

Tower Limited

Consolidated interim financial statements

for the half year ended 31 March 2023

Consolidated interim financial statements

Financial Statements

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Consolidated statement of comprehensive income

For the Half Year Ended 31 March 2023		Re-presented	
\$ thousands	Note	31-Mar-23	31-Mar-22
Gross written premium		241,912	211,755
Unearned premium movement		(12,123)	(9,040)
Gross earned premium		229,789	202,715
Outward reinsurance premium		(34,129)	(29,775)
Movement in deferred reinsurance premium		(1,156)	(1,938)
Outward reinsurance premium expense		(35,285)	(31,713)
Net earned premium		194,504	171,002
Claims expense		(411,731)	(120,538)
Less: Reinsurance and other recoveries revenue		259,415	4,387
Net claims expense	2.1	(152,316)	(116,151)
Gross commission expense		(7,228)	(7,138)
Commission revenue		2,273	2,442
Net commission expense		(4,955)	(4,696)
Underwriting expenses		(54,029)	(44,742)
Underwriting (loss)/profit		(16,796)	5,413
Investment income/(losses)	3.1	6,443	(758)
Investment expenses		(158)	(180)
Other income		2,725	777
Other expenses		(49)	(27)
Financing and other costs		(465)	(453)
(Loss)/profit before taxation from continuing operations		(8,300)	4,772
Tax benefit/(expense)		858	(2,366)
(Loss)/profit after taxation from continuing operations		(7,442)	2,406
Profit after taxation from discontinued operation	7.2	2,340	576
(Loss)/profit after taxation for the half year		(5,102)	2,982
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		(2,130)	(326)
Reclassification of the foreign currency translation reserve	7.2	544	-
Other comprehensive loss net of tax		(1,586)	(326)
Total comprehensive (loss)/profit for the half year		(6,688)	2,656
Earnings per share:			
Basic and diluted earnings per share (cents) for continuing operations	5.2	(1.96)	0.57
Basic and diluted earnings per share (cents)	5.2	(1.34)	0.70
(Loss)/profit after taxation attributed to:			
Shareholders		(5,102)	2,930
Non-controlling interests		-	52
		(5,102)	2,982
Total comprehensive (loss)/profit attributed to:			
Shareholders		(6,688)	2,590
Non-controlling interests		-	66
		(6,688)	2,656

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

Consolidated balance sheet

As at 31 March 2023

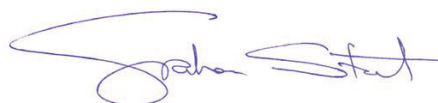
<i>\$ thousands</i>	Note	31-Mar-23	30-Sep-22
Assets			
Cash and cash equivalents	7.1	96,594	84,502
Investments	3.2	248,132	258,634
Receivables	2.4	509,944	242,089
Current tax assets		12,769	13,069
Assets classified as held for sale	7.2	-	20,811
Deferred tax assets		27,126	23,893
Deferred insurance costs		38,206	37,819
Right-of-use assets		25,280	23,326
Property, plant and equipment		4,827	5,417
Intangible assets	6.1	99,783	94,653
Total assets		1,062,661	804,213
Liabilities			
Payables		64,198	58,911
Unearned premiums		248,061	238,116
Outstanding claims	2.2	396,356	124,531
Current tax liabilities		617	136
Liabilities classified as held for sale	7.2	-	9,258
Provisions		12,765	11,873
Lease liabilities		35,903	35,054
Deferred tax liabilities		9,137	8,806
Total liabilities		767,037	486,685
Net assets		295,624	317,528
Equity			
Contributed equity	5.1	460,191	460,191
Accumulated losses		(59,783)	(41,212)
Reserves		(104,784)	(101,451)
Total equity		295,624	317,528

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

The interim financial statements were approved for issue by the Board on 25 May 2023.



Michael P Stiasny
Chairman



Graham R Stuart
Director

Consolidated statement of changes in equity

For the Half Year Ended 31 March 2023

\$ thousands	Note	Attributed to Shareholders			Non-controlling interest	Total Equity
		Contributed equity	(Accumulated losses) / Retained earnings	Reserves		
Half year ended 31 March 2023						
Balance as at 30 September 2022		460,191	(41,212)	(101,451)	-	317,528
Comprehensive loss						
Loss for the half year		-	(5,102)	-	-	(5,102)
Currency translation differences		-	-	(2,130)	-	(2,130)
Reclassification of foreign currency translation reserve to profit and loss	7.2	-	-	544	-	544
Revaluation surplus transferred to retained earnings	7.2	-	1,747	(1,747)	-	-
Total comprehensive loss		-	(3,355)	(3,333)	-	(6,688)
Transactions with shareholders						
Dividend payment		-	(15,216)	-	-	(15,216)
Total transactions with shareholders		-	(15,216)	-	-	(15,216)
At the end of the half year		460,191	(59,783)	(104,784)	-	295,624

Half year ended 31 March 2022

Balance as at 30 September 2021		492,424	(39,995)	(105,385)	2,676	349,720
Comprehensive income						
Profit for the half year		-	2,930	-	52	2,982
Currency translation differences		-	-	(340)	14	(326)
Total comprehensive income		-	2,930	(340)	66	2,656
Transactions with shareholders						
Capital return to shareholders	5.1	(30,625)	-	-	-	(30,625)
Purchase of non-controlling interests	5.1	(1,599)	-	-	(2,742)	(4,341)
Dividend payment		-	(10,541)	-	-	(10,541)
Total comprehensive loss		(32,224)	(10,541)	-	(2,742)	(45,507)
At the end of the half year		460,200	(47,606)	(105,725)	-	306,869

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

Consolidated statement of cash flows

For the Half Year Ended 31 March 2023

<i>\$ thousands</i>	Note	31-Mar-23	31-Mar-22
Cash flows from operating activities			
Premiums received		227,498	210,779
Interest received		5,192	2,894
Fee and other income received		2,147	2,573
Reinsurance and other recoveries received		4,845	773
Reinsurance paid		(33,173)	(32,926)
Claims paid		(142,269)	(108,633)
Employee and supplier payments		(45,011)	(49,757)
Income tax paid		(1,063)	(646)
Net cash inflow from operating activities	7.1	18,166	25,057
Cash flows from investing activities			
Proceeds from sale of interest bearing investments		335,272	139,890
Payments for purchase of interest bearing investments		(322,269)	(122,342)
Payments for purchase of intangible assets	6.1	(8,163)	(8,059)
Payments for purchase of customer relationships	6.1	(5,900)	(560)
Payments for purchase of property, plant & equipment		(528)	(14)
Proceeds from sale of property, plant & equipment	7.2	5,746	-
Proceeds from sale of discontinued operation (net of cash disposed)	7.2	2,665	-
Net cash inflow from investing activities		6,823	8,915
Cash flows from financing activities			
Payments for capital return to shareholders	5.1	-	(30,625)
Purchase of non-controlling interests		-	(4,341)
Dividend paid		(15,216)	(10,541)
Payments relating to lease liabilities		(3,347)	(3,077)
Net cash outflow from financing activities		(18,563)	(48,584)
Net increase/(decrease) in cash and cash equivalents		6,426	(14,612)
Effect of foreign exchange rate changes		(2,130)	(326)
Cash and cash equivalents at the beginning of the half year	7.1	92,298	116,129
Cash and cash equivalents at the end of the half year	7.1	96,594	101,191

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

Notes to the interim financial statements

1 Overview

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

1.1 About this Report

a. Entities reporting

The interim financial statements presented are those of Tower Limited and all of its subsidiaries (the "Group"). The address of the Group's registered office is 136 Fanshawe Street, Auckland, New Zealand.

b. Statutory base

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

c. Basis of preparation

The interim financial statements of the Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), and for the purposes of NZ GAAP, the Group is a for-profit entity. They comply with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and consequently include a lower level of disclosure than is required for annual financial statements.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2022, which have been prepared in accordance with International Financial Reporting Standards and New Zealand Equivalents to International Financial Reporting Standards.

The interim financial statements for the six months ended 31 March 2023 are unaudited.

d. Accounting policies

The principal accounting policies adopted in the preparation of the interim financial statements are consistent with those of the audited annual financial statements for the year ended 30 September 2022.

e. Re-presentation of comparatives

The Group's Papua New Guinea Operations ("discontinued operation") constitutes a discontinued operation which was disposed in the period ended 31 March 2023. Profit or loss information for the current period is prepared on a continuing basis with net results from discontinued operation presented separately. Profit or loss information for 2022 has been re-presented for comparability. Refer to note 7.2 for further details.

Where necessary, comparative information has been reclassified for consistency with the current period presentation.

1.2 Critical accounting judgments and estimates

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

Net outstanding claims	Note 2.4, Annual Report (30 September 2022)
Liability adequacy test	Note 2.5, Annual Report (30 September 2022)
Intangible assets	Note 6.2, Annual Report (30 September 2022)
Lease liabilities (incremental borrowing rate)	Note 6.3a(ii), Annual Report (30 September 2022)
Deferred tax	Note 7.3, Annual Report (30 September 2022)

1.3 Segmental reporting

a. Operating segments

Tower operates in two geographical segments, New Zealand and the Pacific region. New Zealand comprises the general insurance business underwritten in New Zealand. Pacific Islands comprises the general insurance business underwritten in the Pacific by Tower subsidiaries and branch operations. Other contains balances relating to Tower Services Limited (management services entity), and also includes intercompany eliminations and group diversification benefits. The Group does not derive revenue from any individual or entity that represents 10% or more of the Group's total revenue.

The Pacific Islands operating segment excludes the disposal group and assets and liabilities held for sale. The prior year comparatives have been re-presented accordingly. Intercompany transactions with the disposal group are eliminated within continuing operations, refer note 7.2.

b. Financial performance

<i>\$ thousands</i>	New Zealand	Pacific Islands	Other	Total
Half year ended 31 March 2023				
Gross written premium	217,473	24,439	-	241,912
Gross earned premium	204,091	25,698	-	229,789
Outwards reinsurance expense	(27,717)	(7,568)	-	(35,285)
Net earned premium	176,374	18,130	-	194,504
Net claims expense	(135,500)	(17,352)	536	(152,316)
Net commission expense	(4,306)	(649)	-	(4,955)
Underwriting expense	(45,811)	(8,218)	-	(54,029)
Underwriting (loss)/profit	(9,243)	(8,089)	536	(16,796)
Net investment income	6,027	258	-	6,285
Other	1,101	1,110	-	2,211
(Loss)/profit before taxation from continuing operations	(2,115)	(6,721)	536	(8,300)
(Loss)/profit after taxation from continuing operations	(3,126)	(4,852)	536	(7,442)

Half year ended 31 March 2022 (Re-presented)

Gross written premium	189,569	22,186	-	211,755
Gross earned premium	179,769	22,946	-	202,715
Outwards reinsurance expense	(24,377)	(7,336)	-	(31,713)
Net earned premium	155,392	15,610	-	171,002
Net claims expense	(103,412)	(12,835)	96	(116,151)
Net commission expense	(3,920)	(776)	-	(4,696)
Underwriting expense	(39,453)	(5,289)	-	(44,742)
Underwriting profit/(loss)	8,607	(3,290)	96	5,413
Net investment income	(993)	55	-	(938)
Other	227	70	-	297
Profit/(loss) before taxation from continuing operations	7,841	(3,165)	96	4,772
Profit/(loss) after taxation from continuing operations	4,593	(2,283)	96	2,406

c. Financial position of continuing operations

<i>\$ thousands</i>	New Zealand	Pacific Islands	Other	Total
Additions to non-current assets 31 March 2023	14,189	4,286	-	18,475
Additions to non-current assets 30 September 2022	29,547	883	(4,327)	26,103
Total assets 31 March 2023	989,451	87,525	(14,315)	1,062,661
Total assets 30 September 2022	723,805	74,539	(14,942)	783,402
Total liabilities 31 March 2023	702,698	65,840	(1,500)	767,037
Total liabilities 30 September 2022	426,930	51,462	(965)	477,427

Additions to non-current assets include additions to property, plant and equipment, right of use assets, intangible assets and investments in subsidiaries.

2 Underwriting activities

This section provides information on Tower's underwriting activities.

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

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

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

2.1 Net claims expense

<i>\$ thousands</i>	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22
Gross claims expense	411,483	113,537	248	7,001	411,731	120,538
Reinsurance and other recoveries revenue	(260,584)	(595)	1,169	(3,792)	(259,415)	(4,387)
Net claims expense	150,899	112,942	1,417	3,209	152,316	116,151

2.2 Net outstanding claims

<i>\$ thousands</i>	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	31-Mar-23	30-Sep-22	31-Mar-23	30-Sep-22	31-Mar-23	30-Sep-22
Central estimate of future cash flows	349,736	89,404	16,158	18,056	365,894	107,460
Claims handling expense	18,588	5,564	799	772	19,387	6,336
Risk margin	5,955	5,051	5,120	5,684	11,075	10,735
Gross outstanding claims	374,279	100,019	22,077	24,512	396,356	124,531
Reinsurance recoveries	(260,693)	(10,293)	(2,404)	(3,787)	(263,097)	(14,080)
Net outstanding claims	113,586	89,726	19,673	20,725	133,259	110,451

Net claims expense includes the impact of three large events that occurred during the half year to 31 March 2023.

Tower has received around 5,550 claims for the Auckland and Upper North Island Weather events in January 2023. The ultimate gross cost for this event is estimated to be between \$195m to \$225m. The net impact to Tower is limited to \$11.875m, with amounts above this recoverable from Tower's reinsurers.

Tower has received around 3,350 claims from Cyclone Gabrielle in February 2023, and estimates the ultimate gross cost of this event to be within the range of \$55m to \$75m. The net impact to Tower is limited to \$11.875m, with amounts above this recoverable from Tower's reinsurers.

Tower has received 250 claims for Cyclones Judy and Kevin in Vanuatu in March 2023. Tower estimates the net financial impact for these cyclones, net of proportional reinsurance recoveries, to be \$10m.

The cost of reinstating reinsurance coverage after these events is recorded within outward reinsurance premiums, where it will be expensed over the remainder of the financial year ending on 30 September 2023.

2.3 Unearned premium liability

Adequacy of unearned premium liability

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

If the present value of expected future net cash flows relating to current insurance contracts, plus a risk margin, exceeds the unearned premium liabilities less related deferred acquisition costs and intangible assets, then the unearned premium liability is deemed deficient. This deficiency is immediately recognised in profit or loss. In recognising the deficiency, Tower will first write down any related deferred acquisition costs or intangible assets. The unearned premium liabilities as at 31 March 2023 were sufficient across all businesses for the Group. The total deficit recognised for the Group as a charge against deferred acquisition cost was nil (30 September 2022: nil).

%	31-Mar-23	30-Sep-22
Central estimate net claims as a % of unearned premium liability	48.9%	45.5%
Risk margin as a % of net claims	11.1%	11.2%

2.4 Receivables

<i>\$ thousands</i>	31-Mar-23	30-Sep-22
Gross premium receivables	216,227	200,715
Provision for expected future premium cancellations	(616)	(651)
Premium receivables	215,611	200,064
Reinsurance recoveries*	268,294	15,847
Canterbury earthquake reinsurance recoveries	2,740	3,787
Other recoveries	13,529	11,378
Reinsurance and other recoveries	284,563	31,012
Finance lease receivables	1,375	2,375
Prepayments	5,908	4,411
Other receivables	2,487	2,401
Receivable from discontinued operation**	-	1,826
Receivables	509,944	242,089

* Refer note 2.2 for further detail.

** Refer note 7.2 for further detail.

3 Investments

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

3.1 Investment income

<i>\$ thousands</i>	31-Mar-23	31-Mar-22
Interest income	5,597	2,904
Net realised loss	(6,196)	(1,864)
Net unrealised gain/(loss)	7,042	(1,798)
Investment income/(losses)	6,443	(758)

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

3.2 Investments

<i>\$ thousands</i>	31-Mar-23	30-Sep-22
Fixed interest investments	248,098	258,600
Property investment	34	34
Investments	248,132	258,634

3.3 Fair value hierarchy

Tower designates its investments at fair value through the statement of comprehensive income in accordance with its Treasury policy.

<i>\$ thousands</i>	Level 1	Level 2	Level 3	Total
As at 31 March 2023				
Fixed interest investments	-	248,098	-	248,098
Property investment	-	34	-	34
Investments	-	248,132	-	248,132

As at 30 September 2022

Fixed interest investments	-	258,600	-	258,600
Property investment	-	34	-	34
Investments	-	258,634	-	258,634

4 Risk Management

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

4.1 Capital management risk

Regulatory solvency capital

<i>\$ thousands</i>	31-Mar-23		30-Sep-22	
	Parent	Group	Parent	Group
Actual solvency capital	126,136	156,004	136,423	171,647
Minimum solvency capital	101,092	108,179	66,530	79,018
Solvency margin*	25,044	47,825	69,893	92,629
Solvency ratio	125%	144%	205%	217%

* Tower is required to maintain a solvency margin of at least \$15m (30 September 2022: \$15m), due to a license condition issued by the RBNZ.

Tower will apply the new RBNZ's new interim solvency standard (ISS) from 1 October 2023. The ISS will impose some changes that will impact solvency margins. While Tower is still assessing the ISS in its final form, sufficient analysis has been completed to confirm that Tower will maintain an appropriate capital position under the ISS.

5 Capital Structure

This section provides information about how Tower finances its operations to provide financial security to its customers, employees and other stakeholders.

5.1 Contributed equity

<i>\$ thousands</i>	31-Mar-23	30-Sep-22
Opening balance	460,191	492,424
Return of share capital to shareholders*	-	(30,634)
Purchase of non-controlling interests**	-	(1,599)
Total contributed equity	460,191	460,191
<i>Represented by:</i>		
Opening balance	379,483,987	421,647,258
Cancellation of shares on return of capital	-	(42,163,271)
Total shares on issue	379,483,987	379,483,987

*On 9 March 2022 the Group completed its ordinary share buy-back for a consideration of \$30.6m (including transaction costs). This resulted in 42.2m shares being cancelled during the year ended 30 September 2022.

**On 14 October 2021 Tower Limited reached an agreement to increase its shareholding in National Pacific Insurance Limited from 71.39% to 93.88% for a consideration of \$3.4m. Tower Limited subsequently commenced a process to acquire the remaining 6.12% shareholding which completed on 17 December 2021 for a consideration of \$0.9m.

5.2 Earnings per share

	31-Mar-23	31-Mar-22
(Loss)/profit from continuing operations attributable to shareholders (\$ thousands)	(7,442)	2,354
Profit from discontinued operation attributable to shareholders (\$ thousands)	2,340	576
Weighted average number of ordinary shares for basic and diluted earnings per share (number of shares)	379,483,987	416,318,933
Basic and diluted earnings per share (cents) for continuing operations	(1.96)	0.57
Basic and diluted earnings per share (cents)	(1.34)	0.70

The basic and diluted average numbers of ordinary shares shown above are used for calculating all earnings per share measures including those for profit after tax from discontinued operation (note 7.2).

6 Other balance sheet items

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

6.1 Intangible assets

As at 31 March 2023

<i>\$ thousands</i>	Goodwill	Software	Customer Relationships	Total
Composition:				
Cost	17,744	83,247	40,645	141,636
Accumulated amortisation	-	(27,654)	(14,199)	(41,853)
Intangible Assets	17,744	55,593	26,446	99,783
Reconciliation:				
Opening balance	17,744	53,458	23,451	94,653
Amortisation	-	(5,373)	(2,905)	(8,278)
Additions	-	8,163	5,900	14,063
Transfers to property, plant and equipment	-	(655)	-	(655)
Closing Balance	17,744	55,593	26,446	99,783

During the half year ended 31 March 2023, additions to software assets primarily related to continued investment in Tower's core insurance platform, while additions to customer relationships related to the acquisition of Kiwibank's rights and obligations relating to servicing a portfolio of insurance policies underwritten by Tower.

As at 30 September 2022

Composition:

Cost*	17,744	79,259	34,745	131,748
Accumulated amortisation*	-	(25,801)	(11,294)	(37,095)
Intangible Assets	17,744	53,458	23,451	94,653
Reconciliation:				
Opening balance	17,744	48,527	22,321	88,592
Amortisation	-	(9,764)	(4,959)	(14,723)
Additions	-	16,934	6,089	23,023
Disposals	-	(184)	-	(184)
Transfers to property, plant and equipment	-	(2,055)	-	(2,055)
Closing Balance	17,744	53,458	23,451	94,653

* During the year, and following the decommissioning of several legacy IT systems, a review of intangible assets with zero book values was completed. As a consequence, intangible assets with a total cost and accumulated amortisation of \$32.8m were written off as they are no longer in use. As the assets had zero book values, there was no impact on profit or loss from these write-offs.

In the year ended 30 September 2022, additions to software assets primarily related to continued investment in Tower's core insurance platform, including the development of My Tower and data analytics tools, while additions to customer relationships related to the acquisition of Westpac's and TSB Bank's rights and obligations relating to servicing a portfolio of insurance policies underwritten by Tower.

7 Other information

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

7.1 Notes to the consolidated statement of cash flows

Composition of Cash and cash equivalents

<i>\$ thousands</i>	31-Mar-23	30-Sep-22	31-Mar-22
Cash at bank	60,522	54,422	74,545
Deposits at call	36,072	30,080	26,646
Cash and cash equivalents	96,594	84,502	101,191

Tower operates in countries in the Pacific Islands that are subject to foreign exchange restrictions, which may restrict the ability for immediate use of cash by the parent or other subsidiaries. As at 31 March 2023, this included NZD 9.5m held in Papua New Guinea following the sale of the disposal group. This cash is not currently available for use by the Group.

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents at the beginning of the half year comprise of the following:

<i>\$ thousands</i>		30-Sep-22
Cash at bank		84,502
Cash at bank attributable to discontinued operation	7.2	7,796
Cash and cash equivalents		92,298

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

<i>\$ thousands</i>		31-Mar-23	31-Mar-22
(Loss)/profit after taxation for the half year		(5,102)	2,982
Adjusted for non-cash items			
Depreciation of property, plant and equipment		988	1,027
Depreciation and disposals of right-of-use assets		2,083	1,222
Amortisation of intangible assets	6.1	8,278	7,071
Financing costs		465	460
Fair value (gains)/losses on financial assets		(846)	3,662
Change in deferred tax		(2,888)	853
Adjusted for investing activities			
Gain on disposal of property, plant and equipment		(1,239)	(82)
Gain on disposal of discontinued operation	7.2	(2,212)	-
Adjusted for movements in working capital			
Change in receivables		(270,106)	(12,489)
Change in payables		287,706	19,238
Change in taxation		1,039	1,113
Net cash inflow from operating activities		18,166	25,057

7.2 Discontinued operation and sale of the Suva building

On 28 October 2022 Tower completed the sale of all of its shares in its Papua New Guinea subsidiary to Alpha Insurance Limited for a sale price of PGK 22 million. The activities of the subsidiary have been reported in the current period, and as at 30 September 2022, as a discontinued operation. Financial information on this disposal is set out below.

Details of the sale of the subsidiary

<i>\$ thousands</i>	28-Oct-22
Cash and cash equivalents	7,070
Investments	2,120
Receivables	2,670
Current tax assets	379
Deferred tax assets	130
Deferred insurance costs	1,290
Right of use assets	452
Property, plant and equipment	36
Total assets at the date of disposal	14,147
Payables	254
Unearned premiums	4,490
Outstanding claims	1,878
Lease liabilities	493
Provisions	53
Total liabilities at the date of disposal	7,168
Net assets at the date of disposal	6,979
Cash consideration received net of disposal costs	9,735
Gain on sale before reclassification of foreign currency translation reserve	2,756
Reclassification of foreign currency translation reserve	(544)
Gain on sale	2,212

On 31 January 2023, Tower completed the sale of its building in Suva, for FJD 8.2 million plus VAT (gross of costs relating to the sale).

Details of the sale of the Suva building (before taxation)

<i>\$ thousands</i>	31-Jan-23
Cash consideration received net of disposal costs	5,746
Net book value at the date of disposal	4,558
Gain on sale of the Suva building*	1,188
Revaluation surplus transferred to retained earnings	1,747

*Included in Other income within Consolidated statement of comprehensive income.

7.2 Discontinued operation and sale of the Suva building (continued)

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 30 September 2022:

Assets and liabilities classified as held for sale

<i>\$ thousands</i>	30-Sep-22
Assets classified as held for sale	
Cash and cash equivalents	7,796
Investments	3,580
Receivables	2,565
Current tax assets	315
Deferred tax assets	144
Deferred insurance costs	1,335
Right of use assets	479
Property, plant and equipment*	4,597
Total assets classified as held for sale	20,811
Liabilities classified as held for sale	
Payables**	1,965
Unearned premiums	4,745
Outstanding claims	1,981
Lease liabilities	519
Provisions	48
Total liabilities classified as held for sale	9,258
Net assets classified as held for sale	11,553

* Property, plant and equipment disclosed above includes the Suva building carrying value of \$4.5m.

** As at 30 September 2022, Tower PNG owed other members of the Tower Group of \$1.8m. The liabilities from discontinued operation disclosed above are stated without adjustment for these intercompany transactions.

The cumulative currency translation losses recognised in other comprehensive income in relation to the discontinued operation as at 30 September 2022 were \$2.7m.

7.2 Discontinued operation and sale of the Suva building (continued)

<i>\$ thousands</i>	31-Mar-23	31-Mar-22
Gross written premium	588	4,334
Unearned premium movement	163	28
Gross earned premium	751	4,362
Outward reinsurance premium	(267)	(1,723)
Movement in deferred reinsurance premium	(18)	64
Outward reinsurance premium expense **	(285)	(1,659)
Net earned premium	466	2,703
Claims expense	(25)	(655)
Less: Reinsurance and other recoveries revenue	(1)	21
Net claims expense	(26)	(634)
Gross commission expense	(33)	(149)
Commission revenue	27	143
Net commission expense	(6)	(6)
Underwriting expense **	(239)	(1,273)
Underwriting profit	195	790
Investment income	5	23
Other income	1	16
Financing and other costs	(1)	(6)
Profit before taxation	200	823
Tax expense	(72)	(247)
Profit after taxation from discontinued operation	128	576
Gain on sale of the subsidiary	2,212	-
Profit from discontinued operation	2,340	576

** Tower PNG paid fees to other members of the Tower Group of \$0.1m during the half year ended 31 March 2023 (2022: \$0.6m), relating to the provision or reinsurance, management and other services. These amounts are included within the reinsurance premium expense and underwriting expense lines above, and are then eliminated within continuing operations.

Cash flows from discontinued operation

<i>\$ thousands</i>	31-Mar-23	31-Mar-22
Net cash outflow from operating activities	(2,029)	(2,125)
Net cash inflow/(outflow) from investing activities*	1,464	(42)
Net cash outflow from financing activities	(17)	(85)
Net movement in cash and cash equivalents from discontinued operation	(582)	(2,252)
Effect of foreign exchange rate changes	(144)	(90)

* Excludes proceeds and cash disposed.

Earnings per share

	31-Mar-23	31-Mar-22
Basic and diluted earnings per share (cents) for discontinued operation	0.62	0.14

The currency translation differences recognised in other comprehensive income during the half year ending 31 March 2023 in relation to the discontinued operation were \$0.14m.

7.3 Provisions

Customer remediation

A customer remediation provision of \$3.7m was recognised at 30 September 2022. During the period, the remediation estimate was re-assessed as part of further progress on the programme. A range of possible outcomes was considered, and a mid-point of the re-assessment has resulted in an additional \$2.5m recognised in the current period. This remediation activity is intended to be completed during FY24.

7.4 Contingent liabilities

Claims and disputes

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

The Group has no other contingent liabilities.

7.5 Subsequent events

Large event (non-adjusting event)

Tower Limited has had one large event subsequent to the balance date, an Auckland rainstorm on 9th of May. The impact of this event is still being assessed and will be reflected in FY23 reporting.

7.6 Capital commitments

As at 31 March 2023, Tower has nil capital commitments (30 September 2022: nil).

7.7 Impact of new accounting standards

Issued and not yet effective

The only new or revised accounting standard that is expected to have a material impact on Tower's financial statements is NZ IFRS 17 *Insurance Contracts* ("IFRS 17"). Other new or revised accounting standards that will be mandatory in future financial years are not expected to have a material impact.

IFRS 17

IFRS 17 is effective for periods beginning on or after 1 January 2023. Tower will apply the standard for the year ending 30 September 2024, with the comparative period for the year ending 30 September 2023. Tower expects to apply the standard using the full retrospective approach.

IFRS 17 replaces the current guidance in NZ IFRS 4 *Insurance Contracts* ("IFRS 4"), and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

Tower expects all its current insurance contracts and reinsurance contracts will meet the requirements of the premium allocation approach ("PAA"). The PAA is similar to the current measurement model used for general insurance.

IFRS 17 is not expected to change the underlying economics or cash flows of Tower's business, although it may impact how profit emerges on a year-to-year basis, and it will change the presentation in the financial statements. Due to the complexity of the requirements within the standard and with global interpretations continuing to change, some material judgements and accounting policy choices are still under consideration by Tower, and therefore a full assessment of the financial impact of IFRS 17 has not yet been completed.



Independent auditor's review report

To the shareholders of Tower Limited

Report on the consolidated interim financial statements

Our conclusion

We have reviewed the consolidated interim financial statements of Tower Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 March 2023, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six month period (half year) ended on that date, and significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that these accompanying consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 March 2023, and its financial performance and cash flows for the half year then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities are further described in the *Auditor's responsibilities for the review of the consolidated interim financial statements* section of our report.

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. Other than in our capacity as auditor and providers of assurance services over solvency and regulatory returns we have no relationship with, or interests in, the Group. Certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These services and this matter have not impaired our independence as auditor of the Group.

Responsibilities of the directors for the consolidated interim financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these consolidated interim financial statements in accordance with IAS 34 and NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the consolidated interim financial statements

Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34.

A review of consolidated interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.



Who we report to

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

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

For and on behalf of:

A handwritten signature in black ink, appearing to read 'Karen Shires', is written over a faint, light-colored signature line.

Chartered Accountants
Auckland, New Zealand
25 May 2023