

# **Tower Limited**

## **Consolidated interim financial statements**

**for the half year ended 31 March 2022**

# Consolidated interim financial statements

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# Consolidated statement of comprehensive income

For the Half Year Ended 31 March 2022

<i>\$ thousands</i>	Note	31-Mar-22	Restated 31-Mar-21
Gross written premium		216,090	194,563
Unearned premium movement		(9,012)	1,317
Gross earned premium		207,078	195,880
Outward reinsurance premium		(31,498)	(27,320)
Movement in deferred reinsurance premium		(1,875)	(804)
Outward reinsurance premium expense		(33,373)	(28,124)
<b>Net earned premium</b>		<b>173,705</b>	167,756
Claims expense		(121,193)	(106,146)
Less: Reinsurance and other recoveries revenue		4,408	4,683
Net claims expense	2.1	(116,785)	(101,463)
Gross commission expense		(7,286)	(10,194)
Commission revenue		2,584	2,047
Net commission expense		(4,702)	(8,147)
Underwriting expenses		(46,016)	(41,976)
<b>Underwriting profit</b>		<b>6,202</b>	16,170
Investment (losses)/income	3.1	(734)	716
Investment expenses		(180)	(241)
Other income		794	213
Other expenses		(27)	(26)
Financing and other costs		(460)	(137)
<b>Profit before taxation</b>		<b>5,595</b>	16,695
Tax expense		(2,613)	(5,580)
<b>Profit after taxation</b>		<b>2,982</b>	11,115
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		(326)	(1,418)
<i>Items that will not be reclassified to profit or loss</i>			
Other reserves		-	(6)
<b>Other comprehensive (loss) net of tax</b>		<b>(326)</b>	(1,424)
<b>Total comprehensive income for the half year</b>		<b>2,656</b>	9,691
<b>Earnings per share:</b>			
Basic and diluted profit per share (cents)	5.2	0.7	2.5
<b>Profit after taxation attributed to:</b>			
Shareholders		2,930	10,585
Non-controlling interests		52	530
		2,982	11,115
<b>Total comprehensive income attributed to:</b>			
Shareholders		2,590	9,163
Non-controlling interests		66	528
		2,656	9,691

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

# Consolidated balance sheet

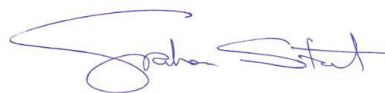
As at 31 March 2022			Restated
<i>\$ thousands</i>	Note	31-Mar-22	30-Sep-21
<b>Assets</b>			
Cash and cash equivalents	7.1	101,191	116,129
Investments	3.2	245,155	277,470
Receivables	2.4	226,275	215,853
Current tax assets		12,686	12,901
Deferred tax assets		21,352	22,659
Deferred insurance costs		33,683	31,967
Right-of-use assets		24,193	25,577
Property, plant and equipment		8,818	9,374
Intangible assets	6.1	89,110	88,592
<b>Total assets</b>		<b>762,463</b>	<b>800,522</b>
<b>Liabilities</b>			
Payables		54,755	68,905
Unearned premiums	2.3	221,190	212,275
Outstanding claims	2.2	136,105	122,338
Lease liabilities		37,015	39,421
Provisions		5,865	6,709
Current tax liabilities		134	170
Deferred tax liabilities		530	984
<b>Total liabilities</b>		<b>455,594</b>	<b>450,802</b>
<b>Net assets</b>		<b>306,869</b>	<b>349,720</b>
<b>Equity</b>			
Contributed equity	5.1	460,200	492,424
Accumulated losses		(47,606)	(39,995)
Reserves		(105,725)	(105,385)
<b>Total equity attributed to shareholders</b>		<b>306,869</b>	<b>347,044</b>
Non-controlling interests		-	2,676
<b>Total equity</b>		<b>306,869</b>	<b>349,720</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 2022.**



Michael P Stiassny  
Chairman



Graham R Stuart  
Director

# Consolidated statement of changes in equity

For the Half Year Ended 31 March 2022

\$ thousands	Note	Attributed to Shareholders			Non-controlling interest	Total Equity
		Contributed equity	(Accumulated losses) / Retained earnings	Reserves		
<b>Half year ended 31 March 2022</b>						
Balance as at 30 September 2021		492,424	(39,995)	(105,385)	2,676	349,720
<b>Comprehensive income</b>						
Profit for the half year		-	2,930	-	52	2,982
Currency translation differences		-	-	(340)	14	(326)
<b>Total comprehensive income</b>		<b>-</b>	<b>2,930</b>	<b>(340)</b>	<b>66</b>	<b>2,656</b>
<b>Transactions with shareholders</b>						
Capital return to shareholders	5.1	(30,625)	-	-	-	(30,625)
Purchase of non-controlling interests	5.1	(1,599)	-	-	(2,742)	(4,341)
Dividend payment		-	(10,541)	-	-	(10,541)
<b>Total transactions with shareholders</b>		<b>(32,224)</b>	<b>(10,541)</b>	<b>-</b>	<b>(2,742)</b>	<b>(45,507)</b>
<b>At the end of the half year</b>		<b>460,200</b>	<b>(47,606)</b>	<b>(105,725)</b>	<b>-</b>	<b>306,869</b>

## Half year ended 31 March 2021 Restated

Balance as at 30 September 2020		492,424	(42,990)	(104,431)	2,160	347,163
Adoption of accounting policy on cloud computing arrangements	7.5	-	(5,117)	-	-	(5,117)
Restated balance at beginning of the year		492,424	(48,107)	(104,431)	2,160	342,046
<b>Comprehensive income</b>						
Profit for the half year		-	10,585	-	530	11,115
Currency translation differences		-	-	(1,416)	(2)	(1,418)
Gain on asset revaluation		-	(25)	19	-	(6)
<b>Total comprehensive income</b>		<b>-</b>	<b>10,560</b>	<b>(1,397)</b>	<b>528</b>	<b>9,691</b>
<b>At the end of the half year</b>		<b>492,424</b>	<b>(37,547)</b>	<b>(105,828)</b>	<b>2,688</b>	<b>351,737</b>

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

# Consolidated statement of cash flows

For the Half Year Ended 31 March 2022

<i>\$ thousands</i>	Note	31-Mar-22	Restated 31-Mar-21
<b>Cash flows from operating activities</b>			
Premiums received		210,779	195,216
EQC settlement receipt		-	42,142
Interest received		2,894	2,555
Fee and other income received		2,573	1,406
Reinsurance and other recoveries received		773	10,716
Reinsurance paid		(32,926)	(33,866)
Claims paid		(108,633)	(108,353)
Employee and supplier payments		(49,757)	(51,299)
Income tax paid		(646)	(1,325)
<b>Net cash inflow from operating activities</b>	7.1	<b>25,057</b>	57,192
<b>Cash flows from investing activities</b>			
Proceeds from sale of interest bearing investments		139,890	66,010
Proceeds from sale of unlisted equity investments		-	572
Payments for purchase of interest bearing investments		(122,342)	(98,413)
Payments for purchase of intangible assets		(8,059)	(3,140)
Payments for purchase of customer relationships		(560)	(14,000)
Payments for purchase of property, plant & equipment		(14)	(470)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>8,915</b>	(49,441)
<b>Cash flows from financing activities</b>			
Payments for capital return to shareholders	5.1	(30,625)	-
Purchase of non-controlling interests		(4,341)	-
Dividend paid		(10,541)	-
Payments relating to lease liabilities		(3,077)	(1,327)
<b>Net cash outflow from financing activities</b>		<b>(48,584)</b>	(1,327)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(14,612)</b>	6,424
Effect of foreign exchange rate changes		(326)	(1,405)
Cash and cash equivalents at the beginning of the half year		116,129	80,108
<b>Cash and cash equivalents at the end of the half year</b>		<b>101,191</b>	85,127

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

# Notes to the interim financial statements

## 1 Overview

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

### 1.1 About this Report

#### a. Entities reporting

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

#### b. Statutory base

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

#### c. Basis of preparation

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

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2021, 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 2022 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 2021.

### 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 2021)
Liability adequacy test	Note 2.5, Annual Report (30 September 2021)
Intangible assets and goodwill	Note 6.2, Annual Report (30 September 2021)
Lease liabilities (incremental borrowing rate)	Note 6.3a(ii), Annual Report (30 September 2021)
Deferred taxation	Note 7.3, Annual Report (30 September 2021)
'Software-as-a-service' arrangements	Note 8.7a, Annual Report (30 September 2021)

### 1.3 Segmental reporting

#### a. Operating segments

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

#### b. Financial performance

<i>\$ thousands</i>	New Zealand	Pacific Islands	Other	Total
<b>Half year ended 31 March 2022</b>				
Gross written premium	189,569	26,521	-	216,090
Gross earned premium - external	179,769	27,309	-	207,078
Outwards reinsurance expense	(24,377)	(8,996)	-	(33,373)
<b>Net earned premium</b>	<b>155,392</b>	<b>18,313</b>	-	<b>173,705</b>
Net claims expense	(103,412)	(13,469)	96	(116,785)
Net commission expense	(3,920)	(782)	-	(4,702)
Underwriting expense	(39,454)	(6,562)	-	(46,016)
<b>Underwriting profit/(loss)</b>	<b>8,606</b>	<b>(2,500)</b>	<b>96</b>	<b>6,202</b>
Net investment income	(993)	79	-	(914)
Other	227	80	-	307
<b>Profit/(loss) before tax</b>	<b>7,840</b>	<b>(2,341)</b>	<b>96</b>	<b>5,595</b>
<b>Profit/(loss) after tax</b>	<b>4,593</b>	<b>(1,707)</b>	<b>96</b>	<b>2,982</b>

#### *Half year ended 31 March 2021 Restated*

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)
Net earned premium	148,673	19,083	-	167,756
Net claims expense	(98,236)	(3,227)	-	(101,463)
Net commission expense	(7,303)	(844)	-	(8,147)
Underwriting expense	(35,474)	(6,502)	-	(41,976)
Underwriting profit	7,660	8,510	-	16,170
Net investment income	391	84	-	475
Other	10	40	-	50
Profit before tax	8,061	8,634	-	16,695
Profit after tax	5,068	6,047	-	11,115

#### c. Financial position

<b>Total assets 31 March 2022</b>	<b>665,256</b>	<b>112,150</b>	<b>(14,943)</b>	<b>762,463</b>
Total assets 30 September 2021	705,577	105,561	(10,616)	800,522
<b>Total liabilities 31 March 2022</b>	<b>395,983</b>	<b>60,324</b>	<b>(713)</b>	<b>455,594</b>
Total liabilities 30 September 2021	399,732	51,688	(618)	450,802
<b>Total equity 31 March 2022</b>	<b>269,273</b>	<b>51,826</b>	<b>(14,230)</b>	<b>306,869</b>
Total equity 30 September 2021	305,845	53,873	(9,998)	349,720



## 2 Underwriting activities

This section provides information on Tower's underwriting activities.

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

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

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

### 2.1 Net claims expense

<i>\$ thousands</i>	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	31-Mar-22	31-Mar-21	31-Mar-22	31-Mar-21	31-Mar-22	31-Mar-21
Gross claims expense	114,192	105,817	7,001	329	121,193	106,146
Reinsurance and other recoveries revenue	(616)	(4,089)	(3,792)	(594)	(4,408)	(4,683)
<b>Net claims expense</b>	<b>113,576</b>	<b>101,728</b>	<b>3,209</b>	<b>(265)</b>	<b>116,785</b>	<b>101,463</b>

### 2.2 Net outstanding claims

<i>\$ thousands</i>	Exc. Canterbury earthquake		Canterbury earthquake		Total	
	31-Mar-22	30-Sep-21	31-Mar-22	30-Sep-21	31-Mar-22	30-Sep-21
Central estimate of future cash flows	100,946	87,535	16,353	16,402	117,299	103,937
Claims handling expense	5,657	5,430	1,027	1,314	6,684	6,744
Risk Margin	7,239	6,724	4,883	4,933	12,122	11,657
<b>Gross outstanding claims</b>	<b>113,842</b>	<b>99,689</b>	<b>22,263</b>	<b>22,649</b>	<b>136,105</b>	<b>122,338</b>
Reinsurance recoveries	(16,807)	(18,970)	(3,136)	(3,880)	(19,943)	(22,850)
<b>Net outstanding claims</b>	<b>97,035</b>	<b>80,719</b>	<b>19,127</b>	<b>18,769</b>	<b>116,162</b>	<b>99,488</b>

## 2.3 Unearned premium liability

### *Adequacy of unearned premium liability*

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

If the present value of expected future net cash flows relating to current insurance contracts, plus a risk margin, exceeds the unearned premium liabilities less related deferred acquisition costs and intangible assets, then the unearned premium liability is deemed deficient. This deficiency is immediately recognised in profit or loss. In recognising the deficiency, Tower will first write down any related deferred acquisition costs or intangible assets. The unearned premium liabilities as at 31 March 2022 were sufficient across all businesses for the Group. The total deficit recognised for the Group as a charge against deferred acquisition cost was nil (30 September 2021: \$2.5m). The write down held as at 30 September 2021 of \$2.5m has been released to underwriting expenses during the period ending 31 March 2022.

%	31-Mar-22	30-Sep-21
Central estimate net claims as a % of unearned premium liability	44.2%	45.2%
Risk margin as a % of net claims	10.6%	11.0%

## 2.4 Receivables

<i>\$ thousands</i>	31-Mar-22	30-Sep-21
Gross premium receivables	183,334	177,141
Provision for impairment	(653)	(655)
<b>Premium receivables</b>	<b>182,681</b>	176,486
Reinsurance recoveries (excluding Canterbury earthquakes)	21,032	20,326
Canterbury earthquake reinsurance recoveries	5,167	3,880
Other recoveries	6,202	5,208
<b>Reinsurance and other recoveries</b>	<b>32,401</b>	29,414
Finance lease receivables	3,340	4,278
Prepayments	4,887	3,279
Other receivables	2,966	2,396
<b>Receivables</b>	<b>226,275</b>	215,853

### 3 Investments

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

#### 3.1 Investment (losses)/income

<i>\$ thousands</i>	31-Mar-22	31-Mar-21
Interest income	2,928	2,695
Net realised loss	(1,864)	(463)
Net unrealised loss	(1,798)	(1,516)
<b>Investment (losses)/income</b>	<b>(734)</b>	716

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

#### 3.2 Investments

<i>\$ thousands</i>	31-Mar-22	30-Sep-21
Fixed interest investments	245,121	277,436
Property investment	34	34
<b>Investments</b>	<b>245,155</b>	277,470

#### 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 2022</b>				
Fixed interest investments	-	245,121	-	245,121
Property investment	-	34	-	34
<b>Investments</b>	-	<b>245,155</b>	-	<b>245,155</b>

As at 30 September 2021

Fixed interest investments	-	277,436	-	277,436
Property investment	-	34	-	34
<b>Investments</b>	-	<b>277,470</b>	-	<b>277,470</b>

## 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-22		30-Sep-21	
	Parent	Group	Parent	Group
Actual solvency capital	137,875	171,405	179,439	214,128
Minimum solvency capital	65,695	77,624	66,252	79,927
<b>Solvency margin</b>	<b>72,180</b>	<b>93,781</b>	113,187	134,201
<b>Solvency ratio</b>	<b>210%</b>	<b>221%</b>	271%	268%

Tower is required to hold a minimum solvency margin of \$25.0m as a license condition of the Reserve Bank of New Zealand (30 September 2021: \$25.0m).

## 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>	<b>31-Mar-22</b>	30-Sep-21
Opening balance	492,424	492,424
Return of share capital to shareholders*	(30,625)	-
Purchase of non-controlling interests**	(1,599)	-
<b>Total contributed equity</b>	<b>460,200</b>	492,424
<i>Represented by:</i>		
Opening balance	421,647,258	421,647,258
Cancellation of shares on return of capital	(42,163,271)	-
<b>Total shares on issue</b>	<b>379,483,987</b>	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 for the half year ended 31 March 2022.

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

### 5.2 Earnings per share

	<b>31-Mar-22</b>	Restated 31-Mar-21
Profit attributable to shareholders (\$ thousands)	<b>2,930</b>	10,585
Weighted average number of ordinary shares for basic and diluted earnings per share (number of shares)	<b>416,318,933</b>	421,647,258
<b>Basic and diluted earnings per share (cents)</b>	<b>0.7</b>	2.5

## 6 Other balance sheet items

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

### 6.1 Intangible assets

#### As at 31 March 2022

<i>\$ thousands</i>	Goodwill	Software	Customer Relationships	Total
<b>Composition:</b>				
Cost	17,744	73,000	29,216	<b>119,960</b>
Accumulated amortisation	-	(22,118)	(8,732)	<b>(30,850)</b>
<b>Intangible Assets</b>	<b>17,744</b>	<b>50,882</b>	<b>20,484</b>	<b>89,110</b>
<b>Reconciliation:</b>				
<b>Opening balance</b>	<b>17,744</b>	<b>48,527</b>	<b>22,321</b>	<b>88,592</b>
Amortisation	-	(4,675)	(2,397)	(7,072)
Additions	-	8,059	560	8,619
Disposals	-	(184)	-	(184)
Transfers	-	(845)	-	(845)
<b>Closing Balance</b>	<b>17,744</b>	<b>50,882</b>	<b>20,484</b>	<b>89,110</b>

Additions to software assets during the period ended 31 March 2022 relate to continued investment in Tower's core insurance platform, including development of MyTower, as well as the development of data analytics tools.

#### As at 30 September 2021

##### Composition:

Cost	17,744	98,850	28,656	145,250
Accumulated amortisation	-	(50,323)	(6,335)	(56,658)
<b>Intangible Assets</b>	<b>17,744</b>	<b>48,527</b>	<b>22,321</b>	<b>88,592</b>
<b>Reconciliation:</b>				
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	-	(1,425)	-	(1,425)
<b>Closing Balance</b>	<b>17,744</b>	<b>48,527</b>	<b>22,321</b>	<b>88,592</b>

## 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-22</b>	Restated 31-Mar-21
Cash at bank	74,545	67,357
Deposits at call	26,646	17,770
<b>Cash and cash equivalents</b>	<b>101,191</b>	<b>85,127</b>

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

<b>Profit for the half year</b>	<b>2,982</b>	11,115
<b>Adjusted for non-cash items</b>		
Depreciation of property, plant and equipment	1,027	1,052
Depreciation, impairment and disposals of right-of-use assets	1,222	1,123
Amortisation of intangible assets	7,071	6,082
Financing costs	460	137
Fair value losses on financial assets	3,662	1,978
Gain on disposal of fixed assets	(82)	-
Change in deferred tax	853	4,169
<b>Adjusted for movements in working capital</b>		
Change in receivables	(12,489)	57,031
Change in payables	19,238	(25,581)
Change in taxation	1,113	86
<b>Net cash inflows from operating activities</b>	<b>25,057</b>	<b>57,192</b>

## 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.

The Group has no other contingent liabilities.

## 7.3 Subsequent events

On 26 May 2022, the Board approved an interim dividend of 2.5 cents per share, with the dividend being payable on 30 June 2022. The anticipated cash impact of the interim dividend is approximately \$9.5m. There were no other subsequent events.

## 7.4 Capital commitments

As at 31 March 2022, Tower has nil capital commitments (30 September 2021: nil).

## 7.5 Change in comparatives

### **'Software-as-a-service' arrangements**

In the year ended 30 September 2021 the Group revised its accounting policy in relation to the configuration and customisation costs incurred in implementing 'Software as a Service' (SaaS) or 'cloud computing' arrangements. These are arrangements in which, as a Group, application software is accessed over the internet or via a dedicated portal as required. The change in accounting policy resulted from the IFRS Interpretations Committee pronouncements as to how current accounting standards apply to these types of arrangements in principle, primarily in relation to the recognition and measurement criteria of IAS 38 *Intangible Assets* with specific respect to Software and IT related projects in progress.

SaaS arrangements are service contracts providing the Group with the right to access a cloud provider's application software over a stated time period. Costs the Group incurs to configure, customise and maintain access to providers' application software are recognised as operating expenses when incurred and in accordance with contracted terms.

### *Impact of accounting policy change*

As a result of this change in accounting policy, the Group has determined certain costs that have been capitalised relating to SaaS arrangements should have been expensed when they were incurred.

The changes are required to be applied retrospectively. Costs capitalised prior to 1 October 2020 that should have been expensed have been adjusted against opening accumulated losses at 1 October 2020. Costs capitalised in the half year ended 31 March 2021 that should have been expensed have been reclassified to the consolidated statement of comprehensive income. The impact on the financial statements for the half year ended 31 March 2021 is summarised below:

### **Consolidated statement of comprehensive income**

- an increase in underwriting expenses for the half year ended 31 March 2021 of \$1.2m.
- a decrease in tax expense for the half year ended 31 March 2021 of \$0.4m.
- an overall decrease in net profit after tax for the half year ended 31 March 2021 of \$0.9m.



## 7.5 Change in comparatives (continued)

### *Consolidated statement of cash flows*

- an increase in employee and supplier payments for the half year ended 31 March 2021 of \$1.6m.
- a decrease in payments for purchase of intangible assets for the half year ended 31 March 2021 of \$1.6m.

### *Earnings per share*

- a decrease in earnings per share for the half year ended 31 March 2021 of 0.19 cents.

### *Adjustment relating to periods before 1 October 2020*

- the reduction in opening accumulated losses at 1 October 2020 relating to costs capitalised pre 1 October 2020 is \$5.1m.

### *Consolidated balance sheet - presentation changes to 30 September 2021*

Tower has reclassified a portion of its deferred tax liability balance from the 30 September 2021 balance sheet to conform to the current year's presentation basis. Tower has reclassified \$1.8m of deferred tax liabilities to offset with deferred tax assets. This reflects Tower's intention and ability to use tax assets of one group entity to offset the tax liabilities of another group entity in future periods. The impact on the financial statements for the year ended 30 September 2021 is summarised below:

### *Consolidated balance sheet*

- a decrease in deferred tax asset for the year ended 30 September 2021 of \$1.8m.
- a decrease in deferred tax liability for the year ended 30 September 2021 of \$1.8m.

## 7.6 Impact of new accounting standards

### *Issued and not yet effective*

NZ IFRS 17 *Insurance Contracts* 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.

The standard replaces the current guidance in NZ IFRS 4 *Insurance Contracts*, 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.

Tower has a programme with dedicated resource 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 an initial draft of accounting policies under NZ IFRS 17, and systems development work is underway. An initial assessment has been completed on Tower's contracts, and it is expected that the majority of Tower's insurance contracts will meet the requirements of the simplified approach available under NZ IFRS 17. Due to the complexity of the requirements within the standard and the availability of accounting policy choices as to how the standard is implemented which have not yet been finalised a full assessment of the financial impact has not yet been completed.



## Independent auditor's review report

To the shareholders of Tower Limited

### Report on the consolidated interim financial statements

#### Our conclusion

We have reviewed the consolidated interim financial statements of Tower Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 March 2022, 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 financial position of the Group as at 31 March 2022, and its financial performance and cash flows for the half year then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

#### Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our 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. Other than in our capacity as auditor and providers of assurance services over solvency and regulatory returns we have no relationship with, or interests in, the Group. Certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These services and this matter have not impaired our independence as auditor of the Group.

#### 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 the consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

#### 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.

**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', is written over a faint, illegible printed name.

Chartered Accountants  
Auckland, New Zealand  
26 May 2022