

Tower Limited

Consolidated financial statements

for the year ended 30 September 2022



Consolidated financial statements

Financial Statements

Consolidated statement of comprehensive income	2
Consolidated balance sheet	3
Consolidated statement of changes in equity	4
Consolidated statement of cash flows	5

Notes to the consolidated financial statements

1	Overview			6	
1.1	About this report	6	1.3	Critical accounting judgements and estimates	8
1.2	Consolidation	7	1.4	Segmental reporting	9
2	Underwriting activities			11	
2.1	Underwriting revenue	11	2.6	Deferred insurance costs	19
2.2	Net claims expense	12	2.7	Receivables	20
2.3	Underwriting expense	12	2.8	Payables	21
2.4	Net outstanding claims	13	2.9	Provisions	22
2.5	Unearned premium liability	18	2.10	Assets backing insurance liabilities	22
3	Investments			23	
3.1	Investment income	23	3.3	Fair value hierarchy	24
3.2	Investments	23			
4	Risk management			25	
4.1	Risk management overview	25	4.7	Capital management risk	32
4.2	Strategic risk	26	4.8	Operational risk	33
4.3	Insurance risk	26	4.9	Regulatory and compliance risk	33
4.4	Credit risk	28	4.10	Conduct risk	34
4.5	Market risk	30	4.11	Cyber risk	34
4.6	Liquidity risk	31	4.12	Climate change risk	34
5	Capital structure			35	
5.1	Contributed equity	35	5.4	Earnings per share	37
5.2	Reserves	36	5.5	Dividends	37
5.3	Net tangible assets per share	36			
6	Other balance sheet items			38	
6.1	Property, plant and equipment	38	6.3	Leases	43
6.2	Intangible assets	40			
7	Tax			45	
7.1	Tax expense	45	7.3	Deferred tax	46
7.2	Current tax	46	7.4	Imputation credits	48
8	Other information			49	
8.1	Notes to the consolidated statement of cash flows	49	8.6	Subsequent events	53
8.2	Related party disclosures	50	8.7	Capital commitments	53
8.3	Auditor's remuneration	50	8.8	Impact of new accounting standards and changes in interpretation of current standards	53
8.4	Discontinued operation and asset held for sale	51			
8.5	Contingent liabilities	53			
Independent Auditor's report, and Appointed Actuary's report					
Independent Auditor's report				55	
Appointed Actuary's report				60	

Consolidated statement of comprehensive income

For the Year Ended 30 September 2022

Re-presented

<i>\$ thousands</i>	Note	2022	2021
Gross written premium		445,580	396,003
Unearned premium movement		(27,258)	(9,383)
Gross earned premium	2.1	418,322	386,620
Outward reinsurance premium		(66,116)	(60,341)
Movement in deferred reinsurance premium		(152)	1,586
Outward reinsurance premium expense		(66,268)	(58,755)
Net earned premium		352,054	327,865
Claims expense		(240,147)	(226,920)
Less: Reinsurance and other recoveries revenue	2.1	15,243	24,601
Net claims expense	2.2	(224,904)	(202,319)
Gross commission expense		(14,390)	(17,667)
Commission revenue	2.1	5,105	6,461
Net commission expense		(9,285)	(11,206)
Underwriting expense	2.3	(94,220)	(87,160)
Underwriting profit		23,645	27,180
Investment income	3.1	1,498	559
Investment expense		(338)	(384)
Other income		1,355	707
Other expenses		(63)	(52)
Financing and other costs		(897)	(363)
Profit before taxation from continuing operations		25,200	27,647
Tax expense	7.1	(7,526)	(9,245)
Profit after taxation from continuing operations		17,674	18,402
Profit after taxation from discontinued operation	8.4	1,181	913
Profit after taxation for the year		18,855	19,315
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		3,948	(1,213)
<i>Items that will not be reclassified to profit or loss</i>			
Gain on asset revaluation	5.2	-	159
Deferred income tax relating to asset revaluation	5.2	-	(16)
Other comprehensive loss net of tax		3,948	(1,070)
Total comprehensive profit for the year		22,803	18,245
Earnings per share:			
Basic and diluted earnings per share (cents) for continuing operations	5.4	4.43	4.21
Basic and diluted earnings per share (cents)	5.4	4.73	4.43
Profit after taxation attributed to:			
Shareholders		18,803	18,683
Non-controlling interests		52	632
		18,855	19,315
Total comprehensive profit attributed to:			
Shareholders		22,737	17,729
Non-controlling interests		66	516
		22,803	18,245

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

Consolidated balance sheet

As at 30 September 2022

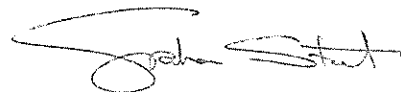
<i>\$ thousands</i>	Note	2022	2021
Assets			
Cash and cash equivalents	8.1	84,502	116,129
Investments	3.2	258,634	277,470
Receivables	2.7	242,089	216,925
Current tax asset	7.2a	13,069	12,901
Assets classified as held for sale	8.4	20,811	-
Deferred tax asset	7.3a	23,893	24,450
Deferred insurance costs	2.6	37,819	31,967
Right of use assets	6.3a(i)	23,326	25,577
Property, plant and equipment	6.1	5,417	9,374
Intangible assets	6.2	94,653	88,592
Total assets		804,213	803,385
Liabilities			
Payables	2.8	58,911	69,977
Unearned premiums	2.5	238,116	212,275
Outstanding claims	2.4	124,531	122,338
Lease liabilities	6.3a(ii)	35,054	39,421
Provisions	2.9	11,873	6,709
Current tax liabilities	7.2b	136	170
Liabilities classified as held for sale	8.4	9,258	-
Deferred tax liabilities	7.3b	8,806	2,775
Total liabilities		486,685	453,665
Net assets		317,528	349,720
Equity			
Contributed equity	5.1	460,191	492,424
Accumulated losses		(41,212)	(39,995)
Reserves	5.2	(101,451)	(105,385)
Total equity attributed to shareholders		317,528	347,044
Non-controlling interests		-	2,676
Total equity		317,528	349,720

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

The financial statements were approved for issue by the Board on 23 November 2022.



Michael P Stiasny
Chairman



Graham R Stuart
Director

Consolidated statement of changes in equity

Year Ended 30 September 2022

<i>\$ thousands</i>	Attributed to Shareholders				Total Equity
	Contributed equity	Accumulated losses	Reserves	Non-controlling interest	
Year Ended 30 September 2022					
Balance as at 30 September 2021	492,424	(39,995)	(105,385)	2,676	349,720
<i>Comprehensive income</i>					
Profit for the year	-	18,803	-	52	18,855
Currency translation differences	-	-	3,934	14	3,948
Total comprehensive income	-	18,803	3,934	66	22,803
<i>Transactions with shareholders</i>					
Capital return to shareholders	(30,634)	-	-	-	(30,634)
Purchase of non-controlling interests	(1,599)	-	-	(2,742)	(4,341)
Dividends paid	-	(20,028)	-	-	(20,028)
Other	-	8	-	-	8
Total transactions with shareholders	(32,233)	(20,020)	-	(2,742)	(54,995)
At the end of the year	460,191	(41,212)	(101,451)	-	317,528
 <i>Year Ended 30 September 2021</i>					
Balance as at 30 September 2020	492,424	(48,107)	(104,431)	2,160	342,046
<i>Comprehensive income</i>					
Profit for the year	-	18,683	-	632	19,315
Currency translation differences	-	-	(1,097)	(116)	(1,213)
Gain on asset revaluation	-	-	159	-	159
Deferred income tax relating to asset revaluation	-	-	(16)	-	(16)
Total comprehensive income	-	18,683	(954)	516	18,245
<i>Transactions with shareholders</i>					
Dividends Paid	-	(10,541)	-	-	(10,541)
Other	-	(30)	-	-	(30)
Total transactions with shareholders	-	(10,571)	-	-	(10,571)
At the end of the year	492,424	(39,995)	(105,385)	2,676	349,720

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

Consolidated statement of cash flows

For the Year Ended 30 September 2022

Re-presented

\$ thousands

2022

2021

Cash flows from operating activities

Premiums received	425,677	389,236
Interest received	6,519	5,268
Fee and other income received	4,063	6,212
Reinsurance and other recoveries received	11,745	17,668
EQC settlement receipt	-	52,883
Motor premium refund payments	-	(1,351)
Reinsurance paid	(57,256)	(54,288)
Reinsurance paid in relation to settlement of EQC receivable	-	(10,741)
Claims paid	(238,483)	(213,756)
Employee and supplier payments	(90,191)	(92,384)
Income tax paid	(1,768)	(1,928)
Operating activities cashflow from discontinued operations	(522)	1,276

Net cash inflow from operating activities

59,784 98,095

Cash flows from investing activities

Proceeds from sale of interest bearing investments	181,412	156,544
Proceeds from sale of unlisted equity investments	-	25
Payments for purchase of interest bearing investments	(181,578)	(190,548)
Payments for purchase of intangible assets	(14,695)	(8,866)
Payments for purchase of customer relationships*	(6,089)	(14,434)
Payments for purchase of property, plant & equipment	(2,617)	(3,163)
Investing activities cashflow from discontinued operations	(103)	1,220

Net cash outflow from investing activities

(23,670) (59,222)

Cash flows from financing activities

Payments for capital return to shareholders	(30,634)	-
Purchase of non-controlling interests	(4,341)	-
Received from lessor on signing of new lease	-	10,944
Dividends paid	(20,028)	(8,866)
Facility fees and interest paid	(897)	(378)
Payments relating to lease liabilities	(6,044)	(2,684)
Financing activities cashflow from discontinued operations	(1,766)	(1,287)

Net cash outflow from financing activities

(63,710) (2,271)

Net (decrease)/increase in cash and cash equivalents

(27,596) 36,602

Effect of foreign exchange rate changes	3,765	(581)
Cash and cash equivalents at the beginning of the year	116,129	80,108
Cash and cash equivalents at the end of the year	92,298	116,129

Cash from discontinued operations	8.4	(7,796)	-
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Cash and cash equivalents at the end of the year from continuing operations

84,502 116,129

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

* The 2022 balance represents the purchase of Westpac and TSB's rights and obligations relating to servicing a portfolio of insurance underwritten by Tower. The 2021 balance represents the purchase of ANZ's rights and obligations relating to servicing a portfolio of insurance underwritten by Tower. Please refer to note 6.2 for more information.

Notes to the consolidated financial statements

1 Overview

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

1.1 About this Report

a. Entities reporting

The financial statements presented are those of Tower Limited (the Company) and its subsidiaries. The Company and its subsidiaries together are referred to in this financial report as Tower or the Group. The address of the Company's registered office is 136 Fanshawe Street, Auckland, New Zealand.

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

The financial statements were authorised for issue by the Board of Directors on 23 November 2022. The entity's owners or others do not have the power to amend the financial statements after issue.

b. Statutory base

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

c. Basis of preparation

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

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

The Group financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars. They have been prepared in accordance with the historical cost basis except for certain financial instruments that are stated at their fair value.

d. Re-presentation of comparatives

The Group's Papua New Guinea Operations ("disposal group") constitutes a discontinued operation and is classified as held for sale as at 30 September 2022. Profit or loss information for the current period is prepared on a continuing basis with net results from discontinued operations presented separately. Profit or loss information for 2021 has been re-presented for comparability. Refer to note 8.4 for further details.

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

1.2 Consolidation

a. Principles of consolidation

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

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

The results of any subsidiaries acquired during the year are consolidated from the date on which control was transferred to the consolidated entity and the results of any subsidiaries disposed of during the year are consolidated up to the date control ceased. During the year ended 30 September 2022, Tower Limited acquired the minority shareholding of National Pacific Insurance Limited. This is now 100% owned by Tower Limited.

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

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

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

b. Foreign currency

(i) Functional and presentation currencies

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

(ii) Transactions and balances

In preparing the financial statements of the individual entities, transactions denominated in foreign currencies are translated into the entities functional and reporting currency using the exchange rates in effect at the transaction dates. Monetary items receivable or payable in a foreign currency are translated at reporting date at the closing exchange rate.

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

Exchange differences arising on the settlement or retranslation of monetary items at year end exchange rates impact profit after tax in the consolidated statement of comprehensive income unless the items form part of a net investment in a foreign operation. In this case, exchange differences are taken to the Foreign Currency Translation Reserve and recognised (as part of comprehensive profit) in the statement of comprehensive income and the statement of changes in equity.

(iii) Consolidation

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

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

1.2 Consolidation (continued)

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

c. Subsidiaries

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

Name of company	Incorporation	Holdings	
		2022	2021
Parent Company			
New Zealand general insurance operations			
Tower Limited	NZ	Parent	Parent
Subsidiaries			
Overseas general insurance operations			
Tower Insurance (Cook Islands) Limited	Cook Islands	100%	100%
Tower Insurance (Fiji) Limited	Fiji	100%	100%
Tower Insurance (PNG) Limited (refer Note 8.4)	PNG	100%	100%
National Pacific Insurance Limited ("NPI") (refer Note 5.1)	Samoa	100%	71%
National Pacific Insurance (Tonga) Limited (refer Note 5.1)	Tonga	100%	71%
National Pacific Insurance (American Samoa) Limited (refer Note 5.1)	American Samoa	100%	71%
Tower Insurance (Vanuatu) Limited	Vanuatu	100%	100%
Management service operations			
Tower Services Limited	NZ	100%	100%

1.3 Critical accounting judgements and estimates

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

- Net outstanding claims note 2.4
- Liability adequacy test note 2.5
- Intangible assets note 6.2
- Lease liabilities (incremental borrowing rate) note 6.3a(ii)
- Deferred tax note 7.3

1.4 Segmental reporting

a. Operating segments

Tower operates in two geographical segments, New Zealand and the Pacific region. New Zealand comprises the general insurance business underwritten in New Zealand. Pacific Islands comprises the general insurance business underwritten in the Pacific by Tower subsidiaries and branch operations. 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 8.4.

b. Financial performance of continuing operations

<i>\$ thousands</i>	New Zealand	Pacific Islands	Other	Total
Year Ended 30 September 2022				
Gross written premium	395,490	50,090	-	445,580
Gross earned premium	369,871	48,451	-	418,322
Outward reinsurance premium	(51,026)	(15,242)	-	(66,268)
Net earned premium	318,845	33,209	-	352,054
Net claims expense	(207,184)	(18,066)	346	(224,904)
Net commission expense	(8,048)	(1,237)	-	(9,285)
Underwriting expense	(76,089)	(18,131)	-	(94,220)
Underwriting profit/(loss)	27,524	(4,225)	346	23,645
Net investment income	1,023	137	-	1,160
Other expenses	192	203	-	395
Profit before tax from continuing operations	28,739	(3,885)	346	25,200
Profit after tax from continuing operations	21,642	(4,314)	346	17,674

Year Ended 30 September 2021 (Re-presented)

Gross written premium	351,058	44,945	-	396,003
Gross earned premium	340,568	46,052	-	386,620
Outward reinsurance premium	(44,918)	(13,837)	-	(58,755)
Net earned premium	295,650	32,215	-	327,865
Net claims expense	(195,343)	(6,888)	(88)	(202,319)
Net commission expense	(9,762)	(1,444)	-	(11,206)
Underwriting expense	(76,519)	(10,641)	-	(87,160)
Underwriting profit	14,026	13,242	(88)	27,180
Net investment income	43	132	-	175
Other expenses	182	110	-	292
Profit before tax from continuing operations	14,251	13,484	(88)	27,647
Profit after tax from continuing operations	8,855	9,620	(73)	18,402

1.4 Segmental reporting (continued)

c. Financial position of continuing operations

<i>\$ thousands</i>	New Zealand	Pacific Islands	Other	Total
Additions to non-current assets 30 September 2022	29,547	883	(4,327)	26,103
Additions to non-current assets 30 September 2021	51,970	430	-	52,400
Total assets 30 September 2022	723,805	74,539	(14,942)	783,402
Total assets 30 September 2021	708,527	92,843	(10,615)	790,755
Total liabilities 30 September 2022	426,930	51,462	(965)	477,427
Total liabilities 30 September 2021	405,058	43,660	(617)	448,101

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

Definition

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the Chief Executive Officer) who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance.

2 Underwriting activities

This section provides information on Tower's underwriting activities.

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

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

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

2.1 Underwriting Revenue

Composition

<i>\$ thousands</i>	2022	2021
Gross written premium	445,580	396,003
Movement in unearned premium liability	(27,258)	(9,383)
Gross earned premium	418,322	386,620
Reinsurance and other recoveries revenue	15,243	24,601
Reinsurance commission	3,971	5,343
Insurance administration services commission	1,134	1,118
Commission revenue	5,105	6,461
Underwriting revenue	438,670	417,682

Recognition and measurement

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

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

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

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

2.2 Net claims expense

Composition

\$ thousands	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	2022	2021	2022	2021	2022	2021
Gross claims expense	231,034	226,611	9,113	309	240,147	226,920
Reinsurance and other recoveries revenue	(13,613)	(23,396)	(1,630)	(1,205)	(15,243)	(24,601)
Net claims expense	217,421	203,215	7,483	(896)	224,904	202,319

Recognition and measurement

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

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

2.3 Underwriting expense

Composition

\$ thousands	2022	2021
People costs	84,160	64,626
People costs capitalised during the year	(7,557)	(3,569)
Technology	14,556	14,320
Amortisation	14,723	12,556
Depreciation*	4,992	4,440
External fees	10,594	10,300
Marketing	11,757	8,477
Communications	3,039	3,829
Miscellaneous	3,258	4,319
Movement in deferred acquisition costs**	(6,511)	877
Claims related management expenses reclassified to claims expense	(37,085)	(31,320)
Service fees charged to discontinued operations***	(1,706)	(1,695)
Underwriting expenses	94,220	87,160

* Includes \$2.7m (2021: \$2.3m) of depreciation on right of use assets. See note 6.3b for further information.

** 2021 included a writedown for a deficiency on the liability adequacy test of \$2.5m, refer note 2.6. This resulted in a lower amortisation expense of deferred acquisition costs in 2022.

*** Refer note 8.4 for further detail.

2.4 Net outstanding claims

a. Composition

\$ thousands	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	2022	2021	2022	2021	2022	2021
Central estimate of future cash flows	89,404	87,535	18,056	16,402	107,460	103,937
Claims handling expense	5,564	5,430	772	1,314	6,336	6,744
Risk Margin	5,051	6,724	5,684	4,933	10,735	11,657
Gross outstanding claims	100,019	99,689	24,512	22,649	124,531	122,338
Reinsurance recoveries	(10,293)	(18,970)	(3,787)	(3,880)	(14,080)	(22,850)
Net outstanding claims	89,726	80,719	20,725	18,769	110,451	99,488
Net claim payments within 12 months	76,422	69,687	8,497	7,508	84,919	77,195
Net claim payments after 12 months	13,304	11,032	12,228	11,261	25,532	22,293
Net outstanding claims	89,726	80,719	20,725	18,769	110,451	99,488

Recognition and measurement

Gross outstanding claims liability comprises a central estimate of future cash outflows and a risk margin for uncertainty.

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

The gross outstanding claim liabilities also include a **risk margin** that relates to the inherent uncertainty in the central estimate of the future payments. The risk margin represents the amount by which the liability recognised in the financial statements is greater than the actuarial estimate. Tower currently applies a 75% probability of adequacy to the outstanding claims liability which means there is a 1-in-4 chance all future claim payments will exceed the overall reserve held.

Discounting has been applied to the provision for outstanding claims relating to the Canterbury earthquakes, using spot rates derived from government issued bonds. The overall discount, at 30 September 2022, is equivalent to using a uniform discount rate of 4.2% per annum. At the previous valuation of the Canterbury earthquakes liability, discounting was not applied as it was considered immaterial in a lower interest rate environment. Discounting has also not been allowed for on other outstanding claims as the expected timeframe for paying these claims is short, and the impact of discounting is considered to be immaterial.

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

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

2.4 Net outstanding claims (continued)

b. Reconciliation of movements in net outstanding claims liability

\$ thousands	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance brought forward	122,338	(22,850)	99,488	107,747	(12,889)	94,858
Claims expense - current year	248,024	(20,429)	227,595	234,675	(22,171)	212,504
Claims expense - prior year	(5,970)	4,491	(1,479)	(5,772)	(2,464)	(8,236)
Incurred claims recognised in profit or loss from continuing operations	240,147	(15,243)	224,904	226,920	(24,601)	202,319
Incurred claims recognised in profit or loss from discontinued operations	1,907	(695)	1,212	1,983	(34)	1,949
Claims paid and reinsurance and other recoveries raised from continuing and discontinued operations	(239,706)	24,604	(215,102)	(213,350)	14,397	(198,953)
Foreign exchange	1,826	(347)	1,479	(962)	277	(685)
Liabilities reclassified as held for sale*	(1,981)	451	(1,530)	-	-	-
Outstanding claims	124,531	(14,080)	110,451	122,338	(22,850)	99,488

* Refer note 8.4

c. Development of claims

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

\$ thousands	Prior	2018	2019	2020	2021	2022	Total
Ultimate claims cost estimate							
At end of incident year		147,806	147,073	158,309	183,003	200,370	
One year later		146,214	144,041	154,825	181,656	-	
Two years later		146,234	143,209	153,470	-	-	
Three years later		145,752	143,233	-	-	-	
Four years later		146,157	-	-	-	-	
Ultimate claims cost		146,157	143,233	153,470	181,656	200,370	
Cumulative payments		(145,627)	(142,612)	(150,821)	(173,193)	(134,491)	
Central estimate	15,237	530	621	2,649	8,463	65,879	93,379
Claims handling expense							6,337
Risk margin							10,735
Net outstanding claim liabilities							110,451
Reinsurance recoveries							14,080
Gross outstanding claim liabilities							124,531

All amounts in this note exclude discontinued operations, consistent with other profit or loss disclosures.

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

2.4 Net outstanding claims (continued)

d. Actuarial information

The estimation of outstanding claims as at 30 September 2022 has been carried out by:

- (i) Geoff Atkins, BA (ActuarDc), FIAA, FIAL, FANZIIF, Appointed Actuary - Canterbury earthquake claims; and
- (ii) John Feyter, B.Sc., FNZSA - all other outstanding claims

The New Zealand actuarial assessments are undertaken in accordance with the standards of the New Zealand Society of Actuaries, in particular Professional Standard No. 30 "Valuations of General Insurance Claims". The Actuaries were satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The outstanding claims liability is set by the Actuaries at a level that is appropriate and sustainable to cover the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

e. Canterbury earthquakes

Cumulative impact of Canterbury earthquakes

As at 30 September 2022, Tower has 36 claims remaining to settle (2021: 33) as a result of the earthquakes impacting the Canterbury region during 2010 and 2011. The following table presents the cumulative impact of the four main Canterbury earthquake events on the consolidated statement of comprehensive income.

<i>\$ thousands</i>	2022	2021
Earthquake claims estimate net of EQC payments	(953,531)	(944,418)
Reinsurance recoveries	733,720	732,090
Claim expense net of reinsurance recoveries	(219,811)	(212,328)
Reinsurance expense	(25,045)	(25,045)
Cumulative impact of Canterbury earthquakes before tax	(244,856)	(237,373)
Income tax	68,560	66,464
Cumulative impact of Canterbury earthquakes after tax	(176,296)	(170,909)
Canterbury earthquake impact on profit or loss before tax		
<i>\$ thousands</i>	2022	2021
Net claims (gain)/expense	7,483	(896)

2.4 Net outstanding claims (continued)

Critical accounting estimates and judgements

Outstanding claims liability (excluding Canterbury Earthquakes)

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

Assumption	2022	2021
Expected future claims development proportion	20.3%	19.7%
Claims handling expense ratio	6.6%	6.7%
Risk margin	6.0%	9.1%

Expected future claims development proportion

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

Claims handling expense ratio

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

Risk margin

Risk margins are calculated for outstanding claims in each country separately and a diversification benefit is calculated taking into account the uncorrelated effect of random risk. The total risk margin percentage shown is calculated on a weighted average basis. The decrease in the risk margin this year reflects the reassessment of uncertainty on claim outcomes as a result of the COVID-19 pandemic.

Canterbury Earthquake outstanding claims liability

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

Assumption	2022	2021
Number of future new overcap and new litigated claims	46	38
Average cost of new overcap or new litigated claim	114,000	121,000
Provision for re-opened claims	1,070,000	2,400,000
Additional portfolio-level provision for incurred but not enough reported	2,355,000	1,274,000

New overcap and new litigated claims

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

New litigated claims are existing or future new claims that are referred to either the Insurance Tribunal or the High Court for resolution. Costs for new litigated claims are assumed to be substantially higher than costs for other overcap claims. Only a small number of new litigated claims is now expected.

Provision for re-opened claims

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

2.4 Net outstanding claims (continued)

f. Sensitivity Analysis

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

Outstanding claims excluding Canterbury earthquake

\$ thousands	Movement in assumption	Impact on profit or (loss)	
		2022	2021
Expected future claims development	+ 10%	(1,419)	(1,339)
	- 10%	1,419	1,339
Claims handling expense ratio	+ 10%	(556)	(543)
	- 10%	556	543
Risk margin	+ 10%	(505)	(672)
	- 10%	505	672

Canterbury earthquake outstanding claims

\$ thousands	Movement in assumption	Impact on profit or (loss)	
		2022	2021
Number of new overcap or new litigated claims	+ 35%	(1,817)	(1,610)
	- 35%	1,817	1,610
Change in average cost of a new overcap or new litigated claim	+ 20%	(1,038)	(920)
	- 20%	1,038	920
Number of reopened claims	+ 35%	(375)	(840)
	- 35%	375	840
Change in average cost of a reopened claim	+ 20%	(214)	(480)
	- 20%	214	480

2.5 Unearned premium liability

Reconciliation

<i>\$ thousands</i>	2022	2021
Opening balance	212,275	203,452
Premiums written during the year from continuing operations	445,580	396,003
Premiums earned during the year from continuing operations	(418,322)	(386,620)
Unearned premium movement from continuing operations	27,258	9,383
Premiums written during the year from discontinued operations	8,055	8,678
Premiums earned during the year from discontinued operations	(8,684)	(8,910)
Unearned premium movement from discontinued operations	(629)	(232)
Foreign exchange movements	3,957	(328)
Liabilities reclassified as held for sale	(4,745)	-
Unearned premium liability from continuing operations	238,116	212,275

All unearned premiums will be earned in the 12 months after 30 September 2022 and therefore are current liabilities. The unearned premium liability is presented net of cancellation provisions.

Recognition and measurement

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

Adequacy of unearned premium liability

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

If the present value of expected future net 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 before recognising an unexpired risk liability.

The unearned premium liability as at 30 September 2022 was sufficient for the New Zealand business (2021: \$2.0m deficiency). The unearned premium liabilities as at 30 September 2022 for each Pacific entity was also sufficient (2021: all sufficient with the exception of Fiji and Vanuatu where a total deficiency of \$0.5m was recognised).

%	2022	2021
Central estimate net claims as a % of unearned premium liability	45.5%	45.2%
Risk margin as a % of net claims	11.2%	11.0%

Critical accounting estimates and judgements

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

2.6 Deferred insurance costs

Reconciliation

<i>\$ thousands</i>	Deferred acquisition costs		Deferred outwards reinsurance expense		Deferred insurance costs	
	2022	2021	2022	2021	2022	2021
Balance bought forward	21,116	25,220	10,851	9,447	31,967	34,667
Costs deferred	48,192	40,323	17,283	17,968	65,475	58,291
Amortisation expense	(42,765)	(41,897)	(17,073)	(16,428)	(59,838)	(58,325)
Writedown due to LAT deficiency	-	(2,534)	-	-	-	(2,534)
Foreign exchange movements	247	4	1,303	(136)	1,550	(132)
Asset reclassified as held for sale	(248)	-	(1,087)	-	(1,335)	-
Closing balance	26,542	21,116	11,277	10,851	37,819	31,967

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

Recognition and measurement

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

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

2.7 Receivables

Composition

<i>\$ thousands</i>	2022	2021
Gross premium receivables	200,715	178,213
Provision for expected future premium cancellations	(651)	(655)
Premium receivable	200,064	177,558
Reinsurance recoveries	15,847	20,326
Canterbury earthquake reinsurance recoveries	3,787	3,880
Other recoveries	11,378	5,207
Reinsurance and other recoveries	31,012	29,413
Finance lease receivables	2,375	4,278
Prepayments	4,411	3,279
Other receivables	2,401	2,397
Receivable from discontinued operations*	1,826	-
Receivables	242,089	216,925
Receivable within 12 months	241,742	214,504
Receivable in greater than 12 months	347	2,421
Receivables	242,089	216,925

* Refer note 8.4 for further detail.

Recognition and measurement

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

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

The remainder of Tower's receivables are assessed for impairment based on expected credit losses.

2.7 Receivables (continued)

Finance lease receivables

Tower entered into a sub-lease for its previous Auckland premises. The sub-lease is for the remaining non-cancellable term of the head lease and therefore is classified as a finance lease. The profile of the net receipts is illustrated in the table below:

<i>\$ thousands</i>	2022	2021
Less than one year	2,074	2,019
Between one and five years	347	2,421
Total undiscounted finance lease receivable	2,421	4,440
Unearned finance income	(46)	(162)
Net investment in the finance lease	2,375	4,278

2.8 Payables

Composition

<i>\$ thousands</i>	2022	2021
Trade payables	14,672	11,452
GST payable	25,951	23,264
EQC & Fire and Emergency New Zealand levies payable	11,583	10,857
Reinsurance premium payable	3,696	6,343
Unsettled investment purchases	-	11,456
Other	3,009	6,605
Payables	58,911	69,977
Payable within 12 months	58,911	69,977
Payable in greater than 12 months	-	-
Payables	58,911	69,977

Recognition and measurement

Payables are recognised where goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier. Payables are stated at the fair value of the consideration to be paid in the future inclusive of GST. GST payable represents the net amount payable to the respective tax authorities.

2.9 Provisions

Composition

<i>\$ thousands</i>	2022	2021
Annual leave and other employee benefits	8,219	6,709
Customer remediation*	3,654	-
Provisions	11,873	6,709
Payable within 12 months	10,716	6,235
Payable in greater than 12 months	1,157	474
Provisions	11,873	6,709

* This is a one-off provision for customer remediation arising from an error in the calculation of multi-policy discounts.

Recognition and measurement

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

2.10 Assets backing insurance liabilities

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

3 Investments

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

3.1 Investment income

<i>\$ thousands</i>	2022	2021
Interest income	6,835	5,127
Net realised loss	(2,028)	(2,152)
Net unrealised loss	(3,309)	(2,416)
Investment income	1,498	559

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

Recognition and measurement

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

3.2 Investments

<i>\$ thousands</i>	2022	2021
Fixed interest investments	258,600	277,436
Property investment	34	34
Investments	258,634	277,470

Recognition and measurement

Tower's investment assets are designated at fair value through profit or loss. Investment assets are initially recognised at fair value and are remeasured to fair value through profit or loss at each reporting date. Tower's approach to measuring the fair value of these assets is covered in the note 3.3.

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

3.3 Fair value hierarchy

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

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

<i>\$ thousands</i>	Level 1	Level 2	Level 3	Total
As at 30 September 2022				
Fixed interest investments	-	258,600	-	258,600
Property investment	-	34	-	34
Investments	-	258,634	-	258,634
As at 30 September 2021				
Fixed interest investments	-	277,436	-	277,436
Property investment	-	34	-	34
Investments	-	277,470	-	277,470

There have been no transfers between levels of the fair value hierarchy during the current financial period (2021: nil).

4 Risk Management

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

4.1 Risk management overview

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

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

- (i) Gives clear concise guidance to management of parameters for risk taking.
- (ii) Embeds risk management into strategic and decision-making processes.
- (iii) Facilitates risk to be managed at all levels of the organisation through a structured process to identify risk, and the allocation of clear, personal responsibility for management of identified risks by assigned risk owners.

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

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

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

- (i) First line: Operational management has ownership, responsibility and accountability for directly identifying, assessing, controlling and mitigating key risks which prevent them from achieving business objectives.
- (ii) Second Line: Tower's Risk, Compliance and Conduct Function is responsible for developing and implementing effective risk, compliance and conduct management processes; providing advisory support to the first line of defence and constructively challenging operational management and risk and obligation owners to ensure positive assurance.
- (iii) Third line: Internal Audit is responsible and accountable for providing an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework. Internal audit, along with other groups such as external audit, report independently to the Board and/or the Audit Committee.

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

4.2 Strategic risk

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

- (i) Monitoring and managing performance against Board approved plan and targets.
- (ii) Board leading an annual strategy and planning process which considers our performance, competitor positioning and strategic opportunities.
- (iii) Identifying and managing emerging risks using established governance processes and forums.

4.3 Insurance risk

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

a. Underwriting risk

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

- (i) Use of comprehensive management information systems and actuarial models to price products based on historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes, trended forward to recognise anticipated changes in claims patterns after making allowance for other costs incurred by the Group.
- (ii) Passing elements of insurance risk to reinsurers. Tower's Board determines a maximum level of risk to be retained by the Group as a whole.
Tower's reinsurance programme is structured to adequately protect the solvency and capital positions of the insurance business. The adequacy of reinsurance cover is modelled by assessing Tower's exposure under a range of scenarios. The plausible scenario that has the most financial significance for Tower is a major Wellington earthquake. Each year, as part of setting the coming year's reinsurance cover, comprehensive modelling of the event probability and amount of the Group's exposure is undertaken.
- (iii) Underwriting limits are in place to enforce appropriate risk selection criteria and pricing with specific underwriting authorities that set clear parameters for the business acceptance.

4.3 Insurance risk (continued)

b. Concentration risk

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

- (i) Geographic concentration risk - Tower purchases a catastrophe reinsurance programme to protect against a modelled 1-in-1000 years whole of portfolio catastrophe loss.
- (ii) Product concentration risk - Tower's business is weighted towards the NZ general insurance market where its risks are concentrated in house insurance (Home & Contents) and motor insurance. Tower limits its exposure through proportionate reinsurance arrangements. The table below illustrates the diversity of Tower's operations.

Gross written premium (%)	2022			2021		
	NZ	Pacific*	Total	NZ	Pacific*	Total
Home & Contents	51%	3%	54%	52%	4%	56%
Motor	35%	3%	38%	34%	3%	37%
Commercial	1%	5%	6%	1%	4%	5%
Liability	1%	0%	1%	1%	0%	1%
Workers compensation	0%	1%	1%	0%	0%	0%
Other	0%	0%	0%	1%	0%	1%
Total	88%	12%	100%	89%	11%	100%

* The Pacific Islands operating segment excludes the disposal group and the prior year comparatives have been re-presented accordingly.

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

c. Reserving risk

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

4.4 Credit risk

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

a. Investment and treasury

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

- (i) New Zealand cash deposits that are internally managed are limited to banks with a minimum Standard & Poor's (S&P) AA- credit rating.
- (ii) Cash deposits and investments that are managed by external investment managers are limited to counterparties with a minimum S&P A- credit rating.
- (iii) Tower holds deposits and invests in Pacific regional investment markets through its Pacific Island operations to comply with local statutory requirements and in accordance with Tower investment policies. These deposits and investments generally have low credit ratings representing the majority of the value included in the 'Below BBB' and 'not rated' categories in the table below. This includes deposits and investments with Australian bank subsidiaries that comprise 55% (2021: 88%) of the 'not rated' category.

<i>\$ thousands</i>	Cash and Cash Equivalents		Fixed Interest Investments		Total	
	2022	2021	2022	2021	2022	2021
AAA	-	-	119,198	94,430	119,198	94,430
AA	66,228	83,614	110,957	143,548	177,185	227,162
A	-	-	24,399	33,100	24,399	33,100
BBB	-	-	-	-	-	-
Below BBB	1,614	9,173	2,009	2,226	3,623	11,399
Not rated	16,660	23,342	2,071	4,166	18,731	27,508
Total	84,502	116,129	258,634	277,470	343,136	393,599

b. Reinsurance

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

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

4.4 Credit risk (continued)

<i>\$ thousands</i>	Reinsurance on:					
	Outstanding claims		Paid claims		Total	
	2022	2021	2022	2021	2022	2021
AAA	-	-	-	-	-	-
AA	5,830	12,005	2,929	1,028	8,759	13,033
A	8,319	10,805	2,220	320	10,539	11,125
BBB	9	-	-	-	9	-
Below BBB	102	-	3	-	105	-
Not rated	220	40	2	4	222	44
Total	14,480	22,850	5,154	1,352	19,634	24,202

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

<i>\$ thousands</i>	Not due	Past due				Total
		1 month	1 to 2 months	2 to 3 months	Over 3 months	
As at 30 September 2022						
Reinsurance recoveries on paid claims	5,154	-	-	-	-	5,154
As at 30 September 2021						
Reinsurance recoveries on paid claims	1,352	-	-	-	-	1,352

c. Premium receivable

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

<i>\$ thousands</i>	Not due*	Past due				Total
		1 month	1 to 2 months	2 to 3 months	Over 3 months	
As at 30 September 2022						
Net premium receivable	192,464	5,933	1,188	384	95	200,064
As at 30 September 2021						
Net premium receivable	169,915	5,514	1,484	562	83	177,558

* This includes premiums that are less than 30 days outstanding (which are owed but not past due) of \$4.0m (2021: \$5.5m).

4.5 Market risk

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

a. Currency risk

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

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

Operational currency risk impacts profit and generally arises from:

- (i) Procurement of goods and services denominated in foreign currencies. Tower may enter into hedges for future transactions, using authorised instruments, provided that the timing and amount of those future transactions can be estimated with a reasonable degree of certainty.
- (ii) Investment assets managed by the external investment manager that are denominated in foreign currencies. Tower's Board set limits for the management of currency risk based on prudent asset management practice. Regular reviews are conducted to ensure that these limits are adhered to.

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

\$ thousands	Direct impact on equity		Impact on profit or (loss)	
	2022	2021	2022	2021
New Zealand Dollar - USD				
Currency strengthens by 10%	(793)	(581)	113	23
Currency weakens by 10%	969	710	(138)	(28)
New Zealand Dollar - Fijian Dollar				
Currency strengthens by 10%	(854)	(1,667)	(74)	(38)
Currency weakens by 10%	1,044	2,037	90	47
New Zealand Dollar - PNG Kina				
Currency strengthens by 10%	(629)	(743)	44	30
Currency weakens by 10%	769	908	(54)	(36)

4.5 Market risk (continued)

b. Interest rate risk

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

Tower's interest rate risk primarily arises from fluctuations in the valuation of fixed-interest investments recognised at fair value and from the underwriting of general insurance contracts, which have interest rate exposure due to the use of discount rates in calculating the value of insurance liabilities.

Fixed-interest investments are measured at fair value through profit or loss. Movements in interest rates impact the fair value of interest-bearing financial assets and therefore impact profit or loss (there is no direct impact on equity). The impact of a 1% increase or decrease in interest rates on fixed interest investments is shown below (holding everything else constant).

\$ thousands	Impact on profit or (loss)	
	2022	2021
Interest rates increase by 1% (2021: 0.5%)	(1,617)	(988)
Interest rates decrease by 1% (2021: 0.5%)	1,690	960

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

4.6 Liquidity risk

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

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

\$ thousands	Net outstanding claims liability		Cash and Investments	
	2022	2021	2022	2021
Floating interest rate (at call)	-	-	84,649	116,217
Within 3 months	45,224	42,949	28,181	75,129
3 to 6 months	20,726	17,070	44,940	31,890
6 to 12 months	18,969	17,176	55,407	47,381
After 12 months	25,532	22,293	129,959	122,982
Total	110,451	99,488	343,136	393,599

4.7 Capital management risk

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

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

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

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

a. Regulatory solvency capital

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

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

During the year ended 30 September 2022 the Group complied with all externally imposed capital requirements (2021: complied).

Tower Limited's Group and Parent solvency margin are illustrated in the table below.

\$ thousands	2022		2021	
	Parent	Group	Parent	Group
Actual solvency capital	136,423	171,647	179,439	214,128
Minimum solvency capital	66,530	79,018	66,252	79,927
Solvency margin*	69,893	92,629	113,187	134,201
Solvency ratio	205%	217%	271%	268%

* Tower is required to maintain a solvency margin of at least \$15m (2021: \$25m), due to a license condition issued by the RBNZ.

In October 2020, the RBNZ commenced consultation on a review of the Insurance (Prudential Supervision) Act 2010. As part of the overall process, the RBNZ issued an exposure draft on an interim solvency standard (ISS) in July 2021 which anticipated the introduction of IFRS 17. The final ISS was issued in October 2022.

Tower will apply the new ISS from 1 October 2023. The ISS: combines requirements for life and non-life insurers, which were previously separate standards; proposes enhancements to the transparency of solvency reporting; provides for increased prudential supervision for insurers operating close to their minimum solvency margin; and imposes some changes that will impact solvency margins. The change in the ISS which is expected to have the largest impact on Tower's solvency margin, the introduction of the operational risk capital charge, will be phased in over the four years to 2026. While Tower is still assessing the ISS in its final form, Tower expects to maintain an appropriate capital position under the ISS.

4.7 Capital management risk (continued)

b. Capital composition

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

<i>\$ thousands</i>	2022	2021
Total equity attributed to shareholders	317,528	347,044

c. Financial strength rating

Tower Limited has an insurer financial strength rating of "A- (Excellent)" and a long-term issuer credit rating of "a-" as affirmed by international rating agency AM Best Company Inc. in April 2022.

4.8 Operational risk

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

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

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

Management and staff are responsible for identifying, assessing, recording and managing operational risks in accordance with their roles and responsibilities. Associated controls for identified risks are recorded and then actively monitored and managed through our enterprise risk management system (ERMS). Incidents are managed by the first line of defence and overseen by the second line of defence, with ongoing reporting to management and the Board Risk Committee.

Tower also maintains and regularly updates its Crisis Management, Business Continuity and Disaster Recovery Plans to minimise the impact of material incidents or crisis events and to support continuity of critical systems and processes.

4.9 Regulatory and compliance risk

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

Tower, via its ERMS, has in place an obligations management framework. The framework provides operational and managerial oversight of applicable and relevant regulatory compliance obligations to Tower and supports Tower in discharging its obligations under legislation across NZ & the Pacific.

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

4.10 Conduct risk

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

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

Tower's approach to managing conduct risk is set out in its Conduct Governance Framework. The framework is a collation of policies, frameworks and processes and ensures there's robust governance in place to oversee Tower's conduct risk profile including reporting to the Management and Board Committees.

4.11 Cyber risk

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

Tower's approach to Cyber risk is to proactively protect against, monitor for and respond to those cyber threats seen to be targeting the organisation. Tower continues to monitor evolving key cyber risks, which are being discussed and reviewed on a monthly basis through our Management Risk and Conduct Committee and on a quarterly basis with the Risk Committee. Risk mitigation is achieved through ongoing investment in Tower's Security programme and Tower's dedicated security function.

4.12 Climate change risk

Climate change risk is the risk associated with the unpredictable nature and impacts of weather events which may increase in frequency and severity over time due to changes in climate.

Tower's RMF considers environmental and emerging risks, which are regularly reported to the Board. Tower's approach to managing climate change risk includes leading the market by continuing to expand our risk-based pricing strategy for climate-related hazards, maintaining a robust reinsurance programme to provide protection from volatility in weather events, planning for increasing large events over time in our budget process to limit financial impacts, and supporting communities through climate change via product development and education of customers.

Tower considers that climate change risk does not impact the valuation of the majority of Tower's assets and liabilities, where these assets are expected to be realised in one year or less. For non-current assets, Tower has looked to its short-medium term forecasting, which implicitly includes allowances for the risk of climate change in forecasts of the severity and frequency of future claims, including large events. These forecasts show continued profitability for Tower, which supports the carrying value of non-current assets. Accordingly, Tower does not consider that climate change risk has a material impact on the assets and liabilities recorded in these financial statements, as at 30 September 2022.

5 Capital Structure

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

5.1 Contributed equity

<i>\$ thousands</i>	2022	2021
Opening balance	492,424	492,424
Return of share capital to shareholders*	(30,634)	-
Purchase of non-controlling interests**	(1,599)	-
Total contributed equity	460,191	492,424
<i>Represented by:</i>		
Opening balance	421,647,258	421,647,258
Cancellation of shares on return of capital	(42,163,271)	-
Total shares on issue	379,483,987	421,647,258

* 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.

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

5.2 Reserves

<i>\$ thousands</i>	2022	2021
Opening balance	(6,082)	(4,985)
Currency translation differences arising during the year	3,934	(1,097)
Foreign currency translation reserve	(2,148)	(6,082)
Opening balance	1,707	1,564
Gain on revaluation	-	159
Deferred tax on revaluation	-	(16)
Asset revaluation reserve	1,707	1,707
Capital reserve	11,990	11,990
Separation reserve*	(113,000)	(113,000)
Reserves	(101,451)	(105,385)

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

Recognition and measurement

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

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

5.3 Net tangible assets per share

<i>\$ dollars</i>	2022	2021
Net tangible assets per share	0.55	0.57

Net tangible assets per share have been calculated using the net assets as per the balance sheet adjusted for intangible assets (including goodwill) and deferred tax assets divided by total shares on issue.

5.4 Earnings per share

	2022	2021
Profit from continuing operations attributable to shareholders (\$ thousands)	17,622	17,770
Profit from discontinued operations attributable to shareholders (\$ thousands)	1,181	913
Weighted average number of ordinary shares for basic and diluted earnings per share (number of shares)	397,851,001	421,647,258
Basic and diluted earnings per share (cents) for continuing operations	4.43	4.21
Basic and diluted earnings per share (cents)	4.73	4.43

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 operations (note 8.4).

5.5 Dividends

On 30 June 2022, Tower paid an interim dividend of 2.5 cents per share (2021: 2.5 cents per share), with the cash impact of \$9.5m (2021: \$10.5m).

On 23 November 2022, the Board approved a final dividend of 4 cents per share (2021: 2.5 cents per share), with the dividend being payable on 1 February 2023. The anticipated cash impact of the final dividend is approximately \$15.2m (2021: \$10.5m).

6 Other balance sheet items

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

6.1 Property, plant and equipment

Composition:

30 September 2022

<i>\$ thousands</i>	Land and buildings	Office equipment & furniture	Motor vehicles	Computer equipment	Total
Composition:					
Cost**	-	4,547	1,949	5,237	11,733
Accumulated depreciation**	-	(2,303)	(979)	(3,034)	(6,316)
Property, plant and equipment	-	2,244	970	2,203	5,417
Reconciliation:					
Opening balance	4,102	1,968	769	2,535	9,374
Depreciation	-	(422)	(288)	(1,577)	(2,287)
Additions	-	814	500	1,277	2,591
Disposals	-	(85)	-	(4)	(89)
Foreign exchange movements	456	(23)	15	(23)	425
Assets reclassified as held for sale*	(4,558)	(8)	(26)	(5)	(4,597)
Closing Balance	-	2,244	970	2,203	5,417

* Assets reclassified as held for sale include the Suva building (\$4.5m) and the assets of discontinued operations. Refer to Note 8.4.

** During the year, and following the decommissioning of several legacy 'on premise' IT systems, a review of property, plant & equipment with zero book values was completed. As a consequence, property, plant and equipment with a total cost and accumulated depreciation of \$12.6m 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.

30 September 2021

Composition:					
Cost	4,102	4,257	1,616	17,292	27,267
Accumulated depreciation	-	(2,289)	(847)	(14,757)	(17,893)
Property, plant and equipment	4,102	1,968	769	2,535	9,374
Reconciliation:					
Opening balance	4,035	2,989	1,083	1,934	10,041
Depreciation for continuing operations	-	(838)	(242)	(1,104)	(2,184)
Depreciation for discontinued operations	-	(90)	(18)	(2)	(110)
Additions	-	1,437	-	1,654	3,091
Revaluations	159	-	-	-	159
Disposals	-	(1,527)	(34)	56	(1,505)
Foreign exchange movements	(92)	(3)	(20)	(3)	(118)
Closing Balance	4,102	1,968	769	2,535	9,374

6.1 Property, plant and equipment (continued)

Recognition and measurement	
Property, plant and equipment is initially recorded at cost including transaction costs and subsequently measured at cost less any accumulated depreciation and impairment losses.	
Depreciation is calculated using the straight line method to allocate the asset's cost or revalued amounts, net of any residual amounts, over their useful lives. The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount.	
Furniture & fittings	5-9 years
Leasehold property improvements	3-12 years
Motor vehicles	5 years
Computer equipment	3-5 years
Land and buildings are shown at fair value, based on periodic valuations by external independent appraisers less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.	

6.2 Intangible assets

a. Amounts recognised in the balance sheet

30 September 2022

<i>\$ thousands</i>	Goodwill	Software	Customer Relationships*	Total
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.

30 September 2021

Composition:				
Cost	17,744	98,850	28,656	145,250
Accumulated amortisation	-	(50,323)	(6,335)	(56,658)
Intangible Assets	17,744	48,527	22,321	88,592
Reconciliation:				
Opening balance	17,744	47,866	12,238	77,848
Amortisation	-	(8,205)	(4,351)	(12,556)
Additions	-	10,528	14,434	24,962
Disposals	-	(237)	-	(237)
Transfers to property, plant and equipment	-	(1,425)	-	(1,425)
Closing Balance	17,744	48,527	22,321	88,592

In the year ended 30 September 2021, Tower acquired and assumed ANZ's rights and obligations related to servicing the insurance policies of a group of customers already underwritten by Tower, and entered into a non-compete agreement for a period of 5 years. In the year ended 30 September 2022, Tower acquired and assumed Westpac's and TSB Bank's rights and obligations relating to servicing the insurance policies of two further groups of customers already underwritten by Tower. The amounts capitalised includes the price paid and associated acquisition/migration costs. The assets will be amortised over 5 year (the ANZ non-compete agreement) or 10 years (for other customer relationships), with the pattern of amortisation being aligned with expected net cashflow benefits over this period.

6.2a Amounts recognised in the balance sheet (continued)

Recognition and measurement

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

Application software and customer relationships are recorded at cost less accumulated amortisation and impairment.

Application software is amortised on a straight line basis over the estimated useful life of the software. Customer relationships are amortised over the estimated useful life in accordance with the pattern of economic benefit consumption.

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

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

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

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

Critical accounting estimates and judgements

The customer relationships asset predominantly consists of customer relationship asset with a useful life equivalent to the customer base's expected lifespan of ten years with the exception of one asset with an additional non-compete component that has a contracted useful life of five years.

Where applicable the estimated capitalised cost related to the customer relationships asset has been apportioned between the two asset components by valuing the non-compete at the differential in net present value of the asset from improved customer retention over the non-compete period, pro-rated over the full asset value. This valuation is calculated with reference to cash flow forecasts that combine past experience with future expectations based on prevailing and anticipated market factors, expected retention rates (86-94%) and a discount rate of 12.5% for each customer relationship asset.

b. Impairment testing

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

(i) Software and customer relationships

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

There were no indications of impairment during the year and therefore these assets were not tested for impairment (2021: no indications).

Critical accounting estimates and judgements

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

6.2b Impairment testing (continued)

(i) Software and customer relationships

Critical accounting estimates and judgements

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

(ii) Goodwill

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

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

Tower undertook an annual impairment review and no loss has been recognised in 2022 as a result (2021: nil). COVID-19 impacts were again taken into account when performing the review.

Critical accounting estimates and judgements

The recoverable amount of the New Zealand general insurance business is assessed by determining its value in use by discounting the future cash flows generated from the continuing use of the unit (2021: the recoverable amount was assessed with reference to appraisal value techniques, which is a common practice for insurance companies). A base discount rate of 14.5% was used in the calculation (2021: 12.0%). The cash flows are based on management's plans and forecasted profits for FY23 - FY25 (2021: FY22 - FY24). The projected cash flows are determined based on past performance and management's expectations for market developments with a terminal growth rate of 3% (2021: 2.5%).

The overall valuation is sensitive to a range of assumptions including the discount rate and the terminal growth rate. Reasonable changes to these assumptions will not result in an impairment.

6.3 Leases

a. Amounts recognised in the Balance Sheet

(i) Right of use assets

30 September 2022

<i>\$ thousands</i>	Office space	Motor vehicles	Total
Composition:			
Cost	26,977	-	26,977
Accumulated depreciation	(3,651)	-	(3,651)
Right of use assets	23,326	-	23,326
Reconciliation:			
Opening balance	25,569	8	25,577
Depreciation	(2,702)	(3)	(2,705)
Additions	438	-	438
Disposals	(37)	(5)	(42)
Revaluations	968	-	968
Net foreign exchange movements	(347)	-	(347)
Assets reclassified as held for sale	(563)	-	(563)
Right of use assets	23,326	-	23,326

30 September 2021

<i>\$ thousands</i>	Office space	Motor vehicles	Total
Composition:			
Cost	26,901	25	26,926
Accumulated depreciation	(1,332)	(17)	(1,349)
Right of use assets	25,569	8	25,577
Reconciliation:			
Opening balance	7,189	22	7,211
Depreciation for continuing operations	(2,242)	(14)	(2,256)
Depreciation for discontinued operations	(162)	-	(162)
Additions*	24,332	-	24,332
Disposals	(3,308)	-	(3,308)
Revaluations	(3)	-	(3)
Net foreign exchange movements	(237)	-	(237)
Right of use assets	25,569	8	25,577

* In August 2021 Tower entered into a new lease with a 10 year term for its Auckland premises. Tower recognised an initial right of use asset of \$24.0m and an initial lease liability of \$33.3m with the difference primarily representing lease incentives. Tower has assumed no renewals of the lease past the initial 10 year term for the right of use asset and lease liability.

Recognition and measurement

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

6.3a Amounts recognised in the Balance Sheet (continued)

(ii) Lease liabilities

<i>\$ thousands</i>	2022	2021
Composition:		
Current	6,237	6,082
Non-current	28,817	33,339
Lease liabilities	35,054	39,421
Due within 1 year	6,237	6,082
Due within 1 to 2 years	4,440	6,041
Due within 2 to 5 years	11,990	12,055
Due after 5 years	15,876	19,514
Discount	(3,489)	(4,271)
Lease liabilities	35,054	39,421

Recognition and measurement

Lease liabilities are recognised at the date Tower has the right to use the corresponding asset. Lease liabilities are initially measured as the present value of expected lease payments under lease arrangements. Lease liability will include any option to extend where it is reasonably certain that the option will be exercised. The lease payments are discounted using the incremental borrowing rate as the interest rate in the lease cannot be readily determined. The incremental borrowing rate is the rate of interest that Tower would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. Tower's incremental borrowing rate is based on bonds issued by financial institutions with similar credit rating and maturity profile. Incremental borrowing rates used during the year ranged between 1.9% and 5.0% (2021: between 1.9% and 3.6%).

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

b. Amounts recognised in the consolidated statement of comprehensive income

<i>\$ thousands</i>	Classification	2022	2021
Depreciation and impairment	Underwriting expense & corporate and other expenses	(2,705)	(2,252)
Interest expense	Finance costs	(897)	(363)
Gain on disposal	Other Income	12	1,179
Lease expense		(3,590)	(1,436)

c. Amounts recognised in the consolidated statement of cash flows

<i>\$ thousands</i>	2022	2021
Total cash outflow for lease principal payments	(6,044)	(2,684)

7 Tax

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

7.1 Tax expense

Composition

<i>\$ thousands</i>	2022	2021
Current tax	1,159	3,745
Deferred tax	6,593	5,785
Adjustments in respect of prior years	292	(395)
Tax expense	8,044	9,135
Tax expense from continuing operations	7,526	9,245
Tax expense from discontinued operations	518	(110)

Reconciliation of prima facie tax to income tax expense

<i>\$ thousands</i>	2022	2021
Profit before tax from continuing operations	25,200	27,647
Profit before tax from discontinued operations	1,699	803
Profit before taxation	26,899	28,450
Prima facie tax expense at 28% (2021: 28%)	7,532	7,966
Adjustments in respect of prior years	293	(395)
Tax effect of non-deductible expenses and non-taxable income	(732)	796
Foreign tax credits written off	371	861
Other	580	(93)
Tax expense	8,044	9,135

Recognition and measurement

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

7.2 Current tax

a. Current tax asset

<i>\$ thousands</i>	2022	2021
Excess tax payments related to prior periods*	12,038	12,038
Excess tax payments related to current period**	1,031	863
Current tax assets	13,069	12,901

* Expected to be recovered from 2024 as per the Board approved operational plan for 2023 to 2025.

** Excess tax payment made in the Pacific Islands during the reporting period.

b. Current tax liability

The current tax liability balance of \$136k (2021: \$170k) relates to taxes payable to offshore tax authorities in the Pacific Islands.

Recognition and measurement

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

7.3 Deferred tax

a. Deferred tax asset

Composition

<i>\$ thousands</i>	2022	2021
Tax losses recognised	23,716	24,116
Software, property, plant and equipment	1,989	2,834
Leases	352	373
Provisions and accruals	5,258	4,165
Recognised in profit or loss	31,315	31,488
Impact through other comprehensive income	-	-
Recognised in comprehensive profit or loss	31,315	31,488
Set-off of deferred tax liabilities pursuant to NZ IAS 12	(7,278)	(7,038)
Deferred tax asset	24,037	24,450
Deferred tax asset from continuing operations	23,893	24,450
Deferred tax asset from discontinued operations	144	-

Reconciliation of movements

<i>\$ thousands</i>	2022	2021
Opening balance	31,488	35,397
Movements recognised in profit or loss	(173)	(3,909)
Deferred tax asset pre NZ IAS 12 set off	31,315	31,488

7.3 Deferred tax (continued)

b. Deferred tax liability

Composition

<i>\$ thousands</i>	2022	2021
Deferred acquisition costs	(7,016)	(5,481)
Customer relationships	(4,412)	(3,433)
Software, property, plant and equipment	(4,163)	-
Other*	(203)	(461)
Recognised in profit or loss	(15,794)	(9,375)
Asset revaluation	(290)	(438)
Recognised in comprehensive profit or loss	(16,084)	(9,813)
Set-off of deferred tax liabilities pursuant to NZ IAS 12	7,278	7,038
Deferred tax liability	(8,806)	(2,775)

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

Reconciliation of movements

<i>\$ thousands</i>	2022	2021
Opening balance	(9,813)	(7,921)
Movements recognised in other comprehensive income	148	(16)
Movements recognised in profit or loss	(6,419)	(1,876)
Deferred tax liability pre NZ IAS 12 set off	(16,084)	(9,813)

Recognition and measurement

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

At the reporting date, the Group has recognised a deferred tax asset in respect of its unused tax losses of \$84.7m (2021: \$86.1m).

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

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

7.3 Deferred tax (continued)

Critical accounting judgements and estimates

Deferred tax assets are recognised for all unused tax losses to the extent it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likely timing and quantum of future taxable profits.

This assessment is completed on the basis of the approved strategic plans of Tower Limited and subsidiaries. Tower's ability to utilise these tax losses depends on the future profitability, shareholder continuity and no major change in Tower's business. The enactment of the new business continuity test in the Income Tax Act 2007 on 30 March 2021 for carrying forward tax losses means that Tower is able to carry forward its tax losses even if there is a significant shareholding change, as long as the business continuity test is met.

7.4 Imputation credits

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

<i>\$ thousands</i>	2022	2021
Imputation credits available for use in subsequent reporting periods	271	271

8 Other information

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

8.1 Notes to the consolidated statement of cash flow

Composition

<i>\$ thousands</i>	2022	2021
Cash at bank	54,422	88,740
Deposits at call	30,080	27,389
Cash and cash equivalents	84,502	116,129

The average interest rate at 30 September 2022 for deposits at call is 2.89% (2021: 0.25%).

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

<i>\$ thousands</i>	2022	2021
Profit after taxation from continuing operations	17,674	18,402
Adjusted for non-cash items		
Depreciation of property, plant and equipment	2,287	2,182
Depreciation, impairment and disposals of right of use assets	2,705	2,252
Amortisation of intangible assets	14,723	12,556
Financing costs	897	363
Fair value losses on financial assets	5,337	4,568
Gain on disposal of fixed assets	(24)	319
Change in deferred tax	6,452	5,731
Adjusted for movements in working capital		
Change in receivables	(30,495)	41,957
Change in payables	41,445	6,888
Change in taxation	(695)	1,601
Net cash inflows from operating activities from continuing operations	60,306	96,819
Cashflows from operating activities from discontinued operations	(522)	1,276
Net cash inflows from operating activities	59,784	98,095

8.2 Related party disclosures

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

<i>\$ thousands</i>	2022	2021
Salaries and other short term employee benefits	4,466	4,799
Long term benefits	773	260
Termination benefits	748	486
Director fees	676	723
Related party remuneration	6,663	6,268

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

The Board has decided to implement a share based long term incentive scheme with effect from 1 October 2022.

During the year ended 30 September 2022, Tower Limited acquired the minority shareholding of National Pacific Insurance Limited. Refer Note 5.1.

Definition

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

8.3 Auditor's remuneration

<i>\$ thousands</i>	2022	2021
Audit of financial statements*	612	599
Other assurance services**	63	60
Total fees paid to Group's auditors	675	659
Fees paid to subsidiaries' auditors different to Group auditors:		
Audit of financial statements***	16	14
Auditors remuneration	691	673

* Audit of financial statements includes fees for both the audit of annual financial statements and the review of the interim financial statements. PwC Fiji performs the audits of all overseas incorporated subsidiaries with the support of PwC New Zealand and other PwC network firms. \$129.6k is paid to other PwC network firms (non New Zealand) for their audit services.

** Other assurance services includes annual solvency return assurance and Pacific Island regulatory return audits. The other assurance services for the year ended 30 September 2021 were completed during the year ended 30 September 2022.

*** The audit of Tower Insurance (Vanuatu) Limited was performed by Law Partners (2021: Law Partners).

8.4 Discontinued operation and asset held for sale

On 10 June 2022 Tower announced the conditional sale of all of its shares in its Papua New Guinea subsidiary to Alpha Insurance Limited for a sale price of AUD 7.9m, subject to settlement adjustments. The sale was still conditional as at 30 September 2022 and so the Group's Papua New Guinea Operations constitutes a discontinued operation and is classified as held for sale as at 30 September 2022.

Subsequently, the sale became unconditional and was completed on 28 October 2022, for a revised price of PGK 22m, subject to settlement adjustments and transaction costs. The estimated gain on sale that will be included in profit or loss after tax, including reclassifications of amounts in the foreign currency translation reserve, is approximately \$2.1m, however at the time these financial statements were prepared a final calculation of the gain on sale had not been completed.

At 30 September 2022, Tower was actively marketing the Suva building for sale. The recoverable amount of the building of \$4.5m is included in the property, plant and equipment disclosed below. The sale is expected to be completed within a year from the reporting date.

The sale of the Suva building was approved by the Board on 3 November 2022. Refer note 8.6.

Assets and liabilities classified as held for sale

<i>\$ thousands</i>	2022
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 operations 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.

8.4 Discontinued operation and asset held for sale (continued)

Profit from discontinued operation		
<i>\$ thousands</i>	2022	2021
Gross written premium	8,055	8,678
Unearned premium movement	629	232
Gross earned premium	8,684	8,910
Outward reinsurance premium	(3,187)	(3,426)
Movement in deferred reinsurance premium	(58)	(46)
Outward reinsurance premium expense **	(3,245)	(3,472)
Net earned premium	5,439	5,438
Claims expense	(1,907)	(1,983)
Less: Reinsurance and other recoveries revenue	695	34
Net claims expense	(1,212)	(1,949)
Gross commission expense	(310)	(391)
Commission revenue	288	292
Net commission expense	(22)	(99)
Underwriting expense **	(2,559)	(2,591)
Underwriting profit	1,646	799
Investment income	50	21
Other income/(expense)	15	(2)
Financing and other costs	(12)	(15)
Profit before taxation	1,699	803
Tax expense	(518)	110
Profit after taxation from discontinued operation	1,181	913

** Tower PNG paid fees to other members of the Tower Group of \$2.4m during the financial year ended 30 September 2022 (2021: \$2.5m), 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.

Earnings per share		
	2022	2021
Basic and diluted earnings per share (cents) for discontinued operations	0.30	0.22

The currency translation differences recognised in other comprehensive income during the period ending 30 September 2022 in relation to the discontinued operation were \$1.1m.

8.5 Contingent liabilities

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

The Group has no other contingent liabilities.

8.6 Subsequent events

On 6 October 2022, Tower entered an agreement with Kiwibank to purchase the rights and obligations relating to servicing the insurance policies of a group of customers underwritten by Tower for \$5.9m payable on 1 December 2022.

On 28 October 2022, Tower completed the sale of Tower Insurance (PNG) Limited, refer note 8.4 for more information.

On 3 November 2022, the Board approved the sale of Suva building at a price of FJD 8.2m which, after allowing for transaction costs and taxes, is greater than the book value of this asset recorded in these financial statements. The estimated gain on sale to be recognised in profit or loss after tax is approximately \$1.1m, however at the time these financial statements were prepared a final calculation of the gain on sale had not been completed.

On 23 November 2022, the Board approved a full year dividend of 4 cents per share, with the dividend being payable on 1 February 2023 as specified by Note 5.5. The anticipated cash impact of the final dividend is approximately \$15.2m.

8.7 Capital commitments

As at 30 September 2022, Tower has nil capital commitments (2021: nil).

8.8 Impact of new accounting standards and changes in interpretation of current accounting standards

New accounting standards

No new accounting standards were implemented during the year with a material effect on Tower.

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. The standard introduces substantial changes in the presentation of financial statements and disclosures, introducing new balance sheet and income statement line items and increased disclosure requirements compared with existing reporting.

IFRS 17 contains three new measurement models. The general model measures insurance contracts based on the fulfilment cash flows (the present value of estimated future cash flows with an explicit risk adjustment for non-financial risk) and the contractual service margin (the unearned profit that will be recognised as services are provided over the coverage period). A modified version of the general model (the variable fee approach) is applied to insurance contracts with direct participation features, and a simplified measurement model (the premium allocation approach, or "PAA") is permitted in certain circumstances. The PAA is similar to the current measurement model used for general insurance. Tower expects all its current insurance contracts and reinsurance contracts will meet the requirements of the PAA.

8.8 Impact of new accounting standards and changes in interpretation of current accounting standards (continued)

Under the PAA, insurance and reinsurance contracts will be aggregated together into portfolios based on the contracts having similar risks and being managed together, and then divided into groups based on the expected profitability of contracts and the periods in which the contracts are written. Insurance contracts and reinsurance contracts are measured separately. Under the aggregation requirements, the identification and measurement of contracts that are expected to be loss making will be performed at a lower granularity than occurs for the liability adequacy test under current accounting standards, with any loss component recognised on initial recognition.

IFRS 17 makes changes to the way that discount rates are applied to future cash flows, with discount rates required to reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. Tower has determined that it will not discount insurance assets and liabilities for remaining coverage unless the time between the provision of the services and the premiums received will be more than one year. Insurance assets and liabilities for incurred claims will be discounted to reflect the time value of money. The methodology for deriving the discount rate is currently being finalised, with Tower expecting to apply the bottom-up approach, whereby a risk-free yield curve is adjusted through the addition of an illiquidity premium.

IFRS 17 allows a choice between expensing acquisition costs related to the fulfilment cash flows immediately, or deferring them. Tower expects to defer acquisition costs and amortise them over the coverage period of the related insurance contracts.

IFRS 17 requires a risk adjustment for non-financial risk to be applied to reflect the compensation an entity requires for bearing uncertainty about the amount and timing of cash flows. This differs from the risk margin used under IFRS 4, which reflects the inherent uncertainty in the central estimate of future claims cash flows. Tower is developing its framework for determining the risk adjustment and expects to use a confidence level approach.

IFRS 17 also introduces significant changes to the presentation of insurance contracts. Assets and liabilities related to portfolios of insurance contracts and reinsurance contracts will be shown separately on the balance sheet, replacing current insurance related line such as premium receivables, deferred insurance costs and unearned premiums. In the consolidated statement of comprehensive income Tower will present income and expenses related to insurance contracts gross of reinsurance, which will be disclosed separately.

Tower has a programme to assess the impact of adopting NZ IFRS 17 and to project manage the transition to the new standard including system development. Tower has completed a proposed accounting policy framework under NZ IFRS 17, subject to approval by the Board, and systems development work is in the implementation phase.

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 report To the shareholders of Tower Limited

Our opinion

In our opinion, the accompanying consolidated financial statements of Tower Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 September 2022, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 30 September 2022;
 - the consolidated statement of comprehensive income for the year then ended;
 - the consolidated statement of changes in equity for the year then ended;
 - the consolidated statement of cash flows for the year then ended; and
 - the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.
-

Basis for opinion

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

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

Independence

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

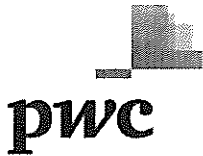
Our firm carries out other assurance services for the Group over solvency and regulatory insurance returns. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. The provision of these other services and relationships have not impaired our independence as auditor of the Group.

Key audit matters

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

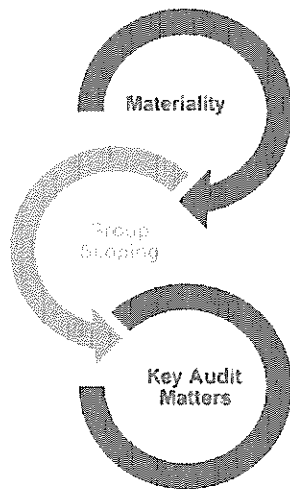


Description of the key audit matter	How our audit addressed the key audit matter
<p>(1) Valuation of outstanding claims (2022: \$124,531,000, 2021: \$122,338,000)</p> <p>We considered the valuation of outstanding claims a key audit matter as it involves an estimation process combined with significant judgements and assumptions, made by management, to estimate future cash outflows to settle claims.</p> <p>The outstanding claims liability includes a central estimate of the future cash outflows relating to claims incurred, as at and prior to the reporting date, and the expected costs of handling those claims. There is uncertainty over the amount that reported claims and claims incurred at the reporting date but not yet reported to the Group will ultimately be settled at. The estimation process relies on the quality of underlying claims data and the use of informed estimates to determine the quantum of the ultimate loss.</p> <p>Key actuarial assumptions applied in the valuation of outstanding claims (excluding Canterbury earthquakes) include:</p> <ul style="list-style-type: none"> • expected future claims development proportion; and • claims handling expense ratios. <p>Outstanding claims in relation to the Canterbury earthquakes have a greater degree of uncertainty and judgement. This mainly arises due to the uncertainty as to further deterioration of open known claims, the Earthquake Commission (EQC) reporting of new claims to the Group which have gone over the \$100,000 statutory liability cap (over cap claims), new litigation claims, reopening of closed claims, expected claims costs for open claims and estimates of future claims management expenses.</p> <p>Changes in assumptions can lead to significant movements in the outstanding claims liability.</p>	<p>Claims data is a key input to the actuarial estimates. Accordingly, we:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness and tested controls over claims processing; • assessed a sample of claim case estimates at the year end to check that they were supported by an appropriate management assessment and documentation; • assessed, on a sample basis, the accuracy of previous claim case estimates by comparing to the actual amount settled during the year and analysed any escalation in the claim case estimate to determine whether such escalation was based on new information available during the year; • inspected a sample of claims paid during the year to confirm that they are supported by appropriate documentation and approved within delegated authority limits; and • tested the integrity of data used in the actuarial models by agreeing relevant model inputs, such as claims data, to source, on a sample basis. <p>Together with our actuarial experts, we:</p> <ul style="list-style-type: none"> • considered the work and findings of the actuaries engaged by Tower; • evaluated the actuarial models and methodologies used, and any changes to them, by comparing with generally accepted models and methodologies applied in the sector; • assessed key actuarial judgements and assumptions and challenged them by comparing with our expectations based on Tower's experience, our own sector knowledge and independently observable industry trends (where applicable); • tested on a sample basis, the underlying calculations in certain valuation models; and • assessed the risk margin by comparing to known industry practice. In particular we focused on the assessed level of uncertainty in the central estimate and the inherent uncertainty in the remaining Canterbury earthquake claims and consistency of the risk margin with prior periods.



Description of the key audit matter	How our audit addressed the key audit matter
<p>The outstanding claims liability includes a risk margin that allows for the inherent uncertainty in the central estimate of future claim cash outflows. In determining the risk margin, the Group makes judgements about the volatility of each class of business written and the correlation between different geographical locations. Refer to note 2.4 to the consolidated financial statements.</p> <p>(2) Recoverability of the deferred tax asset arising from tax losses (2022: \$23,716,000, 2021: \$24,116,000)</p> <p>The majority of the Group's deferred tax asset arises from tax losses. We considered recoverability of the deferred tax asset a key audit matter because utilisation of the asset is sensitive to the Group's expected future profitability and sufficient continuity of the ultimate shareholders or business continuity. Management judgement is involved in forecasting the timing and quantum of future taxable profits, which are inherently uncertain, and whether it is probable the tax losses will be utilised in the foreseeable future. Refer to note 7.3 to the consolidated financial statements.</p>	<p>In considering the recoverability of the deferred tax asset arising from tax losses we performed the following procedures:</p> <ul style="list-style-type: none"> • compared the previous management budget with actual results to assess the reliability of management's forecasting; • considered the reasonableness of the assumptions in the year ending 30 September 2023 operational plan on the forecast utilisation of tax losses; • assessed the Group's ability to maintain sufficient continuity of the ultimate shareholders or to meet the business continuity test and therefore its entitlement to offset the tax losses against future taxable profits; and • determined whether it was probable (more likely than not) that the tax losses would be utilised in the foreseeable future.

Our audit approach Overview



Overall group materiality: \$4.5 million, which represents approximately 1% of gross written premium from continuing and discontinued operations.

We chose gross written premium as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark for insurance companies.

A full scope audit was performed for the Company based on its financial significance to the Group. Specified audit procedures were performed on financial statement line items of certain subsidiaries and analytical review procedures were performed on remaining Group entities.

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

- Valuation of outstanding claims
 - Recoverability of the deferred tax asset arising from tax losses
-

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

How we tailored our group audit scope

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

Chartered Accountants
23 November 2022

Auckland

23 November 2022

The Directors
Tower Limited
136 Fanshawe Street
Auckland 1010

Dear Directors

Review of Actuarial Information contained in the financial statements

As required by Section 78 of IPSA the Appointed Actuary, Geoff Atkins of Finity Consulting, has reviewed the actuarial information contained in, or used in the preparation of, the financial statements at 30 September 2022. Geoff Atkins and Finity have no relationship with or interest in Tower other than being a provider of actuarial services.

I prepared the actuarial valuation of liabilities remaining from the Canterbury Earthquakes and reviewed the actuarial valuations of insurance liabilities for the New Zealand business and the Pacific Islands businesses. I reviewed the other actuarial information as specified by IPSA in Section 77, including the solvency calculations for the financial statements.

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

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

In my opinion the company has maintained a solvency margin in excess of the minimum required as at 30 September 2022.

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

Yours sincerely



Geoff Atkins (Appointed Actuary)
Fellows of the New Zealand Society of Actuaries



Anagha Pasche
Fellows of the New Zealand Society of Actuaries