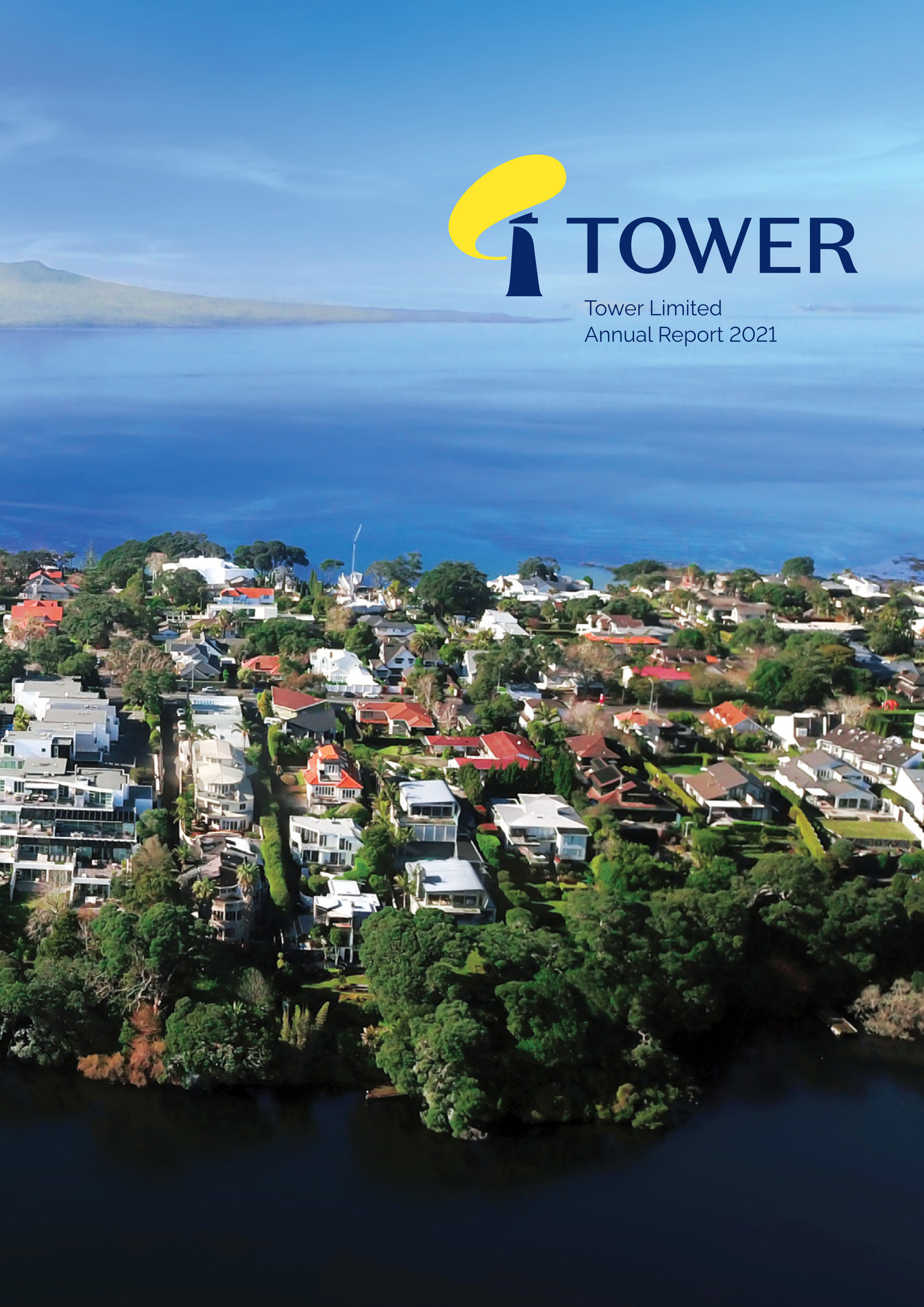
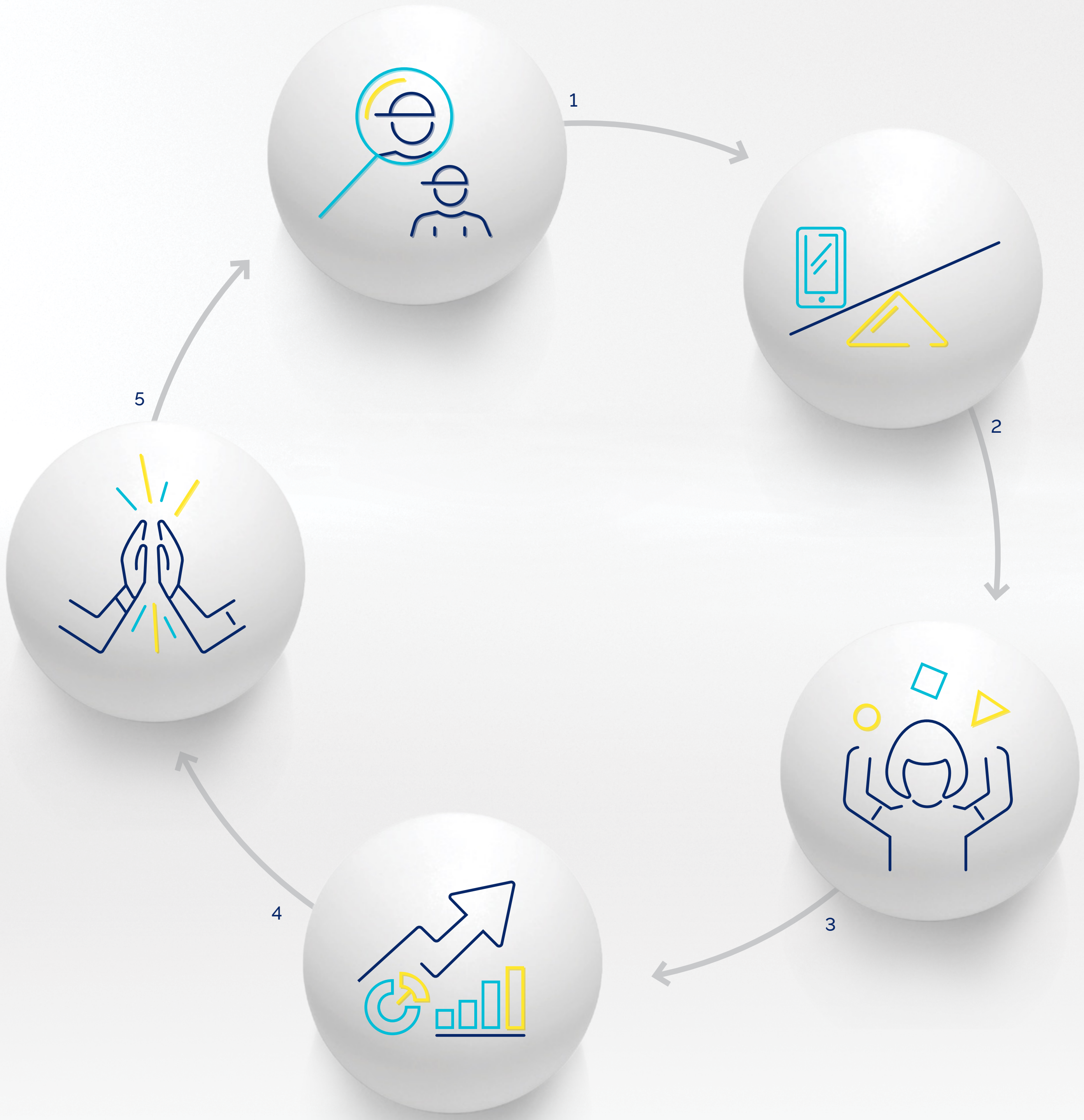


Tower Limited
Annual Report 2021

TOWER LIMITED ANNUAL REPORT 2021



OUR VISION — To deliver beautifully simple & rewarding experiences that our people & customers rave about

OUR STRATEGIC PRIORITIES

1. CUSTOMER FOCUS
A relentless focus on customer relationships. We will deliver beautifully simple and rewarding experiences through new rewards, products and offerings that make sense and drive value.

2. DIGITAL & DATA
Our significant investment in cloud-based information technology allows us to use digital and data to deepen our relationships with our customers. At the same time, we will use our digital and data strengths to attract new customers.

3. TALENT & AGILE
Tower will embrace agile and talent. We need the best people to grow our business capability and to keep up the pace of innovation. This means making sure Tower remains a great place to work and a place where talent wants to be. Our move to agile is already underway and we are seeing benefits in our delivery cadence.

4. CAPITAL STRENGTH
We will maintain a strong capital and solvency structure. Tower is committed to being a financially robust business that delivers value to customers and shareholders. Our solvency margin is strong and higher than required by the Reserve Bank of New Zealand.

5. PARTNER EVERYWHERE
Wherever possible Tower will work with partners. We will nurture and develop partnerships with the best organisations. They will help us to continue to innovate and improve our delivery.

UPDATE FROM CHAIR & CEO

After a challenging year, our unique technology & distribution footprint have positioned Tower well to grow and deliver shareholder value.

Tackling the challenges
The insurance industry has faced an incredibly challenging year. It has been characterised by a marked increase in large events and large house claims, as well as lower investment income and pandemic induced inflationary pressures swiftly leading to increased business as usual claims costs.

Tower has not been immune.

These challenges which were emerging at the half year, continued to put pressure on profits during the second half. Consequently, in the year to 30 September 2021, underlying profit including large events was $20.8 million (m), compared to $28.4m in the prior year. Reported profit including large events was $19.3m, up from $11.2m at the full year 2020 (which included a $9.5m impact from the settlement with the Earthquake Commission). It has been a tough year, and we acknowledge and share our shareholders' frustration.

We are well underway addressing these issues and their impact on profitability across the business.

Most significantly, we have already implemented rating and underwriting changes including the introduction of a full house fire replacement cap and risk-based pricing for inland flooding.

These actions are a substantial response, and their benefit will continue to be realised throughout FY22.

Strong and well capitalised
Above all, Tower remains a resilient, strong and well capitalised business.

Accordingly, we announced that based on Tower's ordinary dividend policy of paying 60 to 80% of cash earnings where it is prudent to do so, the Board declared a final dividend of 2.5 cents per share, to be paid on the 2nd of February 2022, bringing total dividends for FY21 to 5 cents per share.

In March this year, the Reserve Bank lowered Tower's solvency condition from $50m to $25m in recognition of Tower's decreasing risk related to the Canterbury earthquakes. As at 30th September, Tower's New Zealand Parent solvency ratio was 271% and the company was holding $56.6m above its target solvency margin.

Considering current opportunities and our capital position, the Board has proposed the return of $30.4m in excess capital to shareholders, by way of a compulsory share buyback, under a Court Scheme of Arrangement. This is subject to shareholder approval, High Court approval and Inland Revenue approval.

Positioned for long-term growth
Tower is delivering on its innovation and growth strategy. Our flagship Tower Direct business and unique partnership distribution capability continue to go from strength to strength. The Pacific business has proven remarkably resilient through Covid and digitisation will lead to further improvements in efficiency and competitiveness. Our leading technology partnerships are enabling the business to be increasingly nimble in responding to challenges and capitalising on opportunities.

As we all recognise, it's been a difficult year on many fronts. However, despite this, we are paying a dividend, we remain strong and well capitalised, and we have achieved sustained premium growth, reaching a milestone this year, with Tower writing more than $400m in premiums.

These hard won victories are a credit to Tower's focused strategy and the dedication of the people who implement it. In short, even with the obstacles of 2021, Tower continues to be well positioned for long term growth.

MICHAEL STIASSNY
Chairman

BLAIR TURNBULL
CEO

2021 YEAR IN REVIEW —GOOD GROWTH IN A CHALLENGING ENVIRONMENT

Our leading online presence, combined with our unique partnerships, is helping to deliver consistent growth ahead of the market in New Zealand.

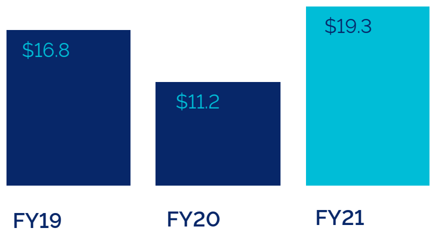
Tower's FY21 results were achieved while navigating a challenging external environment. Our investments in technology mean we are well placed to respond rapidly with rating and underwriting actions to address these challenges.

We are pleased to resume shareholder dividends after a five-year hiatus. The total dividend represents a dividend pay-out ratio of 80% of cash earnings and reflects our strong capital position.

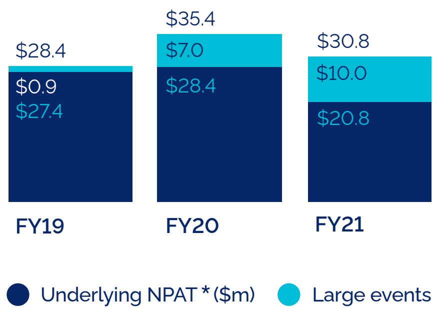
Considering current opportunities and the company's capital position, the Board has proposed the return of $30.4m excess capital to shareholders by way of a compulsory share buyback.

REPORTED PROFIT AFTER TAX ($M)

$19.3m



UNDERLYING NPAT* ($M)



* Underlying NPAT does not have a standardised meaning under Generally Accepted Accounting Practice (GAAP). Consequently it may not be comparable to similar measures presented by other reporting entities and is not subject to audit or independent review. Underlying NPAT is derived from reported profit after tax adjusted for any large or non-recurring items that may obscure trends in Towers underlying performance. For FY21 these are adjustments in relation to Canterbury impact, Insurance Face decommissioning and SaaS impact.

Results achieved while navigating the challenges

Tower's journey to deliver a beautifully simple and rewarding customer experience through an innovative, quality product range, enabled through digital, data and leading partnerships is gaining momentum.

These gains have supported reported profit after tax up 72%, from $11.2m in FY20. Underlying net profit after tax (including large events) was at $20.8m, versus $28.4m in FY20 reflecting the combined impact of an increase in large events and large house claims, Covid-related claims costs inflation, and lower investment income.

Tower's combined operating ratio increased 2.7% during the prior year to 91.4%, reflecting claims inflationary pressure and higher large events.

Offering customers a simple and rewarding experience through our leading technology platform has helped grow Tower's gross written premium (GWP) to a milestone $404m, up 5% on the same period last year.

Key successes include reaching a $42.1m settlement with EQC and the Reserve Bank recognising our decreasing risk related to the Canterbury earthquakes by reducing our licence condition, from $50m to $25m. We also further simplified our structure, placing us on a solid foundation to deliver long term earnings, dividends, and sustained growth.

By continuing to scale our cloud-based digital and data platforms, and enhancing our Tower Pacific and Partnerships business, we are heading in a positive direction in line with our strategy. In future, we'll keep offering a versatile, varied product suite, coupled with greater customer satisfaction and engagement, to deliver improved retention and growth.

Our focus on exceptional customer service remains unchanged, underpinned by investment in growing and developing our amazing Tower team.

Impact of external factors

NET INVESTMENT INCOME (PRE-TAX)

$0.2m

VS $5.3M PRIOR YEAR

LARGE HOUSE CLAIMS

92

VS 57 PRIOR YEAR

LARGE EVENTS (PRE-TAX)

$13.9m

VS $9.7M PRIOR YEAR

CLAIMS INFLATION (PRE-TAX)

$7.1m

INCREASE IN CLAIMS EXPENSE

Insurance, by nature, is an industry that involves managing risks, accidents, and weather events on a daily basis.

Large events are a source of volatility for New Zealand and the Pacific that are likely to become more pronounced with the impacts of climate change.

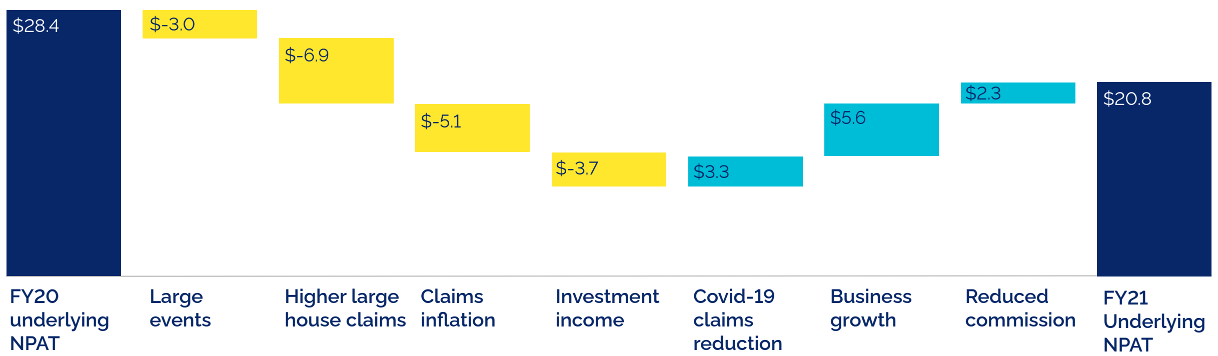
This year featured an unusual and challenging combination of external events that weighed on our FY21 profits, including:

- Seven large events contributed to $13.9m in costs, compared with $9.7m in FY20
- Large house claims rose significantly to 92, from 57 in FY20
- Inflation was responsible for $7.1m additional business-as-usual claims costs.
- Our net investment income before tax dropped $5.1m to $0.2m

Covid-induced supply chain issues have impacted New Zealand and the Pacific, resulting in significant delays in resolving some motor, home and contents claims.

While the impact of any one of these factors alone would be sustainable in a normal year, with the ongoing effects of the pandemic, this was not a normal year.

MOVEMENT IN UNDERLYING NPAT ($M)



Good growth in customers & premium

CUSTOMERS

304,000

+5% ON PRIOR YEAR

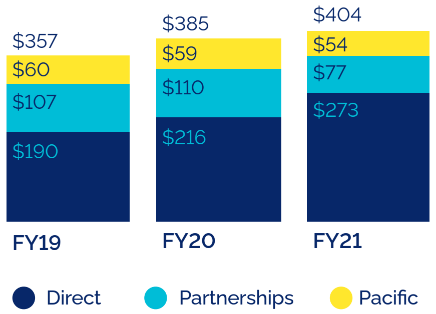
MY TOWER REGISTRATIONS

132,000

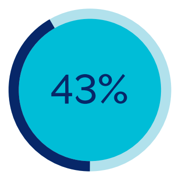
VS 45K PRIOR YEAR

TOWER NZ PERSONAL LINES MARKET SHARE

GWP GROWTH BY BUSINESS UNIT ($M)

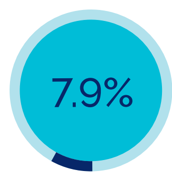


NET PROMOTER SCORE



VS 27% PRIOR YEAR

NZ GWP GROWTH



TO $350 GWP

Despite this year's challenges, we have experienced growth ahead of the market, particularly in New Zealand, where gross written premium (GWP) rose by 7.9% to $350m.

This was achieved through a combined effort of offering a well-balanced mix of market premium ratings and attracting new Tower customers. Overall customers grew 5% to 304,000, increasing market share to 9.2%. This growth also reflects improvements in customer satisfaction, shown by an improved net promoter score (NPS) of 43%, compared with 27% last year.

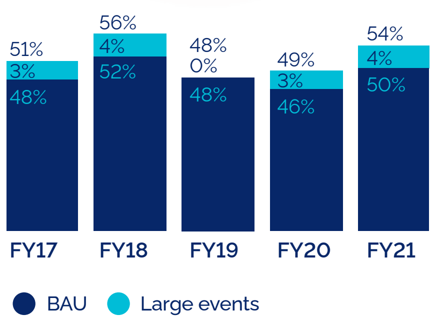
Tower Direct leapt from strength to strength, recording 132,000 My Tower registrations this year, up substantially on 45,000 in 2020. The portfolio grew to $273m, and now includes the ANZ legacy portfolio, which is still migrating customers over to Tower.

Prioritising business partnerships also delivered growth, as our Partnerships business begins to transform from a more traditional model to usher in a portfolio of new technology-led organisations.

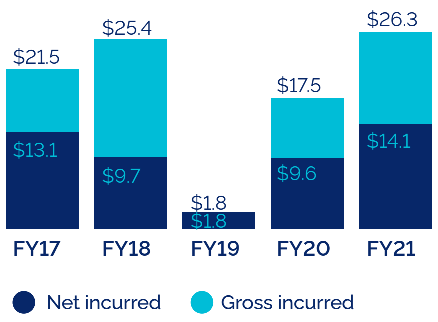
Our Pacific business remained resilient, despite GWP declining by 10%, primarily because of Covid-associated economic challenges. We were proud to become the first insurer with a digital presence in the Pacific, after launching our cloud-based platform in Fiji. This online offering will expand across the Pacific to bring more alignment between the New Zealand and Pacific business units moving forward.

Sharp focus on claims management

TOTAL CLAIMS RATIO



LARGE EVENTS CLAIMS ($M) (BASED ON EVENT DATE)



AVERAGE MOTOR CLAIMS	AVERAGE HOUSE CLAIMS
6%	7%

FY21 saw a combined 5% increase in the BAU claims loss ratio and large events loss ratio. The resultant 54% of net earned premium (NEP) is the highest claims loss ratio since 2018.

The impact of inflation

We anticipated that Covid may cause inflationary pressures, particularly for motor. However, it wasn't until the FY21 March quarter that evidence of inflation emerged and it has since accelerated rapidly.

The average motor claim has increased 6% and the average house claim is up 7% on FY20.

Supply chain issues for new vehicles have driven up the value of second-hand vehicles by 13% year on year, significantly increasing the cost of total loss motor claims. While the inflationary impact on motor parts and repairs hasn't been as dramatic, the full impact may not yet have been felt, with significant delays in completing repairs due to supply chain issues with motor parts.

Double-digit inflation is materially impacting the cost of building materials.

Tower has increased premiums across motor and home to offset inflation. We are also working closely with supply chain partners to enhance efficiencies and moderate the impact on customers as much as possible.

Large events and large house claims

Alongside inflationary pressures, in FY21 Tower experienced the highest number of large house claims and large event claims for many years.

The majority of large house claims were fire related. As a result of this marked increase, Tower removed the uncapped total loss, house fire benefit, capping the benefit to 120% of the sum insured.

The majority of large events during the year were floods in New Zealand. During the year we supported customers through major floods in West Auckland, Westport, Motueka, Canterbury, Central Otago and Napier.

This increase in flooding highlights the importance of the change we've made in how we identify and price risk appropriately for inland flooding. The changes on the 10th of November impact all new and renewing house policies.

Managing through volatility

Large events are a source of volatility for New Zealand and the Pacific that are likely to become more pronounced with the impacts of climate change.

For Tower, this volatility is primarily managed by our aggregate reinsurance programme.

However, the key to managing all these challenges is also prompt recognition and remedial action.

Automation and data management are at the forefront of all our remedial action. We are continuously optimising to better understand our claims, as well as to improve our claims assessment and management.

Through our leading technology capability, we now have the ability to act swiftly to adjust ratings and underwriting.

We are also working with data science and risk partners to better understand the links between large events, climate change and large house fires in order to help mitigate and reduce such events in the future.

Helping our customers through large events

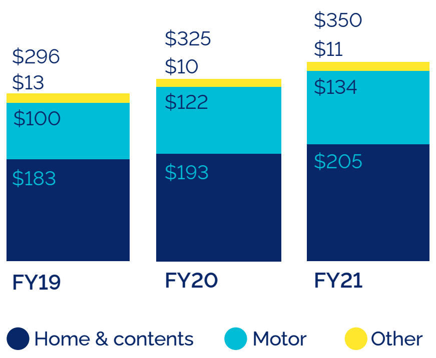
GROSS INCURRED LARGE CLAIMS

$26.3m

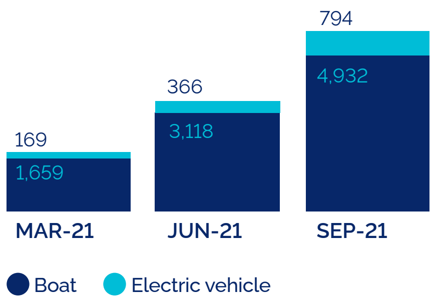
CARS	HOMES
166	769

Core to our strategy is leading with a quality, innovative product range which enables us to deepen our relationships with customers, improve revenue and increase retention.

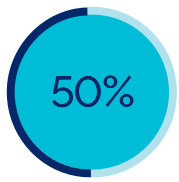
NZ PRODUCT MIX GWP ($M)



NZ NEW BUSINESS RISK — ELECTRIC VEHICLE & BOAT

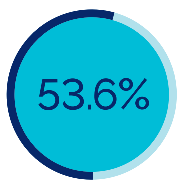


NZ CUSTOMERS WITH MULTIPLE PRODUCTS



135,000 NZ CUSTOMERS HAVE MULTIPLE PRODUCTS

NZ BAU LOSS RATIO



UP 4% ON PRIOR YEAR

MULTIPLE PRODUCTS HOLDER TENURE

7.9 years

VS 4.8 YEARS FOR A SINGLE PRODUCT HOLDER

Product, pricing & underwriting enhanced through data

Our quality, innovative, balanced product range enables us to deepen our relationships with customers, improve revenue and increase retention.

Half of our New Zealand customers now hold multiple products. These customers stay with Tower approximately three years longer, compared to those with one product. This highlights the opportunity to increase existing customers' purchases, engaging and retaining them for longer.

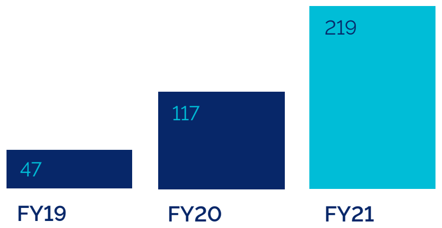
To further engage customers we launched a series of new products. This included an end-to-end online boat experience and a new travel product. In the Pacific we also launched new home and contents, and motor policies.

By enhancing our product set to keep pace with customers' lifestyles, we can further improve retention rates and build relationships. For example, our boat offering is already gaining pace, with around 5,000 new business policies sold this year and our motor policy sales for EVs have increased by 60% since February.

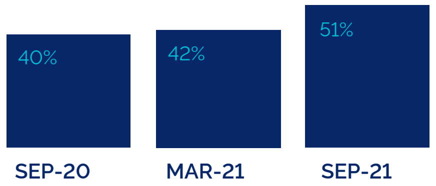
While external events prompted the New Zealand loss ratio to increase to 53.6% for the year, we quickly identified the emerging challenges, such as construction inflation, and used our technology platform to quickly adjust and control our margin.

In November, we launched an innovative address-based rating tool for flood risk. By investing in detailed modelling to highlight the flood risk from rivers and rain to Kiwis' homes, we've been able to better align premium pricing with risk, and better manage our loss ratio. Customers' positive response to this initiative showed our shift to more transparent pricing is a welcome one.

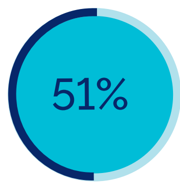
TECHNOLOGY SYSTEM RELEASE



NZ SERVICE TASKS COMPLETED DIGITALLY

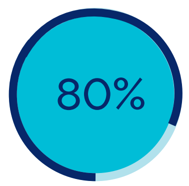


NZ SERVICE TASKS COMPLETED DIGITALLY



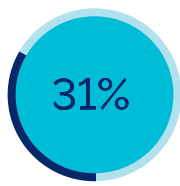
VS 40% PRIOR YEAR

TOTAL CUSTOMERS MIGRATED TO EIS



VS 62% IN SEP 2020

NZ CLAIMS LODGED DIGITALLY



VS 23% PRIOR YEAR

CORE ADMIN LEGACY SYSTEMS REMAINING

4

VS 6 IN PRIOR YEAR
2 REMAINING BY END 2022

Investing in digital platform for efficiency & scalability

Central to Tower's strategy is delivering beautifully simple and rewarding customer experiences.

We use data smartly to understand the changing needs of our customers. By harnessing data insights, we can learn how to serve our customers better, as well as offer new products and features.

During 2021, we rolled out 219 technology upgrades to help refine our service delivery, remove cumbersome legacy systems, and assist with building deeper relationships with our customers.

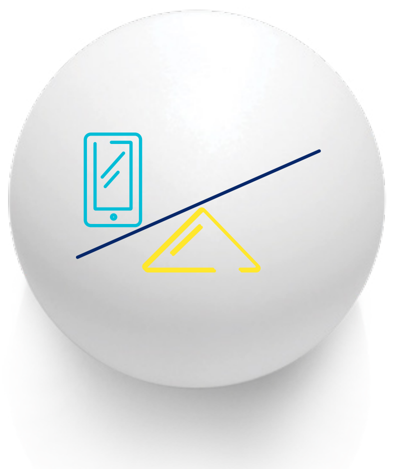
With more than half of all service tasks in New Zealand now completed digitally (vs 40% last year), and around a third of claims lodged digitally (vs 23% in the prior year), the customer and efficiency benefits from our leading digital and data technology platform are being realised.

Our approach to digital has also underpinned increased uptake of our My Tower platform. It gives customers the convenience of managing all aspects of their insurance, including accessing documents, making payments, changing excess, and making claims.

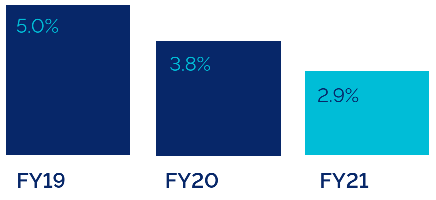
80% of Tower customers have now migrated to our cloud-based, digital EIS platform. This is up on 62% in 2020 and enables us to scale quickly as we acquire new business.

We remain focused on decommissioning legacy systems, with a further two decommissioned in this financial year. This means we anticipate just two remaining by the end of 2022.

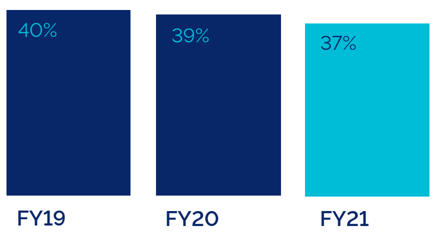
Meanwhile, innovative technology releases continue to trend upwards as we become more agile and responsive in anticipating customers' needs.



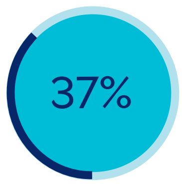
COMMISSION EXPENSE RATIO (% GEP)



MANAGEMENT EXPENSE RATIO (% NEP)

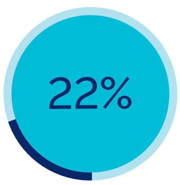


TOWER MANAGEMENT EXPENSE RATIO



2% BETTER THAN PRIOR YEAR

NET COMMISSION EXPENSE REDUCED



REDUCTION FOLLOWING BOOK PURCHASE AND REINSURANCE PROFIT

ACQUISITION COST

12.6%

VS 13% IN PRIOR YEAR

DIGITAL & DATA

$1 in $3

OF TOTAL MANAGEMENT EXPENSES

Management expenses improving while continuing to invest

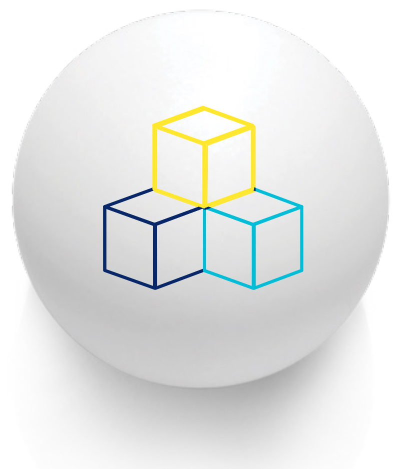
One in every three dollars of Tower's management expenses relates to digital and data technology. We see this as a valuable investment to help evolve our customer experience and accelerate efficiency improvements throughout the organisation.

During the year, management expense ratio (MER) improved 2% dropping to 37%, thanks to reducing our acquisition costs, down to 12.6%.

We introduced various cost containment measures this year, reducing overall management expenses by $3.9m before tax to $123.3m. This represents a significant saving from the FY20 figure, $127.2m, and translates into a 2.3% reduction of MER as a percentage of NEP to 37%.

In addition, a reduction in People expenses of $4.0m before tax, and other expenses of $0.6m before tax, was achieved in part through the benefits of the EIS platform implementation.

Net commission reduced $3.2m before tax, driven by acquisition of the ANZ portfolio, and higher proportional reinsurance profit share. In addition, the liability adequacy test resulted in a $2.5m deficiency before tax, requiring an additional $2.1m expense in FY21 for acquisition costs that would otherwise have been capitalised.



TOWER PARENT SOLVENCY

271%

BEFORE RETURN OF CAPITAL

FULL YEAR DIVIDEND PAYMENT

$21m

$10.5M TO BE PAID 2 FEB 2022

ORDINARY DIVIDEND POLICY

60-80%

OF CASH EARNINGS WHERE PRUDENT TO DO SO

PROPOSED CAPITAL RETURN OF

$30.4m

VIA COMPULSORY SHARE BUYBACK

Strong capital & solvency, delivering shareholder returns

This year, we were pleased to resume shareholder dividends after a five-year hiatus due to resolving claims from the Canterbury earthquakes.

We paid a 2.5 cents per share dividend at the half year and the Board has declared another 2.5 cents per share at the full year, bringing total dividends for FY21 to 5 cents per share. This represents a dividend pay-out ratio of 80% of cash earnings.

Our New Zealand parent solvency ratio is 271%, which is $56.6m above our target solvency margin and reflects our strong capital position.

Proposed compulsory share buyback

Tower proposes returning $30.4m in capital by way of a compulsory share buyback, under a Court Scheme of Arrangement of one in every ten shares held at a price of $0.72 per share. This is a premium of 12% on the closing price on the 23rd of November of $0.645. This is subject to obtaining IRD approval that the capital return is not taxable in New Zealand and is not in lieu of a dividend, in addition to High Court approval and shareholder approval.

Continuing to seek sensible investment opportunities

We continue to look at sensible acquisitions that are value accretive for shareholders. This year we acquired the ANZ legacy portfolio and are finalising the acquisition of the remaining shares in National Pacific Insurance (NPI). The Tower subsidiary is headquartered in Samoa and serves people across Tonga, American Samoa and Samoa.

> 2.5c dividend bringing full year to 5c per share

We are relentlessly focused on our customers, deepening our relationships with them through rewards, new products and other offerings that make sense and drive value.

LOOKING FORWARD— LONG-TERM GROWTH & IMPROVEMENT

Despite the headwinds, this year's results demonstrate the resilience of our customer and digitally led strategy. We continue to grow, to drive down expenses, and to respond quickly to the changing external environment.

We are very focused on addressing the challenges we've identified, improving profitability and continuing to leverage our technology, customer and partnership advantage for growth.

Our core strategy is around personal lines and small to medium sized commercial segments in New Zealand and the Pacific region.

We have a clear and focused set of five strategic priorities.

We are relentlessly focused on our customers, deepening our relationships with them through rewards, new products and other offerings that make sense and drive value.

We are leveraging the full capability of our cloud-based platform by using the insights from our data to make our customers' lives easier and to understand their needs better.

We are finding the best people to partner with to boost our offering, develop new products, and deliver services in better ways and more efficiently.

We understand that our people are the ultimate drivers of our success as they are on the front line, building our customer relationships.

And importantly, we are committed to maintaining a strong capital and solvency structure, and delivering value for shareholders.

Our 2022 goal is to offer a world-class digital experience on one core leading platform, for all our personal lines customers across New Zealand and the Pacific.

Our 2022 goal is to offer a world-class digital experience on one core leading platform, for all our personal lines customers across New Zealand and the Pacific.

This year, we took an important step towards this aim by acquiring the remaining shares in NPI.

One of our first steps will be to rebrand NPI to Tower, coinciding with the launch of the first digital insurance solution in these markets. We will also complete Tower's digital rollout across the Pacific in FY22.

Our agility and digital capabilities are also leading to new product lines to support the unique needs of our Pacific customers, as well as growth in this important market.

In our Partnerships division, we are building a unique model that relies less on higher commission and more on our technology capability, customer experience and balanced referral arrangements with our partners.

These include corporates, insurtechs, advisory businesses and our cornerstone partner Trade Me, with whom we recently renewed our agreement for another five years.

For our direct business, a key element of our strategic focus has been to secure mutually beneficial partnerships that drive significant growth and quickly give us capabilities that we would otherwise have to build from scratch.

Our exciting partnership with Allianz, one of the world's largest insurers, has already led to the development of new pet and travel products this year.

In the coming year we will be working hard on a new home renovation product. We are also planning to upgrade our rural and SME offerings.

We're continuously utilising more than 1.7 billion data points thanks to over 25 external partners including Microsoft, EIS, Friss, Amodo and Ushur, who are all helping us to improve customer outcomes and make better decisions.

SUPPORTING OUR PEOPLE & COMMUNITIES

Our ability to continue to grow, partner and innovate as a leading digital and data business is only possible with the support of our fantastic team and the communities we serve.

Supporting our communities
This year, we started our sustainability journey with the development of an ESG strategy. This will guide how Tower manages its environment, social and governance issues under the following focus areas:

- A diverse and inclusive workplace that builds people's physical and emotional wellbeing
- No-surprises, easy to understand insurance that is accessible and affordable
- Championing informed dialogue about climate change
- Moving all aspects of our business towards zero-carbon and zero-waste and ensuring we have a positive impact on New Zealand and the Pacific, now and in the future.

Importantly, we have measured our total carbon emissions across our operations and have set a science-based target to reduce our Scope 1 and 2 emissions by 21% over five years against FY20.

This year, we also pledged to support scientific research, education, and innovation via scholarships for the world's first Bachelor of Climate Change degree at the University of Waikato.

Supporting our people
While our people can work remotely, we know it is not easy to navigate the challenges of Covid lockdowns, both in New Zealand and across the Pacific. We have put in place several initiatives to support our people during this time and are pleased our employee engagement score has increased to 77%, up 6% on FY20.

We will continue to prioritise and invest in our people to ensure we have a diverse, inclusive culture where everyone can contribute and feel valued.

We're partnering with Coastguard to help out even more Kiwis on the water by supporting their operations as well as their phenomenal volunteers.

In FY22, our focus is on driving shareholder value by accelerating the positive growth and innovation we have achieved in FY21.

WELL POSITIONED TO DELIVER DIVIDENDS & GROWTH

It's clear that FY21 was a challenging year and we have taken decisive actions to deliver improvements and positive results in FY22.

Tower is a well-capitalised business with a strong balance sheet and solvency margins. We have delivered customer and premium growth while further improving our management expense ratio.

We are delighted to have resumed dividends within the year and propose to return excess capital to shareholders.

In FY22, our focus is on driving shareholder value by accelerating the positive growth and innovation we have achieved in FY21.

We will continue to take decisive action to address challenges with claims inflation and climate change risks, and we will continue to invest in our digital and data platform to drive efficiency and support growth.

Tower continues to invest in our digital and data platform to drive efficiency and support growth.

BOARD OF DIRECTORS

WARREN LEE

BCom, CA

Non-Executive Director
Independent
Appointed Director: 26 May 2015

Warren has extensive experience in the international financial services industry. Warren's two most recent executive positions were Chief Executive Officer of the Victorian Funds Management Corporation and Chief Executive Officer, Australia and New Zealand for AXA Asia Pacific Holdings Limited. Warren is currently a non-executive director of MetLife Limited, MyState Limited, and Avenue Hold Limited. He has a Bachelor of Commerce from the University of Melbourne and is a member of Chartered Accountants Australia and New Zealand.

Warren resides in Melbourne —Australia.

MARCUS NAGEL

MBA (International Management),
MBA (Banking and Finance)
Non-Executive Director
Not Independent
Appointed Director: 14 January 2019

Marcus has significant insurance industry experience.

For a decade he has performed senior leadership roles for Zurich in Europe and globally. In his last role at Zurich, he served as the Chief Executive Officer of Zurich Germany managing both life insurance and general insurance businesses. He has also held the position of Vice Chairman of the joint venture with ADAC, Germany's largest Automotive Club, Chairman of the direct insurer, DA Direct, and Chairman of the life insurer, Zurich Deutscher Herold. Prior to that, he also managed the independent financial adviser/broker business for Zurich Global Life.

Marcus holds a Master's Degree in Banking and Finance from Goethe University in Frankfurt, Germany and Master of International Management from the Arizona State University Thunderbird School of Global Management in Arizona, United States of America. Marcus was nominated by Bain Capital Credit LP (Bain Capital) to represent Bain Capital's stake in Tower (Bain Capital hold 19.99% of Tower's ordinary shares) and his appointment was supported by the Tower Board.

Marcus resides in Schindellegi —Switzerland.

STEVE SMITH

BCom, CA, Dip Bus (Finance), CFInstD

Non-Executive Director
Independent
Appointed Director: 24 May 2012

Steve has been a professional Director since 2004. He has over 40 years of business experience, including being a specialist corporate finance partner at a leading New Zealand accountancy firm. He has a Bachelor of Commerce and Diploma in Business from the University of Auckland, is a member of Chartered Accountants Australia and New Zealand and a Chartered Fellow of the Institute of Directors in New Zealand (Inc). Steve is Chairman of Pascaro Investments Ltd, and a Director of Rimu S.A. (Chile) and the National Foundation for the Deaf Inc.

Steve resides in Auckland —New Zealand.

MICHAEL STIASSNY

LLB, BCom, FCA (retired), CFInstD
Chairman
Non-Executive Director
Independent
Appointed Director: 12 October 2012

Michael is a Fellow of Chartered Accountants Australia and New Zealand. Michael is also a Chartered Fellow and past President of the Institute of Directors. He has both a Commerce and Law degree from the University of Auckland. He is Chairman of Ngāti Whātua Ōrākei Whai Rawa Limited and is a director of a number of other companies including Tegel Group Holdings Ltd, and New Talisman Gold Mines Ltd.

Michael resides in Auckland —New Zealand.

GRAHAM STUART

BCom (Hons), MS, FCA

Non-Executive Director
Independent
Appointed Director: 24 May 2012

With over 30 years of senior management experience, Graham has held senior leadership roles with several major corporates, in New Zealand and overseas, the latest being the Sealord Group of which he was Chief Executive Officer for seven years.

Graham has a Bachelor of Commerce (First Class Hons) from the University of Otago, a Master of Science from Massachusetts Institute of Technology and is a Fellow of Chartered Accountants Australia and New Zealand. Graham has served on a number of government bodies including the Food & Beverage Taskforce and the Māori Economic Development Panel.

Graham resides in Auckland —New Zealand.

WENDY THORPE

BA (French), BBus (Accounting), Grad Dip, Applied Fin & Inv, Harvard AMP, FFin, GAICD
Non-Executive Director
Independent
Appointed Director: 1 March 2018

Wendy had an extensive executive career in financial services, leading technology and operations in insurance and wealth management. Her most recent executive role was as Group Executive, Operations for AMP Ltd, and she was previously Chief Operations Officer and Chief Information Officer for AXA in Australia.

Wendy is Chair of Online Education Services, Chair of Epworth Healthcare, and a Non-Executive Director of Ausgrid, and Peoples' Choice Credit Union. Wendy has a Bachelor of Arts from LaTrobe University, a Bachelor of Business from Swinburne University and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. She completed the Advanced Management Program at Harvard Business School, is a Fellow of the Financial Services Institute of Australasia and a Graduate member of the Australian Institute of Company Directors.

Wendy resides in Melbourne —Australia.

CONSOLIDATED FINANCIAL STATEMENTS

Financial statements

Notes to the consolidated financial statements

Independent Auditor's report, and Appointed Actuary's report

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 30 SEPTEMBER 2021

	NOTE	2021 $000	RESTATED 2020 $000
Gross written premium		404,681	377,159
Unearned premium movement		(9,151)	(4,607)
Gross earned premium	2.1	395,530	372,552
Outward reinsurance premium		(63,767)	(58,030)
Movement in deferred reinsurance premium		1,540	810
Outward reinsurance premium expense		(62,227)	(57,220)
Net earned premium		**333,303**	315,332
Claims expense		(228,903)	(206,767)
Less: Reinsurance and other recoveries revenue	2.1	24,635	25,711
Net claims expense	2.2	(204,268)	(181,056)
Gross commission expense		(18,058)	(20,947)
Commission revenue	2.1	6,753	6,457
Net commission expense		(11,305)	(14,490)
Underwriting expense	2.3	(89,751)	(89,520)
Underwriting profit		**27,979**	30,266
Investment income	3.1	580	5,810
Investment expense		(384)	(466)
Corporate and other income		707	288
Corporate and other expense		(54)	(2,967)
Impairment of EQC receivable	2.7	–	(13,126)
Financing and other costs		(378)	(1,125)
Profit before taxation		**28,450**	18,680
Tax expense	7.1	(9,135)	(7,470)
Profit after taxation		**19,315**	11,210
Items that may be reclassified to profit or loss			
Currency translation differences		(1,213)	(1,374)
Items that will not be reclassified to profit or loss			
Gain on asset revaluation	5.3	159	41
Deferred income tax relating to asset revaluation	5.3	(16)	8
Other comprehensive loss net of tax		**(1,070)**	(1,325)
Total comprehensive profit for the year		**18,245**	9,885
Earnings per share:			
Basic and diluted earnings per share (cents)	5.5	4.43	2.58
Profit after taxation attributed to:			
Shareholders		18,683	10,761
Non-controlling interests		632	449
		19,315	11,210
Total comprehensive profit attributed to:			
Shareholders		17,729	9,522
Non-controlling interests		516	363
		18,245	9,885

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

Consolidated balance sheet

AS AT 30 SEPTEMBER 2021

	NOTE	2021 $000	RESTATED 2020 $000
Assets			
Cash and cash equivalents	8.1	116,129	80,108
Investments	3.2	277,470	237,904
Receivables	2.7	215,853	250,746
Current tax asset	7.2a	12,901	12,892
Deferred tax asset	7.3a	24,450	28,822
Deferred insurance costs	2.6	31,967	34,667
Right of use assets	6.3a(i)	25,577	7,211
Property, plant and equipment	6.1	9,374	10,041
Intangible assets	6.2	88,592	77,847
Total assets		**802,313**	740,238
Liabilities			
Payables	2.8	68,905	66,600
Unearned premiums	2.5	212,275	203,452
Outstanding claims	2.4	122,338	107,747
Lease liabilities	6.3a(ii)	39,421	8,695
Provisions	2.9	6,709	9,531
Current tax liabilities	7.2b	170	821
Deferred tax liabilities	7.3b	2,775	1,346
Total liabilities		**452,593**	398,192
Net assets		**349,720**	342,046
Equity			
Contributed equity	5.2	492,424	492,424
Accumulated losses		(39,995)	(48,107)
Reserves	5.3	(105,385)	(104,431)
Total equity attributed to shareholders		**347,044**	339,886
Non-controlling interests		2,676	2,160
Total equity		**349,720**	342,046

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

The financial statements were approved for issue by the Board on 24 November 2021.

Michael P Stiassny
Chairman

Graham R Stuart
Director

Consolidated statement of changes in equity

YEAR ENDED 30 SEPTEMBER 2021

	ATTRIBUTED TO SHAREHOLDERS				
	CONTRIBUTED EQUITY $000	ACCUMULATED LOSSES $000	RESERVES $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
Year Ended 30 September 2021					
Balance as at 30 September 2020	492,424	(48,107)	(104,431)	2,160	**342,046**
Comprehensive income					
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**
Transactions with shareholders					
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**
Year Ended 30 September 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 NZ IFRS 16	–	(1,333)	–	(4)	(1,337)
Adoption of accounting policy on cloud computing arrangements**	–	(3,986)	–	–	(3,986)
Restated balance at beginning of the year	209,990	65,740	9,808	1,797	287,335
Comprehensive income					
Profit for the year	–	10,761	–	449	11,210
Currency translation differences	–	–	(1,288)	(86)	(1,374)
Gain on asset revaluation	–	–	41	–	41
Deferred income tax relating to asset revaluation	–	–	8	–	8
Total comprehensive income	–	10,761	(1,239)	363	9,885
Transactions with shareholders					
Net proceeds of capital raise	45,000	(119)	–	–	44,881
Dividends written off	–	(99)	–	–	(99)
Other		44			44
Cancellation of shares on amalgamation*	(254,990)	254,990	–	–	–
Recognition of shares on amalgamation*	492,424	(379,424)	(113,000)	–	–
Total transactions with shareholders	282,434	(124,608)	(113,000)	–	44,826
At the end of the year	492,424	(48,107)	(104,431)	2,160	342,046

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

* Please note, Tower amalgamated its corporate structure on 30 September 2020. Refer to note 5.2 for further information.
** Refer to note 8.7 for further information.

Consolidated statement of cash flows

FOR THE YEAR ENDED 30 SEPTEMBER 2021

	2021 $000	RESTATED 2020 $000
Cash flows from operating activities		
Premiums received	398,601	366,738
Interest received	5,273	7,328
Fees and other income received	6,328	7,345
Reinsurance and other recoveries received	17,686	18,035
Settlement of EQC receivable	52,883	–
Motor premium refund payments	(1,351)	(5,849)
Reinsurance paid	(55,979)	(54,867)
Reinsurance paid in relation to settlement of EQC receivable	(10,741)	–
Claims paid	(213,350)	(223,751)
Employee and supplier payments	(97,912)	(97,499)
Income tax paid	(2,797)	(1,317)
Net cash inflow from operating activities	**98,641**	16,163
Cash flows from investing activities		
Proceeds from sale of interest-bearing investments	158,509	112,484
Proceeds from sale of unlisted equity investments	572	–
Payments for purchase of interest-bearing investments	(191,319)	(117,734)
Payments for purchase of intangible assets	(8,866)	(4,645)
Payments for purchase of customer relationships*	(14,434)	(9,473)
Payments for purchase of property, plant and equipment	(3,163)	(3,122)
Net cash outflow from investing activities	**(58,701)**	(22,490)
Cash flows from financing activities		
Proceeds from share capital issuance	–	47,300
Received from lessor on signing of new lease	10,945	–
Payments for cost of share capital issuance	–	(2,419)
Dividends paid	(10,541)	–
Repayment of borrowings	–	(15,000)
Facility fees and interest paid	(378)	(1,115)
Payment relating to principal element of lease liabilities	(2,848)	(3,070)
Net cash (outflow)/ inflow from financing activities	**(2,822)**	25,696
Net increase in cash and cash equivalents	**37,118**	**19,369**
Effect of foreign exchange rate changes	(1,097)	(1,279)
Cash and cash equivalents at the beginning of the year	80,108	62,018
Cash and cash equivalents at the end of the year	**116,129**	80,108

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

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

Notes to the consolidated financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2021

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 24 November 2021. 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 on a fair value measurement basis with any exceptions noted in the accounting policies below, or in the notes to the financial statements.

d. Restatement of comparatives

In April 2021, the IFRS Interpretations Committee (IFRIC) issued an agenda decision 'Configuration or Customisation Costs in a Cloud Computing Arrangement (NZ IAS 38 Intangible Assets)'. This IFRIC agenda decision clarifies the interpretation on how NZ IAS 38 Intangible Assets applies to configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) cloud computing arrangements. Refer to note 8.7 for further details of change in comparatives.

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. There have been no acquisitions or disposals of subsidiaries during the year ended 30 September 2021.

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.

1.2 Consolidation (continued)

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 statements 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.

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.

		HOLDINGS	
NAME OF COMPANY	INCORPORATION	2021	2020
Parent Company			
New Zealand general insurance operations			
Tower Limited (formerly named Tower Insurance 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	PNG	100%	100%
National Pacific Insurance Limited (NPI)	Samoa	71%	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 taxation — note 7.3
- Software-as-a-service arrangements — note 8.7a

COVID-19 Pandemic

An assessment of the impact of COVID-19 on Tower's balance sheet is set out below based on information available at the time of preparing these financial statements.

BALANCE SHEET	IMPACT
Investments	Investments are carried at fair value and reflect a lower interest rate environment.
Receivables	Immaterial impact. Provision for impairment of premium receivables and "other recoveries" has been updated to include an allowance for increased non-payment.
Right of Use Assets	Tower has assessed that there is no material impairment to right of use assets.
Intangible assets	No impact. Tower has assessed that its intangible assets have not been impaired.
Deferred acquisition costs (DAC)	Writedown in DAC due to deficiency reported as a result of the Liability Adequacy Test, partially influenced by higher claims costs driven by covid-related inflationary pressures.
Unearned premiums	Immaterial impact. Provision for unearned premium cancellation has been updated to include an allowance for increased non-payment.
Net outstanding claims	Impacts on the quantum of outstanding claims due to supply chain delays and lockdown both slowing the settlement of claims and, therefore, increasing outstanding balances. An additional risk margin has also been established, partially to allow for additional uncertainty in the post-covid environment.

RBNZ continues to engage with Tower on its response to COVID-19 and the sufficiency of its capital position. This is part of an ongoing sector-wide regulatory engagement in response to COVID-19 focused on financial stability, and operational changes/decisions that have customer impacts.

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.

1.4 Segmental reporting (continued)

b. Financial performance

	NEW ZEALAND $000	PACIFIC ISLANDS $000	OTHER $000	TOTAL $000
Year Ended 30 September 2021				
Gross written premium	351,058	53,623	–	404,681
Gross earned premium – external	340,568	54,962	–	395,530
Outwards reinsurance expense	(44,918)	(17,309)	–	(62,227)
Net earned premium	**295,650**	**37,653**	–	**333,303**
Net claims expense	(195,343)	(8,836)	(89)	(204,268)
Net commission expense	(9,762)	(1,543)	–	(11,305)
Underwriting expense	(76,519)	(13,232)	–	(89,751)
Underwriting profit	**14,026**	**14,042**	**(89)**	**27,979**
Net investment income	44	152	–	196
Other expenses	182	93	–	275
Profit before tax	**14,252**	**14,287**	**(89)**	**28,450**
Profit after tax	**8,855**	**10,533**	**(73)**	**19,315**
Year Ended 30 September 2020				
Gross written premium	317,478	59,681	–	377,159
Gross earned premium – external	311,671	60,881	–	372,552
Outwards reinsurance expense	(38,774)	(18,446)	–	(57,220)
Net earned premium	272,897	42,435	–	315,332
Net claims expense	(162,032)	(19,361)	337	(181,056)
Net commission expense	(12,027)	(2,463)	–	(14,490)
Underwriting expense	(76,323)	(13,197)	–	(89,520)
Underwriting profit	22,515	7,414	337	30,266
Net investment income	4,265	769	310	5,344
Impairment of EQC receivable	(13,126)	–	–	(13,126)
Other expenses	(286)	62	(3,580)	(3,804)
Profit before tax	13,368	8,245	(2,933)	18,680
Profit after tax	8,776	4,789	(2,355)	11,210

c. Financial position

	NEW ZEALAND $000	PACIFIC ISLANDS $000	OTHER $000	TOTAL $000
Total assets 30 September 2021	**707,368**	**105,561**	**(10,616)**	**802,313**
Total assets 30 September 2020	529,370	105,376	105,492	740,238
Total liabilities 30 September 2021	**401,523**	**51,688**	**(618)**	**452,593**
Total liabilities 30 September 2020	336,192	61,096	904	398,192

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 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 Underwriting revenue

Composition

	2021 $000	2020 $000
Gross written premium	404,681	384,359
Motor premium refund*	–	(7,200)
Movement in unearned premium liability	(9,151)	(4,607)
Gross earned premium	**395,530**	**372,552**
Reinsurance and other recoveries revenue	**24,635**	**25,711**
Reinsurance commission	5,635	5,242
Insurance administration services commission	1,118	1,215
Commission revenue	**6,753**	**6,457**
Underwriting revenue	**426,918**	**404,720**

* In the year ended 30 September 2020, Tower received lower motor vehicle claims in New Zealand due to travel restrictions imposed during the time spent in New Zealand government's COVID-19 alert level 3 and 4. On 21st April 2020 Tower Limited committed to returning the benefit of lower New Zealand motor claims to customers through motor vehicle premium refunds. Total premiums of $7.2m (excluding GST) were refunded to motor customers related to the year ended 30 September 2020. Gross Written Premiums were reduced accordingly and a provision created (see note 2.9) to recognise this obligation.

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 net premium receivables, see note 2.7) and customer premium refunds (see note 2.9 for more information). 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 which are broadly recognised with the reference premium 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 on a systematic basis and 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

	EXC. CANTERBURY EARTHQUAKE		CANTERBURY EARTHQUAKE		TOTAL	
	2021 $000	2020 $000	2021 $000	2020 $000	2021 $000	2020 $000
Gross claims expense	228,594	201,943	309	4,824	228,903	206,767
Reinsurance and other recoveries revenue	(23,430)	(24,698)	(1,205)	(1,013)	(24,635)	(25,711)
Net claims expense	**205,164**	177,245	**(896)**	3,811	**204,268**	181,056

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

	2021 $000	RESTATED 2020 $000
People costs	65,042	72,635
People costs capitalised during the year	(3,569)	(2,933)
Technology	14,326	17,383
Amortisation	12,556	9,705
Depreciation*	4,712	4,590
External fees	10,375	7,137
Marketing	8,518	8,181
Communications	4,007	3,691
Miscellaneous	1,090	(522)
Movement in indirect deferred acquisition costs	892	(1,416)
Claims-related management expenses reclassified to claims expense	(28,198)	(28,931)
Underwriting expenses	**89,751**	89,520

* Includes $2.4m (2020: $2.6m) of depreciation on right of use assets. See note 6.3b for further information.

2.4 Net outstanding claims

a. Composition

	EXC. CANTERBURY EARTHQUAKE		CANTERBURY EARTHQUAKE		TOTAL	
	2021 $000	2020 $000	**2021 $000**	2020 $000	**2021 $000**	2020 $000
Central estimate of future cash flows	87,535	65,475	16,402	21,236	103,937	86,711
Claims handling expense	5,430	4,151	1,314	1,908	6,744	6,059
Risk margin*	6,724	4,325	4,933	10,652	11,657	14,977
Gross outstanding claims	**99,689**	73,951	**22,649**	33,796	**122,338**	107,747
Reinsurance recoveries	(18,970)	(9,643)	(3,880)	(3,246)	(22,850)	(12,889)
Net outstanding claims	**80,719**	64,308	**18,769**	30,550	**99,488**	94,858
Net claim payments within 12 months	69,687	56,110	7,508	12,220	77,195	68,330
Net claim payments after 12 months	11,032	8,198	11,261	18,330	22,293	26,528
Net outstanding claims	**80,719**	64,308	**18,769**	30,550	**99,488**	94,858

* Includes nil additional (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 $5.0m has been released as the Canterbury outstanding claims liability has sufficiently run off.

b. Reconciliation of movements in net outstanding claims liability

	2021 $000			2020 $000		
	GROSS	**REINSURANCE**	**NET**	GROSS	REINSURANCE	NET
Balance brought forward	107,747	(12,889)	94,858	124,060	(13,457)	110,603
Claims expense – current year	234,675	(22,171)	212,504	209,766	(26,084)	183,682
Claims expense – prior year	(5,772)	(2,464)	(8,236)	(2,999)	373	(2,626)
Incurred claims recognised in the consolidated statement of comprehensive income	**228,903**	**(24,635)**	**204,268**	206,767	(25,711)	181,056
Claims paid and reinsurance and other recoveries raised	(213,350)	14,397	(198,953)	(223,654)	26,444	(197,209)
Foreign exchange	(962)	277	(685)	573	(165)	408
Outstanding claims	**122,338**	**(22,850)**	**99,488**	107,747	(12,889)	94,858

2.4. Net outstanding claims (continued)

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.

ULTIMATE CLAIMS COST ESTIMATE	PRIOR $000	2017 $000	2018 $000	2019 $000	2020 $000	2021 $000	TOTAL $000
At end of incident year		138,574	148,088	146,873	157,845	183,450	
One year later		140,610	145,887	143,975	154,459	–	
Two years later		141,989	145,763	143,121	–	–	
Three years later		142,280	145,344	–	–	–	
Four years later		142,701	–	–	–	–	
Ultimate claims cost		142,701	145,344	143,121	154,459	183,450	
Cumulative payments		(141,779)	(144,586)	(141,541)	(149,522)	(123,772)	
Undiscounted central estimate	13,212	922	758	1,580	4,937	59,678	81,087
Claims handling expense							6,744
Risk margin							11,657
Net outstanding claim liabilities							99,488
Reinsurance recoveries							22,850
Gross outstanding claim liabilities							**122,338**

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

d. Actuarial information

The estimation of outstanding claims as at 30 September 2021 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.

2.4. Net outstanding claims (continued)

e. Canterbury earthquakes

Cumulative impact of Canterbury earthquakes

As at 30 September 2021, Tower has 33 claims remaining to settle (2020: 59) 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. Figures include the EQC settlement which has been received at 30 September 2021.

	2021 $000	RESTATED 2020 $000
Earthquake claims estimate net of EQC payments	(944,418)	(939,109)
Reinsurance recoveries	732,090	730,885
Claim expense net of reinsurance recoveries	**(212,328)**	(208,224)
Reinsurance expense	(25,045)	(25,045)
Additional risk margin	–	(5,000)
Cumulative impact of Canterbury earthquakes before tax	**(237,373)**	(238,269)
Income tax	66,464	66,715
Cumulative impact of Canterbury earthquakes after tax	**(170,909)**	(171,554)

Canterbury earthquake impact on profit or loss

	2021 $000	2020 $000
Net claims (gain)/expense	**(896)**	3,811

Recognition and measurement

Gross outstanding claims liability comprises a central estimate of future cash outflows and a risk margin for uncertainty. Tower has not applied a discount given the short-tail nature of the portfolio and the low interest rate environment.

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.

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)

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	2021	2020
Expected future claims development proportion	19.7%	50.5%
Claims handling expense ratio	6.7%	7.1%
Risk margin	9.1%	7.2%

Expected future claims development proportion

This is the proportion of additional claims cost that is expected to be recognised in the future for BAU 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. The reduction in the expected future claims proportion has arisen following a change in case estimation process in the year ended 30 September 2021.

Claims handling expense ratio

This reflects the expected cost to administer 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 increase in the risk margin this year reflects the heightened 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	2021 $000	2020 $000
Number of new overcap and new litigated claims	38	68
Average cost of new overcap or new litigated claim	$121,000	$107,000
Provision for re-opened claims	$2,400,000	$2,800,000

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

	MOVEMENT IN ASSUMPTION	IMPACT ON PROFIT OR LOSS 2021 $000	2020 $000
Expected future claims development	+ 10%	1,339	1,771
	- 10%	(1,339)	(1,771)
Claims handling expense ratio	+ 10%	543	415
	- 10%	(543)	(415)
Risk margin	+ 10%	672	431
	- 10%	(672)	(431)

Canterbury earthquake outstanding claims

	MOVEMENT IN ASSUMPTION	IMPACT ON PROFIT OR LOSS 2021 $000	2020 $000
Number of new overcap or new litigated claims	+ 35%	(1,610)	(2,560)
	- 35%	1,610	2,560
Change in average cost of a new overcap or new litigated claim	+ 20%	(920)	(1,460)
	- 20%	920	1,460
Number of reopened claims	+ 35%	(840)	(980)
	- 35%	840	980
Change in average cost of a reopened claim	+ 20%	(480)	(560)
	- 20%	480	560

2.5 Unearned premium liability

Reconciliation

	2021 $000	2020 $000
Opening balance	**203,452**	187,855
Premiums written during the year	404,681	377,159
Premiums earned during the year	(395,530)	(372,552)
Unearned premium movement	9,151	4,607
Unearned premium balance purchased*	–	12,003
Foreign exchange movements	(328)	(1,013)
Unearned premium liability	**212,275**	203,452

* Unearned premium balance acquired through the purchase of customer relationships in the year ended 30 September 2020 (see note 6.2).

The majority of unearned premiums will be earned in the 12 months after 30 September 2021 and therefore are current liabilities. The unearned premium liability is presented net of cancellation provisions.

2.5 Unearned premium liability (continued)

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-rate 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 2021 was not sufficient for the New Zealand business and a deficiency of $2.0m was recognised (2020: no deficiency). The unearned premium liabilities for Pacific entities were sufficient with the exception of Fiji and Vanuatu (2020: Fiji, NPI and Vanuatu) where small deficits were recognised. The total deficit for the group recognised as a charge against deferred acquisition cost was $2.5m (2020: $0.4m).

%	2021	2020
Central estimate net claims as a % of unearned premium liability	45.2%	44.5%
Risk margin as a % of net claims	11.0%	10.2%

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

	DEFERRED ACQUISITION COSTS 2021 $000	2020 $000	DEFERRED OUTWARDS REINSURANCE EXPENSE 2021 $000	2020 $000	DEFERRED INSURANCE COSTS 2021 $000	2020 $000
Balance bought forward	**25,220**	23,736	**9,447**	8,794	**34,667**	32,530
Costs deferred	40,323	42,136	17,968	15,396	58,291	57,532
Amortisation expense	(41,897)	(40,221)	(16,428)	(14,586)	(58,325)	(54,807)
Writedown due to LAT deficiency	(2,534)	(440)	–	–	(2,534)	(440)
Foreign exchange movements	4	9	(136)	(157)	(132)	(148)
Closing balance	**21,116**	25,220	**10,851**	9,447	**31,967**	34,667

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

2.6 Deferred insurance costs (continued)

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

	2021 $000	2020 $000
Gross premium receivables	177,141	171,041
Provision for impairment	(655)	(1,383)
Premium receivable	**176,486**	169,658
Business as usual reinsurance recoveries	20,326	15,105
Canterbury earthquake reinsurance recoveries	3,880	3,246
Other recoveries	5,208	5,262
Reinsurance and other recoveries	**29,414**	23,613
EQC receivable*	523	52,883
Finance lease receivables	4,278	–
Prepayments	3,279	2,664
Miscellaneous receivables	1,873	1,928
Receivables	**215,853**	250,746
Receivable within 12 months	213,432	250,746
Receivable in greater than 12 months	2,421	–
Receivables	**215,853**	250,746

* The EQC receivable for 2021 does not relate to the historic Canterbury earthquakes (CEQ) receivable settled during the period. This receivable relates to non-CEQ receivables.

Recognition and measurement

Receivables (inclusive of GST) are recognised at fair value and are subsequently measured at amortised 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. The EQC receivable is the only material item that falls into this category and is discussed further in the sub-note below.

EQC recovery receivable related to Canterbury earthquakes

During the year Tower received $52.9m (excluding GST) in a full and final 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.

There was nil impairment expense in the year ended 30 September 2021 (2020: $13.1m).

2.7 Receivables (continued)

Finance lease receivables

Tower entered 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:

	2021 $000	2020 $000
Less than one year	2,019	–
Between one and five years	2,421	–
More than five years	–	–
Total undiscounted finance lease receivable	**4,440**	–
Unearned finance income	(162)	–
Net investment in the finance lease	**4,278**	–

2.8 Payables

Composition

	2021 $000	2020 $000
Trade payables	10,380	13,527
GST payable	23,264	20,519
EQC receivable payable to reinsurers	–	10,741
EQC & Fire and Emergency New Zealand levies payable	10,857	11,068
Reinsurance premium payable	6,343	3,414
Unsettled investment purchases	11,456	–
Other	6,605	7,331
Payables	**68,905**	66,600
Payable within 12 months	68,905	66,600
Payable in greater than 12 months	–	–
Payables	**68,905**	66,600

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

	2021 $000	2020 $000
Annual leave and other employee benefits	6,709	6,901
Customer premium refunds	–	2,422
Other	–	208
Provisions	**6,709**	9,531
Payable within 12 months	6,235	9,157
Payable in greater than 12 months	474	374
Provisions	**6,709**	9,531

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

	2021 $000	2020 $000
Interest income	5,148	7,328
Net realised loss	(2,152)	(1,277)
Net unrealised loss	(2,416)	(241)
Investment income	**580**	5,810

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

	2021 $000	2020 $000
Fixed interest investments	277,436	237,298
Equity investment	–	572
Property investment	34	34
Investments	**277,470**	237,904

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 following note.

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's equity investment in the unlisted reinsurance company Pacific Re was the only investment in this category. Tower sold the investment to a third party in November 2020 at the carrying value as at 30 September 2020.

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
As at 30 September 2021				
Fixed interest investments	–	277,436	–	**277,436**
Equity investment	–	–	–	–
Property investment	–	34	–	**34**
Investments	–	**277,470**	–	**277,470**
As at 30 September 2020				
Fixed interest investments	–	237,298	–	237,298
Equity investment	–	–	572	572
Property investment	–	34	–	34
Investments	–	237,332	572	237,904

There have been no transfers between levels of the fair value hierarchy during the current financial period (2020: 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 Programme (RMP) 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 Risk Management Framework (RMF), the status of material risks, risk and compliance incidents and risk framework changes.

Tower has embedded an 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 and Compliance Functions are responsible for developing and implementing effective risk and compliance 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.

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. In addition it takes out additional aggregate reinsurance cover for large events which fall outside the catastrophe reinsurance programme and tends to cover weather events in New Zealand and across the Pacific.

(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.

	2021			2020		
GROSS WRITTEN PREMIUM (%)	**NZ**	**PACIFIC**	**TOTAL**	NZ	PACIFIC	TOTAL
Home & Contents	51%	4%	**55%**	51%	4%	55%
Motor	33%	4%	**37%**	30%	5%	35%
Commercial	1%	4%	**5%**	1%	6%	7%
Liability	1%	0%	**1%**	1%	0%	1%
Workers compensation	0%	1%	**1%**	0%	1%	1%
Other	1%	0%	**1%**	0%	1%	1%
Total	**87%**	**13%**	**100%**	83%	17%	100%

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.

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 unrated categories in the table below. This includes deposits and investments with Australian bank subsidiaries that comprise 88% (2020: 83%) of the "not rated" category.

	CASH AND CASH EQUIVALENTS		FIXED INTEREST INVESTMENTS		TOTAL	
	2021 $000	2020 $000	2021 $000	2020 $000	2021 $000	2020 $000
AAA	–	–	94,430	106,805	94,430	106,805
AA	83,614	55,478	143,548	90,859	227,162	146,337
A	–	–	33,100	29,737	33,100	29,737
BBB	–	–	–	–	–	–
Below BBB	9,173	5,409	2,226	3,456	11,399	8,865
Not rated	23,342	19,221	4,132	6,441	27,474	25,662
Total	116,129	80,108	277,436	237,298	393,565	317,406

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:

	REINSURANCE ON: OUTSTANDING CLAIMS		PAID CLAIMS		TOTAL	
	2021 $000	2020 $000	2021 $000	2020 $000	2021 $000	2020 $000
AAA	–	–	–	–	–	–
AA	12,005	6,738	1,028	3,490	13,033	10,228
A	10,805	6,106	320	1,986	11,125	8,092
BBB	–	–	–	–	–	–
Below BBB	–	–	–	–	–	–
Not rated	40	29	4	2	44	31
Total	22,850	12,873	1,352	5,478	24,202	18,351

4.4 Credit risk (continued)

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

	NOT DUE $000	PAST DUE: 1 MONTH $000	1 TO 2 MONTHS $000	2 TO 3 MONTHS $000	OVER 3 MONTHS $000	TOTAL $000
As at 30 September 2021						
Reinsurance recoveries on paid claims	1,352	–	–	–	–	1,352
As at 30 September 2020						
Reinsurance recoveries on paid claims	5,379	–	–	–	99	5,478

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 insurance risk.

	NOT DUE* $000	PAST DUE: 1 MONTH $000	1 TO 2 MONTHS $000	2 TO 3 MONTHS $000	OVER 3 MONTHS $000	TOTAL $000
As at 30 September 2021						
Net premium receivable	168,843	5,514	1,484	562	83	176,486
As at 30 September 2020						
Net premium receivable	162,935	3,705	1,992	986	40	169,658

* this includes premiums that are less than 30 days outstanding (which are owed but not past due) of $5.5m (2020: $7.1m).

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.

4.5 Market risk (continued)

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.

	DIRECT IMPACT ON EQUITY		IMPACT ON PROFIT OR LOSS	
	2021 $000	2020 $000	**2021 $000**	2020 $000
New Zealand Dollar – USD				
Currency strengthens by 10%	(581)	(407)	23	17
Currency weakens by 10%	710	497	(28)	(20)
New Zealand Dollar – Fijian Dollar				
Currency strengthens by 10%	(1,667)	(1,350)	(38)	(73)
Currency weakens by 10%	2,037	1,650	47	90
New Zealand Dollar – PNG Kina				
Currency strengthens by 10%	(743)	(1,078)	30	57
Currency weakens by 10%	908	1,318	(36)	(70)

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 creates exposure to the risk that interest rate movements materially impact the fair value of the insurance liabilities. Interest rate risk arises to the extent that there is a mismatch which arises between the two.

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 0.5% increase or decrease in interest rates on fixed interest investments is shown below (holding everything else constant). The assumption made for 0.5% decrease in interest rates is that the lower bound is capped at 0% as negative rates on fixed interest investments are highly unlikely.

	IMPACT ON PROFIT OR LOSS	
	2021 $000	2020 $000
Interest rates increase by 0.5%	**(988)**	(921)
Interest rates decrease by 0.5%	**960**	750

Tower manages its interest rate risk through Board-approved investment management guidelines that have 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.

	NET OUTSTANDING CLAIMS LIABILITY		CASH AND INVESTMENTS	
	2021 $000	2020 $000	**2021 $000**	2020 $000
Floating interest rate (at call)	–	–	116,217	80,108
Within 3 months	42,949	32,943	75,129	36,982
3 to 6 months	17,070	15,140	31,890	53,797
6 to 12 months	17,176	20,246	47,381	55,352
After 12 months	22,293	26,529	122,948	91,167
Total	**99,489**	94,858	**393,565**	317,406

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.

In October 2020, the Reserve Bank of New Zealand (RBNZ) commenced consultation on a review of the Insurance (Prudential Supervision) Act 2010. The consultation process is expected to continue through to 2022. Tower has actively participated in the consultation to date, with an ongoing assessment of the impacts to solvency being performed as information becomes known. As part of the overall process, the RBNZ issued an exposure draft on an interim solvency standard (ISS) in July 2021 which anticipates the introduction of IFRS 17 during the consultation period. This draft 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 changes that would reduce solvency margins, such as the introduction of an operational risk capital charge. In October 2021, the RBNZ advised that the effective date of the ISS would be deferred until 2023, and that the feedback received would likely require some changes to the ISS. Tower considers it is not yet possible to provide a reasonable estimate of the impact of changes to its solvency position from the ISS, as the ISS has not been finalised, the RBNZ has stated that it will change, and a lack of clarity in certain areas of the draft ISS means that there are different possible interpretations as to the potential impact.

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 2021, the Group complied with all externally imposed capital requirements (2020: complied).

4.7 Capital management risk (continued)

During the year RBNZ reduced Tower's required minimum solvency margin, via a license condition, to $25.0m (2020: $50.0m). Tower Limited's Group and Parent solvency margin are illustrated in the table below.

	2021 $000 PARENT	2021 $000 GROUP	2020 $000 PARENT	2020 $000 GROUP
Actual solvency capital	179,439	214,128	150,451	181,214
Minimum solvency capital	66,252	79,927	52,342	65,728
Solvency margin	**113,187**	**134,201**	98,109	115,486
Solvency ratio	**271%**	**268%**	287%	276%

The solvency presented as of 30 September 2021 does not reflect any possible change to solvency as a result of the RBNZ's Insurance (Prudential Supervision) Act 2010 review. Policy changes and legislative reforms as a result of this review are expected to come into legislation in 2023 – 2024.

b. Capital composition

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

	2021 $000	RESTATED 2020 $000
Total shareholder equity	347,044	339,886
Total	**347,044**	**339,886**

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. with an effective date of 23 April 2021.

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 and managing operational risks in accordance with their roles and responsibilities. Failures in controls are recorded and then actively monitored and managed. 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.

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 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, managing vulnerable customers, holding workshops with frontline staff to identify potential conduct issues and embedding and monitoring controls across the business to deliver good customer outcomes.

There is robust governance in place to oversee Tower's conduct risk management programme 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 and Audit Committee. Risk mitigation is achieved through ongoing investment in Tower's Security programme and Tower's dedicated security function.

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 Borrowings

There were no new short term cash advances during the year ended 30 September 2021. The previous facility agreement with a limit of $15m with Bank of New Zealand expired on 30 September 2020.

Total borrowing costs for the year were nil (2020: $0.8m, none of which were capitalised).

5.2 Contributed equity

	2021 $000	2020 $000
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
Total contributed equity	**492,424**	492,424
Represented by:		
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
Total shares on issue	**421,647,258**	421,647,258

* On 30 September 2020, Tower Insurance Limited was renamed Tower Limited (the Company) and was amalgamated by way of a short form amalgamation under the Companies Act 1993 with its ultimate parent, Tower Limited (the prior Tower Limited); its parent, Tower Financial Services Group Limited; and another subsidiary of Tower Limited, Tower New Zealand Limited. At this date the Company's existing share capital of $255m (including the issue of $45m new share capital) was cancelled without payment or other consideration, and instead the shares of the prior Tower Limited (of $492m) became the shares of the Company, so that the shareholders of the prior Tower Limited became shareholders of the Company.

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. There have been no changes in contributed equity during the year.

5.3 Reserves

	2021 $000	2020 $000
Opening balance	(4,985)	(3,697)
Currency translation differences arising during the year	(1,097)	(1,288)
Foreign currency translation reserve	**(6,082)**	(4,985)
Opening balance	1,564	1,515
Gain on revaluation	159	41
Deferred tax on revaluation	(16)	8
Asset revaluation reserve	**1,707**	1,564
Capital reserve	**11,990**	11,990
Opening balance	(113,000)	–
Impact of amalgamation	–	(113,000)
Separation reserve	**(113,000)**	(113,000)
Reserves	**(105,385)**	(104,431)

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.

On 30 September 2020, the Company was amalgamated with other Tower entities. On this date, the separation reserve was recognised. The **separation reserve** was originally created in the prior Tower Limited 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 to meet the requirements of the ATO.

5.4 Net tangible assets per share

	2021 $	2020 $
Net tangible assets per share	**0.57**	0.56

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.

5.5 Earnings per share

	2021	RESTATED 2020
Profit attributable to shareholders ($ thousands)	**18,683**	10,761
Weighted average number of ordinary shares for basic and diluted earnings per share (number of shares)	**421,647,258**	417,172,654
Basic and diluted earnings per share (cents)	4.43	2.58

The Group has used the ordinary shares of the prior Tower Limited up to 30 September 2020, and of the Company from that date, for the purposes of calculating the weighted average number of ordinary shares. The prior Tower Limited issued an additional 84,322,958 shares as per its 1-for-4 rights offer (refer to Note 5.2). The shares were issued at NZ$0.56 which represented a 19% discount to the share price of NZ$0.69 as at 15 October 2019 (the date immediately prior to the exercise of rights). As a result, 13,118,388 shares issued as part of the rights offer are treated as a bonus issue. The weighted average number of ordinary shares on issue in both 2020 and 2019 have been adjusted in accordance with NZ IAS 33 Earnings per share.

5.6 Dividends

	2021		2020	
	CENTS PER SHARE	$ THOUSANDS	CENTS PER SHARE	$ THOUSANDS
Final dividend for the year	–	–	–	–
Interim dividend for the period	2.5	10,541	–	–

On 24 November 2021, the Board approved a full year dividend of 2.5 cents per share, with the dividend being payable on 2 February 2022. The anticipated cash impact of the final dividend is approximately $10.5m.

During the year ended 30 September 2021 no dividends were written off (2020: $0.1m).

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 2021	LAND AND BUILDINGS $000	OFFICE EQUIPMENT AND FURNITURE $000	MOTOR VEHICLES $000	COMPUTER EQUIPMENT $000	TOTAL $000
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	–	(928)	(260)	(1,106)	**(2,294)**
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**
30 September 2020					
Composition:					
Cost	4,035	8,599	1,748	15,622	30,004
Accumulated depreciation	–	(5,610)	(665)	(13,688)	(19,963)
Property, plant and equipment	4,035	2,989	1,083	1,934	10,041
Reconciliation:					
Opening balance	4,082	4,002	205	815	9,104
Depreciation	–	(1,048)	(205)	(751)	(2,004)
Additions	–	31	1,211	2,004	3,246
Revaluations	41	–	–	–	41
Disposals	–	21	(125)	(130)	(234)
Foreign exchange movements	(88)	(17)	(3)	(4)	(112)
Closing balance	4,035	2,989	1,083	1,934	10,041

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 2021	GOODWILL $000	SOFTWARE* $000	CUSTOMER RELATIONSHIPS** $000	TOTAL $000
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	–	(1,425)	–	**(1,425)**
Closing balance	**17,744**	**48,527**	**22,321**	**88,592**
30 September 2020				
Composition:				
Cost	17,744	89,985	14,222	121,951
Accumulated amortisation	–	(42,119)	(1,984)	(44,103)
Intangible assets	17,744	47,866	12,238	77,848
Reconciliation:				
Opening balance	17,744	56,467	–	74,211
Adjustment to opening balance	–	(5,536)	–	(5,536)
Restated opening balance	17,744	50,931	–	68,675
Amortisation	–	(7,721)	(1,984)	(9,705)
Additions	–	4,819	14,222	19,041
Disposals	–	(43)	–	(43)
Transfers	–	(120)	–	(120)
Closing balance	17,744	47,866	12,238	77,848

* Comparative information with respect to Software and related IT projects in progress has been restated due to a change in accounting policies as specified in Note 8.7.

** 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.

6.2 Intangible assets (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

Tower has determined that the ANZ customer relationship asset consists of two component intangible assets with different useful lives, and these components are therefore expected to provide a different pattern of benefits to Tower.
The asset components, being 1) a customer relationship asset with a useful life equivalent to the customer base's expected lifespan of ten years, and; 2) a non-compete period with a contracted useful life of five years. The estimated capitalised cost related to the ANZ customer relationship 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 rate and a discount rate of 12.5%.

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 (2020: 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.

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.

6.2 Intangible assets (continued)

(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 general insurance CGU.

Tower undertook an annual impairment review and no loss has been recognised in 2021 as a result (2020: 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 with reference to its appraisal value, which is a common practice for insurance companies. A base discount rate of 12.0% was used in the calculation (2020: 10.5%). The cash flows are in line with the FY22 - FY24 operational plan (2020: FY21 - FY23) and longer term profitability is assumed to continue to grow at 2.5% per annum. The projected cash flows are determined based on past performance and management's expectations for market developments with a terminal growth rate of 2.5% (2020: 2%).

The overall valuation is sensitive to a range of assumptions including the forecast combined operating ratio used in terminal value calculation, discount rate, and terminal value long-term growth rate. Reasonable changes to these assumptions will not result in an impairment.

6.3 Leases

a. Amounts recognised in the Balance Sheet

(ii) Right of use assets

30 September 2021	OFFICE SPACE $000	MOTOR VEHICLES $000	TOTAL $000
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	(2,404)	(14)	**(2,418)**
Additions*	24,332	–	**24,332**
Disposals	(3,308)	–	**(3,308)**
Revaluations	(3)	–	**(3)**
Impairment	–	–	**–**
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 purposes of the right of use asset and lease liability.

6.3 Leases (continued)

30 September 2020	OFFICE SPACE $000	MOTOR VEHICLES $000	TOTAL $000
Composition:			
Cost	9,619	53	**9,672**
Accumulated depreciation	(2,430)	(31)	**(2,461)**
Right of use assets	**7,189**	**22**	**7,211**
Reconciliation:			
Opening balance	10,097	86	**10,183**
Depreciation	(2,518)	(68)	**(2,586)**
Additions	961	4	**965**
Disposals	(1,249)	–	**(1,249)**
Revaluations	(96)	–	**(96)**
Impairment	(27)	–	**(27)**
Net foreign exchange movements	21	–	**21**
Right of use assets	**7,189**	**22**	**7,211**

Recognition and measurement

Right of use assets are recognised when Tower has the right to use the 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.

(ii) Lease liabilities

	2021 $000	2020 $000
Composition:		
Current	6,082	2,721
Non-current	33,339	5,974
Lease liabilities	**39,421**	**8,695**
Due within 1 year	6,082	2,721
Due within 1 to 2 years	6,041	2,584
Due within 2 to 5 years	12,055	3,534
Due after 5 years	19,514	418
Discount	(4,271)	(562)
Lease liabilities	**39,421**	**8,695**

6.3 Leases (continued)

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. Incremental borrowing rates used during the year ranged between 1.9% and 3.6% (2020: between 2.3% 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 the 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

	CLASSIFICATION	2021 $000	2020 $000
Depreciation and impairment	Underwriting expense & corporate and other expenses	(2,418)	(2,598)
Interest expense	Finance costs	(378)	(369)
Gain on disposal	Underwriting expense	1,179	167
Lease expense		**(1,617)**	**(2,800)**

c. Amounts recognised in the consolidated statement of cash flows

	2021 $000	2020 $000
Total cash outflow for lease principal payments	(2,848)	(3,070)

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

	2021 $000	RESTATED 2020 $000
Current tax	3,745	3,621
Deferred tax	5,785	3,900
Adjustments in respect of prior years	(395)	(51)
Tax expense	**9,135**	7,470

Reconciliation of prima facie tax to income tax expense

	2021 $000	RESTATED 2020 $000
Net profit before tax	28,450	18,680
Prima facie tax expense at 28% (2020: 28%)	7,966	5,230
Adjustments in respect of prior years	(395)	(51)
Tax effect of non-deductible expenses and non-taxable income	796	788
Foreign tax credits written off	861	1,127
Other	(93)	376
Tax expense	**9,135**	7,471

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

	2021 $000	2020 $000
Excess tax payments related to prior periods*	12,038	12,038
Excess tax payments/tax payable related to current period**	863	854
Current tax assets	**12,901**	12,892

* Expected to be recovered from 2024 as per the Board-approved operational plan for 2022 to 2025.
** Excess tax payment made in the Pacific Islands during the reporting period.

b. Current tax liability

The current tax liability balance of $170k (2020: $821k) 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

	2021 $000	RESTATED 2020 $000
Tax losses recognised	24,116	25,720
Software, property, plant and equipment	2,834	3,744
Leases	373	501
Provisions and accruals	4,165	3,882
Recognised in profit or loss	**31,488**	33,847
Impact through other comprehensive income	–	1,550
Recognised in comprehensive profit or loss	**31,488**	35,397
Set off of deferred tax liabilities pursuant to NZ IAS 12	(7,038)	(6,575)
Deferred tax asset	**24,450**	28,822

Reconciliation of movements

	2021 $000	2020 $000
Opening balance	35,397	36,360
Movements recognised in other comprehensive income	–	2,051
Movements recognised in consolidated statement of comprehensive income	(3,909)	(3,014)
Deferred tax asset pre NZ IAS 12 set off	**31,488**	35,397

7.3 Deferred tax (continued)

b. Deferred tax liability

Composition

	2021 $000	2020 $000
Deferred acquisition costs	(5,481)	(6,588)
Customer relationships	(3,433)	–
Other*	(461)	(911)
Recognised in profit or loss	**(9,375)**	(7,499)
Asset revaluation	(438)	(422)
Recognised in comprehensive profit or loss	**(9,813)**	(7,921)
Set off of deferred tax liabilities pursuant to NZ IAS 12	7,038	6,575
Deferred tax liability	**(2,775)**	(1,346)

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

Reconciliation of movements

	2021 $000	2020 $000
Opening balance	(7,921)	(7,043)
Movements recognised in consolidated statement of comprehensive income	(1,876)	(886)
Movements recognised in equity	(16)	8
Deferred tax liability pre NZ IAS 12 set off	**(9,813)**	(7,921)

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 $86.1m (2020: $92.2m).

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.

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, changes in ownership and a 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.

	2021 $000	2020 $000
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 Cash Flow Statement

Composition

	2021 $000	2020 $000
Cash at bank	**88,740**	61,892
Deposits at call	**27,389**	18,071
Restricted cash	**–**	145
Cash and cash equivalents	**116,129**	80,108

The average interest rate at 30 September 2021 for deposits at call is 0.25% (2020: 0.47%).

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

	2021 $000	RESTATED 2020 $000
Profit for the year	**19,315**	11,210
Adjusted for non-cash items		
Depreciation of property, plant and equipment	2,294	2,004
Depreciation, impairment and disposals of right of use assets	2,418	2,432
Amortisation of intangible assets	12,556	9,706
Fair value losses on financial assets	4,568	1,518
Gain/loss on disposal of fixed assets	322	–
Change in deferred tax	5,799	7,565
Adjusted for movements in working capital		
Change in receivables	41,612	(2,659)
Change in payables	8,840	(15,314)
Change in taxation	539	(1,414)
Adjusted for financing activities		
Facility fees and interest paid	378	1,115
Net cash inflows from operating activities	**98,641**	16,163

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.

	2021 $000	2020 $000
Salaries and other short-term employee benefits paid	5,059	4,736
Termination benefits	486	–
Independent director fees	723	624
Related party remuneration	**6,268**	5,360

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.

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

	2021 $000	2020 $000
Audit of financial statements (1)	599	550
Other assurance services (2)	60	46
Non-assurance agreed procedures (3)	–	12
Total fees paid to Group's auditors	**659**	608
Fees paid to subsidiaries' auditors different to Group auditors:		
Audit of financial statements (4)	14	15
Auditor's remuneration	**673**	623

(1) 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 support of PwC New Zealand and other PwC network firms. $129,600 is paid to other PwC network firms (non New Zealand) for their audit services.

(2) Other assurance services includes annual solvency return assurance and Pacific Island regulatory return audits. The other assurance services for the year ended 30 September 2020 were completed during the year ended 30 September 2021.

(3) Agreed procedures on Pacific Island regulatory return and Annual Shareholders' Meeting procedures in the year ended 30 September 2020. The non-assurance agreed procedures for the year ended 30 September 2020 were completed during the year ended 30 September 2021.

(4) The audit of Tower Insurance (Vanuatu) Limited was performed by Law Partners (2020: Law Partners).

8.4 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.

8.5 Subsequent events

On 24 November 2021, the Board approved a full year dividend of 2.5 cents per share, with the dividend being payable on 2 February 2022 as specified by Note 5.6. The anticipated cash impact of the final dividend is approximately $10.5m.

On 24 November 2021, the Board approved $30.4m capital return by way of a compulsory share buyback. The capital return is subject to shareholder and Court approval.

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 has subsequently commenced a process to acquire the remaining 6.12% shareholding.

8.6 Capital commitments

As at 30 September 2021, Tower has nil capital commitments (2020: $0.7m).

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

a. Issued and effective

Software-as-a-Service ("SaaS") arrangements

For the year ended 30 September 2021 and its comparative period, the Group has revised its accounting policy in relation to the configuration and customisation costs incurred in implementing Software as a Service (SaaS) 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 2019 that should have been expensed have been adjusted against opening accumulated losses at 1 October 2019. Costs capitalised in the years ended 30 September 2020 and 30 September 2021 that should have been expensed have been reclassified to the consolidated statement of comprehensive income. The impact on the financial statements for the years ended 30 September 2020 and 30 September 2021 is summarised below:

Consolidated statement of comprehensive income

- an increase in technology expenses for the year ended 30 September 2021 of $3.1m (2020: $1.5m).
- a decrease in people costs capitalised during the year ended 30 September 2021 of $0.5m (2020: $1.3m).
- a decrease in amortisation expenses for the year ended 30 September 2021 of $1.5m (2020: $1.1m).
- a decrease in tax expense for the year ended 30 September 2021 of $0.6m (2020: $0.4m).
- an overall decrease in net profit after tax for the year ended 30 September 2021 of $1.5m (2020: $1.3m).

Consolidated balance sheet

- an increase in opening accumulated losses of $7.1m (2020: $3.9m).
- a decrease in intangible assets as at 30 September 2021 of $2.0m (2020: $7.1m).
- an increase in deferred tax assets as at 30 September 2021 of $0.6m (2020: $2.0m).

Consolidated statement of cash flows

- an increase in employee and supplier payments for the year ended 30 September 2021 of $3.5m (2020: $2.7m).
- a decrease in payments for purchase of intangible assets for the year ended 30 September 2021 of $3.5m (2020: $2.7m).

Earnings per share

- a decrease in earnings per share for the year ended 30 September 2021 of 0.34 cents (2020: 0.27 cents).

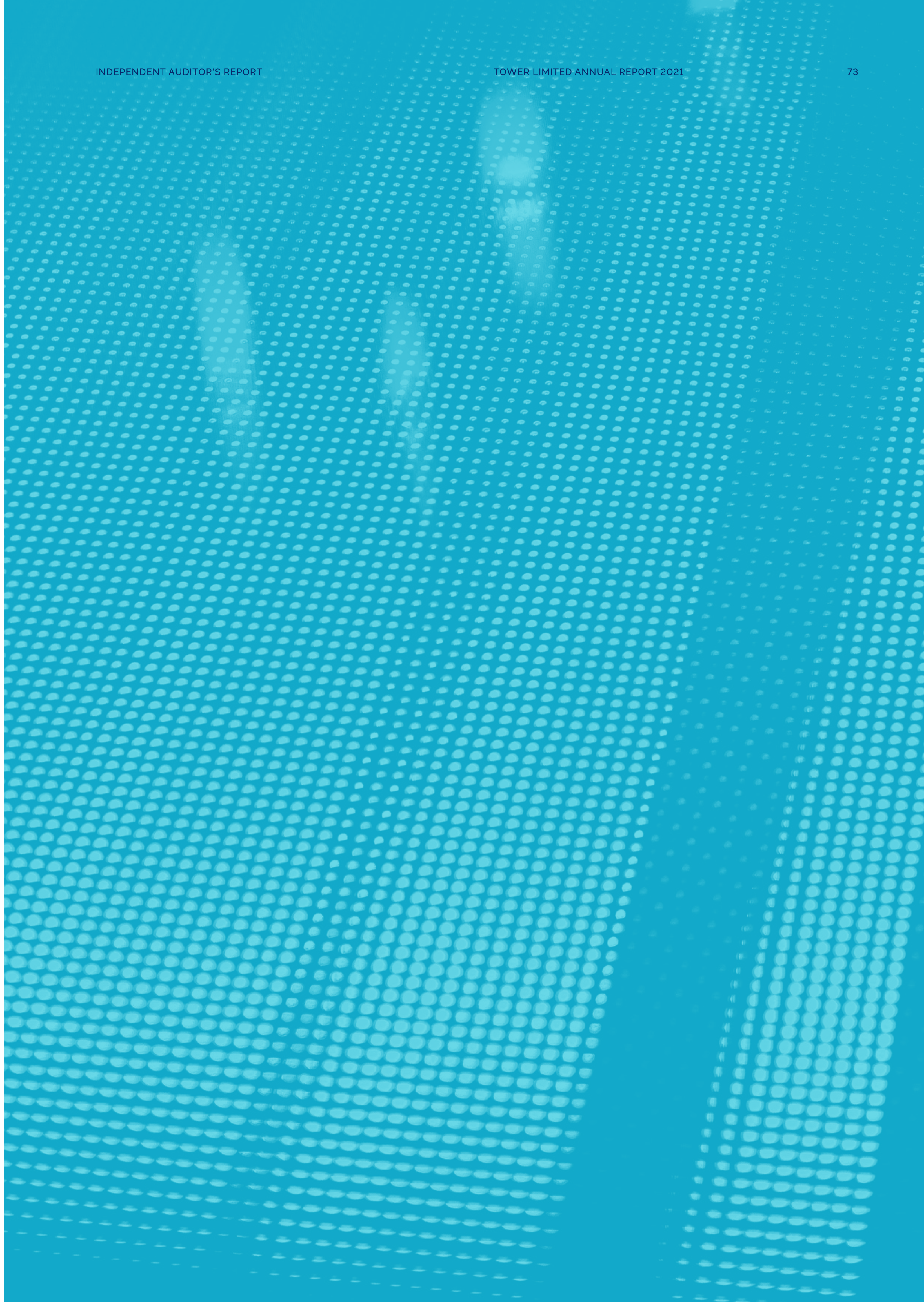
Adjustment relating to periods before 1 October 2019

- the portion of the decrease to intangible assets above relating to costs capitalised pre 1 October 2019 is $5.5m.
- the portion of the increase to deferred tax assets above relating to costs capitalised pre 1 October 2019 is $1.6m.
- the reduction in opening accumulated losses at 1 October 2019 relating to costs capitalised pre 1 October 2019 is $3.9m.

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

b. 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 IFRS 17, with the majority of the impact assessment and systems development work expected to be completed in the financial year ended 30 September 2022. 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 IFRS 17. However, 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 REPORT

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 2021, 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 2021;
- 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 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 and a regulatory insurance return. 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 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
(1) Valuation of outstanding claims **(2021: $122,338,000, 2020: $107,747,000)** We considered the valuation of outstanding claims a key audit matter because this involves an estimation process combined with significant judgements and assumptions made by management to estimate future cash outflows to settle claims. 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. Key actuarial assumptions applied in the valuation of outstanding claims include: • expected future claims development proportion; and • claims handling expense ratios 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. Changes in assumptions can lead to significant movements in the outstanding claims liability.	Claims data is a key input to the actuarial estimates. Accordingly, we: • 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 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 that came available during the year; • inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation and approved within delegated authority limits; and • tested the integrity of data used in the actuarial models and calculations by agreeing the relevant inputs, such as claims data, to source. Together with our actuarial experts, we: • considered the work and findings of the actuaries engaged by the Group; • 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 the Group's experience, our own sector knowledge and independently observable industry trends (where applicable), taking into consideration COVID-19 impacts; and

Description of the key audit matter	How our audit addressed the key audit matter
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.	• assessed the risk margin as per the requirements of applicable accounting standards, by comparing to known industry practice. In particular we focused on the assessed level of uncertainty in the central estimate; and with reference to the inherent uncertainty in the remaining Christchurch earthquake claims and its consistency with prior periods.
(2) Recoverability of the deferred tax asset arising from tax losses **(2021: $24,116,000, 2020: $25,720,000)** 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.	In considering the recoverability of the deferred tax asset arising from tax losses we performed the following procedures: • compared the previous management budget with actual results to assess the reliability of management's forecasting; • considered the reasonableness of the assumptions in the FY22 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: $3.95 million, which represents approximately 1% of gross earned premium.

We chose gross earned 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 and analytical review procedures were performed on the 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, and the industry 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:

PricewaterhouseCoopers

Chartered Accountants
24 November 2021

Auckland

APPOINTED ACTUARY'S REPORT

finity

24 November 2021

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 2021. 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 2021.

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

Anagha Pasche

Fellows of the New Zealand Society of Actuaries

Sydney Level 7, 68 Harrington Street, The Rocks, NSW 2000 T +61 2 8252 3300
Melbourne Level 3, 30 Collins Street, Melbourne, VIC 3000 T +61 3 8080 0900
Auckland Level 5, 79 Queen Street, Auckland, NZ 1010 T +64 9 306 7700

Finity Consulting Pty Limited | ABN 89 111 470 270 finity.com.au | finityconsulting.co.nz

CORPORATE GOVERNANCE & STATUTORY DISCLOSURES

Tower Limited's (Tower) Board is committed to achieving the highest standards of corporate governance, ethical behaviour, and accountability and has implemented corporate governance practices that are consistent with best practice. When there are developments in corporate governance practices, the Board reviews these against Tower's practices and updates Tower's practices where appropriate.

For the reporting period to 30 September 2021, the Board considers that Tower's corporate governance practices have materially adhered to the NZX Corporate Governance Code (NZX Code). Further information about the extent to which Tower has complied with each of the NZX Code recommendations is set out in Tower's corporate governance statement, available on Tower's website at tower.co.nz/investor-centre.

The following policies and company documentation are available on Tower's website (https://www.tower.co.nz/investor-centre/corporate-governance/policies):

- Tower Limited Constitution
- Corporate Governance Statement
- Board Charter
- Board Protocols
- Audit Committee Terms of Reference
- Risk Committee Terms of Reference
- Remuneration & Appointments Committee Terms of Reference
- Director and Executive Remuneration Policy
- Insider Trading and Market Manipulation Policy
- Corporate Disclosure Policy
- External Audit Independence Policy
- Health and Safety Policy
- Code of Ethics Policy
- Diversity and Inclusion Policy

STATUTORY DISCLOSURES

DIVERSITY

Gender Diversity

The below table provides a quantitative breakdown of the gender composition of Tower's Directors and Officers and other employee groups as at 30 September 2021, compared to 30 September 2020, including subsidiaries.

	30 SEPTEMBER 2021		30 SEPTEMBER 2020	
GROUP	% GROUP	NUMBER	% GROUP	NUMBER
Board of Directors				
Males	83%	5	83%	5
Females	17%	1	17%	1
Executive Leadership team [1]				
Males	67%	6	56%	5
Females	33%	3	44%	4
Business Leadership team [2]				
Males	42%	11	51%	19
Females	58%	15	49%	18
All Other Employees				
Males	40%	293	40%	230
Females	60%	447	60%	346
All Employees				
Males	40%	310	41%	254
Females	60%	465	59%	368
Total Employees		775		622

1 'Executive Leadership Team' includes the Chief Executive Officer, and those employees who report directly to the Chief Executive Officer.

2 'Business Leadership Team' consists of various senior and specialised roles that are influential in driving the Tower strategy, but do not report to the Chief Executive Officer.

Diversity performance at Tower

Tower has a diversity policy and measurable diversity and inclusion objectives under the following categories.

- Gender diversity
- Age and career progression
- Ethnicity and Pacific and Māori inclusion
- LGBTIQ+ identification and inclusion
- Accessibility

Tower's Board considers there has been some good progress on initiatives focused around the pillars of gender, culture, sexuality, age and accessibility in FY21. Of note, significant effort has been invested into achieving the Domestic Violence Tick and associated programmes for leaders as well as embedded training and induction modules for unconscious bias. The Board endorses Tower's plan to create further resource groups – for example 'Women in Leadership' and 'Flexible Working'. There is high engagement in other active employee resource culture groups including the Māori Roopū and Pasifika which are essentially employee driven (with some facilitation by Tower).

It is apparent that these groups have been successful in providing focus and support in sustaining and continuing to develop a diverse culture and increase employee engagement. Tower has committed to its investment in the Rainbow community and its re-accreditation of the Rainbow along with the associated employee resource group.

Initiatives have been put in place around ensuring there is no barrier for benefits from an age perspective. For instance, the Employer Kiwisaver Contribution continues for staff over 65.

The new sustainable building on Fanshawe Street is a proud achievement and improves accessibility for staff with the provision of lifts, bike parks, wheelchair access, standup desks and its location generally, on Auckland Transport routes and close to multiple transport hubs.

Tower has embraced flexibility and now has over 70 people permanently working from home. The new building design and capacity has meant that there is more flexibility around work location and hybrid solutions for certain roles. Tower has received a recent diversity and inclusion engagement score of 8.7 out of 10 (against the overall engagement score of 7.7 for all categories).

DIVERSITY & INCLUSION SCORE

8.7

0.4 ABOVE
FINANCE BENCHMARK

0 — 10

GOOD
IN THE MIDDLE RANGE OF THE FINANCE SECTOR

There is good female representation overall 60% Female versus 40% Male, however there is lower female representation in the Executive team. The Board has noted the need for a greater focus on gender balance at the executive level. This is to be achieved through a diversity and inclusion lens focusing on talent progression and fair and equitable selection processes. It is recognised that future Board appointments must also consider more balanced gender and diversity representation.

BOARD AND BOARD COMMITTEES

Board

During FY21 the Board comprised the following members:

Michael Stiassny (Chair), Graham Stuart, Steve Smith, Warren Lee, Wendy Thorpe, Marcus Nagel.

With the exception of Marcus Nagel (who is employed by Bain Capital Credit LP, Tower's largest shareholder as at 30 September 2021), all of the Directors are considered to be independent directors. Director independence is assessed in accordance with the requirements for independence set out in Tower's Board and Director Protocols. Those independence requirements are benchmarked against the RBNZ and NZX independence requirements.

During FY21 the Board had the following committees:

Audit Committee

Members: Graham Stuart (Chair), Michael Stiassny, Steve Smith, Warren Lee, Wendy Thorpe, Marcus Nagel.

Risk Committee

Members: Warren Lee (Chair), Michael Stiassny, Graham Stuart, Steve Smith, Wendy Thorpe, Marcus Nagel.

Remuneration and Appointments Committee

Members: Michael Stiassny (Chair), Graham Stuart, Steve Smith, Warren Lee, Wendy Thorpe, Marcus Nagel.

Other committees

Tower's Board has the ability to establish additional sub-committees from time to time. During FY21, the Tower Audit Committee established a Disclosure sub-committee who met once on 17 May 2021 (members of which were Graham Stuart (Chair), Michael Stiassny, Steve Smith, Warren Lee, and Wendy Thorpe). During FY21, Tower's Board also established a Results sub-committee who met twice on 25 November 2020 and 26 May 2021 (members of which were Michael Stiassny (Chair), Graham Stuart, and Steve Smith).

Board and Committee meeting attendance

The Chief Executive Officer, Chief Financial Officer, General Counsel and Company Secretary attend all Board meetings by standing invitation, although they do not always attend the entire meeting. The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel and Company Secretary attend all Audit Committee and Risk Committee meetings by standing invitation, but do not always attend the entire meeting. The Chief Executive Officer, Chief People Officer, General Counsel, and the Company Secretary have a standing invitation to attend the W and Appointments Committee meetings, but may be excluded from the meeting from time to time as appropriate.

All Board and Committee meetings are attended by an appropriately qualified person who is responsible for taking accurate minutes of each meeting and ensuring that Board and Committee procedures are observed.

Director attendance at Board and Committee meetings held during the year to 30 September 2021 is set out below:

	TOWER LIMITED BOARD	AUDIT COMMITTEE	RISK COMMITTEE	REMUNERATION AND APPOINTMENTS COMMITTEE	DISCLOSURE SUB-COMMITTEE	RESULTS SUB-COMMITTEE
Meetings held	**17**	**4**	**8**	**4**	**1**	**2**
Michael Stiassny	17	4	8	4	1	2
Steve Smith	16	4	8	4	1	2
Graham Stuart	16	4	8	4	1	2
Warren Lee	17	4	8	4	1	N/A
Wendy Thorpe	17	4	8	4	1	N/A
Marcus Nagel	15	4	8	4	N/A	N/A

Remuneration

Director Remuneration—Tower and its subsidiaries

The Board's approach is to remunerate directors at a similar level to comparable Australasian companies, with a small premium to reflect the complexity of the insurance and financial services sector. At the Annual Shareholders' Meeting in February 2004, shareholders approved a maximum payment of NZ$900,000 per annum for director fees. In February 2021 at Tower's Annual Shareholder Meeting, Tower's Board Chair announced that, following a review of current non-executive director's fees practices by Ernst & Young, the Board had agreed to raise directors' fees. The total payment remained below the maximum of $900,000 approved by shareholders in 2004, so the decision did not require a shareholder vote.

Tower seeks external advice when reviewing Board remuneration. The Remuneration and Appointments Committee is responsible for assisting directors with the review of directors' fees.

Annual fees, including an allowance for sitting on Board Committees, as approved by the Board with effect from 1 October 2020 for Directors of Tower are:

ROLE	CHAIR (NZ$)	MEMBER (NZ$)
Directors [1]	180,000	100,000
Audit Committee member fee	10,000	Included in Director Fee
Risk Committee member fee	10,000	Included in Director Fee
Remuneration and Appointments Committee fee[2]	Nil	Nil

1. The fee of $100,000 for non-executive directors who are members of the Board, and the fee of $180,000 for the Chair of Tower Limited, includes Audit Committee and Risk Committee fees.
2. The Board determined that from 1 December 2012 no fees would be payable for sitting on the Remuneration and Appointments Committee.

Additional fees may be paid to non-executive directors for one-off tasks and/or additional appointments.

Remuneration and other benefits received by Directors of Tower during the year ended 30 September 2021 are:

	FEE (NZ$), GST (IF ANY) EXCLUSIVE
Michael Stiassny[1]	180,000
Graham Stuart	110,000
Steve Smith	100,000
Warren Lee	110,000
Wendy Thorpe	100,000
Marcus Nagel [2]	100,000

1. Mr Stiassny also received a further $7,994.30 in travel disbursements during FY21.
2. NZ$ amount shown is converted to, and paid in, Euros (using conversion rate at time of monthly invoice).

Remuneration and other benefits received by Directors of Tower subsidiaries in the year to 30 September 2021 are:

	FEES
Rodney Reid [1]	7,000
Heseti Vaai [1^]	2,125
Isikeli Tikoduadua [2]	18,000
Barry Whiteside [2]	20,000
Ernie Gangloff [3]	50,000

1. Fees earned in capacity as director of National Pacific Insurance Limited. NPI fees are paid in Western Samoan Tala.
2. Fees earned in capacity as director of Tower Insurance (Fiji) Limited. Tower Insurance (Fiji) Limited fees are paid in Fijian Dollars.
3. Fees earned in capacity as director of Tower Insurance (PNG) Limited. Tower Insurance (PNG) Limited fees are paid in Papua New Guinean Kina.

^ Heseti Vaai was a director of National Pacific Insurance Limited for one quarter of FY21.

CEO and senior executive remuneration

The Board's approach to remunerating the Chief Executive Officer and other key executives is to provide market-based remuneration packages comprising a blend of fixed and variable remuneration, with clear links between individual and company performance, and reward. The Remuneration and Appointments Committee reviews the remuneration packages of the Chief Executive Officer and other key executives at least annually.

The Chief Executive Officer, Mr Blair Turnbull, is remunerated through a combination of a base salary of $650,000 and variable performance incentives including a Short Term Incentive (STI) and a Long Term Incentive (LTI). The maximum STI is currently $325,000 per annum based on meeting key financial and non-financial and operational performance measures. The maximum LTI per annum is currently $975,000 (total) should Tower deliver Total Shareholder Return out performance relative to the performance of companies within the NZX50 index.

The table below sets out the remuneration and other benefits received by the Chief Executive Officer, Mr Turnbull in the year ended 30 September 2021, with a comparison to the remuneration and other benefits received by the Chief Executive Officer in the year ended 30 September 2020, noting that Mr Blair Turnbull commenced the role of Chief Executive Officer on 1 August 2020.

	2021 $000	2020 $000
Base salary Mr Richard Harding, including accrued annual leave paid out		850
Compensation for changes to contractual terms Mr Richard Harding		410
Short term incentive payments Mr Richard Harding		525
Base salary Mr Blair Turnbull [1]	650	100
Total Chief Executive Officer remuneration [2]	**650**	**1,840**

1. In addition to the above, Mr Turnbull was paid a total of $587 for airport parking expenses.
2. Mr Turnbull was eligible for a STI incentive for FY21 of $47,395.83. Mr Turnbull requested, and the Board agreed, that the STI payment be waived and not paid out. Mr Turnbull was eligible for a LTI of $260,000 which will be vested and not paid in full until after FY24 as per the LTI incentive plan.

Employee remuneration

The table below sets out the number of employees or former employees of Tower, including its subsidiaries, and excluding directors and former directors, who received remuneration and other benefits valued at or exceeding $100,000 for the years ended 30 September 2021, as compared to the year ended 30 September 2020. Remuneration includes base salary, performance payments and redundancy or other termination payments. The table does not include company contributions of 3% of gross earnings for those individuals who are members of a KiwiSaver scheme. The remuneration bands are expressed in New Zealand Dollars.

FROM	TO	2020	2021
100,000	109,999	21	23
110,000	119,999	21	19
120,000	129,999	18	16
130,000	139,999	18	8
140,000	149,999	13	7
150,000	159,999	13	8
160,000	169,999	6	5
170,000	179,999	6	2
180,000	189,999	3	1
190,000	199,999	3	2
200,000	209,999	5	1
210,000	219,999	0	1
220,000	229,999	3	3
230,000	239,999	2	2
240,000	249,999	3	0
250,000	259,999	2	2
260,000	269,999	1	2
270,000	279,999	1	0
280,000	289,999	2	3
290,000	299,999	4	0
310,000	319,999	1	0
320,000	329,999	0	1
330,000	339,999	1	1
340,000	349,999	0	2
350,000	359,999	0	1
360,000	369,999	2	0
390,000	399,999	1	0
400,000	409,999	1	0
450,000	459,999	0	1
500,000	509,999	1	0
530,000	539,999	0	1
540,000	549,999	1	0
560,000	569,999	0	1
610,000	619,999	0	1
740,000	749,000	0	1
780,000	789,999	1	0
1,880,000	1,890,000	1	0
Total		**155**	**109**

SECURITY HOLDER INFORMATION

Substantial product holders (as at 30 September 2021)

The names and holdings of Tower's substantial product holders based on notices filed with Tower under the Financial Markets Conduct Act 2013 as at 30 September 2021 are:

NAME	TOTAL ORDINARY SHARES AS AT 30 SEPTEMBER 2021[1]
Bain Capital Credit LP, Bain Capital Investments (Europe) Limited and Dent Issuer Designated Activity Company	67,464,858
Salt Funds Management Limited	29,607,771
Accident Compensation Corporation	35,290,324
Investment Services Group Limited	27,379,134
New Zealand Funds Management Limited on behalf of itself and its wholly owned subsidiary New Zealand Funds Superannuation Limited	26,615,216

1. Total ordinary shares held by the substantial product holder is the number of shares disclosed in the latest Substantial Product Holder notice filed with Tower as at 30 September 2021, which may differ from the stated holdings below.
2. Westpac Banking Corporation ceased to be a substantial product holder on 15 April 2021.

Largest shareholdings (as at 16 November 2021)

The names and holdings of the 20 largest registered Tower shareholders as at 16 November 2021 are:

NAME	TOTAL ORDINARY SHARES	%UNITS
Dent Issuer Designated Activity Company	84,329,386	19.99
Accident Compensation Corporation	36,610,998	8.68
Citibank Nominees (New Zealand) Limited	35,499,067	8.42
HSBC Nominees (New Zealand) Limited	21,069,189	5.00
BNP Paribas Nominees (NZ) Limited	17,302,098	4.10
Lennon Holdings Limited	17,000,000	4.03
JBWere (NZ) Nominees Limited <NZ RESIDENT A/C>	13,624,405	3.23
Masfen Securities Limited	12,700,000	3.01
National Nominees Limited	12,203,496	2.89
HSBC Nominees (New Zealand) Limited A/C State Street	8,631,529	2.05
Public Trust	6,450,000	1.53
BNP Paribas Nominees (NZ) Limited	4,440,103	1.05
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	4,313,483	1.02
JP Morgan Chase Bank NA NZ Branch - Segregated Clients Acct	3,378,453	0.80
TEA Custodian Limited Client Property Trust Account	3,228,354	0.77
Investment Custodial Services Limited	2,969,919	0.70
Forsyth Barr Custodians Limited	2,659,193	0.63
Hobson Wealth Custodian Limited	2,486,756	0.59
JBWere (NZ) Nominees Limited <53329 A/C>	2,076,302	0.49
Rural Equities Limited	1,912,872	0.45

Securities held by Directors

At 30 September 2021, Tower Limited directors held the following interests in the following Tower securities:

DIRECTOR	
Michael Stiassny	694,330
Graham Stuart	225,000
Steve Smith	110,000
Wendy Thorpe	16,250
Warren Lee	120,500
Marcus Nagel	62

Director trading in Tower securities

Directors disclosed the following acquisitions and disposals of relevant interests in Tower securities during the financial year ending 30 September 2021 pursuant to section 148 of the Companies Act 1993.

DIRECTOR	DATE OF DISCLOSURE	INTEREST	NUMBER ACQUIRED	CONSIDERATION (NZ$)
Wendy Thorpe	5 Jan 2021	Beneficial	10,000	7,309.16
Michael Stiassny	30 Nov 2020	Beneficial	200,000	120,000.00
Graham Stuart	4 Dec 2020	Beneficial	100,000	62,000.00
Steve Smith	1 Dec 2020	Beneficial	86,925	52,120.38
Warren Lee	8 Dec 2020	Beneficial	75,000	49,875.00
Marcus Nagel	–	–	–	–

Shareholder analysis

Tower's shares are quoted on both the NZSX and ASX. As at 16 November 2021, 16,301 Tower shareholders held less than A$500 of Tower shares (i.e., less than a marketable parcel as defined in the ASX Listing Rules), amounting to a total of 6,249,528 of the Tower shares on issue. In comparison, a 'minimum holding' under the NZX Listing Rules means a holding of shares having a value of at least NZ$1,000. As at 16 November 2021, 19,730 Tower shareholders held less than NZ$1,000 of Tower Shares (being, a parcel size of 1,640 at $0.61 per share), amounting to a total of 10,187,831 of the Tower shares on issue.

Total voting securities

As at 16 November 2021, Tower had 421,647,258 ordinary shares on issue, held by 24,577 holders. By comparison, on 21 October 2020 (i.e., the date used for the 2020 Annual Report), Tower had 421,647,258 ordinary shares on issue held by 24,984 holders. Tower's ordinary shares each carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney.

The address and telephone number of the office at which the register of Tower securities is kept is set out in the directory at the back of this Annual Report.

Spread of shareholders (as at 16 November 2021)

HOLDING RANGE	HOLDER COUNT	HOLDER COUNT %	HOLDING QUANTITY (ORDINARY SHARES)	HOLDING QUANTITY %
1 - 1,000	17,451	71.10	7,293,134	1.73
1,001 - 5,000	4,791	19.52	9,838,869	2.33
5,001 - 10,000	829	3.38	5,987,493	1.42
10,001 - 100,000	1,234	5.03	38,600,303	9.15
100,001 and over	239	0.97	359,927,459	85.36
Total	**24,544**	**100**	**421,647,258**	**100**

DIRECTOR INTERESTS

Interests register

Tower and its subsidiaries are required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests register for Tower Limited is available for inspection on request by shareholders. Tower's constitution provides that an 'interested' director may not vote on a matter in which he or she is interested unless the director is required to sign a certificate in relation to that vote pursuant to the Companies Act 1993, or the matter relates to a grant of an indemnity pursuant to section 162 of the Companies Act 1993.

General disclosures of interest

During the year to 30 September 2021, pursuant to section 140 of the Companies Act 1993 Tower's directors disclosed new interests and cessations of interest as noted in the table below. Disclosures made since 30 September 2021 are also noted.

Warren Lee	
MyState Limited	Director
MyState Bank Limited	Director
TPT Wealth Limited	Director
Avenue Hold Limited (previously called Go Hold Limited)	Director
Avenue Bank Limited (previously called Go Blank Limited)	Director
MetLife Insurance Limited	Director
MetLife General Insurance Limited	Director
Steve Smith	
Kinrich Trust	Trustee
Kinrich Holdings Limited	Director
Summerlee Investments Limited	Director
Unison Securities Limited	Director
Unison Capital Advisors Limited	Director
Pascaro Investments Limited	Chair
Trebol Investments Limited and subsidiary companies	Director
Rimu SA (Chile) and subsidiary companies	Director
The National Foundation for the Deaf Incorporated	Board Member
Michael Stiassny	
Bengadol Corporation Limited	Director
Emerald Group Limited	Director
Gadol Corporation Limited	Director
Geffen Holdings Limited	Director
Michael Spencer Limited	Director
Ngāti Whātua Ōrākei Housing Trustee Limited	Director
Ngāti Whātua Ōrākei Whai Rawa Limited	Chair
Poukawa Estate Limited	Director
Queenstown Airport Corporation Limited (until 30 October 2020)	Director
Ted Kingsway Limited	Director
Whai Rawa GP Limited	Director
Whai Rawa Kainga Development Limited	Director
LPF Group Limited	Director
MS10 Limited	Director
Morgan HoldCo Limited	Director
Remuera Investments Limited	Director
Te Waenga Ltd	Director
Tegel Group Holdings Ltd (from 20 May 2021)	Director
New Talisman Gold Mines Ltd (from 1 November 2021)	Director
Graham Stuart	
Leroy Holdings Limited	Director
EROAD Limited	Chair
VinPro Limited	Director
NorthWest Healthcare Properties Management Limited (Chair from 10 November 2021)	Chair
Metro Performance Glass Limited	Director
Wendy Thorpe	
Online Education Services Pty Limited	Chair
Very Special Kids (until 25 October 2021)	Director
Epworth Foundation (Epworth Healthcare) (Chair from 24 November 2021)	Director
Ausgrid Asset Partnership	Director
Ausgrid Operator Partnership	Director
Plus ES Partnership	Director
Australian Central Credit Union Ltd T/A People's Choice Credit Union	Director
Epworth Geelong Limited (from 25 August 2021)	Director
Marcus Nagel	
3Arrow AG	Director
Jarowa AG (from 8 November 2021)	Director

During the financial year, the directors of Tower subsidiaries disclosed interests and cessations of interests as noted below, with changes following 30 September 2021 also noted.

Barry Whiteside	
Kontiki Finance	Director
Pacific Catastophe Risk Insurance Company	Director
Bayly Trust	Director/Trustee
Isikeli Tikoduadua	
Merchant Finance (from October 2020)	Chairman
Vodafone Fiji	Director
Fiji Commerce Commission	Commissioner
iTaukei land Trust Board	Director
Special Administrators for Suva City and Lami Town	Chairman
USP MBA Advisory Committee	Chairman
Blair Turnbull	
InsurtechNZ	Co-Chair
Insurance Council of New Zealand	Board Member
Ernie Gangloff [1]	
Gangloff Consulting Limited	Managing Director
Gangloff Projects Limited	Director
Pacific Training Consortium Limited	Director
BSP Financial Group Limited	Director
New Britain Palm Oil Limited	Director
Highlands Pacific Limited	Director
Business Incubation Solution Limited	Director
BSP Finance (Fiji) Pte Limited	Director
Institute of National Affairs Inc.	President
University Rugby Football Union Club	President
Capital Rugby Union Inc.	Treasurer

1. Ernie Gangloff is a director of Tower Insurance (PNG) (appointed on 30 July 2021) and was appointed to the companies disclosed in the table above prior to his appointment as a director of the Tower subsidiary.

Specific disclosures of interest

During the financial year, no subsidiary of Tower entered into any transaction in which directors were interested. Accordingly, no disclosures of interest were made.

OTHER MATTERS

Donations

During the financial year ended 30 September 2021, donations made by Tower Limited and its subsidiaries totalled $8,987.73.

Tower subsidiary company directors

The following persons held office as directors of Tower's subsidiary companies during the year to 30 September 2021.

Tower Services Limited	Blair Turnbull and Jeffrey Wright
The National Insurance Company of New Zealand Limited	Blair Turnbull and Jeffrey Wright
National Insurance Company (Holdings) Pte Limited	Blair Turnbull, Isikeli Tikoduadua, Jeffrey Wright, Peter Muggleston[1]
Southern Pacific Insurance Company (Fiji) Limited	Blair Turnbull, Isikeli Tikoduadua, Jeffrey Wright, Peter Muggleston[1] and Barry Whiteside
Tower Insurance (Fiji) Limited	Blair Turnbull, Isikeli Tikoduadua, Jeffrey Wright, Peter Muggleston[1] and Barry Whiteside
Tower Insurance (Cook Islands) Limited	Blair Turnbull, Jeffrey Wright, and Peter Muggleston[1]
Tower Insurance (PNG) Limited	Blair Turnbull, Jeffrey Wright, Peter Muggleston[1], and Jeremy Norton[4], and Ernie Gangloff[2]
National Pacific Insurance Limited	Blair Turnbull, Rodney Reid, Jeffrey Wright, Peter Muggleston[1], and Heseti Vaai[3]
National Pacific Insurance (Tonga) Limited	Blair Turnbull, Rodney Reid, Jeffrey Wright, and Peter Muggleston[1]
Tower Insurance (Vanuatu) Limited	Blair Turnbull, Jeffrey Wright, Peter Muggleston[1] and Stephen Grant Ives
National Pacific Insurance (American Samoa)	Blair Turnbull, Rodney Reid[4], Jeffrey Wright, and Peter Muggleston[1]

1. Peter Muggleston was appointed as director on 27 February 2021
2. Ernie Gangloff was appointed as director on 30 July 2021
3. Heseti Vaai was appointed as director on 16 June 2021 and resigned with effect from 1 December 2021
4. Rodney Reid ceased as a director on 3 October 2021

No employee appointed as a director of a subsidiary receives any remuneration for their role as a Director of that subsidiary.

Credit rating

With effect from 23 April 2021, Global rating organisation A.M. Best Company issued Tower Limited a financial strength rating of A- (Excellent).

Waivers

Tower Limited did not rely on, or make any applications for, waivers from the NZX Listing Rules or the ASX Listing Rules in the financial year ending on 30 September 2021. Indemnity and insurance.

Indemnity and insurance

In accordance with section 162 of the Companies Act 1993 and Tower's constitution, Tower has provided insurance for and indemnities to, directors and employees of Tower for losses from actions undertaken in the course of their duties. The insurance includes indemnity costs and expenses incurred to defend an action that falls outside the scope of the indemnity. Particulars have been entered in the Interests Register pursuant to section 162 of the Companies Act 1993.

Audit fees

Audit and non audit fees paid to Tower's auditors are listed on page 70 of this report.

Limits on acquisition of securities under New Zealand law

Tower undertook to the ASX, at the time it granted Tower a full listing (July 2002), to include the following information in its annual report. Except for the limitations detailed below, Tower securities are freely transferable under New Zealand law.

The New Zealand Takeovers' Code prohibits a person (including associates) from increasing their shareholding to more than 20% of the voting rights in Tower except in accordance with the Takeovers Code. The exceptions include a full or partial takeover offer in accordance with the Takeovers Code, a scheme of arrangement (under the Companies Act 1993), an acquisition or an allotment approved by an ordinary resolution of shareholders, a creeping acquisition (in defined circumstances) and a compulsory acquisition once a shareholder owns or controls 90% or more of the voting rights in Tower.

The New Zealand Overseas Investment Act 2005 and related regulations determine certain investments in New Zealand by overseas persons. Generally, the Overseas Investment Office's consent is required if an 'overseas person' acquires Tower shares or an interest in Tower shares of 25% or more of the shares on issue or, if the overseas person already holds 25% or more, the acquisition increases that holding.

The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring Tower shares if the acquisition would, or would be likely to, substantially lessen competition in a market.

Corporations Act 2001 (Australia)

Tower is not subject to Chapters 6, 6A, 6B or 6C of the Corporations Act 2001 (Australia) dealing with the acquisition of shares (such as substantial holdings and takeovers).

The Annual Report is signed on behalf of the Board by

Michael Stiassny
Chair

Graham Stuart
Director

TOWER DIRECTORY

Enquiries

For customer enquiries, call Tower on 0800 808 808 or visit www.tower.co.nz

For investor enquiries:
Telephone: +64 9 369 2000

Email: investor.relations@tower.co.nz

Website: www.tower.co.nz

Board of Directors

Michael Stiassny (Chair)
Warren Lee
Steve Smith
Graham Stuart
Wendy Thorpe
Marcus Nagel

Chief Executive Officer

Blair Turnbull

Company Secretary

Rachael Watene
(covering parental leave until 16 July 2021)

Fabrizio Ferraro
(covering parental leave from 28 July 2021 – 22 September 2021)

Hannah Snelling
(on parental leave until 22 September 2021)

Executive Leadership Team

Blair Turnbull
Jeff Wright
Gavin Pearce (until December 2020)
Richard McIntosh (until August 2021)
Michelle James
Michelle McBride (until September 2021)
Peter Muggleston
Ronald Mudaliar
Paula ter Brake
Jonathan Beale (since January 2021)
Andrew Hambleton (since September 2021)

Registered Office

New Zealand
Level 14, 45 Queen Street (until 22 August 2021)
Level 5, 136 Fanshawe Street (since 23 August 2021)

PO Box 90347
Auckland

Telephone: +64 9 369 2000
Facsimile: +64 9 369 2245

Australia
C/– PricewaterhouseCoopers Nominees (N.S.W) Pty Ltd
PricewaterhouseCoopers Darling Park Tower 2
Level 1
201 Sussex Street
Sydney NSW 2000 Australia

Auditor

PricewaterhouseCoopers

Lawyers

MinterEllisonRuddWatts

Banker

Westpac New Zealand Limited

Company numbers for FY21
Tower Limited
(Incorporated in New Zealand)
NZ Incorporation 143050
NZBN 9429040323299
ARBN 645 941 028

Stock exchanges

The Company's ordinary shares are listed on the NZSX and the ASX. On Wednesday 18 May 2016, Tower's ASX admission category changed to "ASX Foreign Exempt Listing".

REGISTRAR

New Zealand

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road,
Takapuna, Auckland
Private Bag 92119
Auckland 1142
Freephone within New Zealand: 0800 222 065
Telephone New Zealand: +64 9 488 8777

Australia

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
GPO Box 3329
Melbourne Vic 3000
Freephone within Australia: 1800 501 366
Telephone Australia: +61 3 9415 4083
Email: enquiry@computershare.co.nz
Website: www.computershare.com/nz

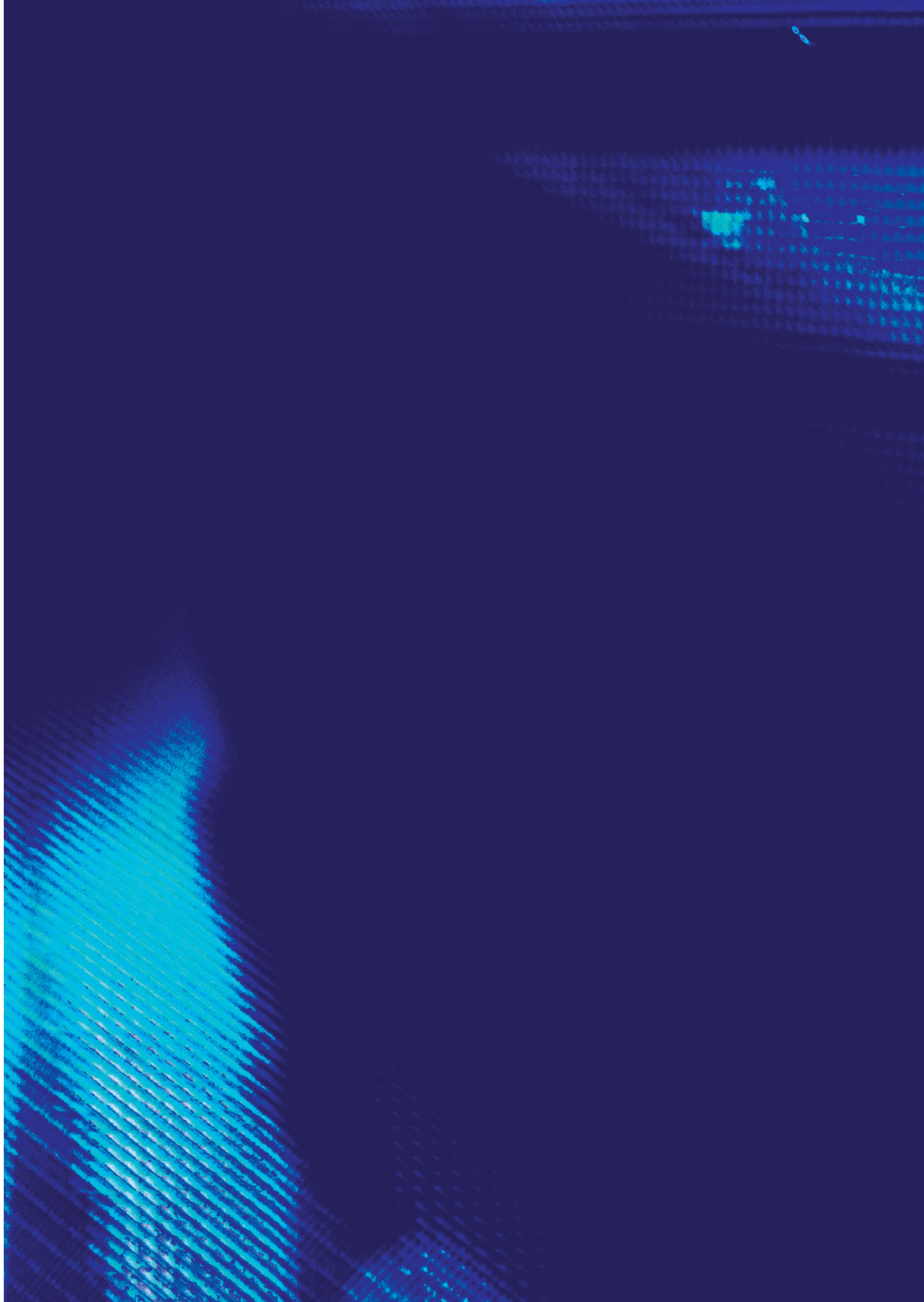
You can also manage your holdings electronically by using Computershare's secure website www.investorcentre.com/nz

This website enables holders to view balances, change addresses, view payment and tax information and update payment instructions and report options.

Tower recommends shareholders elect to have any payments direct credited to their nominated bank account in New Zealand or Australia to minimise the risk of fraud and misplacement of cheques.

We also encourage shareholders to receive investor communications electronically as it keeps costs down, delivery of our communications to you is faster and it is better for the environment. All you need to do is log in to www.investorcentre.com/nz and update your 'Communication Preference' to enable us to send all your investor correspondence electronically where possible.

Please quote your CSN number or shareholder number when contacting Computershare.




TOWER.CO.NZ