036.7 | 1,029.8 | 1,094.3 |
| Other operational assets | 729.0 | 793.8 | 384.8 |
| **Total assets** | **1,965.4** | **1,976.5** | **1,617.6** |
| Policy liabilities & insurance provisions | (1,262.3) | (1,326.3) | (980.4) |
| External debt - bonds | (82.0) | (81.3) | (80.6) |
| Other operational liabilities | (122.3) | (113.4) | (115.3) |
| **Total liabilities** | **(1,466.6)** | **(1,521.0)** | **(1,176.3)** |
| **Total equity** | **498.8** | **455.5** | **441.3** |

- Canterbury claims continue to be settled, partially offset by increased provisions
- After return of capital, TOWER will continue to maintain capital in excess of Reserve Bank solvency standards

Insurance
Investments
KiwiSaver

TOWER

# Summary

# Environment

- **The challenges in the economic environment remain**
- **The new regulatory regimes have added complexity and cost**
- **Affordability is an industry-wide problem**
- **We remain committed to meeting the expectations of our customers in Christchurch and the wider Canterbury region.**

# TOWER – Strategic Update

- TOWER has undertaken a strategic review of its business segments to improve the positioning of TOWER in the market and further enhance value for shareholders

- TOWER announced the sale of the Health business on the 2nd of November

- Further updates will be provided at the annual meeting in 2013

Insurance
Investments
KiwiSaver

TOWER

TOWER Group

# Analysts' Briefing
# Full Year Results

30 September 2012

End