

# Tower Limited

## Consolidated interim financial statements

for the half year ended 31 March 2021

# Consolidated interim financial statements

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# Consolidated statement of comprehensive income

For the half year end 31 March 2021

<i>\$ thousands</i>	Note	31-Mar-21	31-Mar-20
Gross written premium		194,563	183,627
Unearned premium movement		1,317	3,708
Gross earned premium		195,880	187,335
Outward reinsurance premium		(27,320)	(28,271)
Movement in deferred reinsurance premium		(804)	342
Outward reinsurance premium expense		(28,124)	(27,929)
<b>Net earned premium</b>		<b>167,756</b>	159,406
Claims expense		(106,146)	(94,509)
Less: Reinsurance and other recoveries revenue		4,683	6,582
Net claims expense	2.1	(101,463)	(87,927)
Gross commission expense		(10,194)	(10,402)
Commission revenue		2,047	3,504
Net commission expense		(8,147)	(6,898)
Underwriting expenses		(40,704)	(43,995)
<b>Underwriting profit</b>		<b>17,442</b>	20,586
Investment income	3.1	716	2,242
Investment expenses		(241)	(243)
Other income		213	103
Other expenses		(26)	(29)
Financing and other costs		(137)	(591)
<b>Profit before taxation</b>		<b>17,967</b>	22,068
Tax expense		(5,936)	(7,207)
<b>Profit after taxation</b>		<b>12,031</b>	14,861
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		(1,418)	1,396
<i>Items that will not be reclassified to profit or loss</i>			
Other reserves		(6)	-
Other comprehensive income net of tax		(1,424)	1,396
<b>Total comprehensive income for the half year</b>		<b>10,607</b>	16,257
<b>Earnings per share:</b>			
Basic and diluted profit per share (cents)	5.2	2.7	3.5
<b>Profit after taxation attributed to:</b>			
Shareholders		11,501	14,410
Non-controlling interests		530	451
		12,031	14,861
<b>Total comprehensive income attributed to:</b>			
Shareholders		10,079	15,807
Non-controlling interests		528	450
		10,607	16,257

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

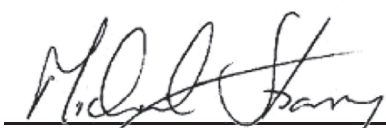
# Consolidated balance sheet

As at 31 March 2021

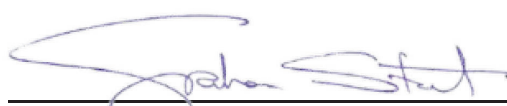
<i>\$ thousands</i>	Note	31-Mar-21	30-Sep-20
<b>Assets</b>			
Cash and cash equivalents	7.1	85,127	80,108
Investments	3.2	267,481	237,904
Receivables	2.3	197,801	250,746
Current tax assets		12,892	12,892
Deferred tax assets		22,328	26,832
Deferred insurance costs		30,854	34,667
Right-of-use assets		6,161	7,211
Property, plant and equipment		9,385	10,041
Intangible assets	6.1	97,284	84,954
<b>Total assets</b>		<b>729,313</b>	<b>745,355</b>
<b>Liabilities</b>			
Payables		48,135	66,600
Unearned premiums		201,319	203,452
Outstanding claims	2.2	105,538	107,747
Lease liabilities		7,515	8,695
Provisions		6,761	9,531
Current tax liabilities		908	821
Deferred tax liabilities		1,367	1,346
<b>Total liabilities</b>		<b>371,543</b>	<b>398,192</b>
<b>Net assets</b>		<b>357,770</b>	<b>347,163</b>
<b>Equity</b>			
Contributed equity	5.1	492,424	492,424
Accumulated losses		(31,514)	(42,990)
Reserves		(105,828)	(104,431)
<b>Total equity attributed to shareholders</b>		<b>355,082</b>	<b>345,003</b>
Non-controlling interests		2,688	2,160
<b>Total equity</b>		<b>357,770</b>	<b>347,163</b>

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

The interim financial statements were approved for issue by the Board on 26 May 2021.



Michael P Stiasny  
Chairman



Graham R Stuart  
Director

# Consolidated statement of changes in equity

As at 31 March 2021

\$ thousands	Attributed to Shareholders				Total Equity
	Contributed equity	(Accumulated losses) / Retained earnings	Reserves	Non-controlling interest	
<b>Half year ended 31 March 2021</b>					
Balance as at 30 September 2020	492,424	(42,990)	(104,431)	2,160	347,163
<b>Comprehensive income</b>					
Profit for the half year	-	11,501	-	530	12,031
Currency translation differences	-	-	(1,416)	(2)	(1,418)
Other	-	(25)	19	-	(6)
<b>Total comprehensive income</b>	<b>-</b>	<b>11,476</b>	<b>(1,397)</b>	<b>528</b>	<b>10,607</b>
<b>Transactions with shareholders</b>					
Net proceeds of capital raise	-	-	-	-	-
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At the end of the half year</b>	<b>492,424</b>	<b>(31,514)</b>	<b>(105,828)</b>	<b>2,688</b>	<b>357,770</b>

## Half year ended 31 March 2020

Balance as at 30 September 2019	209,990	(36,101)	9,808	1,801	185,498
Impact of amalgamation	-	107,160	-	-	107,160
Balance post amalgamation	209,990	71,059	9,808	1,801	292,658
Adjustment on initial application of NZIFRS16	-	(1,333)	-	(4)	(1,337)
Restated balance at beginning of the year	209,990	69,726	9,808	1,797	291,321
<b>Comprehensive income</b>					
Profit for the half year	-	14,410	-	451	14,861
Currency translation differences	-	-	1,399	(3)	1,396
<b>Total comprehensive income</b>	<b>-</b>	<b>14,410</b>	<b>1,399</b>	<b>448</b>	<b>16,257</b>
<b>Transactions with shareholders</b>					
Net proceeds of capital raise	45,001	-	-	-	45,001
<b>Total transactions with shareholders</b>	<b>45,001</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,001</b>
<b>At the end of the half year</b>	<b>254,991</b>	<b>84,136</b>	<b>11,207</b>	<b>2,245</b>	<b>352,579</b>

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

Please note, Tower amalgamated its corporate structure on 30 September 2020. The impact of amalgamation and how it has been treated by Tower in its financial statements is detailed in the 2020 Annual Report; specifically: note 1.2(c), 5.2, and 8.2.

# Consolidated statement of cash flows

For the half year ended 31 March 2021

<i>\$ thousands</i>	Note	31-Mar-21	31-Mar-20
<b>Cash flows from operating activities</b>			
Premiums received		195,216	188,372
EQC settlement receipt*		42,142	-
Interest received		2,555	4,015
Fee and other income received		1,406	3,578
Reinsurance and other recoveries received		10,716	5,982
Reinsurance paid		(33,866)	(29,090)
Claims paid		(108,353)	(112,473)
Employee and supplier payments		(49,663)	(55,534)
Income tax paid		(1,325)	(816)
<b>Net cash inflow from operating activities</b>	7.1	<b>58,828</b>	4,034
<b>Cash flows from investing activities</b>			
Proceeds from sale of interest bearing investments		66,010	27,032
Proceeds from sale of unlisted equity investments		572	-
Payments for purchase of interest bearing investments		(98,413)	(24,208)
Payments for purchase of intangible assets		(4,776)	(4,660)
Payments for purchase of customer relationships**		(14,000)	(9,473)
Payments for purchase of property, plant & equipment		(470)	(1,799)
<b>Net cash outflow from investing activities</b>		<b>(51,077)</b>	(13,108)
<b>Cash flows from financing activities</b>			
Proceeds from share capital issuance		-	47,299
Payments for cost of share capital issuance		-	(2,298)
Facility fees and interest paid		(137)	(581)
Payment relating to principal element of lease liabilities		(1,190)	(1,424)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(1,327)</b>	42,996
<b>Net increase in cash and cash equivalents</b>		<b>6,424</b>	33,922
Effect of foreign exchange rate changes		(1,405)	487
Cash and cash equivalents at the beginning of the half year		80,108	67,018
<b>Cash and cash equivalents at the end of the half year</b>		<b>85,127</b>	101,427

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

\* This represents the net proceeds (i.e. after distribution to reinsurers) received in settlement of the EQC receivable in respect of claims costs related to the 2010 and 2011 Christchurch earthquakes. Please refer to note 2.3 for more information.

\*\* 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 6.1 for more information. The comparative 2020 balance reflects the net cashflow associated with the purchase of Youi NZ Pty Ltd's insurance portfolio.

# Notes to the interim financial statements

## 1 Overview

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

### 1.1 About this Report

#### a. Entities reporting

The interim financial statements presented are those of Tower Limited and all of its subsidiaries (the "Group"). The address of the Group's registered office is 45 Queen Street, Auckland, New Zealand.

#### b. Statutory base

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

#### c. Basis of preparation

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

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2020, which have been prepared in accordance with International Financial Reporting Standards and New Zealand Equivalents to International Financial Reporting Standards.

The interim financial statements for the six months ended 31 March 2021 are unaudited.

#### d. Accounting policies

The principal accounting policies adopted in the preparation of the interim financial statements are consistent with those of the audited annual financial statements for the year ended 30 September 2020.

### 1.2 Critical accounting judgments and estimates

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

Net outstanding claims	Note 2.4, Annual Report (30 September 2020)
Intangible assets and goodwill	Note 6.2, Annual Report (30 September 2020)
Deferred taxation	Note 7.3, Annual Report (30 September 2020)

### 1.3 Segmental reporting

#### a. Operating segments

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

#### b. Financial performance

<i>\$ thousands</i>	New Zealand	Pacific Islands	Other	Total
<b>Half year ended 31 March 2021</b>				
Gross written premium	169,189	25,374	-	194,563
Gross earned premium - external	168,311	27,569	-	195,880
Outwards reinsurance expense	(19,638)	(8,486)	-	(28,124)
<b>Net earned premium</b>	<b>148,673</b>	<b>19,083</b>	-	<b>167,756</b>
Net claims expense	(98,236)	(3,227)	-	(101,463)
Net commission expense	(7,303)	(844)	-	(8,147)
Underwriting expense	(34,202)	(6,502)	-	(40,704)
<b>Underwriting profit</b>	<b>8,932</b>	<b>8,510</b>	-	<b>17,442</b>
Net investment income	391	84	-	475
Other	10	40	-	50
<b>Profit before tax</b>	<b>9,333</b>	<b>8,634</b>	-	<b>17,967</b>
<b>Profit after tax</b>	<b>5,984</b>	<b>6,047</b>	-	<b>12,031</b>

#### *Half year ended 31 March 2020*

Gross written premium	153,590	30,037	-	183,627
Gross earned premium - external	156,094	31,241	-	187,335
Outwards reinsurance expense	(18,925)	(9,004)	-	(27,929)
Net earned premium	137,169	22,237	-	159,406
Net claims expense	(81,011)	(6,916)	-	(87,927)
Net commission expense	(5,538)	(1,360)	-	(6,898)
Underwriting expense	(37,247)	(6,748)	-	(43,995)
Underwriting profit	13,373	7,213	-	20,586
Net investment income	1,484	515	-	1,999
Other	(540)	23	-	(517)
Profit before tax	14,317	7,751	-	22,068
Profit after tax	9,730	5,131	-	14,861

#### c. Financial position

<b>Total assets 31 March 2021</b>	<b>638,606</b>	<b>101,322</b>	<b>(10,615)</b>	<b>729,313</b>
Total assets 30 September 2020	650,594	105,376	(10,615)	745,355
<b>Total liabilities 31 March 2021</b>	<b>320,174</b>	<b>52,075</b>	<b>(706)</b>	<b>371,543</b>
Total liabilities 30 September 2020	337,408	61,096	(312)	398,192
<b>Total equity 31 March 2021</b>	<b>318,432</b>	<b>49,247</b>	<b>(9,909)</b>	<b>357,770</b>
Total equity 30 September 2020	313,186	44,280	(10,303)	347,163



## 2 Underwriting activities

This section provides information on Tower's underwriting activities.

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

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

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

### 2.1 Net claims expense

\$ thousands	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	31-Mar-21	31-Mar-20	31-Mar-21	31-Mar-20	31-Mar-21	31-Mar-20
Gross claims expense*	105,817	92,333	329	1,809	106,146	94,509
Reinsurance and other recoveries revenue	(4,089)	(5,982)	(594)	(233)	(4,683)	(6,582)
<b>Net claims expense</b>	<b>101,728</b>	<b>86,351</b>	<b>(265)</b>	<b>1,576</b>	<b>101,463</b>	<b>87,927</b>

\* Includes \$2.5m reduction in Canterbury earthquake additional risk margin. See note 2.2 for more information.

### 2.2 Net outstanding claims

\$ thousands	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	31-Mar-21	30-Sep-20	31-Mar-21	30-Sep-20	31-Mar-21	30-Sep-20
Central estimate of future cash flows	70,567	65,475	17,232	21,236	87,799	86,711
Claims handling expense	4,288	4,151	1,619	1,908	5,907	6,059
Risk Margin*	4,194	4,325	7,638	10,652	11,832	14,977
<b>Gross outstanding claims</b>	<b>79,049</b>	<b>73,951</b>	<b>26,489</b>	<b>33,796</b>	<b>105,538</b>	<b>107,747</b>
Reinsurance recoveries	(7,698)	(9,643)	(3,147)	(3,246)	(10,845)	(12,889)
<b>Net outstanding claims</b>	<b>71,351</b>	<b>64,308</b>	<b>23,342</b>	<b>30,550</b>	<b>94,693</b>	<b>94,858</b>

\* Includes additional \$2.5m (Sept 2020: \$5.0m) for the Canterbury earthquake over and above the provision of the Appointed Actuary, which is set at the 75th percentile of sufficiency. The Board determined to release \$2.5m of this additional risk margin during the period to reflect the reducing risk in relation to Canterbury earthquake claims. The remaining \$2.5m additional risk margin will be reviewed at 30 September 2021.

**2.3 Receivables**

<i>\$ thousands</i>	<b>31-Mar-21</b>	30-Sep-20
Gross premium receivables	169,072	171,041
Provision for impairment	(1,558)	(1,383)
<b>Premium receivables</b>	<b>167,514</b>	169,658
Reinsurance recoveries (non Canterbury earthquake)	15,957	15,105
Canterbury earthquake reinsurance recoveries	3,147	3,246
Other recoveries	5,286	5,262
<b>Reinsurance and other recoveries</b>	<b>24,390</b>	23,613
Canterbury EQC earthquake receivables*	-	52,883
Prepayments	3,418	2,664
Miscellaneous receivables	2,479	1,928
<b>Receivables</b>	<b>197,801</b>	250,746

\*Tower received \$52.9m (excluding GST) from the settlement agreement with EQC regarding the recovery of claims costs related to the 2010 and 2011 Christchurch Earthquakes during the period. Tower fully reimbursed amounts payable to reinsurers of \$10.7m and settled other outstanding costs during the period. Tower's net proceeds from this settlement were \$42.1m.

### 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 bank bonds.

#### 3.1 Investment income

<i>\$ thousands</i>	<b>31-Mar-21</b>	31-Mar-20
Interest income	2,695	4,016
Net realised loss	(463)	(514)
Net unrealised loss	(1,516)	(1,260)
<b>Investment income</b>	<b>716</b>	<b>2,242</b>

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

#### 3.2 Investments

<i>\$ thousands</i>	<b>31-Mar-21</b>	30-Sep-20
Fixed interest investments	267,447	237,298
Equity investments	-	572
Property investment	34	34
<b>Investments</b>	<b>267,481</b>	<b>237,904</b>

#### 3.3 Fair value hierarchy

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

<i>\$ thousands</i>	Level 1	Level 2	Level 3	Total
<b>As at 31 March 2021</b>				
Fixed interest investments	-	267,447	-	267,447
Property investment	-	34	-	34
<b>Investments</b>	<b>-</b>	<b>267,481</b>	<b>-</b>	<b>267,481</b>

As at 30 September 2020

Fixed interest investments	-	237,298	-	237,298
Equity investments	-	-	572	572
Property investment	-	34	-	34
<b>Investments</b>	<b>-</b>	<b>237,332</b>	<b>572</b>	<b>237,904</b>

Tower sold its investment in the unlisted reinsurance company Pacific Re in November 2020. It was sold at its carrying value as at 30 September 2020.

## 4 Risk Management

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

### 4.1 Capital management risk

#### Regulatory solvency capital

\$ thousands	31-Mar-21		30-Sep-20	
	Parent	Group	Parent	Group
Actual solvency capital	180,443	214,441	150,451	181,214
Minimum solvency capital	58,315	71,032	52,342	65,728
<b>Solvency margin</b>	<b>122,127</b>	<b>143,409</b>	98,110	115,485
<b>Solvency ratio</b>	<b>309%</b>	<b>302%</b>	287%	276%

The Reserve Bank of New Zealand ("RBNZ") reduced the minimum solvency margin required to be held by Tower under its licence condition from \$50m to \$25m in March 2021.

## 5 Capital Structure

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

### 5.1 Contributed equity

<i>\$ thousands</i>	31-Mar-21	30-Sep-20
Opening balance	492,424	209,990
Issue of share capital	-	45,000
Cancellation of shares on amalgamation	-	(254,990)
Recognition of shares on amalgamation	-	492,424
<b>Total contributed equity</b>	<b>492,424</b>	<b>492,424</b>
<i>Represented by:</i>		
Opening balance	421,647,258	211,107,758
Issued shares	-	45,000,000
Cancellation of shares on amalgamation	-	(256,107,758)
Recognition of shares on amalgamation	-	421,647,258
<b>Total shares on issue</b>	<b>421,647,258</b>	<b>421,647,258</b>

### 5.2 Earnings per share

	31-Mar-21	31-Mar-20
Profit attributable to shareholders (\$ thousands)	11,501	14,410
Weighted average number of ordinary shares for basic and diluted earnings per share (number of shares)	421,647,258	412,698,050
<b>Basic and diluted earnings per share (cents)</b>	<b>2.7</b>	<b>3.5</b>

## 6 Other balance sheet items

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

### 6.1 Intangible assets

#### As at 31 March 2021

<i>\$ thousands</i>	Goodwill	Software	Customer Relationships*	Total
<b>Composition:</b>				
Cost	17,744	103,127	28,222	<b>149,093</b>
Accumulated amortisation	-	(48,355)	(3,454)	<b>(51,809)</b>
<b>Intangible Assets</b>	<b>17,744</b>	<b>54,772</b>	<b>24,768</b>	<b>97,284</b>
<b>Reconciliation:</b>				
<b>Opening balance</b>	<b>17,744</b>	<b>54,972</b>	<b>12,238</b>	<b>84,954</b>
Amortisation	-	(4,976)	(1,470)	(6,446)
Additions	-	5,402	14,000	19,402
Disposals	-	(237)	-	(237)
Transfers	-	(389)	-	(389)
<b>Closing Balance</b>	<b>17,744</b>	<b>54,772</b>	<b>24,768</b>	<b>97,284</b>

#### As at 30 September 2020

##### Composition:

Cost	17,744	98,351	14,222	130,317
Accumulated amortisation	-	(43,379)	(1,984)	(45,363)
<b>Intangible Assets</b>	<b>17,744</b>	<b>54,972</b>	<b>12,238</b>	<b>84,954</b>

##### Reconciliation:

Opening balance	17,744	56,467	-	74,211
Amortisation	-	(8,866)	(1,984)	(10,850)
Additions	-	7,534	14,222	21,756
Disposals	-	(43)	-	(43)
Transfers	-	(120)	-	(120)
<b>Closing Balance</b>	<b>17,744</b>	<b>54,972</b>	<b>12,238</b>	<b>84,954</b>

\*Tower acquired and assumed ANZ's rights and obligations relating to servicing a portfolio of insurance underwritten by Tower. Tower provided insurance for ANZ and National Bank customers between 1990 and 2009 and continues to cover over 23,000 people under those policies. On completion of the acquisition of the rights and obligations these customers will be insured directly by Tower under a Tower branded policy. The amount capitalised includes the price paid for acquiring the portfolio outright and associated acquisition costs. The asset will be amortised over a 5 to 10 year period, with the pattern of amortisation being aligned with expected net cashflow benefits over this period.

## 7 Other information

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

### 7.1 Notes to the consolidated statement of cash flows

#### Composition of Cash and cash equivalents

<i>\$ thousands</i>	<b>31-Mar-21</b>	31-Mar-20
Cash at bank	<b>67,357</b>	46,221
Deposits at call	<b>17,770</b>	54,645
Restricted cash	-	561
<b>Cash and cash equivalents</b>	<b>85,127</b>	101,427

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

<b>Profit for the half year</b>	<b>12,031</b>	14,861
<b>Adjusted for non-cash items</b>		
Depreciation of property, plant and equipment	1,052	1,004
Depreciation, impairment and disposals of right-of-use assets	1,123	1,351
Amortisation of intangible assets	6,446	4,869
Fair value losses on financial assets	1,978	1,773
Change in deferred tax	4,525	4,867
<b>Adjusted for movements in working capital</b>		
Change in receivables	57,031	(483)
Change in payables	(25,581)	(25,561)
Change in taxation	86	772
<b>Adjusted for financing activities</b>		
Facility fees and interest paid	137	581
<b>Net cash inflows from operating activities</b>	<b>58,828</b>	4,034

## 7.2 Contingent liabilities

### *Claims and disputes*

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

### *Reinsurance programme*

During preparation for the FY22 reinsurance programme, a review of the FY21 programme identified that a number of policies were omitted in the original dataset provided to the reinsurers. This was caused by the process of migration of policies to Tower's new platform. Tower is working with its reinsurance advisor and reinsurers to understand the consequences of the data omission, and the impact, if any, on the total FY21 reinsurance expense. At this stage, as any financial impact is both uncertain and cannot be reliably measured, no provision has been made at this time.

The Group has no other contingent liabilities.

## 7.3 Subsequent events

An interim dividend of 2.5 cents per share was declared on 26 May 2021, with the dividend being payable on 14 July 2021. The anticipated cash impact of the interim dividend is approximately \$10.5m.

## 7.4 Capital commitments

As at 31 March 2021, Tower has entered into a new lease commitment for its Auckland premises. The lease will be for a term of 10 years with commencement expected towards the end of the 2021 financial year. Upon commencement, Tower estimates that it will recognise an initial right-of-use asset of approximately \$21.6m and an initial lease liability of approximately \$30.6m with the difference primarily representing lease incentives.

## 7.5 Change in comparatives

### *Amalgamation Update*

Tower amalgamated its corporate structure on 30 September 2020 and no longer has specific corporate entities. The statement of comprehensive income has been updated to reflect this change. "Corporate and other expenses" has been renamed "other expenses" and corporate expenses have been moved to underwriting expenses (total \$1.6m). "Corporate and other income" has been renamed "other income". All income that was previously defined as corporate remains. In addition in note 1.3 the segment "Other" has been updated to remove Corporate entities.





## Independent auditor's review report

To the shareholders of Tower Limited

### Report on the consolidated interim financial statements

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#### Our conclusion

We have reviewed the consolidated interim financial statements of Tower Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 March 2021, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half year ended on that date, and selected explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements of the Group do not present fairly, in all material respects, the consolidated balance sheet of the Group as at 31 March 2021, and its financial performance and cash flows for the half year then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

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#### Basis for conclusion

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

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Group in the areas of assurance over solvency and regulatory insurance returns and agreed upon procedures in respect of voting at the Annual Shareholders Meeting. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence.

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#### Directors' responsibility for the financial statements

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

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#### Auditor's responsibility for the review of the financial statements

Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. A review of consolidated interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.



The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

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**Who we report to**

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

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

For and on behalf of:

A handwritten signature in black ink, appearing to read 'Karen Shires'.

Chartered Accountants  
Auckland, New Zealand  
26 May 2021