

TOWER Limited
TOWER Capital Limited
Annual Reports 2012



Insurance
Investments
KiwiSaver



TOWER Limited TOWER Capital Limited Annual Reports

The TOWER Group has been helping New Zealanders protect and grow the things they value for over 140 years.

We provide comprehensive and innovative insurance, KiwiSaver and investment products through our businesses in New Zealand and the Pacific Islands.

TOWER Group

Health & Life Insurance
General Insurance
Investments
KiwiSaver

If you would like to contact TOWER please visit www.tower.co.nz or call TOWER on 0800 808 808. This Annual Report is dated 21 December 2012.

All amounts in this document, unless stated otherwise, are in New Zealand dollars.

References to "TOWER" or "the Company" are references to TOWER Limited.

References to "TOWER Capital" are to TOWER Capital Limited.

References to "TOWER Group" or "Group" are to TOWER and its subsidiaries.

This document contains the annual reports of both TOWER Limited (TOWER) and TOWER Capital Limited (TOWER Capital) for the year ended 30 September 2012.

TOWER Capital is a subsidiary of TOWER. On 24 March 2009, the company issued fixed rate senior unsecured bonds which are listed on the New Zealand Debt Security Market operated by NZX Limited. The bonds have a face value of \$81,759,000 and a fixed rate interest coupon of 8.5%. They are repayable on 15 April 2014. As a member of the TOWER Group, TOWER Capital is dependent on the financial position and performance of TOWER.

Cover image: Cape Palliser lighthouse on the South East coast of the North Island, New Zealand.

TOWER Limited TOWER Capital Limited Annual Reports

For the financial year ended 30 September 2012

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TOWER directory

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Highlights

Group net profit
after tax **\$ 55.8** 
million

Capital return to
shareholders **\$ 120** 
million (planned)
Subject to court and
shareholder approval

Annual dividend **11.0** 
cents per share
(unimputed)

All business units maintained

improvement

against 2011

Total equity increased
\$498.8 
million

Net asset backing
\$1.85 
per share

Chairman's report on behalf of Directors

The year under review has seen TOWER record a substantial increase in its financial performance, as the impact of the Canterbury earthquakes reduce, and the benefits of our “back to basics” operational approach evolve. Our net profit after tax for the year ended 30 September 2012 was \$55.8 million, compared to \$33.4 million for the previous year, an increase of 67%.

Our financial position remains strong, with net equity of \$498.8 million and interest bearing liabilities of \$82.0 million at 30 September 2012.

	2008	2009	2010	2011	2012
Net profit after tax	40.5m	50.1m	58.1m	33.4m	55.8m
Total equity	294.2m	404.4m	441.3m	455.5m	498.8m
Earnings per share	20.06	24.31	22.33	12.57	20.75
Dividend	8cps	9cps	10cps	6cps	11cps
Net assets per share	\$1.53	\$1.59	\$1.69	\$1.72	\$1.85

Strategic review process

The strategic review process has challenged our Board and executives to think about long term success for our business. Central to this thinking is the need to be relevant in the markets that we operate in, to be excellent at what we do, to utilise our capital as efficiently as possible and achieve appropriate returns on this capital, to simplify the way we do business wherever possible, and to grow in a profitable and sustainable manner.

The insurance sector operating environment now has an increasing level of regulatory requirements, which raise business administration costs and complexity.

On 30 November 2012, we completed the sale of our Health business to nib holdings limited for \$102 million. We will have an ongoing relationship with nib as a distributor of health products for TOWER's customers.

The Board is considering several other proposals for merger, divestment, or operational alliances, and our goal is to determine an outcome from these ahead of the next Annual Shareholder Meeting.

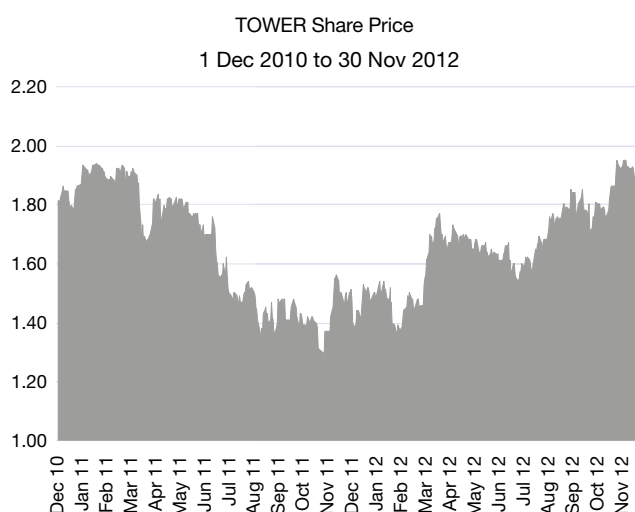
Shareholder returns

The Board is focused on maximising returns to shareholders. The strategic review process has been central to this. Total shareholder returns are measured by the improvement in our share price plus the cash payments back to our shareholders.

We have announced a final dividend of 6 cents per share, payable on 1 February 2013, bringing the total dividends for the 2012 year to 11 cents per share. Dividends are unimputed at present.

We are proposing to make a capital return to shareholders of \$120 million, subject to court and shareholder approval.

We are pleased to see the improvement in our share price over the past 12 months, from around \$1.40 level, to approximately \$1.90. We acknowledge the previous impact of the Canterbury earthquakes in 2010 and 2011. In our view, the current share price reflects greater confidence in our earnings, as well as our strategic initiatives.



TOWER's people

Through the past year, TOWER has employed nearly 1,000 people in the business. In a business and economic environment which has been challenging, our people have worked hard to meet our customer's expectations, and to improve our overall business performance. Our executive team, led by Group Managing Director Rob Flannagan, has been fully engaged in both the strategic review processes and "business as usual" activities.

In addition, TOWER has important support from intermediaries, many of whom have long standing business relationships with us.

On behalf of the Board, I would like to thank all of TOWER's people for their efforts over the last year, and acknowledge their contribution to our improved profit result.

Earthquake recovery

Our business is insurance. Our purpose is to provide insurance protection to our customers. When an event occurs, we must respond to their needs in a timely and caring manner. The impact of the Canterbury earthquakes is ongoing for a great many people, including a number of customers and our employees.

The Board and executives are monitoring our progress with dealing with customer claims in Canterbury. We are conscious of the need to be fair and timely with claims settlement, and allowing customers to get on with their lives. The situation is large and complex, with many different organisations and authorities involved in making the rebuild and recovery happen.

TOWER has taken a conservative position with our claims provisions in our financial statements, and we appreciate the on-going support of our reinsurers. We are comfortable with the progress being made to settle claims.

We acknowledge the efforts of our people in managing this difficult situation, and the uncertainty and needs of our customers.

Directors

Over the last year, the Board has been refreshed, with four new directors being appointed – Graham Stuart, Michael Stiasny, David Hancock and myself. Combined with our longer standing Board members, we have a good mix of skills, knowledge and experience to take the company forward.

After nearly nine years on the Board, previous TOWER Chairman Bill Falconer decided to stand down in September 2012, to enable a new Chairman to implement the initiatives arising from the strategic review process. We would like to thank Bill for his contribution to the company.

The Board appointed me as Interim Chairman, to lead the Board through a transition phase through to the next Annual Shareholder Meeting.

The year's activities have demanded considerable time and effort from the directors, and I would like to thank all the directors for this.

Conclusion

The 2012 year has seen TOWER improve its operating results, and make great progress in our thinking about the future for TOWER. Whilst there is still much to be achieved, TOWER's financial strength and brand reputation provide us with a sound platform to grow the value of the business.

Stephen J Smith
Interim Chairman



Business review

Despite the continued difficult economic operating environment, the TOWER Group is profitable, maintains a strong balance sheet and is well positioned for organic growth. As a result, the TOWER Board has declared an unimputed dividend of 6 cents, which will be paid on 1 February 2013. This brings the annual dividend to 11 cents per share (unimputed).

\$ millions	Full year ended September		
	2012	2011	2010
General Insurance	13.2	2.5	21.9
Life	23.7	18.8	27.4
Investments	7.0	6.8	2.8
Health*	13.3	9.7	7.5
Business unit net profit after tax	57.2	37.8	59.6
Finance and corporate expenses	(10.4)	(6.8)	(5.8)
Profit excluding the impact of discount rate	46.8	31.0	53.8
Discount rate effect	9.0	2.4	4.3
Net profit after tax	55.8	33.4	58.1
% change			
Profit excluding the impact of discount rate	51%		
Net profit after tax	67%		

* Classified as discontinued operations in the Group financials in accordance with accounting standards.

Excluding the positive impact of the discount rate movement, TOWER net profit after tax for the year ended 30 September 2012 was \$46.8m, even after taking into account the continued impacts of Canterbury.

To date, we have closed almost 60% of claims and have made payments exceeding \$200 million, with over \$3 million being paid out every week.

Management and staff have worked hard over the past 12 months to better anticipate and deliver to customer needs, while taking a disciplined approach to cost management. As a result, each of TOWER's business units – General Insurance,

Life, Investments and Health – improved performance over the previous year. We have been very focused over the past year on improving our engagement with staff, customers and the adviser community, and are seeing this approach translate into solid returns for our shareholders. Along with enhancing and simplifying our product range, we have introduced a case management approach in our General Insurance business, resulting in a 28% reduction in the time it takes to settle claims, and taken a much more proactive approach to customer retention. We have also put a great deal of effort into ensuring we have the right people in the right roles, and delivering leadership and development programmes to support them.

The past financial year was a very busy period for TOWER, with a comprehensive strategic review undertaken to identify opportunities that would deliver long-term benefits to shareholders. This involved a comprehensive evaluation of aspects of the TOWER Group including capital structure, its existing four business units and strategic acquisition and divestment opportunities.

In November 2012, as a direct outcome of the review, we announced the sale of our Health business. As a result TOWER is planning to repay capital to shareholders of \$120 million, subject to court and shareholder approval. With the return of capital planned, the company's dividend reinvestment plan will not operate for the final dividend payment and all shareholders will receive the cash dividend payment.

We are clearly focused on a range of goals for the financial year ending 30 September 2013. Activities will focus on six key initiatives – customer retention, distribution, interaction with advisers, KiwiSaver, product simplification and pricing.



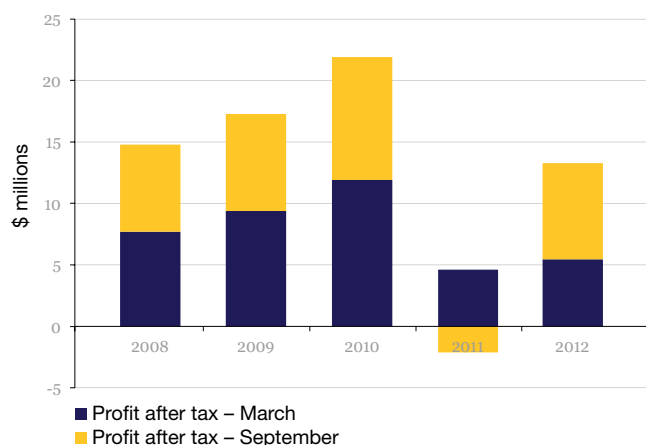
“We continue to make industry-leading progress with settling customers’ claims following the Canterbury earthquakes.”

General insurance

\$ millions	Full year ended September		
	2012	2011	2010
Net premiums	197.8	167.3	183.3
Gross earned premiums	238.9	208.3	206.3
Reinsurance	(41.1)	(23.4)	(21.6)
Catastrophe reinsurance reinstatement	-	(17.6)	(1.4)
Claims	(91.3)	(86.4)	(94.3)
Claims catastrophe*	(20.2)	(14.1)	(5.0)
Management and sales expenses	(78.9)	(70.9)	(65.9)
Underwriting result	7.4	(4.1)	18.1
Investment income on assets backing insurance liabilities	7.4	6.7	8.6
Insurance profit/(loss)	14.8	2.6	26.7
Investment income on shareholders' funds	5.0	4.8	5.4
Profit/(loss) before tax	19.8	7.4	32.1
Income tax expense	(6.6)	(4.9)	(10.2)
Profit after tax	13.2	2.5	21.9
% change			
Profit after tax	428%		

* Events >\$1m. Includes \$9.4m after tax provision in relation to the February 2011 event.

Grouping in table above may differ from financial statements.



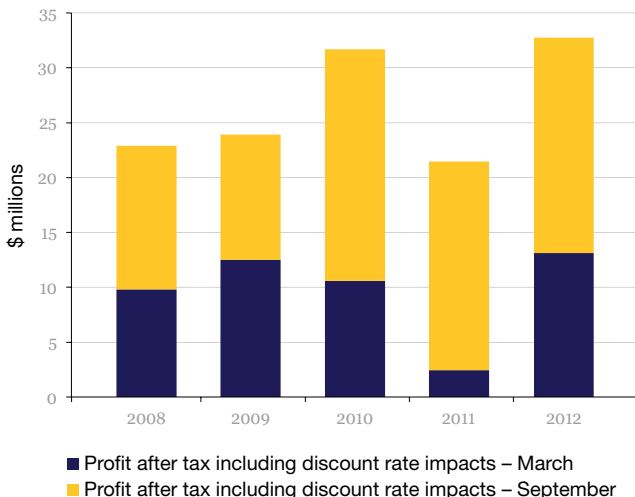
The General Insurance business has made a profit of \$13.2 million. This result includes additional provisions of \$9.4 million after tax related to the February 2011 event. This business has recovered well. Our underlying business continues to grow. New business in the year was well above the 2011 levels. The value of gross written premiums has grown by 19.9% in the last year. Pleasingly, price increases have been effective in recovering the increased cost of reinsurance. Our claims ratio, excluding catastrophe events, has improved on the same period last year, with benefits from initiatives to reduce the cost of claims being realised.

The \$20.2 million before tax of catastrophe claims recorded this year reflects the increased provision for the February 2011 earthquake of \$13 million, the impact of the December 2011 earthquake and the March 2012 weather event, which impacted the Taranaki region. The level of growth has required some investment in sales and service to maintain customer satisfaction. We remain focused on containing the ratio of management and sales expenses against premium. In total, investment returns are \$900,000 higher than the same period last year. In summary, the profit after tax has increased from \$2.5 million in 2011 to \$13.2 million in 2012.

Life insurance

\$ millions	Full year ended September		
	2012	2011	2010
Net premiums	74.0	68.5	64.4
Policyholder maturities	(42.2)	(54.4)	(45.8)
Life claims	(28.5)	(25.8)	(23.5)
Life claims catastrophe	-	(1.2)	-
Management and sales expenses	(39.9)	(41.0)	(41.6)
Movement in policy liabilities	(17.7)	36.5	(20.4)
Investment income on assets backing policy liabilities	87.1	30.2	93.9
Insurance profit	32.8	12.8	27.0
Investment income on shareholders' funds	11.4	11.1	27.8
Profit before tax	44.2	23.9	54.8
Income tax (expense)/credit	(20.5)	(5.1)	(27.4)
Profit excluding the impact of discount rate	23.7	18.8	27.4
Discount rate effect	9.0	2.4	4.3
Profit after tax	32.7	21.2	31.7
% change			
Profit excluding the impact of discount rate	26%		
Profit after tax	54%		

Grouping in table above may differ from financial statements.



Profit from the Life insurance business, excluding the discount rate movement is \$23.7 million, a significant increase of \$4.9 million compared to the same period last year. It's important to recognise that the information presented in the table (left) represents returns on both policyholder and shareholder funds. The returns on policyholder funds belong to the policyholders and these are removed from the shareholder reported profits. Our policyholder returns impact individual lines of income, expenditure and investment returns, but on an after tax basis, produce a nil result in the table. Investment income on assets backing policy liabilities is predominately to the benefit of policyholders and is offset by the movement in policy liabilities. Both have moved significantly in the period, due to the large increase in investment income on policyholder assets. Premiums have continued to grow and claims experience is favourable in the last 12 months.

The core insurance business is growing, reflecting insurance profits improving over both 2010 and 2011. Investment income on shareholder funds is on par with 2011. In summary, a pleasing result with an after tax profit for the shareholder of \$23.7 million, excluding the positive impact of a discount rate movement of \$9 million.

Investments

\$ millions	Full year ended September		
	2012	2011	2010
Income	35.2	38.3	38.1
Management and sales expenses	(25.5)	(28.4)	(34.2)
Profit before tax	9.7	9.9	3.9
Income tax expense	(2.7)	(3.1)	(1.1)
Profit after tax	7.0	6.8	2.8
% change			
Profit after tax	2.9%		

Grouping in table above may differ from financial statements.

The Investments business has increased profit after tax to \$7 million. This has been achieved by growing external funds under management and controlling management expenses. Lower income for 2012 is due to custody and trustee fees now being charged directly to the funds, rather than recharged through income. Savings of \$2.2 million from the insourcing of investment management were realised in the period. However, the new regulatory environment has put upwards pressure on costs.

The business continues to operate in an environment where higher margin legacy products in runoff are being substituted by growth in our lower margin KiwiSaver and wholesale businesses. Simplification of our retail and wholesale product offerings has now been completed. The investment team is performing well versus their benchmarks and their peers. This business continues to be well placed to benefit from growth in funds under management. In respect of KiwiSaver, members at 30 September 2012 were over 105,000, a 6% increase over the last year. Average funds per member was \$8,189. This is 25% higher than the market average. KiwiSaver funds under management has increased to \$863 million at 30 September 2012, a 28% increase over last year.

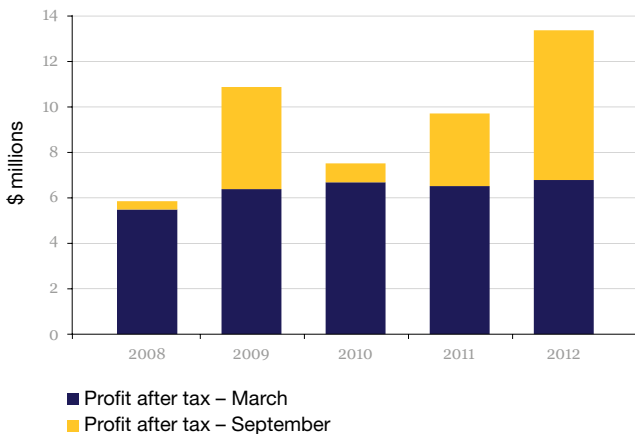


Health insurance

\$ millions	Full year ended September		
	2012*	2011	2010
Net premium	146.2	140.6	135.9
Incurred claims	(78.6)	(77.0)	(82.0)
Premium payback payments	(18.6)	(20.1)	(13.3)
Management and sales expenses	(38.2)	(36.4)	(35.6)
Movement in policy liabilities	2.2	1.0	(3.6)
Investment income on assets backing policy liabilities	3.5	2.8	8.3
Insurance profit	16.5	10.9	9.7
Investment income on shareholders' funds	1.9	2.9	1.5
Profit before tax	18.4	13.8	11.2
Income tax expense	(5.1)	(4.1)	(3.7)
Profit after tax	13.3	9.7	7.5
% change			
Insurance profit	51%		
Profit after tax	37%		

* Classified as discontinued operations in the Group financials in accordance with accounting standards.

Grouping in table above may differ from financial statements.



Outlook

TOWER continues to operate within a very difficult economic environment. The New Zealand economy remains challenging, with little change predicted in key indicators, including GDP, unemployment rates and CPI. Expanding regulations certainly adds cost to our business. We are supportive of enhanced regulation, as it improves the long term sustainability of the industry and we continue to invest in training our advisors and staff to meet the highest standards required of our industry. Affordability remains an industry wide problem, particularly given the increases in the cost of fire and general insurance due to worldwide and local disasters. Rising reinsurance costs have led to significant premium increases.

Unsurprisingly, we continue to see customers closely watching their discretionary spending and shopping around to find the best deals in the market. TOWER has a number of strategies in place to address this, which will assist affordability for our customers. Recent reinsurance negotiations require us to make changes to our full replacement house policy to cap the cover. These changes will commence on policy renewals from May 2013 in line with the rest of the industry. We are very pleased with our progress in

settling claims relating to the Canterbury earthquakes, with almost 60% of claims settled. TOWER is taking on new risk for house insurance in Canterbury. We continue to stand by our customers in the red zone and remain committed to meeting the expectations of our customers in Christchurch and the wider Canterbury region.

With this economic background, we must stay focused on the basics and do them well. In order to prosper, TOWER continues to focus on organic growth and operational excellence.

As already announced to the market, we have concluded our strategic review. During this process, we received a number of proposals from various parties.

Any potential transactions resulting from these proposals would need to make sound business sense before being progressed. Announcements will be made if they present realistic options for the Company, as we have done with the sale of the Health business. We expect the process with interested parties to be completed by the annual meeting being held in March. Until this process has been completed, the focus is on business as usual.



Rob Flannagan
Group Managing Director



Guide to TOWER Limited income statement

For the financial year ended 30 September 2012

	Group	
	2012	2011
	\$000	\$000
Revenue		
Premium revenue from insurance contracts	333,046	297,189
Less: Outwards reinsurance expense	(61,083)	(61,867)
Net premium revenue	271,963	235,322
Investment revenue	118,921	62,842
Fee and other revenue	31,358	33,759
Net operating revenue	422,242	331,923
Expenses		
Claims expense	253,869	599,190
Less: Reinsurance recoveries revenue	(59,841)	(417,412)
Net claims expense	194,028	181,778
Increase/(decrease) in policy liabilities	8,878	(29,013)
Management and sales expenses	139,440	136,508
Net claims and operating expenses	342,346	289,273
Financing costs	7,903	7,856
Total expenses	350,249	297,129
Profit before taxation	71,993	34,794
Tax expense attributed to policyholders' returns	(17,522)	(4,798)
Profit attributed to shareholders before taxation	54,471	29,996
Tax expense attributed to shareholders' profits	(11,897)	(6,247)
Profit for the year from continuing operations	42,574	23,749
Profit for the year from discontinued operations	13,250	9,631
Profit for the year	55,824	33,380
Profit attributed to:		
Shareholders	55,339	33,066
Minority interests	485	314
	55,824	33,380

Net premium revenue comprises premium revenue from insurance contracts less related reinsurance expenses. The increase primarily results from growth in policy numbers and the effect of increased premium rates being earned within the general insurance business.

Investment revenue comprises interest; dividends; distributions; and realised and unrealised gains/losses from fair value movements in TOWER's investment holdings. Higher realised gains and unrealised gains on the portfolio offset lower actual 2012 year interest, dividend and property income.

Claims expense comprises the gross cost of claims (including those incurred but not reported). 2012 claims expense has returned to levels experienced prior to catastrophe event years. The 2011 figure was significantly greater than previous periods as a result of Christchurch earthquake claims. 2012 claims expenses include \$13 million of prior year Christchurch earthquake claims, plus \$8 million of current year Christchurch earthquake claims.

Reinsurance recoveries revenue comprises amounts due from reinsurers in respect of claims incurred. They reduce gross claims expense to determine the net claims position. 2012 reinsurance recoveries have normalised to pre-catastrophe levels. The 2011 figure was significantly greater than previous periods as a result of recoveries due from reinsurers in respect of Christchurch earthquake claims. 2012 reinsurance recoveries revenue includes \$2 million relating to current year Christchurch earthquake claims. For 2011, the comparative amount was \$387 million.

Policy liabilities increased due to offsetting movements in each life company. TOWER Life NZ liabilities have increased in the participating portfolio as investment income belonging to policyholders has increased. This increase was partly offset by decreases in TOWER Health & Life policy liabilities associated with writing new business and reductions in interest rates.

Tax expense attributable to policyholders' returns increased as a result of higher taxable investment income; and one-off items which had reduced the 2011 policyholder tax expense (the write back of a prepaid tax discount and the write-off of deferred tax liabilities relating to Australasian equity gains no longer taxable to the policyholder).

Tax expense attributable to shareholders' profits increased due to the higher profit before taxation attributed to shareholders.

Profit from discontinued operations relates to the net profit after tax of health insurance business, TOWER Medical Insurance. The sale of the business was announced on 2 November 2012 and completed on 30 November 2012. Accounting standards require items of income and expenditure to be removed from individual balances and grouped together as a net result from discontinued operations.

Guide to TOWER Limited balance sheet

As at 30 September 2012

	Group		
	2012	2011	
	\$000	\$000	
Assets			
Cash and cash equivalents	186,477	223,981	
Receivables	532,162	612,959	Receivables largely comprises reinsurance recovery receivables; premium debtors and trade receivables. Reinsurance receivables have decreased due to payments received from reinsurers in relation to the 2011 Christchurch earthquake claims.
Financial assets at fair value through profit or loss	853,427	883,645	Financial assets comprise fixed interest; equity and property securities. They have decreased primarily due to the health insurance business fixed interest securities reclassification to assets of disposal group as held for sale.
Derivative financial assets	91,026	75,080	Derivative financial assets comprise interest rate swaps which mitigate interest rate volatility on floating rate bonds held to back policyholder liabilities by TOWER Life NZ.
Liabilities ceded under reinsurance	17,617	20,026	
Property, plant and equipment	5,529	6,298	
Prepaid tax assets	-	12,795	Pre-paid tax assets relate to tax paid in prior years (not refundable from IRD). The balance has been fully used in 2012 to meet a portion of 2012 policyholder tax payable.
Current tax assets	3,615	7,347	Current tax assets relate to tax paid by the Group in excess of current tax payable for the year. It has decreased in 2012 as some of the balance has been used to meet 2012 policyholder and shareholder tax payable.
Deferred acquisition costs	23,467	42,383	
Investments in subsidiaries	-	-	
Deferred tax assets	15,906	19,294	
Intangible assets	68,822	72,741	Intangible assets comprise goodwill arising from the acquisition of the general insurance business and capitalised computer software. In 2012, \$13 million of goodwill from the acquisition of the health business has been reclassified to assets of disposal group as held for sale.
	1,798,048	1,976,549	
Assets of disposal group classified as held for sale	167,546	-	Assets of disposal group as held for sale relates to assets of the health insurance business TOWER Medical Insurance, which was announced on 2 November 2012 and completed on 30 November 2012. Accounting standards require assets to be removed from individual balance sheet lines and grouped together as a disposal group.
Total Assets	1,976,549	1,617,644	
Liabilities			
Payables	56,772	57,502	
Current tax liabilities	-	-	
Provisions	7,097	5,325	
Derivative financial liabilities	170	1,903	Derivative financial liabilities comprise forward foreign exchange contracts used to hedge USD, JPY, GBP and EUR currency exposures to NZD on a global equity portfolio in TOWER Life NZ and TOWER Insurance. Their fair value is a net liability position.
Interest bearing liabilities	81,990	81,263	Interest bearing liabilities comprise TOWER Capital bonds repayable on 15 April 2014.
Insurance liabilities	563,779	710,709	Insurance liabilities comprise of outstanding claims and unearned premium liabilities. Insurance liabilities decreased due to reclassification of health insurance business liabilities of \$80 million to liabilities of disposal group as held for sale; and the reduction of general insurance outstanding claims relating to the 2011 Christchurch earthquakes.
Deferred tax liabilities	47,472	48,770	
Life insurance contract liabilities	591,458	587,476	Life insurance contract liabilities reflect net movements between each life company. TOWER Life NZ liabilities have increased in the participating portfolio reflecting the investment income during the year. These were partly offset by decreases in TOWER Health & Life (an increased negative liability), resulting from expenses associated with writing new business and reductions in interest rates.
Life investment contract liabilities	27,476	28,084	
	1,376,214	1,521,032	
Liabilities of disposal group classified as held for sale	90,591	-	Liabilities of disposal group classified as held for sale relate to liabilities of health insurance business TOWER Medical Insurance, which was announced on 2 November 2012. Accounting standards require liabilities to be removed from individual balance sheet lines and grouped together as a disposal group.
Total Liabilities	1,466,805	1,521,032	
Net Assets	498,789	455,517	
Equity			
Contributed equity	572,805	567,031	
Accumulated losses	33,546	(4,352)	
Reserves	(109,005)	(109,688)	
Total equity attributed to shareholders	497,346	452,991	
Minority interests	1,443	2,526	Minority interests relate to the 29% share of National Pacific Insurance Limited not owned by TOWER.
Total Equity	498,789	455,517	

Our company



Board of Directors

As at 1 December 2012



Steve Smith

BCom, CA, Dip Bus (Finance), AMInstD

Interim Chairman
Independent

Appointed Director: 24 May 2012

**Appointed Interim Chairman:
13 September 2012**

Board Committee Memberships:

1. Chairman of Remuneration and Appointments Committee

Steve is a professional Director, with over 30 years business experience including 19 years in investment banking and financial advisory roles. His career has also included being a partner at a leading New Zealand accountancy firm. He has a Bachelor of Commerce and Diploma in Business from the University of Auckland and is a member of the New Zealand Institute of Chartered Accountants.

Steve resides in Auckland, New Zealand.



Rob Flannagan

ACA, OPM (Harvard), AMInstD, JP

Executive Director

Appointed: 25 March 2008

Rob was appointed Group Managing Director in March 2008 following the separation of TOWER's New Zealand and Australian businesses where he held the position of Chief Executive Officer of TOWER New Zealand.

Rob brings a wealth of expertise to his leadership of TOWER. His diverse range of experience in senior management positions has been both within and outside of the financial services industry and he has also been a key participant in the formation and start up of a number of businesses. Rob was a partner of

Arthur Young Chartered Accountants until 1981 and was an in-demand guest lecturer for Auckland University's MBA Programmes. Rob was also a co-founder of Medic Aid, a medical insurance company which at its time became the second largest medical insurer after Southern Cross.

Rob is a qualified chartered accountant, a graduate of Harvard Business School and serves as a Justice of the Peace.

Rob resides in Auckland, New Zealand.



Mike Allen

LLB, BCom

Non Executive Director
Not independent

Appointed Director: 29 June 2011

Board Committee Memberships:

1. Member of Remuneration and Appointments Committee

Mike has over 25 years experience in investment banking and general management, both in New Zealand and the UK. He previously held various senior roles at Southpac Corporation and Westpac in New Zealand.

Mike resides in Auckland, New Zealand.



David Hancock

BBus, GAICD

Non Executive Director
Independent

Appointed: 16 November 2012

Board Committee Memberships:

1. Member of Audit and Compliance Committee
2. Member of Investment Committee
3. Member of Remuneration and Appointments Committee

David has over 25 years of broad experience in financial services. This experience includes being a former Executive General Manager at the Commonwealth Bank of Australia, with a variety of roles including capital markets, fixed income and equities.

He held several board positions at the bank including Commonwealth Securities (Comsec), as well as external professional board positions. Prior to that he served in roles at JPMorgan where he was a Managing Director with responsibilities in New Zealand, Australia and Asia across various operations.

More recently, David was the Interim Chief Executive Officer at Firstfolio Limited, an Australian listed financial services company.

David resides in NSW, Australia.



Mike Jefferies

BCom, CA

Non Executive Director
Not independent

Appointed Director: 19 December 2006
Last Re-elected: 2012

Board Committee Memberships:

1. Member of Audit and Compliance Committee
2. Member of Investment Committee
3. Member of Remuneration and Appointments Committee

Mike is a chartered accountant with extensive experience in finance and investment. He has been an executive for Guinness Peat Group plc for more than 20 years, and holds several directorships in both Australia and New Zealand.

Mike resides in Perth, Australia.



John Spencer CNZM

BCom, FCA

Non Executive Director
Independent

Appointed Director: 1 October 2003
Last Re-elected: 2011

Board Committee Memberships:

1. Chairman of Audit and Compliance Committee
2. Member of Remuneration and Appointments Committee

John brings to the Board significant financial and commercial expertise gained over many years from senior management positions with a number of major companies in New Zealand and overseas. Prior to the formation of Fonterra, John was the Chief Executive Officer of New Zealand Dairy Group.

John resides in Wellington, New Zealand.



Susie Staley

LLB, FNZIM, FInstD

Non Executive Director
Independent

Appointed Director: 1 October 1999
Last Re-elected: 2010

Board Committee Memberships:

1. Chairman of Investment Committee
2. Member of Remuneration & Appointments Committee

A property and business lawyer, Susie is a partner of Staley Cardoza Lawyers. She has a background in strategic management and brings a wide range of business and corporate experience to the Board. Susie is also a Fellow of the Institute of Management and a Fellow of the Institute of Directors.

Susie resides in Dunedin, New Zealand.



Michael Stiassny

LLB, BCom, CA, FInstD

Non Executive Director
Independent

Appointed: 12 October 2012

Board Committee Memberships:

1. Member of Audit and Compliance Committee
2. Member of Remuneration and Appointments Committee

Michael is a chartered accountant and senior partner of KordaMentha, based in Auckland, which specialises in financial consulting work. He has both a Commerce and Law degree from the University of Auckland.

He is currently Chairman of Vector Limited, as well as a director of a number of public and private companies.

Mr Stiassny is a Fellow of Institute of Directors and Council Member of Institute of Directors in New Zealand Inc.

Michael resides in Auckland, New Zealand.

Graham Stuart

BCom(Hons), MS, CA

Non Executive Director
Independent

Appointed: 24 May 2012

Board Committee Memberships:

1. Member of Audit and Compliance Committee
2. Member of Remuneration and Appointments Committee

Graham is currently the Chief Executive of the Sealord Group. With over 25 years management experience, he has held several diverse leadership roles with major corporates. Graham has a Bachelor of Commerce (First Class

Hons) from the University of Otago and a Master of Science from Massachusetts Institute of Technology and is a member of the New Zealand Institute of Chartered Accountants. Graham has served on the Food & Beverage Taskforce and is currently a member of the Maori Economic Development Panel.

Graham resides in Auckland, New Zealand.

Group executive team



Michael Boggs

CA

Chief Operating Officer

Appointed: 16 February 2011

Michael joined TOWER in February 2011 as Chief Operating Officer. He is responsible for the shared service functions of the TOWER Group, including Finance, Actuarial and HR. In addition, Michael is responsible for the leadership of TOWER's businesses in the Pacific Islands which contribute substantially to the Group's operating results.

A qualified Chartered Accountant, Michael began his career in public practice. He has had previous Executive roles leading finance and business functions in major telecommunications and technology organisations. Michael has designed and led large change programmes focussed on revenue growth, cost efficiency and merger and acquisition activity.



Tony Dixon

Chief Information Officer

Appointed: 1 November 2006

Tony is responsible for the Group's IT (computer technologies) and IT related strategy along with the enterprise project office and group procurement. Tony has an accounting degree from the UK.

Tony has been in the IT industry for almost 40 years, having completed large IT related projects for companies such as Air New Zealand, Gen-i/Telecom and Microsoft and the Blue Star group of companies.

Prior to joining TOWER, Tony has been CEO of Blue Star automation, National software manager for Digital Corporation and acting head of customer services at Telecom/Gen-i.



Debbie Eyre

General Manager Customer Services

Appointed: 1 February 2011

Debbie joined TOWER in May 2005 and was promoted to the TOWER Executive team in February 2011 as General Manager – Customer Services. She is responsible for the development of a customer centric approach to servicing TOWER's customers across all TOWER's product and distribution channels. She oversees the core servicing teams including contact centre, claims, underwriting, customer payments and new business.

Debbie has more than 25 years experience in the insurance industry, with previous senior roles in risk management, customer service and operations. Debbie has designed and led major change programmes focused on revenue growth, cost efficiency, business acquisition and ongoing management of insourced and outsourced operations.



Chris Jackson

General Manager Sales and Marketing

Appointed: 18 June 2012

Chris Jackson was appointed as General Manager of Sales and Marketing in June 2012. He has over 35 years of experience in the financial services industry, most recently having worked for a Canadian based, international financial services group, where he headed the Strategic Initiatives Office in Singapore.

Chris has had a wide and varied career in funds management, banking and insurance both here in New Zealand and within the Asia Pacific region. He established a boutique consultancy firm during the mid-90s, has managed advisers, and led strategic initiatives and projects for many large international organisations. He has extensive experience in establishing and managing transformation programmes and enabling strategic change.



Sam Stubbs

MA (Hons)

Chief Executive – Investments

Appointed: 4 February 2008

Sam is responsible for the management of all wholesale, retail and KiwiSaver funds. He is also responsible for investment management of TOWER.

Sam's previous experience included responsibility for capital raising for large corporate clients in European and Asian capital markets, and for the establishment of asset management businesses in the Asia Pacific region. He was also a strategic consultant for Goldman Sachs to key clients in the Asia Pacific region.



Bronwyn Walsh

BCom LLB (Hons)

Company Secretary and Compliance Manager

Appointed: 28 April 2009

Bronwyn is Company Secretary for the TOWER board and is responsible for investor relations, including maintaining and enhancing relations between the company, shareholders, regulators and the broader stakeholder community. She is also responsible for strategic oversight and management of the Legal and Group Risk & Compliance functions including brand management.

Focusing on our people

TOWER's people-focussed promise is to be part of a committed and engaged team, and we seek to bring it to life in everything we do. It is the attitude we adopt, and the approach we embrace when evaluating how we will achieve our key initiatives. Some examples of this include:

Orientation is a two-day 'welcome to TOWER' programme that not only provides crucial 'need to know' information to provide new people with a safe and happy start to work, but also offers hands-on experience of customer interactions, tours of the floors, and conversations with key business units. This helps new people feel welcome and connected to TOWER, to our customers, our culture and our people. Orientation receives consistently positive feedback such as: "This was excellent. The best orientation I have ever experienced – and I've been to a few".

ELEVATE is TOWER's in-house leadership programme, designed and facilitated to enable our leaders to generate insights, ideas and plans to be their best, and to get the best out of their people in terms of maximising satisfaction and contribution. This programme comes with the expectation that leaders share, reflect, think, and are responsible for personal change and growth.

TOWER's Performance Management system has been simplified and re-structured to link in to our Recruitment, Talent & Leadership initiatives, providing consistency and alignment. Today, TOWER puts as much importance on what our people are doing (performance), as how they are getting things done (values).

Ride Along has the entire Senior Management team on a progressive experiential 'day in the shoes of' key TOWER business units. Each manager spends up to a day entrenched on-the-job talking with team members, understanding their challenges and looking for opportunities for improvement. Ideas are filtered through our Customer Insight team to assess and action.

TOWER's recognition programme SHINE has been redesigned and seeks to reward individuals and teams for extraordinary demonstration of TOWER's values and behaviours, as well as consistent customer service above and beyond the expected norms. The programme ranges from encouraging employees to post comments of appreciation about their colleagues to official nominations, where winners receive financial rewards and formal recognition.

The health and wellbeing of our employees is, and always will be, extremely important to TOWER. This year TOWER introduced a wellbeing initiative which focuses on different health and wellbeing topics each month, linking in with events that are happening in New Zealand and around the globe. Our approach combines education and fun activities and seeks to establish a culture of wellbeing for our people.



Case study

Laka Selby has worked at TOWER nearly eight years, and is Claims Lodgement Manager for the Group's General Insurance business.

"I'm always looking for ways we can simplify our processes and do things better for our customers. The three promises to our customers which are part of our plan (you only need to contact us once; you value our simple and easy to understand products; engaging with us will be easy) are always in the back of my mind, as anything we do needs to align to these."

Laka started out working on the phone at TOWER and credits its people development programme with helping her move into a management role.

"I've really enjoyed learning about insurance and especially management and leadership skills. I started at TOWER working on the phones and gradually made my way to where I am now, all due to the support TOWER has given me for my career. I've always been proud to work here and really enjoy the people and the culture."

Laka is responsible for 22 people, and is committed to building a motivating culture.

"I have a great team and it's important to have things at work that make it fun. We have quite a few team-building activities, where at least each month we do something like karaoke, dinner as a team, bowling or scavenger hunts. We also love decorating our floor and having morning teas, bake-offs and mini competitions."

TOWER's community commitment

A staunch commitment to the communities in which it does business has always been a priority for TOWER. TOWER's involvement and support at local, regional and national levels is evident across a broad range of sponsorships and initiatives. Partnering with organisations that enhance the lives of New Zealanders is important to the company – after all TOWER is truly a “Kiwi” company that has always looked out for and looked after New Zealanders.

TOWER's support of the Men's Health Trust continued during the year. As a non-profit organisation that is committed to ensuring that all New Zealand men take responsibility for their own health, the work of the Trust has been widely lauded. TOWER became the major sponsor of the Trust's corporate programme which targets awareness of men's health issues through education in the workplace, with the goal of reducing early male mortality.

TOWER remains a passionate Season Sponsor of the world class Royal New Zealand Ballet. As we enter our 12th season of partnership, the biennial TOWER Tutus on Tour is a hugely popular event that continues to perform to sold-out audiences nationwide. The season covers 40 towns and communities across the country, bringing the joy of dance to communities that would not usually have this opportunity.

TOWER also continues to support a number of other events, including various industry awards and conferences.



ROYAL NEW ZEALAND BALLET





Corporate governance



Corporate governance at TOWER

The Board and senior management have a responsibility to achieve the highest standards of corporate performance, ethical behaviour and accountability.

The Board has adopted and developed corporate governance structures and practices that are consistent with best practice and ensure the integrity of the governance framework, with continual reassessment of its practices against these standards. Where developments arise in corporate governance, the Board is committed to review TOWER's practices and incorporate changes where appropriate to ensure TOWER maintains best practice governance structures. TOWER Capital Limited has the same Board as TOWER Limited. As part of the TOWER Group, it operates under the same corporate governance regime. Therefore, governance practices and disclosures that apply to TOWER Limited are also applied to TOWER Capital Limited (where relevant).

Compliance with governance requirements and recommendations

For the reporting period to 30 September 2012, TOWER considers its corporate governance practices have adhered to the NZX Corporate Governance Best Practice Code; the New Zealand Securities Commission Corporate Governance Principles and Guidelines and the ASX Corporate Governance Council Principles and Recommendations as outlined in this corporate governance section. Copies of the principal governance documents and more detail about TOWER's governance practices are available on TOWER's website at www.tower.co.nz under 'Corporate Governance'.

Role of the Board of Directors

The Board, elected by TOWER shareholders, is responsible for the performance of the TOWER Group as a whole. In practice, this is achieved through formal delegation to the Group Managing Director and to its three board committees (Audit and Compliance Committee, Remuneration and Appointments Committee, and Investment Committee – the role of each of these Committees is outlined on pages 32 to 34). Each year the Board holds a strategy session with senior management to review TOWER's business direction. The application of these strategies within each business area is reviewed regularly at board meetings.

The Board is primarily governed by the Board Charter, Board Protocols and the Code of Ethics. The Board Charter records the Board's roles and responsibilities, the Board Protocols describe internal board procedures for efficient decision-making and the Code of Ethics ensures decision-making is in accordance with TOWER's values. These documents can be found on TOWER's website at www.tower.co.nz under 'Corporate Governance'.

The Board Charter records that the primary role of the Board is to effectively represent and promote the interests of shareholders with a view to enhancing growth and returns across the Group, adding long-term value to TOWER shares. The Board, when fulfilling its roles and responsibilities, is required to have appropriate regard to TOWER values, the concerns of its shareholders, its relationships with significant stakeholders and the communities and environment in which it operates.

The Board reserves certain functions to itself. These include:

- determining the Group's strategic objectives, and approving annual operating plans, financial targets and capital expenditure plans
- assessing and monitoring performance, including management's performance against the strategic objectives, operating plans and financial targets
- approving all changes to the Group's corporate structure where these are of strategic importance
- determining Group financial and treasury strategies and policies, including approving all dividend policies and distributions to shareholders, lending and borrowing, tax, and investment and foreign exchange policies
- determining the Group risk management policies and framework and the Group information technology strategies and policies
- approving capital expenditure, operating expenditure, asset acquisitions and divestments, and settlement of legal proceedings, in all cases where this is outside the normal course of business and/or above delegated limits
- approving all transactions relating to major business and company acquisitions, mergers and divestments
- approving the appointment and remuneration of the Group Managing Director

Role of senior executives

The day-to-day leadership and management of the Group is undertaken by the Group Managing Director and senior management. The Group Managing Director is solely accountable to the Board for management performance. The Group Managing Director has also formally delegated decision making to senior management within their areas of responsibility and subject to quantitative limits to ensure consistent and efficient decision-making across the Group. Senior management has no power to do anything which the Group Managing Director cannot do pursuant to his delegations. Within this formal delegation framework those executives who report directly to the Group Managing Director have authority to sub-delegate certain authorities to their direct reports. The Board meets regularly with management to provide strategic guidance for TOWER and effective oversight of management.

Board composition, nominations and appointments

Board composition

At 30 November 2012, the Board included eight non-executive directors and the Group Managing Director. The TOWER Constitution requires a minimum of six directors and provides for a maximum of nine. Profiles of the current directors are on pages 18 to 21.

The Remuneration and Appointments Committee is responsible for identifying directors for appointment to the Board to ensure there is an appropriate blend of commercial skills and experience to govern and add value to TOWER and to ensure the Board works effectively. The Committee is also responsible for the Board protocols which have been established to facilitate the effective operation of the Board. Current directors contribute significant commercial, financial, legal and investment skills to the Board.

Role of Chairman

The Chairman's role is to lead and manage the Board so that it operates effectively, and to facilitate interaction between the Board and the Group Managing Director. The Chairman of the Board is elected by the directors. The Board supports the separation of the roles of Chairman and Group Managing Director and these roles have always been separate at TOWER. Steve Smith was appointed Interim Chairman of TOWER following the resignation of Bill Falconer on 13 September 2012, who had held the position of Chairman since his appointment on 29 August 2011.

Nominations, appointments and ongoing education

The Remuneration and Appointments Committee recommends to the Board suitable candidates for appointment as directors. The Committee will consider, among other things:

- the candidate's experience as a director
- their skills, expertise and competencies (the Board aims to have a mix of skilled directors with particular competencies in the insurance and financial services sector)
- the extent to which those skills complement the skills of existing directors
- their ability to devote sufficient time to the directorship

The candidate's reputation and integrity

On appointment to the Board, directors receive a formal letter of appointment outlining their duties and obligations and are provided induction information about TOWER in the form of a Director's Manual. The Director's Manual contains historical background on TOWER and its operations, information about how the Group is structured, details of the Company's directors' and officers' insurance, the Board Charter and other TOWER corporate governance policies. The induction process also involves one-on-one discussions with the Chairman, other directors and briefings from senior management to help new directors participate actively in board decision-making at the earliest opportunity.

To ensure ongoing education, directors are regularly informed of developments that affect TOWER's industry and business environment, as well as company and legal issues that impact the directors themselves. Directors receive comprehensive board papers and briefing information before board meetings, including a report from the Group Managing Director and divisional reports from the senior management of each business unit. Directors have unrestricted access to management and any additional information they consider necessary for informed decision making. The Company Secretary is usually the first point of contact for such requests.

Senior management also attend board meetings in order to provide presentations to the Board and answer any queries directors may have. This allows the Board to understand the practical issues affecting TOWER and the impact of these issues on its performance. Directors are expected to develop their skills, competencies and industry knowledge by taking responsibility for their continuing education.

A director may obtain independent professional advice relating to the affairs of TOWER or his/her responsibilities as a director or committee

member. Where the director has the approval of the Board Chairman or Committee Chairman to obtain independent professional advice, TOWER will meet the reasonable costs of the advice.

Director independence

The Board Protocols require that a majority of the Board are independent directors. The Board regularly assesses the independence of each director based on the interests disclosed by them. For this purpose directors are required to immediately advise the Board of any new or changed relationships so the Board can make this assessment.

Based on the NZX Listing Rules and the ASX Corporate Governance Council Principles and Recommendations, the Board Protocols define a director as being independent if he/she is a non-executive director who does not have any direct or indirect interest or relationship that could, or could reasonably be perceived to:

- reasonably influence, in a material way, his/her decisions relating to TOWER; or
- materially interfere with his/her ability to act in the Company's best interests.

Examples of relationships that remove independence are relationships with a material TOWER customer, supplier, professional advisor or substantial shareholder. As at 30 September 2012, the Board considered that four of the directors were independent, namely: John Spencer, Susie Staley, Steve Smith and Graham Stuart. The Board considers that Mike Jefferies and Mike Allen are not independent as a result of their appointment to the Board by Guinness Peat Group, a substantial shareholder of TOWER.

Michael Stiasny and David Hancock were appointed to the Board post balance date, and are both considered independent.

The ASX Corporate Governance Council Principles and Recommendations recommend that the Chairman should be an independent director. Steve Smith is considered an independent director.

In accordance with TOWER's Constitution, directors with an actual or potential conflict of interest on particular issues are required to disclose the conflict and may still attend meetings but will abstain from voting on that issue.

Retirement and re-election

During the year Bill Falconer and Denis Wood resigned from the TOWER and TOWER Capital Boards.

At least one-third of the total number of directors must retire from office each year by rotation and, if they choose, stand for re-election by shareholders at the Annual Meeting. Directors who retire each year are those who have been in office longest since their last election. If two directors have held office for equal terms and cannot agree who will retire, it is determined by lot. The Group Managing Director is not required to retire by rotation.

In addition, all directors appointed by the Board since the last Annual Meeting to fill a casual vacancy must stand for election. Shareholders will be provided with relevant information on the directors standing for re-election prior to the Annual Meeting to enable them to make informed decisions when voting.

Board and committee performance review

The Board recognises that the performance of the directors and Board committees are crucial to TOWER's success and to the interests of shareholders. The Board regularly reviews its own composition and performance and that of Board committees in accordance with the terms of the Board Charter (which also includes a review of the Board structure, policies, board succession, delegations and the necessity for and composition of the committees). The Remuneration and Appointments Committee is responsible for the regular performance management and annual appraisal of the Group Managing Director, individual directors and senior executives. Evaluations may be carried out by an external consultant.

Director share ownership

All directors are required by the Company's constitution to hold TOWER shares. Directors and management are required to comply with TOWER's Insider Trading and Market Manipulation Policy when purchasing and disposing of TOWER securities. The number of shares held by each director and their dealings in TOWER securities during the financial year are disclosed on page 43.

Indemnities and insurance

TOWER has given Deeds of Indemnity to directors for potential liabilities and costs they may incur for acts or omissions in their capacity as directors. Directors' and officers' liability insurance is in place for directors and employees acting on behalf of TOWER and its subsidiaries. While the insurance covers risks arising out of acts or omissions of directors and employees acting for TOWER, it does not cover dishonest, fraudulent or malicious acts or omissions, or criminal liability.

Board committees as at 1 December 2012

The Board has three standing committees: the Audit and Compliance Committee, the Remuneration and Appointments Committee, and the Investment Committee. Other committees are established from time to time to examine specific issues as required by the Board.

The committees are governed by written terms of reference, which detail their specific functions and responsibilities. The terms of reference for each committee are reviewed annually. Copies of each committee's terms of reference are available on the TOWER website at www.tower.co.nz under 'Corporate Governance'.

The committees make recommendations to the Board. They have no decision-making ability except where expressly provided by the Board. The Board is required to annually confirm the membership and Chairmanship of each of the committees. The experience and skills of individual committee members are set out in the directors' profiles on pages 18 to 21. Member attendance at each committee meeting is set out on page 34.

Audit and Compliance Committee

Members: John Spencer (Chairman), Mike Jefferies, Michael Stiassny, Graham Stuart and David Hancock

TOWER has a structure to independently verify and safeguard the integrity of the Group's financial reporting. The principal components of this are the Audit and Compliance Committee, the external and internal auditors, and the certifications provided to the Board by senior management.

The Terms of Reference of the Audit and Compliance Committee include the following duties and responsibilities:

- independently and objectively review the financial information presented by management to the Board, the external auditors and the public;
- review draft half year and annual financial statements and the external auditor's report, and make recommendations to the Board as to their adoption;
- oversee the performance of the external auditor and be satisfied as to its independence;
- review the effectiveness and efficiency of management processes, Group risk management and internal financial controls and control systems;

- monitor and review compliance with regulatory and statutory requirements and obligations;
- monitor the internal audit function and receive regular reports from the internal auditors on risks, exposures and compliance;
- maintain open and direct lines of communication with the external and internal auditors; and
- make recommendations to the Board as to the appointment of the external auditors.

The Committee meets with the internal auditors four times during the financial year and with the external auditors at least twice.

The Terms of Reference require that the committee has a minimum of three suitably qualified non-executive directors, the majority of whom are independent. The Board appoints the Chairman of the Committee, who cannot also be Chairman of the Board.

Following each meeting the Chairman of the Committee provides a report to the Board. The Chairman is also required to provide an annual report summarising the committee's activities, findings, recommendations and results for the past year.

Remuneration and Appointments Committee

Members: Susie Staley, John Spencer, Mike Allen, Steve Smith, Mike Jefferies, Graham Stuart, Michael Stiassny and David Hancock

The Remuneration and Appointments Committee advises the Board in respect of a number of matters, including:

- the appointment and succession of Board directors, and director remuneration;
- the composition and structure of the Board;
- performance evaluations of the Board;
- the Group Managing Director and senior executive appointments, termination, performance appraisal and remuneration.

The Terms of Reference for the Remuneration and Appointments Committee require that the Committee comprises suitably qualified non-executive directors, the majority of whom are independent. The Board appoints the Chairman of the Committee.

Following each meeting the Chairman of the Committee provides a report to the Board. The Chairman is also required to provide an annual report summarising committee activities, findings, recommendations and results for the past year.

The Company's remuneration policies for directors and senior executives are set out on pages 38 and 39.

Investment Committee

Members: Susie Staley (Chairman), Mike Jefferies and David Hancock

The Investment Committee has various duties and responsibilities, including:

- reviewing the investment policy for TOWER shareholder and policyholder funds;
- reviewing the risk management policy and statements in respect of investment management, including derivative policy;
- considering the establishment, adjustment or deletion of limits and counter-party approvals, and the scope of financial instruments to be used in the management of TOWER's investments;
- reviewing the appointment of external investment managers;
- monitoring investment and fund manager performance; and
- monitoring compliance with investment policies and client mandates.

The Terms of Reference for the Investment Committee require that the Committee comprise a minimum of two suitably qualified non-executive directors. The Board appoints the Chairman of the Committee, who must be a non-executive director but cannot also be Chairman of the Board. Following each meeting the Chairman of the Committee provides a report to the Board. The Chairman is also required to provide an annual report summarising the committee activities, findings, recommendations and results for the past year.

Board and committee meeting attendance

The Board held thirteen scheduled meetings during the year from 1 October 2011 to 30 September 2012. Director attendance at Board and committee meetings is set out below. The Group Managing Director attends all committee meetings and the Chief Operating Officer attends meetings of the Audit and Compliance Committee and Investment Committee. The Company Secretary attends all Board and committee meetings, and is responsible for taking accurate minutes of each meeting and ensuring that Board procedures are observed.

TOWER Limited Directors' attendance record for the year to 30 September 2012

	TOWER Limited Board	Audit & Compliance Committee	Remuneration & Appointments Committee	Investment Committee
	Number of meetings attended	Number of meetings attended	Number of meetings attended	Number of meetings attended
Meetings held	13	5	1	3
Mike Allen	13	-	1	-
Bill Falconer ¹	12	-	1	-
Rob Flannagan	13	-	1	-
Mike Jefferies	12	5	1	3
Steve Smith ²	10	1	-	-
John Spencer	12	5	1	-
Susie Staley	12	-	1	3
Graham Stuart ³	7	-	-	-
Denis Wood ⁴	1	1	-	1

(1) Mr Falconer resigned as a director of TOWER on 13 September 2012

(2) Mr Smith was appointed as a director of TOWER on 24 May 2012

(3) Mr Stuart was appointed as a director of TOWER on 24 May 2012

(4) Mr Wood resigned as a director of TOWER on 8 February 2012

Promoting ethical and responsible behaviour

Ethical and responsible behaviour

TOWER is committed to meeting its legal and other obligations to stakeholders, including shareholders, employees, customers, policyholders and the wider community. Maintaining TOWER's reputation for honesty and fairness is crucial to its success as a financial services business. The Board has adopted a Code of Ethics which is an important tool for achieving these aims as it sets out the minimum standards of conduct and behaviour TOWER expects of its directors, executives and employees and requires them to adhere to these standards. The Code of Ethics is available to staff both on the TOWER website and through the induction process. The types of behaviour addressed in the Code of Ethics include:

- avoiding situations in which personal interests interfere or appear to interfere with the interests of TOWER;
- using a person's position at TOWER or TOWER's information or property for personal gain;
- safeguarding the confidentiality of all TOWER non-public information; and
- complying with all applicable legal requirements and ensuring that behaviour is appropriate while conducting TOWER's business.

Any person who becomes aware of a breach or suspected breach of the Code of Ethics is required to report it to their manager immediately and the Company Secretary, who will investigate and take appropriate action as necessary.

In addition to the Code of Ethics TOWER has a Whistleblower Policy which is applicable to all staff. The Policy sets out TOWER's approach to the way in which suspicions/allegations of fraud, corruption and/or misconduct within the Group are to be reported by staff and how TOWER will deal with such incidents. The Policy provides that TOWER will ensure that a person who, in good faith, makes an allegation of misconduct under the Policy will not be personally disadvantaged by having made the report.

Insurance (Prudential Supervision) Act 2010

The New Zealand insurance industry is regulated by the Reserve Bank of New Zealand, under the Insurance (Prudential Supervision) Act 2010 (IPSA). All companies carrying on insurance business in New Zealand must hold a licence. The relevant TOWER Group companies

are TOWER Insurance Limited (fire and general), TOWER Health & Life Limited (life) and TOWER Life (N.Z.) Limited (life). These companies hold provisional licences under IPSA and are progressing towards becoming fully licensed. This licensing process will continue into 2013 and all insurers must be fully licensed by 7 September 2013.

Key elements of the insurance prudential supervision regime include minimum solvency requirements and regular reporting to the Reserve Bank, the need for directors and other relevant officers to meet fit and proper standards, and governance and risk management requirements.

Further information on the insurance prudential supervision regime can be found on the Reserve Bank website www.rbnz.govt.nz.

Insider trading

Legal restrictions and TOWER's Insider Trading and Market Manipulation Policy do not allow trading and dealing in TOWER securities while directors and employees are in possession of information that has not been released to the public and that is likely to have a material effect on the price of TOWER securities.

There are supplementary guidelines for directors and designated employees (usually senior executives) requiring prior consent to trade, and specifying periods when trading is allowed (following half year and full year announcements). A copy of TOWER's Insider Trading and Market Manipulation Policy is available on TOWER's website at www.tower.co.nz, under 'Corporate Governance'.

Group Risk & Compliance Framework policy

TOWER's approach to risk and compliance is recorded in the TOWER Group Risk & Compliance Framework Policy. This policy sets out TOWER's commitment to managing risk and compliance, and provides an overview of the core components of the Framework including roles and responsibilities and requirements that must be met. This Framework applies to TOWER and all of its subsidiaries and related companies, and all staff and contractors employed by TOWER and any of its subsidiaries. Effective management of risk and compliance is essential to ensure that TOWER remains a viable business and is able to achieve its objectives. This Framework is integral in providing guidance to management and staff of TOWER in dealing with its risks and compliance obligations.

Diversity

TOWER is committed to promoting diversity within the Company and recognises the value of diversity in achieving the Company's corporate objectives and maximising value to shareholders.

TOWER aims to promote and implement diversity strategies in its employment practices, which extends to diversity in employees' experiences, perspectives, professional skills, gender, age, sexual orientation, ethnicity and cultural background; and across all components of TOWER's business practices, including through its education programs, selection programs for consultants, mentoring programs and community and corporate social responsibility initiatives.

TOWER considers that diversity within the Company will improve the quality of decision-making, productivity and teamwork amongst its employees and is in the process of establishing a diversity policy that will apply to the Board, management, employees and contractors.

The following table shows the number of men and women across the organisation as at 30 November 2012 (excluding contractors).

	Total	No of men	% men	No of women	% women
Board*	9	8	88.9%	1	11.1%
Senior Executives	7	5	71.5%	2	28.5%
Employees	878	363	41.3%	515	58.7%

*Includes the Group Managing Director

Market and shareholder communication

TOWER recognises that public confidence in the integrity of TOWER is based on continuous, full and open disclosure of information about its activities to the market and relevant stakeholders. TOWER's Corporate Disclosure Policy provides for a planned, proactive communication programme with shareholders and the wider investment community to encourage their participation in TOWER. TOWER believes this communication programme assists in creating a fully informed market and enhances shareholder value. The Policy provides that only authorised spokespersons can communicate on behalf of TOWER with the investment community, shareholders and the media. A copy of the Policy is available on TOWER's website at www.tower.co.nz.

TOWER has policies and procedures in place designed to ensure that:

- all investors have equal and timely access to material information concerning TOWER;
- company announcements are factual and presented in a clear and balanced way; and
- TOWER complies with the continuous disclosure requirements of the ASX and NZX.

The Company Secretary is accountable for compliance with disclosure obligations. Announcements of financial results, changes in profit forecasts and other material market announcements require Board approval. TOWER's website, www.tower.co.nz, provides information to shareholders and investors about the Group. The website includes copies of past annual reports, results announcements, media releases (including NZX and ASX announcements), and general TOWER information. It also has a comprehensive corporate governance section for shareholders.

Announcements

TOWER makes the following regular announcements to the market and shareholders:

- Full year results are announced in late November;
- Annual reports are released in late December, the Notice of Meeting is included or is sent separately in the new year;
- Half year results are announced in late May; and
- Half year reports are released in late June.

Credit Rating

Global rating organisation A.M. Best Company issued the following ratings of companies:

TOWER Health & Life Limited
Financial Strength Rating A- (Excellent)
Issuer Credit Rating a-
Effective 27 July 2012

TOWER Insurance Limited
Financial Strength Rating A- (Excellent)
Issuer Credit Rating a-
Effective 27 July 2012

TOWER Life (N.Z.) Limited
Financial Strength Rating A- (Excellent)
Issuer Credit Rating a-
Effective 27 July 2012

TOWER Limited
Issuer Credit Rating bbb-
Effective 27 July 2012

TOWER Medical Insurance Limited¹
Financial Strength Rating A- (Excellent)
Issuer Credit Rating a-
Effective 6 September July 2012

(1) The sale of TOWER Medical Insurance Limited to nib holdings limited completed on 30 November 2012.

Audit and risk management at TOWER

Group Risk & Compliance Management

TOWER has established a framework to identify, assess, monitor and manage risk. At the forefront of this are the internal audit and compliance processes, and the comprehensive risk management process for each operating company. The Group Risk & Compliance Framework policy sets out TOWER's commitment to managing risk and compliance, and provides an overview of the core components of the Framework including roles and responsibilities and requirements that must be met. An effective risk and compliance framework is essential to achieving TOWER's corporate objectives. TOWER faces a range of risks that are inherent to the business activities undertaken. TOWER stakeholders, including shareholders, clients, staff and suppliers require assurance that TOWER will manage its exposure to risk. Executive and senior management and staff must be able to demonstrate that all reasonable steps have been taken to effectively manage TOWER's risks.

Internal audit

TOWER contracts an independent chartered accounting firm to carry out the internal audit function reporting to the Chairman of the Audit and Compliance Committee and with full access to other committee members and the Board. The Committee approves the Internal Audit Policy that governs the internal audit function across the Group.

The Internal Audit Policy formally records the delegations the Audit and Compliance Committee has made to the internal auditor in relation to the internal control systems and processes of the Group businesses. The Audit and Compliance Committee approves the appointment of the internal auditor following the Group Managing Director's recommendation.

The internal auditors help the Board and the Group exercise good corporate governance and meet their regulatory obligations by providing them with independent assurance of the adequacy and effectiveness of internal control systems and processes within TOWER. The internal auditors have unrestricted access to TOWER information and staff, and are completely independent of the activities and operations they audit.

External audit

The TOWER Board is fully committed to ensuring the quality and independence of the external audit process. As part of this process TOWER encourages full and frank disclosure and discussions between the Board, TOWER's internal auditors, management and the external auditor, PricewaterhouseCoopers (PwC).

PwC was re-appointed as auditor by shareholders at the Annual Meeting in 2012 to audit the TOWER and TOWER Group financial statements.

A formal engagement letter with PwC sets out the respective obligations and responsibilities of PwC and the Company in relation to preparation and audit of financial statements. The Board also has a formal External Audit Independence Policy that includes the provision of non-audit services by the external auditor. This Policy specifies which services the external auditor may and may not provide TOWER. The Policy is overseen by the Audit and Compliance Committee. The Policy is available on TOWER's website at www.tower.co.nz under the 'Corporate Governance' section.

Non-audit services provided by PwC to the Group during the accounting period did not, in TOWER's opinion, affect auditor independence. PwC is also required to provide the Audit and Compliance Committee with an annual certification of its continued independence, and in particular confirm that it has not carried out any engagements during the year which would impair its professional independence.

Representatives from TOWER's external auditor will be present at the Annual Meeting and will be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Details of PwC fees for audit and other services provided to the TOWER Group are set out in note 9 of the TOWER Limited financial statements.

Group corporate governance policies and procedures

To support the Board's aims of developing and fostering corporate governance practices which are consistent with best practice, TOWER has developed a number of Group corporate governance policies that apply to all directors and employees of TOWER. Where indicated copies are available on TOWER's website at www.tower.co.nz under the 'Corporate Governance' section.

Remuneration at TOWER

TOWER's remuneration policies aim to attract and retain talented and motivated directors and employees who will contribute to enhanced group performance. TOWER aims to provide employees with remuneration that is competitive, equitable and related to the achievement of individual, team and business unit objectives. TOWER rewards high performing staff for providing superior performance.

TOWER has different policies for remunerating the non-executive directors as opposed to the Group Managing Director and senior executives. The following section discusses TOWER's remuneration policies and arrangements for non-executive directors, the Group Managing Director, the senior executives and staff in general.

Role of the Remuneration and Appointments Committee

In respect of remuneration the Remuneration and Appointments Committee is responsible for assisting and advising the Board in relation to, amongst other things:

- remuneration strategy, structure and policy;
- remuneration of the Group Managing Director;
- setting non-executive directors' remuneration;
- setting Board committee members' fees; and
- determining remuneration packages of senior executives, following recommendations from the Group Managing Director.

Non-executive director remuneration

The Board's policy 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 Meeting in February 2004 shareholders approved an increase in non-executive director annual remuneration to the current maximum of NZ\$900,000 per annum. TOWER seeks external advice when reviewing Board remuneration. The Remuneration and Appointments Committee is responsible for reviewing directors' fees. Non-executive directors are also paid additional annual fees for sitting on Board committees.

Board/Committee	Chairman	Member
Base fee – Board of Directors	\$130,000	\$78,570
Audit and Compliance Committee	\$15,000	\$9,000
Remuneration and Appointments Committee*	\$7,500	\$5,000
Investment Committee	\$7,500	\$5,000

* The board has determined that from 1 December 2012 no fees will be payable for sitting on this committee.

Additional fees may be paid to non-executive directors for one-off tasks and/or additional appointments where required, for example, sitting on a due diligence committee. No additional fees are paid to directors in relation to their roles as directors of TOWER Capital.

The remuneration policy for non-executive directors does not include participation in either a share or share option plan.

Retirement allowances

Directors were previously entitled to a retirement allowance on their retirement from the Board. At the 2004 Annual Meeting shareholders approved an increase in the maximum amount of directors' fees. In exchange for the increase and to provide greater transparency for remuneration the Board resolved that retirement allowances would cease to accrue from 1 October 2003. Allowances are paid as a lump sum on retirement from the Board. The retirement allowance was calculated by dividing the relevant director's number of years service by nine and multiplying the result by the director's remuneration for a three year period. The retirement allowances which have accrued are: Susie Staley \$101,101 to be paid on retirement. To be eligible for a retirement allowance a director needed to be in office for at least three years prior to 1 October 2003. For this reason no other director is eligible for a retirement allowance.

Directors' remuneration and benefits of TOWER and its subsidiaries for the year to 30 September 2012

	Director's Fees \$	Other \$
Mike Allen	78,570	-
Bill Falconer	129,423	-
Rob Flannagan	-	905,172**
Mike Jefferies	92,570	-
John Spencer	98,955	-
Susie Staley	113,823	-
Steve Smith	40,654	-
Graham Stuart	32,032	-
Denis Wood	36,949	-
Rodney Reid	4,138*	-
Aniseto Chan Ting	3,863*	-
Alden Godinet – Aniseto's alternate	275*	-

* Fees earned in capacity as director of National Pacific Insurance Limited.

** Total remuneration for the financial year. No bonus paid.

Notes:

- (1) Mr Falconer resigned as a director of TOWER on 13 September 2012 and earned a prorated amount of fees to that date.
- (2) Mr Smith was appointed as a director of TOWER on 24 May 2012.
- (3) Mr Stuart was appointed as a director of TOWER on 24 May 2012.
- (4) Mr Wood resigned as a director of TOWER on 8 February 2012 and earned a prorated amount of fees to that date.
- (5) Fees include base fees and additional fees accrued in the financial year for one-off tasks and additional appointments, including participation in due diligence committees.

Group managing director and senior executive remuneration

The Board's policy for remunerating the Group Managing Director and other key executives is to provide market based remuneration packages comprising a blend of fixed and incentive based remuneration with clear links between individual and Company performance, and reward. Remuneration packages currently comprise a mixture of fixed and performance-based remuneration in the form of a group profit share. The Group Remuneration and Appointments Committee reviews the Group Managing Director's and other senior executives' remuneration packages at least annually.

The policy is intended to encourage meeting the short and long term objectives for TOWER. Rob Flanagan was appointed Chief Executive Officer of the Group in August 2006 and became the Group Managing Director in March 2008. The Group Managing Director does not receive director's fees. The amount shown in the directors' remuneration and benefits table on page 38 is his total remuneration paid in the year ended 30 September 2012. A short term performance incentive of \$200,000 is payable in respect of the year ended 30 September 2012. He also had a long term incentive in the form of the Tranche E share options as disclosed in note 35 to the TOWER Limited financial statements which expired on 16 October 2012.

The Board has issued options to senior executives across the Group as part of its remuneration policies for senior executives. The options may only be exercised if the hurdle of a 10% per annum compounding increase in the TOWER share price less any distributions is achieved.

Employee remuneration

Set out in the following table are the number of employees or former employees of a member of the Group, not being directors or former directors, who received remuneration and other benefits valued at or exceeding \$100,000 for the year ended 30 September 2012. Remuneration includes redundancy payments and termination payments made during the year to employees whose remuneration would not otherwise have been included in the table.

	Bands		2011/12
	From \$	To \$	
	100,000	109,999	31
	110,000	119,999	23
	120,000	129,999	21
	130,000	139,999	22
	140,000	149,999	9
	150,000	159,999	11
	160,000	169,999	4
	170,000	179,999	5
	180,000	189,999	6
	190,000	199,999	2
	200,000	209,999	1
	210,000	219,999	3
	220,000	229,999	4
	230,000	239,999	1
	240,000	249,999	1
	250,000	259,999	1
	260,000	269,999	1
	270,000	279,999	-
	280,000	289,999	1
	290,000	299,999	2
	300,000	309,999	-
	320,000	329,999	2
	330,000	339,999	1
	340,000	349,999	-
	360,000	369,999	-
	380,000	389,999	1
	390,000	399,999	1
	400,000	409,999	1
	410,000	419,999	1
	420,000	429,999	-
	440,000	449,999	-
	450,000	459,999	1
	470,000	479,999	-
	540,000	549,999	-
	560,000	569,999	-
	570,000	579,999	-
	590,000	599,999	1
	600,000	609,999	-
	640,000	649,999	-
	670,000	679,999	-
	710,000	719,999	-
	720,000	729,999	-
	900,000	909,999	1
	1,000,000+		-
	Total		159

Disclosures



Interests' disclosures

Interests register

Each company in the Group is 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. 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 s162 of the Companies Act 1993.

General disclosures of interest

During the financial year directors of TOWER and TOWER Capital disclosed interest, or a cessation of interest (indicated with an asterisk (*) in the following entities pursuant to section 140 of the Companies Act 1993. No disclosures were made by directors of any other members of the Group (Michael Stiasny and David Hancock were appointed as directors after the financial year).

Mike Allen			
Breakwater Consulting Limited	Director	Breakwater Investments Limited	Director*
Canterbury Spinners Limited	Director	Coats plc	Chairman
Environment Investments Limited	Chairman*	Godfrey Hirst NZ Limited	Director
Guinness Peat Group plc	Director	Innoflow Australia Limited and subsidiaries	Director*
NZ Windfarms Limited	Director	NZWL – TRH Limited	Director
RVNZ Investments Limited	Director*	Stableburn Farms Limited	Director*
Systems 77 Limited	Director*	Tainui Group Holdings Limited	Director
TRH Services Limited	Director	Waikato-Tainui Fisheries Limited	Director
WaterCare Services Limited	Director		
Bill Falconer			
Karapiro 2010 Limited	Chairman*	Meat Industry Association Holdings Limited	Chairman
Petdavid Investments Limited	Director	Primary Growth Partnership Investment Advisory Panel	Chairman
Stream Information Limited	Director*	Total Metering 2012 Limited	Chairman
Westfield Trust (NZ) Limited	Director		
Mike Jefferies			
Capral Limited	Director	ClearView Wealth Limited	Director
Metals X Limited	Director*	OzGrowth Limited	Director
Touch Holdings Limited	Chairman		
John Spencer			
DairyNZ Limited	Director	Dispute Resolution Services Limited	Director
Mitre10 (New Zealand) Limited	Director	New Zealand Railways Corporation	Chairman
Raukawa Iwi Developments Limited	Chairman	Tainui Group Holdings Limited	Chairman*
Tertiary Education Commission	Chairman	WEL Networks Limited	Chairman
Susie Staley			
Chatsford Management Limited	Chairman		
Steve Smith			
Balle Bros Group Limited	Director	Canterbury Grasslands Limited	Director*
Crown Asset Management Limited	Director	Elevation Capital Management Limited	Director
Fulton Hogan Limited and subsidiaries	Director	Hellaby Holdings Limited	Director
Kinrich Holdings Limited	Director	OCG Consulting Limited	Director*
Pascaro Investments Limited	Director	Rima SA (Chile) and subsidiaries	Director
Spanbild Holdings Limited and subsidiaries	Chairman	Summerlee Investments Limited	Director
Trebol Investments Limited	Director	Unison Capital Advisors Limited	Director
Graham Stuart			
Sealord Group Limited	CEO	Sealord subsidiary companies	Director
Wisehold 11 Limited	Director	Owaka Dairies Limited	Director
Leroy Holdings Limited	Director	Five River Dairies Limited	Director
Clear Sky Syndicate Limited	Director		
Denis Wood			
DMW Investments Limited	Director	Genesis Power Limited	Director
Mercy Healthcare Auckland Limited	Director	The Colonial Motor Company	Director

Specific disclosures of interests

During the financial year, no member of the Group entered into any transactions in which directors were interested. Accordingly, no disclosures of interest were made.

Indemnity and insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of the company, TOWER has provided insurance for and indemnities to, directors and employees of the Group 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.

Use of company information by directors

No member of the Board, nor of any subsidiary, issued a notice requesting to use information received in his or her capacity as a director which would not have otherwise been available to that director.

Directors' shareholdings

At 30 September 2012 TOWER Limited directors held the following interests in TOWER Limited shares:

Director	Ordinary Shares	
	Beneficial	Associated Persons
Mike Allen	-	90,499,166
Rob Flannagan	802	-
Mike Jefferies	3,599	90,499,166
Steve Smith ¹	15,000	-
John Spencer	22,421	-
Susie Staley	8,925	-
Graham Stuart ²	10,000	-

(1) Mr Smith was appointed as a director of TOWER on 24 May 2012.

(2) Mr Stuart was appointed as a director of TOWER on 24 May 2012.

Rob Flannagan, in his capacity as a director of the trustee of the TOWER Executive Share Option Plan, also holds 800,000 share options held by the trustee.

Directors' trading in TOWER securities

Directors disclosed the following acquisitions and disposals of relevant interests in TOWER securities during the financial year pursuant to section 148 of the Companies Act 1993. All interests are beneficial.

Director	Date	Number acquired (disposed)	Consideration
Rob Flannagan	1/02/2012	11	\$1.35
	2/07/2012	17	\$1.53
Mike Jefferies	1/02/2012	51	\$1.35
	2/07/2012	97	\$1.53
Steve Smith	12/06/2012	15,000	\$1.66
John Spencer	1/02/2012	298	\$1.35
	2/07/2012	480	\$1.53
Graham Stuart	31/05/2012	10,000	\$1.64
Susie Staley	1/02/2012	119	\$1.35
	2/07/2012	191	\$1.53

At the time of his appointment, Michael Stiasny held 3,795 ordinary shares. Mike Allen and David Hancock are still to purchase shares.

At 30 September 2012, TOWER Capital directors held the following beneficial interests in TOWER Capital Senior Bonds:

Director	Holding \$
John Spencer	50,000
Susie Staley	65,000

Buy-backs

TOWER is not, at the date of this annual report, undertaking any on-market share buy-backs.

TOWER subsidiary company director disclosures

The following persons held office as directors of subsidiary companies at 30 September 2012. Those who retired during the year are indicated with an (R).

TOWER Capital Limited	WJ Falconer (R), RA Flannagan, ML Jefferies, JL Spencer, SA Staley, DM Wood (R), MN Allen, SJ Smith, GR Stuart
TOWER Financial Services Group Limited	RA Flannagan, M Boggs, B Walsh
TOWER Option Scheme Limited	RA Flannagan, M Boggs, B Walsh
TOWER Investments Limited	RA Flannagan, M Boggs, B Walsh
The National Insurance Company of New Zealand Ltd	RA Flannagan, M Boggs, B Walsh
TOWER New Zealand Limited	RA Flannagan, M Boggs, B Walsh
TOWER Asset Management Limited	RA Flannagan, ME Parrott (R), AJK Stubbs, M Boggs
TOWER Managed Funds Limited	RA Flannagan, ME Parrott (R), AJK Stubbs, M Boggs
TOWER Employee Benefits Limited	RA Flannagan, ME Parrott (R), AJK Stubbs, M Boggs
TOWER Managed Funds Investments Limited	RA Flannagan, ME Parrott (R), AJK Stubbs, M Boggs
TOWER Health & Life Limited	RA Flannagan, M Boggs, B Walsh
TOWER Insurance Limited	RA Flannagan, M Boggs, B Walsh
TOWER Life (N.Z.) Limited	RA Flannagan, M Boggs, B Walsh
TOWER Medical Insurance Limited	RA Flannagan, M Boggs, B Walsh
National Insurance Company (Holdings) Limited	RA Flannagan, P Absell, M Boggs
TOWER Insurance (Fiji) Limited	RA Flannagan, P Absell, M Boggs
Southern Pacific Insurance Company (Fiji) Limited	RA Flannagan, P Absell, M Boggs
TOWER Insurance (Cook Islands) Limited	RA Flannagan, M Boggs, B Walsh
TOWER Insurance (PNG) Limited	RA Flannagan, M Boggs, W Beilby, G McIlwain,
Southern Cross Marine Limited	RA Flannagan, M Boggs, W Beilby,
National Pacific Insurance Limited	RA Flannagan, M Boggs, M Reid, LAC Ting, D Williamson
National Pacific Insurance (Tonga) Ltd	RA Flannagan, M Boggs, M Reid, LAC Ting, D Williamson

Apart from TOWER Capital and some overseas subsidiaries, which are required to have local residents as directors, no wholly-owned subsidiary has directors who are not employees of TOWER. No employee appointed as a director of a subsidiary receives any remuneration in his/her role as a director. The number of such employees who receive remuneration of more than \$100,000 is included in the remuneration table on page 39. Audit fees are paid on behalf of the Group as disclosed in the financial statements.

Shareholder and exchange disclosures

Shareholder analysis

TOWER's shares are quoted on both the NZSX and ASX. As at 30 November 2012, 25,081 TOWER shareholders held less than A\$500 of TOWER shares (ie, less than a marketable parcel as defined in the ASX Listing Rules), holding a total of 4,772,874 TOWER shares.

Total voting securities

As at 30 November 2012, TOWER had 269,091,094 ordinary shares and 800,000 share options on issue. 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.

Voting may be conducted by show of hands or poll. Share options issued under the TOWER Executive Share Option Plan do not carry any right to vote. There are currently 3 holders of options.

Substantial security holders

At 30 November 2012, Guinness Peat Group plc held 90,499,166 ordinary shares, ACC held 15,673,087 ordinary shares and Devon Funds Management Limited held 15,874,195 ordinary shares.

Principal shareholders

The names and holdings of the 20 largest registered TOWER shareholders as at 30 November 2012 are:

Rank	Name	Shares	% of Units
1.	ITHACA (CUSTODIANS) LIMITED	90,499,166	33.63
2.	ACCIDENT COMPENSATION CORPORATION – NZCSD <ACCI40>	15,673,087	5.82
3.	TEA CUSTODIANS LIMITED – NZCSD <TEAC40>	15,039,199	5.59
4.	BNP PARIBAS NOMINEES (NZ) LIMITED – NZCSD <COGN40>	11,094,677	4.12
5.	NEW ZEALAND SUPERANNUATION FUND NOMINEES LIMITED – NZCSD <SUPR40>	7,256,573	2.70
6.	CITIBANK NOMINEES (NEW ZEALAND) LIMITED – NZCSD <CNOM90>	6,548,264	2.43
7.	HSBC NOMINEES (NEW ZEALAND) LIMITED – NZCSD <HKBN90>	5,788,199	2.15
8.	HSBC NOMINEES (NEW ZEALAND) LIMITED A/C STATE STREET – NZCSD <HKBN45>	3,549,070	1.32
9.	WESTPAC NZ SHARES 2002 WHOLESALE TRUST – A/C NZCSD	3,444,740	1.28
10.	FNZ CUSTODIANS LIMITED	3,072,149	1.14
11.	JPMORGAN CHASE BANK NA – NZCSD <CHAM24>	2,972,208	1.10
12.	NATIONAL NOMINEES NEW ZEALAND LIMITED – NZCSD <NNLZ90>	2,677,586	1.00
13.	BT NZ UNIT TRUST NOMINEES LIMITED – NZCSD <BTUT90>	2,389,602	0.89
14.	BNP PARIBAS NOMINEES (NZ) LIMITED – NZCSD	2,188,766	0.81
15.	INVESTMENT CUSTODIAL SERVICES LIMITED <A/C R>	2,088,265	0.78
16.	FORSYTH BARR CUSTODIANS LIMITED <1-33>	1,959,820	0.73
17.	NEWBURG NOMINEES LIMITED – NZCSD <O/A AUST VALUE EQ POOL NOM DEV>	1,877,035	0.70
18.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,591,796	0.59
19.	INVESTMENT CUSTODIAL SERVICES LIMITED <A/C C>	1,569,496	0.58
20.	NATIONAL NOMINEES LIMITED	1,431,817	0.53
Totals:		182,711,515	68.00

TOWER Limited Shareholder Statistics (as at 30 November 2012)

Size of holdings	Number of holders	%	Number of shares	%
1 to 1,000	41,470	80.15	13,965,667	5.19
1,001 to 5,000	7,990	15.44	16,319,444	6.07
5,001 to 10,000	1,108	2.14	7,897,727	2.93
10,001 to 100,000	1,078	2.08	26,220,697	9.74
100,001 and over	100	0.19	204,687,559	76.07
Total	51,746	100	269,091,094	100

TOWER Limited Optionholder Statistics (as at 30 November 2012)

Size of holdings	Number of holders	%	Number of options	%
1 to 1,000				
1,001 to 5,000				
5,001 to 10,000				
10,001 to 100,000	1	33.3	100,000	12.5
100,001 and over	2	66.7	700,000	87.5
Total		100.0	800,000	100

TOWER Capital Limited Bondholder Statistics (as at 30 November 2012)

Size of holdings	Number of holders	%	\$ bonds	%
1 to 5,000	224	13.05	1,120,000	1.37
5,001 to 10,000	438	25.52	4,226,000	5.17
10,001 to 50,000	873	50.87	24,935,000	30.50
51,001 to 100,000	112	6.53	9,453,000	11.56
100,001 and over	69	4.03	42,025,000	51.4
Total	1,716	100	81,759,000	100

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 imposes a general rule by which an acquisition of more than 20% of the voting rights in TOWER or an increase of an existing holding to 20% or more can only occur in certain permitted ways. These include a full or partial takeover offer in accordance with the Takeovers Code, an acquisition or an allotment approved by an ordinary resolution of shareholders, a creeping acquisition (in defined circumstances) and compulsory acquisition once a shareholder owns or controls 90% or more of the voting rights in TOWER.

The New Zealand Overseas Investment Act 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 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



Stephen J Smith
Interim Chairman

Waivers

On 27 May 2010, NZX Regulation approved TOWER's application for a waiver from NZSX Listing Rule 7.11.1. Listing Rule 7.11.1 requires that an issuer making an issue must proceed to allotment within five business days after the latest date on which applications for securities close. Applications to participate in TOWER's dividend reinvestment plan (DRP) close on the record date for each dividend to which the DRP applies, and the issue price is calculated over the 5 business days following the record date. This means that the issue of TOWER shares under the DRP, cannot meet the timetable specified by Rule 7.11.1.

NZX Regulation granted TOWER an ongoing waiver from Listing Rule 7.11.1 on the basis that:

- TOWER must allot shares pursuant to the DRP on the same day that dividends are paid to shareholders who do not elect to participate in the DRP; and
- if the DRP does not proceed to allotment, and money is returned to subscribers, TOWER will refund any such monies to those who have elected to participate in the DRP at the same time as shareholders who do not elect to participate in the DRP.

Please note, the DRP will not operate for the 2012 final dividend payment and all shareholders will receive their dividend in cash.

Donations

The TOWER Group did not make any donations during the financial year.



Rob Flannagan
Group Managing Director

TOWER Limited

Financial Statements

For the financial year ended 30 September 2012

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TOWER Limited Independent Auditor's Report

For the year ended 30 September 2012



Independent Auditors' Report to the shareholders of TOWER Limited

Report on the Financial Statements

We have audited the financial statements of TOWER Limited ("the Company") on pages 2 to 68, which comprise the balance sheets as at 30 September 2012, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 September 2012 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, TOWER Limited or any of its subsidiaries other than in our capacities as auditors and providers of other assurance, taxation and advisory services. These services have not impaired our independence as auditors of the Company and the Group.

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TOWER Limited Independent Auditor's Report

For the year ended 30 September 2012



Independent Auditors' Report

TOWER Limited

Opinion

In our opinion, the financial statements on pages 2 to 68:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 30 September 2012, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2012:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

Chartered Accountants
28 November 2012

Auckland

TOWER Limited Income Statements

For the year ended 30 September 2012

	Note	Group		Company	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
Revenue					
Premium revenue from insurance contracts		333,046	297,189	-	-
Less: Outwards reinsurance expense		(61,083)	(61,867)	-	-
Net premium revenue	4	271,963	235,322	-	-
Investment revenue	5	118,921	62,842	22,137	21,572
Fee and other revenue	6	31,358	33,759	-	-
Net operating revenue		422,242	331,923	22,137	21,572
Expenses					
Claims expense		253,869	599,190	-	-
Less: Reinsurance recoveries revenue		(59,841)	(417,412)	-	-
Net claims expense	7	194,028	181,778	-	-
Increase/(decrease) in policy liabilities	8	8,878	(29,013)	-	-
Management and sales expenses	9(A)	139,440	136,508	693	679
Net claims and operating expenses		342,346	289,273	693	679
Financing costs	9(B)	7,903	7,856	-	-
Total expenses		350,249	297,129	693	679
Profit before taxation		71,993	34,794	21,444	20,893
Tax expense attributed to policyholders' returns	10(A)	(17,522)	(4,798)	-	-
Profit attributed to shareholders before taxation		54,471	29,996	21,444	20,893
Tax expense attributed to shareholders' profits	10(A)	(11,897)	(6,247)	(1,054)	(880)
Profit for the year from continuing operations	41	42,574	23,749	20,390	20,013
Profit for the year from discontinued operations	45	13,250	9,631	-	-
Profit for the year		55,824	33,380	20,390	20,013
Profit attributed to:					
Shareholders		55,339	33,066	20,390	20,013
Minority interests		485	314	-	-
		55,824	33,380	20,390	20,013
		Cents	Cents		
Basic and diluted earnings per share for continuing operations	40	15.78	8.91		
Basic and diluted earnings per share from discontinued operations	40	4.97	3.66		

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

TOWER Limited Statements of Comprehensive Income

For the year ended 30 September 2012

	Note	Group		Company	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
Profit for the year		55,824	33,380	20,390	20,013
Other comprehensive income:					
Gains on asset revaluation		327	-	-	-
Deferred income tax relating to asset revaluation		(91)	-	-	-
Currency translation differences		(115)	(629)	-	-
Other comprehensive income/(loss) net of taxation		121	(629)	-	-
Total comprehensive income for the year		55,945	32,751	20,390	20,013
Total comprehensive income attributed to:					
Shareholders		56,252	32,378	20,390	20,013
Minority interests		(307)	373	-	-
		55,945	32,751	20,390	20,013
Total comprehensive income attributed equity shareholders arises from:					
Continuing operations		42,695	23,120	20,390	20,013
Assets of disposal group held for sale		13,250	9,631	-	-
		55,945	32,751	20,390	20,013

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

TOWER Limited Balance Sheets

As at 30 September 2012

	Note	Group		Company	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
Assets					
Cash and cash equivalents	32(A)	186,477	223,981	72,928	89,939
Receivables	11	532,162	612,959	2,252	3,281
Financial assets at fair value through profit or loss	28	853,427	883,645	-	-
Derivative financial assets	28	91,026	75,080	-	-
Liabilities ceded under reinsurance	26	17,617	20,026	-	-
Property, plant and equipment	15	5,529	6,298	-	-
Prepaid tax assets	10(B)	-	12,795	-	2,111
Current tax assets		3,615	7,347	1,271	1,560
Deferred acquisition costs	14	23,467	42,383	-	-
Investments in subsidiaries	13	-	-	235,237	215,145
Deferred tax assets	10(C)	15,906	19,294	-	-
Intangible assets	12	68,822	72,741	-	-
		1,798,048	1,976,549	311,688	312,036
Assets of disposal group classified as held for sale	45	167,546	-	-	-
Total Assets		1,965,594	1,976,549	311,688	312,036
Liabilities					
Payables	16	56,772	57,502	190,154	198,747
Provisions	17	7,097	5,325	-	-
Derivative financial liabilities	28	170	1,903	-	-
Interest bearing liabilities	18	81,990	81,263	-	-
Insurance liabilities	19	563,779	710,709	-	-
Deferred tax liabilities	10(C)	47,472	48,770	-	-
Life insurance contract liabilities	26	591,458	587,476	-	-
Life investment contract liabilities	26	27,476	28,084	-	-
		1,376,214	1,521,032	190,154	198,747
Liabilities of disposal group classified as held for sale	45	90,591	-	-	-
Total Liabilities		1,466,805	1,521,032	190,154	198,747
Net Assets		498,789	455,517	121,534	113,289
Equity					
Contributed equity	20	572,805	567,031	572,805	567,031
Accumulated profit/(losses)	21	33,546	(4,352)	(340,085)	(342,786)
Reserves	22	(109,005)	(109,688)	(111,186)	(110,956)
Total equity attributed to shareholders		497,346	452,991	121,534	113,289
Minority interests		1,443	2,526	-	-
Total Equity		498,789	455,517	121,534	113,289

The financial statements were approved for issue by the Board on 28 November 2012.



Stephen J Smith
Chairman



John L Spencer
Director

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

TOWER Limited Statements of Changes in Equity

For the year ended 30 September 2012

Group	Attributed to shareholders				Minority interest	Total equity
	Contributed equity	Accumulated (losses)/ profits	Reserves	Total		
	\$000	\$000	\$000	\$000	\$000	\$000
Year ended 30 September 2012						
At the beginning of the year	567,031	(4,352)	(109,688)	452,991	2,526	455,517
Comprehensive income						
Profit for the year	-	55,339	-	55,339	485	55,824
Other comprehensive income						
Gains on asset revaluation	-	-	327	327	-	327
Deferred income tax relating to asset revaluation	-	-	(91)	(91)	-	(91)
Currency translation differences	-	-	677	677	(792)	(115)
Total comprehensive income	-	55,339	913	56,252	(307)	55,945
Transactions with shareholders						
Shares issued under dividend reinvestment plan	5,774	-	-	5,774	-	5,774
Movement in share based payment reserve	-	322	(230)	92	-	92
Dividends paid	-	(18,622)	-	(18,622)	-	(18,622)
Minority interest dividend paid	-	-	-	-	(392)	(392)
Other	-	859	-	859	(384)	475
Total transactions with shareholders	5,774	(17,441)	(230)	(11,897)	(776)	(12,673)
At the end of the year	572,805	33,546	(109,005)	497,346	1,443	498,789
Year ended 30 September 2011						
At the beginning of the year	558,762	(12,021)	(108,332)	438,409	2,923	441,332
Comprehensive income						
Profit for the year	-	33,066	-	33,066	314	33,380
Currency translation differences	-	-	(688)	(688)	59	(629)
Total comprehensive income	-	33,066	(688)	32,378	373	32,751
Transactions with shareholders						
Shares issued under dividend reinvestment plan	7,628	-	-	7,628	-	7,628
Shares issued under employee share options scheme	608	-	-	608	-	608
Movement in share based payment reserve	-	802	(668)	134	-	134
Dividends paid	-	(26,199)	-	(26,199)	-	(26,199)
Minority interest dividend paid	-	-	-	-	(770)	(770)
Movement in treasury shares	33	-	-	33	-	33
Total transactions with shareholders	8,269	(25,397)	(668)	(17,796)	(770)	(18,566)
At the end of the year	567,031	(4,352)	(109,688)	452,991	2,526	455,517

The above statements of changes in equity should be read in conjunction with the accompanying notes.

TOWER Limited Statements of Changes in Equity (continued)

For the year ended 30 September 2012

Company	Contributed equity \$000	Accumulated losses \$000	Reserves \$000	Total equity \$000
Year ended 30 September 2012				
At the beginning of the year	567,031	(342,786)	(110,956)	113,289
Comprehensive income				
Profit for the year	-	20,390	-	20,390
Total comprehensive income	-	20,390	-	20,390
Transactions with shareholders				
Shares issued under dividend reinvestment plan	5,774	-	-	5,774
Movement in share based payment reserve	-	322	(230)	92
Dividends paid	-	(18,622)	-	(18,622)
Other	-	611	-	611
Total transactions with shareholders	5,774	(17,689)	(230)	(12,145)
At the end of the year	572,805	(340,085)	(111,186)	121,534
Year ended 30 September 2011				
At the beginning of the year	558,762	(337,402)	(110,288)	111,072
Comprehensive income				
Profit for the year	-	20,013	-	20,013
Total comprehensive income	-	20,013	-	20,013
Transactions with shareholders				
Shares issued under dividend reinvestment plan	7,628	-	-	7,628
Shares issued under employee share options scheme	608	-	-	608
Movement in share based payment reserve	-	802	(668)	134
Dividends paid	-	(26,199)	-	(26,199)
Movement in treasury shares	33	-	-	33
Total transactions with shareholders	8,269	(25,397)	(668)	(17,796)
At the end of the year	567,031	(342,786)	(110,956)	113,289

The above statements of changes in equity should be read in conjunction with the accompanying notes.

TOWER Limited Statements of Cash Flows

For the year ended 30 September 2012

	Note	Group		Company	
		2012	2011	2012	2011
		\$000	\$000	\$000	\$000
Cash flows from operating activities					
Premiums received		480,212	439,689	-	-
Interest received		36,415	38,823	3,218	3,551
Dividends received		2,138	2,623	18,960	18,000
Investment income		63,167	27,266	-	-
Non-life company fee income		33,297	33,719	-	-
Reinsurance received		147,116	34,390	-	-
Reinsurance paid		(65,430)	(56,652)	-	-
Claims paid		(439,607)	(320,580)	-	-
Payments to suppliers and employees		(170,996)	(187,441)	(26)	-
Interest paid		(7,175)	(6,533)	-	-
Income tax paid		(8,619)	(9,950)	-	-
Net cash inflow/(outflow) from operating activities	32(B)	70,518	(4,646)	22,152	21,551
Cash flows from investing activities					
Net (payments)/receipts for financial assets		(71,799)	63,564	-	-
Net payments for purchase of property, plant and equipment and intangible assets		(12,915)	(23,647)	-	-
Cash from acquisition of subsidiary		3,389	-	-	-
Net cash (outflow)/inflow from investing activities		(81,325)	39,917	-	-
Cash flows from financing activities					
Proceeds from issue of share capital		-	1,224	-	-
Dividends paid		(12,848)	(18,572)	(12,848)	(18,572)
Payment of supplementary dividends		(200)	(1,014)	(200)	(1,014)
Payment of minority interest dividends		(392)	(770)	-	-
Investment in subsidiary		-	-	(20,000)	-
Net advances from subsidiaries		-	-	(6,115)	2,554
Net cash outflow from financing activities		(13,440)	(19,132)	(39,163)	(17,032)
Net (decrease)/increase in cash and cash equivalents		(24,247)	16,139	(17,011)	4,519
Cash and cash equivalents at the beginning of year		223,981	207,842	89,939	85,420
Cash reclassified to disposal group held for sale		(13,257)	-	-	-
Cash and cash equivalents at the end of year	32(A)	186,477	223,981	72,928	89,939

The above statements of cash flows should be read in conjunction with the accompanying notes.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied to all the periods presented, unless otherwise stated.

TOWER Limited (the Company) is a profit-oriented company incorporated in New Zealand under the New Zealand Companies Act 1993. The Company is listed on the New Zealand and Australian Stock Exchanges. The Company is an issuer under the Financial Reporting Act 1993. The Company and its subsidiaries together are referred to in this financial report as TOWER, or the Group, or the consolidated entity. The address of its registered office is 22 Fanshawe Street, Auckland, New Zealand.

The financial report of the Company and the Group has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). It complies with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for profit-oriented entities.

During all periods presented, the principal activity of the TOWER Limited Group was provision of health, life and general insurance and investment management services. The Group predominantly operates in New Zealand with some of its general insurance operations based in the Pacific Islands region.

On 2 November 2012, TOWER Limited announced the sale of its health insurance business, TOWER Medical Insurance Limited. The sale of TOWER Medical Insurance Limited has resulted in the health insurance business segment being treated as a discontinued operation, which has been disclosed as a disposal group held for sale in these financial statements. The sale is disclosed in more detail in note 45.

Compliance with International Financial Reporting Standards (IFRS)

The consolidated financial statements and notes of TOWER Limited comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a fair value basis with any exceptions noted in the accounting policies below.

The Company's owners or others do not have the power to amend the financial statements after they have been authorised for issue.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 September 2012 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the consolidated entity has control, being the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

The results of any subsidiaries acquired during the year are consolidated from the date on which control is transferred to the consolidated entity and the results of any subsidiaries disposed of during the year are consolidated up to the date control ceases.

The acquisition of controlled entities is accounted for using the acquisition method of accounting. The share of net assets of controlled entities attributable to minority interests is disclosed separately in the balance sheet, income statement and statement of comprehensive income.

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.

INVESTMENT IN SUBSIDIARIES

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes directly attributable costs of investment.

PRINCIPLES UNDERLYING THE CONDUCT OF LIFE INSURANCE BUSINESS

The life insurance operations of the Group comprise the selling and administration of contracts which are classified as either life insurance contracts or life investment contracts. Contracts that include both investment and insurance elements are separated into these two elements and reported accordingly.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the life insurer, and the financial risks are substantially borne by the life insurer. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held. While the underlying assets are registered in the name of the life insurer and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the investment performance. The life insurer derives fee income from the administration of investment-linked policies. Participating policy owner benefits, both vested and unvested, are treated as expenses when incurred and liabilities until paid.

SPECIFIC ACCOUNTING POLICIES

A PREMIUM REVENUE

(i) Life insurance contracts

Premiums on life insurance contracts are separated into their revenue and deposit components. Where it is not practicable to split out the two components all premiums have been recognised as revenue. Where policies provide for the payment of amounts of premiums on specific due dates, such premiums are recognised as revenue when due. Unpaid premiums are recognised as revenue only during the days of grace or where secured by the surrender values of the policies concerned. Other premiums are recognised as revenue on a cash received basis.

(ii) Life investment contracts

Under life investment contracts the life companies receive deposits from policyholders which are then invested on behalf of the policyholders. No premiums are recognised as revenue. Fees deducted from members' accounts are accounted for as fee revenue.

(iii) Health and General insurance contracts

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract.

The proportion of premiums not earned in the income statement at the reporting date is recognised in the balance sheet as unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

B FEE AND OTHER REVENUE

Fee revenue on investment contracts and other services provided by the Group is recognised in the period the services are provided.

C INVESTMENT REVENUE

Investment revenue is recognised as follows:

(i) Dividends and distributions

Revenue is recognised on an accrual basis when the right to receive payment is established.

(ii) Property income

Property income is recognised on an accrual basis.

(iii) Interest income

Interest income is recognised using the effective interest method.

(iv) Fair value gains and losses

Fair value gains and losses on financial assets at fair value through profit or loss are recognised through the income statement in the period in which they arise.

D CLAIMS EXPENSE

(i) Life insurance contracts

Claims are recognised when the liability to a policyholder under a life insurance contract has been established or upon notification of the insured event. Claims are separated into their expense and withdrawal components. Claims on risk business are treated as an expense and are recognised when a liability to the policyholder is established.

(ii) Life investment contracts

There is no claims expense in respect of investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Other claim amounts are similar to withdrawals and as such do not relate to the provision of services or the bearing of risk. Accordingly, they are not expenses and are treated as movements in life insurance contract liabilities.

(iii) General insurance contracts

Claims expenses are recognised when claims are notified with the exception of claims incurred not reported for which a provision is estimated (discussed in note 2(B)).

E BASIS OF EXPENSE APPORTIONMENT

All operating expenses in respect of life insurance or life investment contracts have been apportioned between policy acquisition, policy maintenance and investment management expenses with regard to the objective when incurring the expense and the outcome achieved.

The apportionment process is adopted by applying the following methodology:

(i) Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned.

(ii) Commission expenses that cannot be allocated to a class of business, for example volume bonuses, are apportioned on the basis of new business and renewal commissions of each class, allowing for limits implied by the basis of adviser remuneration.

(iii) Investment expenses are apportioned to the classes of business on the mean balance of assets under management.

(iv) Other expenses that cannot be allocated to a particular class of business are apportioned to classes of business based on appropriate cost drivers, including number of new policies issued and related premiums, number of new units issued, mean balance of assets under management, average number of policies in-force and time and activity based allocations.

F POLICY ACQUISITION COSTS

(i) Life insurance contracts

In determining the life insurance contract liabilities, the deferral and future recovery of acquisition costs are capitalised by way of movement in life insurance contract liabilities, then amortised over the period in which they will be recoverable.

(ii) Other contracts

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs are initially recorded in the income statement, with any amounts to be deferred then taken to the balance sheet as a deferred acquisition cost. Deferred acquisition costs are recognised for the products noted below.

– Superannuation and medical products

The acquisition costs of establishing contracts for certain superannuation and medical products are deferred. These costs are amortised over the periods of expected future benefit. A comparison to recoverable value is carried out annually, with any variance below carrying value taken to the income statement in that year.

(iii) General insurance products

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

G OUTWARDS REINSURANCE

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment.

H REINSURANCE RECOVERIES

Reinsurance recoveries are recognised as revenue. Amounts recoverable are assessed in accordance with the terms of the reinsurance contracts, which is in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

I FINANCING COSTS

Financing costs include interest on external debt (borrowing costs), and amortisation of transaction costs and are recognised on an effective interest method basis.

J TAXATION

(i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

1. Summary of significant accounting policies (continued)

liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted for each jurisdiction. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(iii) Tax consolidation

TOWER Limited and its New Zealand wholly-owned subsidiaries comprise a New Zealand tax consolidated Group of which TOWER Limited is the head entity. All members of the tax consolidated group are jointly and severally liable for the tax liabilities of the Group.

(iv) Income tax expense

The income tax expense is the tax payable on taxable income for the current period, based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

(v) Life Insurance tax

From 1 July 2010, life insurers have been subject to a new tax regime. Two tax bases are maintained; the shareholder base which is subject to tax on life risk products (premiums less claims) and net investment income from shareholder funds, and the policyholder base which is subject to tax on net investment income from policyholder funds. The life insurer pays tax on both bases at the prevailing corporate tax rate of 28% (2011: 30%). As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

Transitional provisions are included in the new regime which effectively maintains the historical tax treatment for most policies in force on 30 June 2010 for a period of time (five years in most cases). Under the previous tax regime, the life office base was subject to tax on investment income less expenses plus underwriting income, and tax was calculated on the policyholder base as benefits accrued to policyholders under the policies. The life insurer paid tax on the higher of the two bases at the company tax rate applying at the time.

(vi) GST

All revenues, expenses and certain assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

Cash flows are included in the statements of cash flows on a net basis to the extent that the GST is not recoverable and has been included in the expense or asset.

K FOREIGN CURRENCY

(i) Functional and presentation currencies

The individual financial statements of each Group entity are

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

(ii) Transactions and balances

In preparing the financial statements of the individual entities transactions denominated in foreign currencies are translated into the reporting currency using the exchange rates in effect at the transaction dates. Monetary items receivable or payable in a foreign currency, including forward exchange contracts, 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 are recognised in the income statement.

(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 sheet 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. Exchange differences are taken to the Foreign Currency Translation Reserve and recognised in the statement of comprehensive income and the statement of changes in equity.

L CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within cash and cash equivalents on the balance sheet if the net position is an asset due to TOWER Group's right to offset overdrafts within its banking facility.

M PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recorded at cost including transaction costs and subsequently measured at cost less any subsequent accumulated depreciation and impairment losses.

Land and buildings are shown at fair value, based on 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. In the prior year land and buildings were shown at cost.

Depreciation is calculated using the straight line method to allocate their 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.

Computer equipment	3–5 years
Office equipment and furniture	5 years
Motor vehicles	5 years
Buildings	50–100 years
Leasehold property improvements	3–12 years

N ASSETS BACKING INSURANCE BUSINESS

The Group has determined that:

- all assets of the life insurance companies are assets backing

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

the policy liabilities of the life insurance business including life insurance contract liabilities and life investment contract liabilities, with the exception of investments in operating subsidiaries;

- all assets within the general insurance companies are held to back general insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries; and
- all assets within the health insurance company are held to back health insurance liabilities, with the exception of investments in operating subsidiaries.

As these assets are managed in accordance with approved investment mandate agreements on a fair value basis and are reported to the Board on this basis. They have been measured at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as follows:

- cash assets and bank overdrafts are carried at face value which approximates fair value;
- shares, fixed interest securities, options and units in trusts listed on stock exchanges are valued at the quoted bid price of the instrument at balance sheet date;
- unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable traded investments at balance date;
- unlisted unit trusts are recorded at fund managers' quoted redemption prices; and,
- receivables are carried at amortised cost less any impairment, which is the best estimate of fair value as they are settled within a short period.

O EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements of ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

P INTANGIBLES

(i) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the entity acquired, at the date of acquisition.

Following initial recognition, goodwill on acquisition of a business combination is not amortised but is tested for impairment bi-annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of

the acquiree are assigned to those units or groups of units.

Any impairment is recognised immediately in the income statement.

On disposal of an entity the carrying value of any associated goodwill is included in the calculation of the gain or loss on sale.

(ii) Software

Application software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the software.

Internally generated intangible assets are recorded at cost which includes all the directly attributable costs necessary to create, produce and prepare the asset 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.

General use computer software	3-5 years
Core operating system software	10 years

Q IMPAIRMENT OF NON FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested bi-annually for impairment. Assets with a finite useful life are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use.

For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

R DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

All purchases and sales of financial assets classified as fair value through profit or loss that require delivery within the timeframe established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date the Group commits to purchase or sell the assets. Loans and receivables are recognised at settlement date, which is the date that the assets are delivered or received.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. Loans and receivables are measured initially at fair value plus transactions costs and subsequently at amortised cost using the effective interest method less any impairment.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of financial assets that are either held for trading or designated on initial recognition at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Designation by management takes place when it is necessary to eliminate or significantly reduce measurement or recognition inconsistencies or if related financial assets or liabilities are managed and evaluated on a fair value basis.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the income

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

1. Summary of significant accounting policies (continued)

statement. The net gain or loss recognised in the income statement includes any dividend or interest earned on the financial assets.

Derivatives are categorised as held for trading unless they are designated as hedges. All derivatives entered into by the Group are classified as held for trading as the Group does not apply hedge accounting.

(iii) Fair value

The fair value of the Group's financial assets and liabilities that are measured at fair value is determined based on available market prices or using appropriate valuation methods if these are not traded in an active market. Financial instruments carried at fair value are categorised into the three level fair value hierarchy based on significance of inputs used in the measurement. Level 1 includes inputs of quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 3 includes inputs for the assets or liabilities that are not based on observable market data.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(v) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

S IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, with the exception of those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

For all financial assets, other than trade receivables, the carrying amount is reduced by the impairment loss directly. For trade receivables the carrying amount is reduced via an allowance account, against which an uncollectible trade receivable is written off.

A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Group will be unable to collect the amount. Changes in the carrying amount of the allowance account are recognised in the income statement.

A previously recognised impairment loss is reversed when, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was initially recognised.

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are credited against the allowance account.

T LEASED ASSETS

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the services are received over the period of the lease.

Benefits received and receivable for entering into an operating lease are recognised on a straight line basis over the term of the lease.

U INTEREST BEARING LIABILITIES

Interest bearing debt and overdrafts are initially measured at fair value, net of transaction costs incurred and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of liability is recognised over the term of the liability.

V PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unsettled. Payables are recognised initially at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest method.

W PROVISIONS

Provisions are only recognised when the Group has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

X EMPLOYEE ENTITLEMENTS

Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, annual leave and long service leave, but excludes share-based payments. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided up to the balance date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities which have terms to maturity approximating the terms of the related liability.

Y CAPITAL GUARANTEES

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the income statement. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Z LIFE INSURANCE LIABILITIES

The Group's life insurance liabilities are split between life insurance contracts and life investment contracts. Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4 Insurance Contracts. Life investment contracts are accounted for in accordance with NZ IAS 18 Revenue and NZ IAS 39 Financial Instruments: Recognition and Measurement.

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no insurance risk, but which give rise to a financial asset and/or

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

liability under NZ IAS 39. Contracts that contain a discretionary participating feature are also classified as life insurance contracts.

(i) Life investment contract liabilities

These contracts are designated at inception as at fair value through profit or loss and subsequently measured at fair value with any change in value being recognised in the income statement. Fair value is the current value of units plus investment fluctuation reserves subject to a minimum of current surrender value.

The Group designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising gains or losses on different basis.

(ii) Life insurance contract liabilities

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS).

Under MoS the excess of premium received over claims and expenses, 'the profit margin', is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder 'the service', hence the term Margin on Services.

Life insurance contract liabilities are determined using either the projection method or accumulation method as referred to in note 26. Under the projection method the policy liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future. When the benefits under the life insurance contract liability are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate on those assets. Where the benefits are not linked to the performance of the backing assets, a risk free discount rate is used. The risk free discount rate is determined by the Chief Actuary based on the zero coupon swap rates, depending on the nature, structure and term of the contract liabilities.

The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date.

AA GENERAL AND HEALTH INSURANCE LIABILITIES

General insurance outstanding claims are measured at the central estimate of the present value of expected future payments after allowing for inflation and superimposed inflation and discounted at the risk free rate. Health insurance outstanding claims are measured at the central estimate of the present value of expected future payments after allowing for historical claims cost escalation and discounted at the risk free rate. In addition a risk margin is added to the claims provision to recognise the inherent uncertainty of the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs. Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

Provision has been made for the estimate of claim recoveries from third parties in respect of general insurance business.

Liability adequacy testing is performed in order to recognise any deficiencies in the income statement arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance conditions. Liability adequacy testing is performed at a portfolio level of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

AB PREMIUM PAYBACK LIABILITY

For health premium payback business an additional unearned premium liability has been established representing the accrued amount of premium expected to be repaid to policyholders. This liability is discounted at the risk-free rate and a liability adequacy test has been performed incorporating a risk margin to cover uncertainty in the central estimate.

AC CONTRIBUTED EQUITY

(i) Ordinary share capital

Ordinary shares issued by the Group are classified as equity and are recognised at fair value less direct issue costs.

AD SHARE BASED PAYMENTS

The Group issues share based compensation packages to senior executives as part of their remuneration packages.

These options are measured at fair value at grant date and expensed over the period during which the employee becomes unconditionally entitled to the options, based on the estimate of shares that will eventually vest. Fair value at grant date is measured using a binomial model, taking into account the specific conditions of the options issued. The determination of fair value excludes the impact of any non-market vesting conditions which are allowed for in assumptions about the number of options that are expected to be exercisable. When an expense is recognised there is an equal and opposite entry made to the share option reserve in equity. When the options are exercised the receipt of the exercise price is transferred to share capital.

Where there is a tax deduction allowable in relation to the share option scheme this is recognised in the income statement, to the extent of the tax credit commensurate to the expense recognised in the income statement, with the balance reported through the share option reserve in equity.

Where terms are changed during the period that increase the cost of the options then this is recognised over the remaining vesting period. Where terms are changed during the period that decrease the cost of the options then there is no change to the expense recognised.

AE SEGMENT REPORTING

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 (CODM) who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance. The chief operating decision-maker has been identified as the Company's Board of Directors.

AF CASH FLOWS

The statements of cash flows present the net cash flows for financial assets, property, plant and equipment, intangible assets and advances to subsidiaries. TOWER considers that knowledge of gross receipts and payments is not essential to understanding the activities of TOWER and it is considered acceptable to report only the net cash flows for these items. This is based on the fact that either the turnover of these items is quick, the amounts are large, and the maturities are short or the value of the sales are immaterial.

AG DISCONTINUED OPERATIONS AND DISPOSAL GROUPS

Assets and liabilities of a disposal group are classified as held for sale if their carrying amount will be recovered or settled principally through a sale transaction rather than through continuing use. A disposal group is defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

1. Summary of significant accounting policies (continued)

The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated. This condition is regarded as being met only when the sale is highly probable and the assets or businesses are available for immediate sale in their present condition or is a subsidiary acquired exclusively with a view to resale.

Assets and liabilities of a disposal group are measured at the lower of carrying amount and fair value less costs to sell and disclosed on the balance sheet. Items in the Income Statements and Statements of Comprehensive Income relating to the discontinued operations are shown separately on the face of the statements.

Cash flows associated with discontinued operations are disclosed in note 45.

AH BUSINESS COMBINATION

Identifiable assets acquired and liabilities assumed in business combination are measured at fair value at acquisition date with any excess of cost over the fair value of the net assets acquired recognised as goodwill on the balance sheet.

If there is negative goodwill then this is recognised directly in the income statement.

AI COMPARATIVES

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current year.

As required by NZ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the sale of TOWER Medical Insurance Limited (the "health business") has resulted in the reclassification of balances into single line items. Income statement balances for 2012 and 2011 years have been reclassified into a single line, 'Profit for the year from discontinued operations'. 2012 balance sheet items have been reclassified into two lines 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale'. The cash flow statement continues to include health related cash flows within each line item. A summary of health-only related cash flows is presented in note 45 – Discontinued operations, which contains full details of the health business disposal.

AJ CHANGES IN ACCOUNTING POLICY

The Group has changed its accounting policy in respect to land and building during the year. This has been disclosed in (M) above.

2. Critical accounting judgements and estimates

The Group makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where critical accounting estimates are applied are noted below.

A POLICY LIABILITIES

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by

suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Group's ability to recover the cost of acquiring new business over the lives of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Group shares experience on mortality, morbidity, persistency and investment results with its customers, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 26.

B CLAIMS LIABILITIES UNDER HEALTH AND GENERAL INSURANCE CONTRACTS

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the claims has happened. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based on statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Group processes which might accelerate or slow down the development and (or) recording of paid or incurred claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks; and
- medical and technological developments.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Group has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based on the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 27.

C ASSETS ARISING FROM REINSURANCE CONTRACTS

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Group may not receive amounts due to it and these amounts can be reliably measured.

D TAXATION

The Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant management judgement is required in determining the worldwide provision for income taxes. There are some transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on its understanding of tax law in each relevant jurisdiction. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. 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.

3. Impact of amendments to NZ IFRS

A STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 October 2012 or later periods, and the Group has not early adopted them. The Group expects to adopt the following new standards on 1 October after the effective date.

- NZ IFRS 9 'Financial Instruments' (effective from 1 January 2015). The standard partly replaces NZ IAS 39 and introduces requirements for classifying and measuring financial assets and liabilities. The Company is in the process of evaluating the potential effect of this standard.
- NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013). The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The standard is not expected to have a material impact on the financial statements.
- NZ IFRS 10 'Consolidated Financial statements' (effective from 1 January 2013). The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in NZ IAS 27 Consolidated and Separate Financial Statements. The standard is not expected to have a material impact on the financial statements.
- NZ IFRS 12 'Disclosure of Interests in Other Entities' (effective from 1 January 2013). The standard requires extensive disclosure of information that enables users of the financial statements to evaluate the nature of, and risks associated with, interests in other entities. The Company is in the process of evaluating the potential effect of this standard.

B STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE 2012 OR EARLY ADOPTED BY THE GROUP

The Group has adopted the following new and amended IFRS's as of 1 October 2011:

- NZ IAS 24, 'Related party disclosures' (effective from 1 January 2011). The revised standard amends the definition of a related party. The revised standard has not resulted in any additional disclosures.
- FRS 44, 'New Zealand additional disclosures' (effective from 1 July 2011). This amends multiple standards to harmonise NZ IFRS with IFRS and Australian Accounting Standards. The amendments have not had a material impact on the financial statements.
- Improvements to NZ IFRS 2010 includes various amendments effective for periods beginning on or after 1 January 2011. The amendments have not had a material impact on the financial statements.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

4. Premium revenue

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Life insurance premiums	94,187	88,884	-	-
Life investment premiums	365	396	-	-
Total life premiums	94,552	89,280	-	-
Less: Deposits recognised as an increase in policy liabilities	(365)	(419)	-	-
Life insurance contract premiums recognised as revenue	94,187	88,861	-	-
General insurance premiums	238,859	208,328	-	-
Premium revenue from insurance contracts	333,046	297,189	-	-
Less: Outwards reinsurance expense	(61,083)	(61,867)	-	-
Total net premium revenue	271,963	235,322	-	-

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

5. Investment revenue

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Fixed interest securities ⁽¹⁾				
Interest income	32,486	35,272	3,165	3,572
Net realised gain	10,933	2,406	-	-
Net unrealised (loss)/gain	(5,092)	2,398	-	-
	38,327	40,076	3,165	3,572
Equity securities ⁽¹⁾				
Dividend income	2,138	2,623	18,960	18,000
Net realised loss	5,336	(3,074)	-	-
Net unrealised gain/(loss)	17,915	(7,775)	-	-
	25,389	(8,226)	18,960	18,000
Property securities ⁽¹⁾				
Property income	1,993	2,302	-	-
Net realised gain	12,068	426	-	-
Net unrealised (loss)/gain	(10,521)	1,871	-	-
	3,540	4,599	-	-
Other ⁽²⁾				
Other investment income	203	172	12	-
Net realised gain	27,084	18,617	-	-
Net unrealised gain	24,378	7,604	-	-
	51,665	26,393	12	-
Total investment revenue				
Total investment revenue	36,820	40,369	22,137	21,572
Total net realised gain	55,421	18,375	-	-
Total net unrealised gain	26,680	4,098	-	-
	118,921	62,842	22,137	21,572

(1) The income and loss in these categories has been generated by financial assets designated on initial recognition at fair value through profit or loss.

(2) Other investment gains and losses has been generated by derivative financial assets and financial liabilities classified as held for trading at fair value through profit or loss.

6. Fee and other revenue

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Investment and management fees	31,188	33,596	-	-
Other revenue	170	163	-	-
Total fee and other revenue	31,358	33,759	-	-

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

7. Claims expense

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Life insurance claims	82,470	93,570	-	-
Life investment contract payments	3,361	3,238	-	-
Total life claims and payments	85,831	96,808	-	-
Less: Withdrawals recognised as a decrease in policy liabilities	(3,460)	(11,386)	-	-
Life insurance claims recognised as expense	82,371	85,422	-	-
General insurance claims	171,498	513,768	-	-
Claims expense	253,869	599,190	-	-
Less: Reinsurance recoveries revenue	(59,841)	(417,412)	-	-
Total net claims expense	194,028	181,778	-	-

8. Movement in policy liabilities

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Increase/(decrease) in life insurance contract liabilities	6,470	(28,179)	-	-
Increase/(decrease) in life investment contract liabilities	2,408	(834)	-	-
Increase/(decrease) in policy liabilities	8,878	(29,013)	-	-

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

9. Other expenses

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
A MANAGEMENT AND SALES EXPENSES				
Life insurance contracts				
Policy acquisition expenses:				
Commission	10,897	13,677	-	-
Other acquisition expenses	3,783	2,372	-	-
Policy maintenance expenses:				
Commission	7,051	6,654	-	-
Other maintenance expenses	3,463	4,524	-	-
Investment management expenses	14	266	-	-
Total life insurance expenses	25,208	27,493	-	-
Life investment contracts				
Policy maintenance expenses:				
Commission	39	11	-	-
Total life investment expenses	39	11	-	-
Other non-life expenses	114,193	109,004	693	679
Total management and sales expenses	139,440	136,508	693	679
Included in total management and sales expenses are the following:				
Amortisation of non-life deferred acquisition costs	23,166	22,214	-	-
Bad debts written off	87	123	-	-
Change in provision for doubtful debts	171	88	-	-
Amortisation of software	2,697	2,307	-	-
Depreciation:				
Office equipment and furniture	513	634	-	-
Motor vehicles	389	305	-	-
Computer equipment	1,305	2,649	-	-
Directors' fees	600	632	600	632
Operating leases	4,227	4,029	-	-
Employee benefits expense	64,848	66,836	-	-
Net loss on fair value of employee share option derivative	-	948	-	-
Gain/(loss) on disposal of property, plant and equipment	131	(364)	-	-
<i>Auditor's remuneration</i>				
Fees paid to Company's auditors:				
Audit of financial statements	1,046	1,087	-	-
Other assurance related services	40	-	-	-
Tax related services	49	20	-	-
Non-assurance advisory related services	7	239	-	-
Fees paid to subsidiary's auditors:				
Audit of financial statements	30	25	-	-

Other assurance related services in the current year relate to work performed on the proposed sale of TOWER Medical Insurance Limited. In the prior year non-assurance services relate predominantly to work performed in relation to internal forecasting models for the Group and other minor projects.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

9. Other expenses (continued)

B FINANCING COSTS

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Interest expense	7,677	7,612	-	-
Other costs	226	244	-	-
Total financing costs	7,903	7,856	-	-

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

10. Taxation

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
A CURRENT TAX EXPENSE				
Analysis of taxation expense				
Current taxation	19,727	7,961	696	863
Deferred taxation	9,670	1,618	-	14
Under provided in prior years	22	1,466	358	3
Income tax expense for the year	29,419	11,045	1,054	880
Income tax expense attributed to policyholders	17,522	4,798	-	-
Income tax expense attributed to shareholders	11,897	6,247	1,054	880
	29,419	11,045	1,054	880

The tax expense recognised can be reconciled to the accounting profit as follows:

Profit before taxation	71,993	34,794	21,444	20,893
Income tax at the current rate of 28% (2011: 30%)	20,158	10,438	6,004	6,268
Taxation effect of non deductible expenses / non-assessable revenue:				
Life insurance companies permanent differences	13,530	1,995	-	-
Change in tax rates	-	(601)	-	15
Recognition of prior period current tax	22	1,466	358	(3)
Non taxable Policyholder Australasian equity (gains)/losses	(5,708)	3,055	-	-
Release of deferred tax liability on Policyholder Australasian equity gains	-	(2,870)	-	-
Non deductible (income)/losses from PIEs	(92)	1,406	-	-
Benefit of imputation credits received	(374)	(517)	-	-
Non deductible expenditure	1,082	513	-	-
Non taxable dividend from subsidiaries	-	-	(5,308)	(5,400)
Adjustment to value of prepaid tax assets	-	(4,590)	-	-
Other	801	750	-	-
Income tax expense	29,419	11,045	1,054	880

In May 2010 legislation was passed to reduce the company tax rate from 30% to 28%. This was effective for the Group from 1 October 2011. The Group taxation expense includes both tax on shareholder profits and on returns attributed to policyholders. The allocation of tax expense between shareholders and policyholders has been disclosed in the income statement.

B PREPAID TAX ASSETS

The prepaid tax asset has been fully utilised during the year ended 30 September 2012 to meet a portion of policyholders' tax payable.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

10. Taxation (continued)

Group	Opening balance at 1 October \$000	Charged/ (credited) to income statement \$000	Credited to statement of comprehensive income \$000	Reclassified to current tax \$000	Acquired on acquisition of subsidiary \$000	Assets of disposal group held for sale \$000	Closing balance at 30 September \$000
C DEFERRED TAX ASSETS AND LIABILITIES							
2012							
Movements in deferred tax assets							
Provisions and accruals	1,415	421	-	-	-	(77)	1,759
Tax losses	-	26	-	-	11,677	-	11,703
Insurance Liabilities	15,686	(70)	-	-	-	(14,439)	1,177
Fixed Assets	1,682	(434)	-	-	-	-	1,248
Other	511	(492)	-	-	-	-	19
Total deferred tax assets	19,294	(549)	-	-	11,677	(14,516)	15,906
Movements in deferred tax liabilities							
Deferred acquisition costs	14,052	802	-	-	-	(8,931)	5,923
Unrealised gains	1,294	(130)	-	-	(16)	-	1,148
Life insurance contract liabilities	32,687	7,097	-	-	-	-	39,784
Other	737	(211)	91	-	-	-	617
Total deferred tax liabilities	48,770	7,558	91	-	(16)	(8,931)	47,472
Net deferred tax	(29,476)	(8,107)	(91)	-	11,693	(5,585)	(31,566)
2011							
Movements in deferred tax assets							
Provisions and accruals	2,576	(1,161)	-	-	-	-	1,415
Insurance Liabilities	16,624	(938)	-	-	-	-	15,686
Fixed Assets	-	1,682	-	-	-	-	1,682
Other	406	105	-	-	-	-	511
Total deferred tax assets	19,606	(312)	-	-	-	-	19,294
Movements in deferred tax liabilities							
Deferred acquisition costs	14,782	(730)	-	-	-	-	14,052
Fair value	609	(609)	-	-	-	-	-
Unrealised gains	4,104	(2,810)	-	-	-	-	1,294
Life insurance contract liabilities	27,610	5,077	-	-	-	-	32,687
Other	405	781	-	(449)	-	-	737
Total deferred tax liabilities	47,510	1,709	-	(449)	-	-	48,770
Net deferred tax	(27,904)	(2,021)	-	449	-	-	(29,476)

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

	Group	
	2012	2011
	\$000	\$000
Net deferred tax		
Expected to crystallise in the next 12 months	4,840	(893)
Not expected to crystallise in the next 12 months	(36,406)	(28,583)
	(31,566)	(29,476)

Deferred tax liabilities of \$3,758,000 have not been recognised in respect of temporary differences associated with investments in subsidiaries (2011: \$2,828,000).

D IMPUTATION CREDITS

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

Imputation credits available for use in subsequent reporting periods	337	(3,397)
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The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

- i) Imputation credits that will arise from the payment of the amount of the provision for income tax;
- ii) Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- iii) Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

11. Receivables

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Reinsurance recovery receivables	376,427	464,032	-	-
Outstanding premiums and trade receivables	139,235	125,786	-	-
Unsettled investment sales	857	596	-	-
Unearned commission	-	9,672	-	-
Related party receivables	-	-	1,975	2,951
Other	15,643	12,873	277	330
Total receivables	532,162	612,959	2,252	3,281
Analysed as:				
Current	363,267	227,155	2,252	3,281
Non current	168,895	385,804	-	-
	532,162	612,959	2,252	3,281

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

11. Receivables (continued)

Outstanding premiums and trade receivables above are presented net of allowance for credit losses and impairment. Movement in the allowance for credit losses and impairment during the reporting period was as follows:

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Outstanding premiums and trade receivables	141,187	127,843	-	-
Allowance for doubtful debts	(1,952)	(2,057)	-	-
	139,235	125,786	-	-
Balance at 1 October	2,057	1,734	-	-
Provisions added during the year	249	1,744	-	-
Impairment loss recognised during the year	(55)	(126)	-	-
Provisions released during the year	(23)	(1,295)	-	-
Reclassified to disposal group held for sale	(276)	-	-	-
Balance at 30 September	1,952	2,057	-	-

The allowance for credit losses and impairment in relation to trade receivables is provided for based on estimated recoverable amounts determined by reference to current customer circumstances and past default experience. In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group has provided fully for receivables over 120 days past due. Trade receivables between 60 and 120 days past due are provided for based on estimated irrecoverable amounts determined by reference to past due default experience.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

12. Intangible assets

Group	Goodwill	Software		Under development	Total
		Acquired	Internally developed		
	\$000	\$000	\$000	\$000	\$000
Year ended 30 September 2012					
Cost:					
At 1 October 2011	30,811	2,790	15,004	39,479	88,084
Additions	-	653	-	11,192	11,845
Reclassified to disposal group held for sale	(13,067)	-	-	-	(13,067)
Transfers	-	42	44,794	(44,794)	42
At 30 September 2012	17,744	3,485	59,798	5,877	86,904
Accumulated amortisation:					
At 1 October 2011	-	(1,764)	(13,579)	-	(15,343)
Amortisation charge	-	(739)	(1,958)	-	(2,697)
Transfers	-	(42)	-	-	(42)
At 30 September 2012	-	(2,545)	(15,537)	-	(18,082)
At 30 September 2012					
At cost	17,744	3,485	59,798	5,877	86,904
Accumulated amortisation	-	(2,545)	(15,537)	-	(18,082)
Net book value at 30 September 2012	17,744	940	44,261	5,877	68,822
Year ended 30 September 2011					
Cost:					
At 1 October 2010	30,811	1,386	14,289	21,572	68,058
Additions	-	1,404	715	17,907	20,026
At 30 September 2011	30,811	2,790	15,004	39,479	88,084
Accumulated amortisation:					
At 1 October 2010	-	(889)	(12,147)	-	(13,036)
Amortisation charge	-	(875)	(1,432)	-	(2,307)
At 30 September 2011	-	(1,764)	(13,579)	-	(15,343)
At 30 September 2011					
At cost	30,811	2,790	15,004	39,479	88,084
Accumulated amortisation	-	(1,764)	(13,579)	-	(15,343)
Net book value at 30 September 2011	30,811	1,026	1,425	39,479	72,741

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

12. Intangible assets (continued)

IMPAIRMENT TESTING FOR GOODWILL

Goodwill attributable to the health insurance business has been reclassified to disposal group held for sale pending completion of the sale of TOWER Medical Insurance Limited. Remaining goodwill is allocated to general insurance cash generating unit. In the prior year goodwill was allocated to two individual cash-generating units (operating units) of the Group: health insurance and general insurance. The carrying amount of goodwill allocated to each of the cash generating units is shown below:

	Health Insurance \$000	General Insurance \$000	Total \$000
2012			
Carrying amount of goodwill	-	17,744	17,744
2011			
Carrying amount of goodwill	13,067	17,744	30,811

The amount of goodwill is subject to impairment testing at the cash-generating unit level every six months. No impairment loss has been recognised in 2012 as a result of the impairment review for each unit (2011: Nil).

IMPAIRMENT REVIEW METHOD OVERVIEW

General Insurance

The recoverable amount of the general insurance business has been assessed with reference to its appraisal value to determine its value in use. A base discount rate of 10.1% was used in the calculation (2011: 10.4%) other assumptions used are consistent with the actuarial assumptions in note 27 in respect of TOWER Insurance. The projected cash flows have been determined using a steady average growth rate of 4% (2011: 4%). The cash flows were projected over the expected life of the policies. The projected cash flows are determined based on past performances and management expectations for market developments.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

Management considers that the recoverable amounts from general insurance businesses, as determined by the appraisal values, will exceed the carrying value under a reasonable range of adverse scenarios.

13. Investments in subsidiaries

	Company	
	2012 \$000	2011 \$000
Investments in controlled entities carried at cost	235,237	215,145

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

The table below lists TOWER Limited subsidiary companies and controlled entries. All entries have a balance date of 30 September. Principal trading subsidiary companies and controlled entries at 30 September 2012 and 2011 are as follows:

Name of Company	Holdings		Nature of Business
	2012	2011	
Incorporated in New Zealand			
TOWER Asset Management Limited	100%	100%	Investment management services
TOWER New Zealand Limited	100%	100%	Management services
TOWER Health & Life Limited	100%	100%	Term, disability and medical insurance
TOWER Insurance Limited	100%	100%	Fire and general insurance
TOWER Investments Limited	100%	100%	Holding company
TOWER Life (N.Z.) Limited	100%	100%	Life insurance and superannuation management
TOWER Managed Funds Limited	100%	100%	Life insurance administration and personal superannuation management
TOWER Medical Insurance Limited	100%	100%	Health insurance (disposal group held for sale)
TOWER Financial Services Group Limited	100%	100%	Holding company
TOWER Option Scheme Limited	100%	100%	Trustee for executive share options
TOWER Capital Limited	100%	100%	Holding company for fixed rate senior unsecured bonds
TOWER Employee Benefits Limited	100%	100%	Holding company
TOWER Managed Funds Investment Limited	100%	100%	Holding company
TAM International Trust Income Fund	100%	52%	Unitised equity investment trust
Incorporated in Fiji			
TOWER Insurance (Fiji) Limited	100%	100%	Fire and general insurance
Incorporated in Cook Islands			
TOWER Insurance (Cook Islands) Limited	100%	100%	Fire and general insurance
Incorporated in PNG			
TOWER Insurance (PNG) Limited	100%	100%	Fire and general insurance
Incorporated in Samoa			
National Pacific Insurance Limited	71%	71%	Fire and general insurance

14. Deferred acquisition costs (non life)

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Balance at 1 October	42,383	43,587	-	-
Acquisition costs deferred during the year	26,617	20,920	-	-
Current period amortisation	(23,166)	(22,124)	-	-
Reclassified as disposal group held for sale	(22,367)	-	-	-
Balance at 30 September	23,467	42,383	-	-
Analysed as:				
Current	17,783	20,011	-	-
Non current	5,684	22,372	-	-
	23,467	42,383	-	-

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

15. Property, plant and equipment

	Land and buildings	Office equipment and furniture	Group Motor vehicles	Computer equipment	Total
	\$000	\$000	\$000	\$000	\$000
Year ended 30 September 2012					
Cost:					
At 1 October 2011	1,938	7,460	1,902	9,408	20,708
Additions	-	323	397	582	1,302
Revaluation	327	-	-	-	327
Disposals	-	(102)	(269)	(172)	(543)
Foreign exchange movements	(58)	(61)	(9)	(1)	(129)
Transfers	-	-	-	(42)	(42)
At 30 September 2012	2,207	7,620	2,021	9,775	21,623
Accumulated Depreciation:					
At 1 October 2011	-	(6,304)	(969)	(7,137)	(14,410)
Depreciation charge	-	(513)	(389)	(1,305)	(2,207)
Disposals	-	37	263	130	430
Foreign exchange movements	-	53	(1)	(1)	51
Transfers	-	-	-	42	42
At 30 September 2012	-	(6,727)	(1,096)	(8,271)	(16,094)
At 30 September 2012					
At cost	2,207	7,620	2,021	9,775	21,623
Accumulated depreciation	-	(6,727)	(1,096)	(8,271)	(16,094)
Net book value at 30 September 2012	2,207	893	925	1,504	5,529

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

	Land and buildings	Office equipment and furniture	Group Motor vehicles	Computer equipment	Total
	\$000	\$000	\$000	\$000	\$000
Year ended 30 September 2011					
Cost:					
At 1 October 2010	1,936	7,653	1,595	7,161	18,345
Additions	-	760	340	2,652	3,752
Disposals	-	(986)	(131)	(413)	(1,530)
Foreign exchange movements	2	33	98	8	141
At 30 September 2011	1,938	7,460	1,902	9,408	20,708
Accumulated Depreciation:					
At 1 October 2010	-	(6,152)	(724)	(4,840)	(11,716)
Depreciation charge	-	(634)	(305)	(2,649)	(3,588)
Disposals	-	536	121	392	1,049
Foreign exchange movements	-	(54)	(61)	(40)	(155)
At 30 September 2011	-	(6,304)	(969)	(7,137)	(14,410)
At 30 September 2011					
At cost	1,938	7,460	1,902	9,408	20,708
Accumulated depreciation	-	(6,304)	(969)	(7,137)	(14,410)
Net book value at 30 September 2011	1,938	1,156	933	2,271	6,298

Land and buildings are all located in Fiji and are stated at fair value in 2012 and at cost in 2011. Fair value is determined using a replacement cost approach whereby the depreciated replacement cost of improvements is added to the leasehold interest in the land. This value is then adjusted to take into account recent market activity. Valuations were performed as at 1 August 2012 by Rolle Associates, registered valuers in Fiji. Nothing has changed between valuation date and 30 September 2012 that would materially affect the valuation.

Had land and buildings been recognised under the cost model the carrying amount would have been \$1,880,000. The revaluation surplus for the period is recorded in other comprehensive income and has no restrictions on the distribution of the balance to shareholders.

The Company does not hold any property, plant and equipment.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

16. Payables

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Trade payables	22,435	22,571	-	-
Reinsurance payables	8,583	12,931	-	-
Unsettled investment purchases	21	188	-	-
Other payables	25,733	21,812	1,554	2,014
Related party payables	-	-	188,600	196,733
Total payables	56,772	57,502	190,154	198,747
Analysed as:				
Current	56,772	57,167	190,154	198,747
Non current	-	335	-	-
	56,772	57,502	190,154	198,747

17. Provisions

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Employee benefits	7,095	5,268	-	-
Restructuring	2	57	-	-
Total provisions	7,097	5,325	-	-
Analysed as:				
Current	7,097	5,325	-	-
	7,097	5,325	-	-

Employee benefits include provisions for holiday pay and long service leave.

MOVEMENT IN PROVISIONS

Movements in each class of provision other than employee benefits during the financial year are set out below:

Restructuring				
Opening balance at 1 October	57	1,041	-	-
Amount utilised in the year	(55)	(984)	-	-
Closing balance at 30 September	2	57	-	-

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

18. Interest bearing liabilities

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Fixed rate senior unsecured bonds	83,219	83,219	-	-
Unamortised capitalised costs	(1,229)	(1,956)	-	-
	81,990	81,263	-	-
Analysed as:				
Current	659	732	-	-
Non current	81,331	80,531	-	-
	81,990	81,263	-	-

Fixed rate senior unsecured bonds

On 24 March 2009, the Group issued \$81,759,000 of fixed rate senior unsecured bonds, bearing a fixed interest rate of 8.5% per annum. The bonds mature on 15 April 2014.

The above total of \$81,990,000 includes \$1,460,000 of accrued interest (2011: \$1,460,000). The Group capitalised \$3,499,000 of costs associated with the issuance of the bonds. These costs are amortised over the five year term of the bonds using the effective interest method. The bonds are carried at amortised cost using the effective interest method. The amortised issuance costs during the period to 30 September 2012 were \$727,000 (2011: \$661,000).

The fair value of fixed rate senior unsecured bonds as at 30 September 2012 is \$86,104,000 (2011: \$86,109,000). This has been estimated using the method outlined in note 29 (D).

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

19. Insurance liabilities

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Unearned premiums – general insurance	127,309	108,430	-	-
Unearned premiums – health	-	15,959	-	-
Outstanding claims – general and health insurance	427,396	522,633	-	-
Outstanding claims – life and other	9,074	10,016	-	-
Premium payback	-	53,671	-	-
	563,779	710,709	-	-
Analysed as:				
Current	396,926	255,175	-	-
Non current	166,853	455,534	-	-
	563,779	710,709	-	-

The table below includes a reconciliation of unearned premiums as at balance date:

Unearned premiums – general insurance				
Opening balance at 1 October 2011	108,430	99,604	-	-
Premiums written	257,738	217,154	-	-
Premiums earned	(238,859)	(208,328)	-	-
Closing balance at 30 September 2012	127,309	108,430	-	-
Unearned premiums – health				
Opening balance at 1 October 2011	15,959	15,290	-	-
Premiums written	145,711	141,273	-	-
Premiums earned	(146,230)	(140,604)	-	-
Reclassified to disposal group held for sale	(15,440)	-	-	-
Closing balance at 30 September 2012	-	15,959	-	-

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

20. Contributed equity

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Ordinary share capital (fully paid)	572,805	567,031	572,805	567,031
Total contributed equity	572,805	567,031	572,805	567,031
	Number of shares		Number of shares	
Represented by:				
Ordinary shares	269,091,094	265,176,580	269,091,094	265,176,580
Movements in ordinary shares				
Balance at 1 October	265,176,580	260,631,787	265,176,580	260,631,787
Dividend reinvestment plan shares issued	3,914,514	4,250,669	3,914,514	4,250,669
Employee share options scheme shares issued	-	294,124	-	294,124
Balance at 30 September	269,091,094	265,176,580	269,091,094	265,176,580
	\$000	\$000	\$000	\$000
Movements in ordinary share capital				
Balance at 1 October	567,031	558,795	567,031	558,795
Dividend reinvestment plan shares issued	5,774	7,628	5,774	7,628
Employee share options scheme shares issued	-	608	-	608
Balance at 30 September	572,805	567,031	572,805	567,031

All shares rank equally with one vote attached to each share.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

21. Accumulated profits/(losses)

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Accumulated losses				
Balance at 1 October	(4,352)	(12,021)	(342,786)	(337,402)
Profit for the year	55,339	33,066	20,390	20,013
Movement in share based payments reserve	322	802	322	802
Dividends paid	(18,622)	(26,199)	(18,622)	(26,199)
Other	859	-	611	-
Balance at 30 September	33,546	(4,352)	(340,085)	(342,786)

22. Reserves

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Foreign currency translation reserve (FCTR)				
Balance at 1 October	1,268	1,956	-	-
Currency translation differences arising during the year	677	(688)	-	-
Balance at 30 September	1,945	1,268	-	-

Exchange differences arising on translation of foreign controlled entities are taken to the FCTR as described in note 1(K). The reserve is recognised in profit and loss when the net investment is disposed of.

Share based payments reserve

Balance at 1 October	2,044	2,712	2,044	2,712
Movement in share based payments reserve	(230)	(668)	(230)	(668)
Balance at 30 September	1,814	2,044	1,814	2,044

The share based payments reserve is used to recognise the fair value of options issued but not exercised.

Separation reserve	(113,000)	(113,000)	(113,000)	(113,000)
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The separation reserve was created at the time of the demerger in 2007 of the New Zealand and Australian businesses in accordance with the ruling provided by the Australian Tax Office (ATO). It will be carried forward indefinitely as a non equity style reserve to meet the requirements of the ATO.

Asset Revaluation Reserves

Opening balance at 1 October	-	-	-	-
Gain on revaluation during the year	236	-	-	-
Balance at 30 September	236	-	-	-

The asset revaluation reserve is used to recognise unrealised gains on the value of land and buildings above initial cost.

Total reserves	(109,005)	(109,688)	(111,186)	(110,956)
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TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

23. Net assets per share

	Group		Company	
	2012	2011	2012	2011
Net assets per share (dollars)	1.85	1.72	0.45	0.43
Net tangible assets per share (dollars)	1.67	1.55	0.45	0.43

Net assets per share represents the value of the Group's total assets divided by the number of ordinary shares on issue at the balance date. Net tangible assets per share represents the net assets per share adjusted for the effect of intangible assets and deferred tax balances.

24. Distribution to shareholders

On 24 November 2011 the Directors declared a final dividend for the 2011 financial year of 2 cents per share. The total amount payable was \$5,503,217 including a supplementary dividend, of which \$1,612,882 was paid in TOWER shares under the dividend reinvestment plan and \$3,890,335 was paid in cash. The dividend was paid on 1 February 2012.

An interim dividend was declared by the Board of Directors on the 24 May 2012 for the half year ended 31 March 2012 of 5 cents per share. There were imputation credits attached to the dividend. The total amount payable was \$13,318,566 of which \$4,161,232 was paid in TOWER shares under the dividend reinvestment plan and \$9,157,324 paid in cash. The dividend was paid on 2 July 2012.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

25. Segmental reporting

	Life Insurance	General Insurance	Investments	Other (Holding companies and eliminations)	Total
	\$000	\$000	\$000	\$000	\$000
30 September 2012					
Revenue					
Revenue - external	153,431	211,271	31,518	26,022	422,242
Revenue - internal	22,878	153	3,681	(26,712)	-
Total revenue	176,309	211,424	35,199	(690)	422,242
Earnings before interest, tax, depreciation and amortisation					
Interest expense	-	-	-	(7,903)	(7,903)
Depreciation and amortisation	-	(236)	-	(4,668)	(4,904)
Profit before income tax	44,166	19,828	9,666	(14,169)	59,491
Income tax (expense)/credit ⁽¹⁾	(20,436)	(6,590)	(2,707)	3,815	(25,918)
Profit for the year before discount rate effect	23,730	13,238	6,959	(10,354)	33,573
Add discount rate ⁽²⁾	9,001	-	-	-	9,001
Profit for the year	32,731	13,238	6,959	(10,354)	42,574
Total assets	882,916	764,947	30,295	119,890	1,798,048
Total liabilities	676,315	603,321	4,580	91,998	1,376,214
Acquisition of property, plant and equipment, intangibles and other non current assets	-	299	-	12,848	13,147
30 September 2011					
Revenue					
Revenue - external	113,601	179,184	33,788	5,349	331,922
Revenue - internal	-	240	4,566	(4,806)	-
Total revenue	113,601	179,424	38,354	543	331,922
Earnings before interest, tax, depreciation and amortisation					
Interest expense	-	-	-	(7,612)	(7,612)
Depreciation and amortisation	(12)	(248)	(5)	(5,630)	(5,895)
Profit before income tax	23,952	7,406	9,915	(9,899)	31,374
Income tax (expense)/credit ⁽¹⁾	(5,149)	(4,862)	(3,098)	3,090	(10,019)
Profit for the year before discount rate effect	18,803	2,544	6,817	(6,809)	21,355
Add discount rate ⁽²⁾	2,394	-	-	-	2,394
Profit for the year	21,197	2,544	6,817	(6,809)	23,749
Total assets ⁽³⁾	852,341	794,764	34,133	129,753	1,810,991
Total liabilities	672,012	665,970	9,442	78,755	1,426,179
Acquisition of property, plant and equipment, intangibles and other non current assets	-	370	-	23,408	23,778

(1) Tax expense of individual segments has been impacted by intercompany reclassifications which have been eliminated for management and segmental reporting. This has a nil impact on the Group.

(2) The discount rate effect, as discussed in note 41, has been adjusted for tax and shown separately to provide a more meaningful comparison between the reported periods.

(3) The health business has been excluded from the above disclosure as the results, assets and liabilities of this segment are contained within note 45.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

A DESCRIPTION OF SEGMENTS AND OTHER SEGMENT INFORMATION

The operating segments are based on 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.

Management has determined the operating segments based on the internal reporting reviewed by the Board of Directors (Chief Operating Decision Maker) for the purpose of making decisions on resource allocation and assessing performance.

Life insurance includes all life and disability insurance in New Zealand. General Insurance includes all general insurance services in New Zealand and the Pacific Islands. Investments include all wealth management services in New Zealand. Other includes head office expenses, financing costs and eliminations. The health business has been excluded from the above disclosure as the results of this segment are contained within note 45.

TOWER Group operates predominantly in one geographical segment,

New Zealand. The operations in Australia and the Pacific region do not represent a significant part of the Group's operations or hold material non-current assets.

The Group is domiciled in New Zealand. Revenue from external customers in New Zealand (excluding disposal group held for sale) is \$378,027,000 (2011: \$304,014,000) and total revenue from external customers from other countries is \$44,215,000 (2011: \$27,908,000).

The Group does not derive revenue from an individual policy holder or intermediary that represents 10% or more of the Group's total revenue.

B RECONCILIATION OF SEGMENTAL PROFIT

For management purposes, the Group reclassifies some deferred acquisition costs and the gain or loss recognised on individual life risk policyholder liabilities from the movement in discount rates (refer note 41) differently from the requirements of NZ IFRS. This impacts the profit before tax of the segments. The table below represents a reconciliation of total segmental profit before tax to Group profit before tax recorded in the income statement.

	2012 \$000	2011 \$000
Total segmental profit before tax	59,491	31,374
Adjustments to:		
Discount rate	12,502	3,420
Total Group profit before tax	71,993	34,794

26. Life insurance business

	Group		Company	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000

A POLICY LIABILITIES

Life insurance contract liabilities

Value of policy liabilities – Projection Method

Future policy benefits	939,446	879,290	-	-
Future bonuses	122,385	158,914	-	-
Future expenses	177,095	182,433	-	-
Reinsurance	(4,146)	(6,212)	-	-
Future profit margins	163,702	194,586	-	-
Future premiums	(857,603)	(874,714)	-	-
	540,879	534,297	-	-

Value of policy liabilities – Accumulation Method

Future policy benefits	10,488	9,447	-	-
Unvested policy benefits	22,475	23,707	-	-
Net policy liabilities - life insurance contracts	573,842	567,451	-	-

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

26. Life insurance business (continued)

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Reconciliation of movements in life insurance contract policy liabilities				
Gross life insurance liabilities at 1 October	587,476	619,820	-	-
(Decrease)/increase in liabilities ceded under reinsurance	(2,409)	3,961	-	-
Increase/(decrease) in life insurance contract liabilities recognised in the income statement	6,470	(28,179)	-	-
Deposits recognised as an increase in policy liabilities	20	23	-	-
Withdrawals recognised as a decrease in policy liabilities	(99)	(8,149)	-	-
Gross life insurance liabilities at 30 September	591,458	587,476	-	-
Life investment contract liabilities				
<i>Value of policy liabilities – Accumulation Method</i>				
Future policy benefits	27,476	28,084	-	-
Gross policy liabilities - life investment contracts	27,476	28,084	-	-
Reconciliation of movements in investment contract policy liabilities				
Gross life investment contract liabilities at 1 October	28,084	31,759	-	-
Increase/(decrease) in life investment contract liabilities recognised in the income statement	2,408	(834)	-	-
Deposits recognised as an increase in policy liabilities	345	396	-	-
Withdrawals recognised as a decrease in policy liabilities	(3,361)	(3,237)	-	-
Gross life investment contract liabilities at 30 September	27,476	28,084	-	-
Total gross policy liabilities	618,934	615,560	-	-
Liabilities ceded under reinsurance				
Balance at 1 October	20,026	16,065	-	-
Movement in income statement	(2,409)	3,961	-	-
Balance at 30 September	17,617	20,026	-	-
Net policy liabilities	601,317	595,534	-	-
Gross policy liabilities analysed as:				
Current	18,606	19,088	-	-
Non current	600,328	596,472	-	-
	618,934	615,560	-	-
Liabilities ceded under reinsurance analysed as:				
Current	7,405	3,198	-	-
Non current	10,212	16,828	-	-
	17,617	20,026	-	-

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

The Group has designated life investment contract liabilities at fair value through profit or loss. The impact on the fair value of these liabilities resulting from changes in credit risk recognised during the year is nil (2011: Nil), except where the fair value of investment assets backing these liabilities is impacted by changes in credit risk. Any such impact on the investment assets is reflected in the movement in the fair value of these contracts.

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
B ANALYSIS OF LIFE INSURANCE AND LIFE INVESTMENT CONTRACT RESULTS				
Life insurance contracts				
Planned profit margins	11,937	11,653	-	-
Experience profit/loss	11,170	1,896	-	-
Capitalised loss recognition	198	(372)	-	-
Investment earnings on assets in excess of policy liabilities of life companies	9,164	7,748	-	-
Operating profit after tax attributable to shareholders arising from life insurance contracts	32,469	20,925	-	-
Life investment contracts				
Planned profit margins	25	47	-	-
Experience profit	236	225	-	-
Operating profit after tax attributable to shareholders arising from life investment contracts	261	272	-	-

All operating profit after tax arising from life insurance and life investment contracts is attributed to the shareholders.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

26. Life insurance business (continued)

C SOLVENCY REQUIREMENTS OF LIFE FUNDS

Separate to policy liabilities recognised in the balance sheet, the life insurance funds maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance companies.

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standard for Life Insurance Business published by the Reserve Bank of New Zealand. In 2011 the solvency requirement was assessed in accordance with Professional Standard No. 5.01 'Solvency Reserving for Life Insurance Business' issued by the New Zealand

Society of Actuaries. The new solvency requirements issued by the Reserve Bank of New Zealand, was introduced under the new Prudential (Insurance Supervision) Act 2010 enacted on the 7 September 2010. The new standard requires an increase in the amount of capital to be held, as a result the solvency margin as at 30 September 2012 is lower than the excess assets shown as at 30 September 2011.

The minimum equity required to be retained to meet solvency requirements over and above the policy liabilities for each of the life insurance funds in the Group are shown below. The shareholder equity retained in each of the life insurance funds exceeds the minimum requirements.

	Note	TOWER Life (NZ) \$000	TOWER Health & Life \$000
2012			
Actual Solvency Capital		12,415	179,338
Minimum Solvency Capital		11,494	144,312
Solvency Margin		921	35,026
Excess assets to meet solvency requirement		921	35,026
2011			
Solvency requirement	A	695,743	131,795
Represented by:			
Policy liabilities		674,191	(102,356)
Other liabilities		18,700	40,998
Solvency reserve	B	2,852	193,153
Solvency requirement		695,743	131,795
Assets available to meet solvency reserve:			
Solvency reserve:	B	2,852	193,153
Excess assets		49,791	34,374
Coverage of required solvency reserve		18.5	1.2

(1) The 2011 solvency requirement is calculated in accordance with Professional Standard No. 5.01 'Solvency Reserving for Life Insurance Business' issued by the New Zealand Society of Actuaries.

(2) The 2011 solvency reserve represents the assets required to be held in excess of policy and other liabilities in order to meet the solvency requirement.

D SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS – LIFE INSURANCE

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2012. The Chief Actuary, John Feyter, BSc, FNZSA, FIA has calculated policy liabilities for TOWER Life (NZ) Limited and TOWER Health & Life Limited. The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

This note summarises the assumptions made and the methods adopted for the calculation of policy liabilities and solvency requirements.

(a) Policy liabilities

Policy liabilities for the life insurance business of TOWER Life (NZ) Limited and TOWER Health & Life Limited have been determined in accordance with Professional Standard No.3 "Determination of Life Insurance Policy Liabilities" issued by the New Zealand Society of Actuaries. This standard requires that policy liabilities be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins as services are provided to policyholders.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

Valuation of policy liabilities

Policy liabilities comprise the amount required to pay the expected future benefits and expenses after receiving expected future premiums and investment earnings.

The value of policy liabilities may also include a component for profit margins on existing business that will be earned as services are provided to policy owners over the time the relevant policies are held with the Company.

The Company incurs costs in selling new policies. Any costs not recovered by specific charges received from the policy owner at inception are normally deferred. New business selling costs (or acquisition costs) related to the acquisition of new business are deferred as long as the underlying policies are expected to be profitable. Where costs are deferred, they are recovered from premiums or charges receivable in the future.

Methods used to value policy liabilities

(i) Projection method

The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, expenses)

plus profit margins to be released in future periods, to establish the value of policy liabilities. The value of expected future premiums is deducted from the value of expected benefit and expense payments to arrive at the obligation to policy owners.

(ii) Accumulation method

The accumulation method is only used if the results are not materially different from the projection method. Under the accumulation method for risk policies the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported. For non-participating investment account policies, the policy liability is determined as the policy account balance including accrued interest to the balance date, plus investment fluctuation reserves subject to a minimum of the current surrender value.

Methods used

Where the policy liability is determined by the projection method, actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called 'profit carriers'. The profit carriers adopted for the major product groups are shown in the table below:

MAJOR PRODUCT GROUPS	METHOD	PROFIT CARRIERS (for business valued using projection method)
Traditional participating	Projection	Cost of supportable bonus
Traditional non-participating, renewal and level term and mortgage repayment insurance	Projection	Expected death claims
Annuities	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance	Projection	Expected claims
Non-participating investment account	Accumulation	
Group risk insurances and renewable insurances	Accumulation	

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

26. Life insurance business (continued)

(b) Disclosure of assumptions

The following table summarises the key assumptions used in the calculation of policy liabilities, together with notes on any significant changes in the assumptions:

REQUIRED ASSUMPTION	BASIS OF ASSUMPTION (By product group)	ASSUMPTION
Discount rates for participating business	As the value of benefits is contractually linked to the performance of assets, a discount rate based on the market return on the asset backing policy liabilities is used. The discount rate assumed in calculating policyholder liabilities was derived from the expected long term average rates of return for the asset pool backing this business, based on the benchmark asset mix. Discount rates assumed are net of taxation and investment expense.	The discount rates used are as follows: September 2012: 3.1% net of tax September 2011: 4.7% net of tax
Discount rates for non-participating life insurance contracts	Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on swap rates, depending on the nature structure and term of the contract liabilities. Discount rates are assumed net of investment management expenses.	The discount rates used are as follows: Risk Business (discount rates gross of tax) September 2012: 3.3% to 3.5% September 2011: 4.4% Annuities (discount rates net of tax) September 2012: 2.6% September 2011: 3.0%
Inflation	Benefit indexation is before allowance for the proportion of policyholders who take up indexation.	Benefit Indexation September 2012: 2.0% September 2011: 2.0% Expense inflation September 2012: 2.0% September 2011: 2.0%
Future expenses	Future maintenance expenses have been set based on experience analyses conducted by the various companies as well as the actuary's expectations of future expense levels. Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.	Per policy expenses Participating Business: September 2012: \$50 p.a. September 2011: \$97 p.a. Risk business: September 2012: \$55 to \$226 p.a. September 2011: \$153 to \$225 p.a. Annuities: September 2012: \$55 p.a. September 2011: \$68 p.a.
Rates of taxation	Rates of taxation have been assumed to remain as under current legislation or legislation substantively enacted at the valuation date. Risk policy liabilities have been calculated on a gross of tax basis. As such there is no allowance for tax within those policy liabilities (excluding GST). GST has been allowed for at the current rate applicable.	The corporate tax rate used is: September 2012: 28% September 2011: 28% GST rate: September 2012: 15% September 2011: 15%
Mortality – participating business	Mortality assumption is based on NZ97 table adjusted for company experience. No changes were made to assumptions at September 2012.	Factors applied to NZ97: September 2012: 46% to 77% September 2011: 46% to 77%
Mortality – risk products	Mortality assumption is based on NZ07 table adjusted for company experience. No changes were made to assumptions at September 2012.	Mortality rates for main risk product lines: Factors applied to NZ07: September 2012: 20.6% to 84% for non-smokers. Additional loading for smokers. September 2011: 20.6% to 84% for non-smokers. Additional loading for smokers.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

REQUIRED ASSUMPTION	BASIS OF ASSUMPTION (By product group)	ASSUMPTION
Mortality – annuities	Mortality assumption is based on PML80C10 table projected to 1994 and adjusted for company experience. Factors were applied to take into account both historical (from 1994) and prospective mortality improvement. A small change was made at September 2011 to increase mortality improvement factors for middle ages.	Historical and Future Improvement factors: September 2012: 1% to 3% p.a. depending on age and sex. September 2011: 1% to 3% p.a. depending on age and sex.
Disability – lump sum (Trauma)	Based upon recent company and reinsurer experience adjusting for different product definitions. Some wholesale schemes use specific company experience.	September 2012: 105% to 139% of reinsurance tables. September 2011: 105% to 139% of reinsurance tables.
Disability income	Standard morbidity tables (CIDA) adjusted for company experience. Specific company experience is used for certain wholesale schemes. There has been no material change to incidence.	September 2012: CIDA85 adjusted September 2011: CIDA85 adjusted
Discontinuances	Assumed discontinuance rates vary by sub-grouping within a class and vary according to the length of time tranches of business have been in-force and other relevant factors.	Annual discontinuance rates for main risk product lines: September 2012: 0% to 15% p.a. September 2011: 0% to 13.5% p.a. In both years additional discontinuances were assumed for ages over 65 years.
Surrender values	Surrender values are based on current practice.	
Rates of future supportable participating benefits	Assumed future supportable bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. The rate of shareholder participation is 25% of the value of bonuses distributed to participating policyholders subject to policy conditions. Additional policy bonuses will emerge from the assets representing policyholders' unvested benefits.	Future supportable bonus rates as a percentage of Sum Assured: September 2012: 0.2% to 1.3% September 2011: 0.65% to 2.1% Future supportable bonus rates as a percentage of Reversionary Bonus: September 2012: 0.5% to 0.6% September 2011: 1.1% to 1.9% Future terminal bonus: September 2012: 10.6% to 34.3% September 2011: 6.4% to 30.1%
Premium rates	Premium rates are assumed to be equivalent to those being charged by the Group at the reporting date.	During 2011 there was an increase in premium rates of 3% for some lines of yearly renewable term life insurance business. The assumed premium rates reflect this increase.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

26. Life insurance business (continued)

Effect of changes in actuarial assumptions during the reporting period

The liabilities for life insurance contracts include the value of future profit margins that are to be released over future reporting periods. The impact of assumption changes on non participating business are absorbed by the future profit margins, provided sufficient future margins exist, such that there is no change in the contract liability in the current period.

For participating business, the impact of assumption changes is absorbed by the value of future supportable bonus. The current period contract liability is impacted by the change in cost of current period supportable bonus.

The impact of the assumption changes in the current period on future profit margins in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at the valuation date) are shown below.

Where the value of future profit margins are insufficient to absorb the assumption changes, the resulting losses are recognised in the current year via a change in the contract liability. These losses may be reversed in subsequent periods should experience improve.

The life insurance contract liability calculations include the use of published market yields, such as government bond and swap rates. The changes in these yields do not represent actuarial assumption changes and they impact both life insurance contract liabilities and asset values as at the balance date.

The impact of assumption changes for life insurance contracts made during the year is shown below.

	Change in future shareholder profit margins \$000	Change in next financial year's shareholder planned profit \$000	Change in current period contract liability \$000	Change in current period shareholder profit \$000
2012				
Assumption change				
Mortality and Morbidity	-	-	-	-
Discontinuances	(27,610)	(1,791)	-	-
Expenses	10,894	504	(1,201)	201
Tax	-	-	-	-
Other	-	-	-	-
2011				
Assumption change				
Mortality and Morbidity	(388)	(45)	372	(372)
Discontinuances	(1,188)	(61)	-	-
Expenses	(1,113)	(186)	29	(6)
Tax	-	-	-	-
Other	4,059	363	-	-

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

(c) Sensitivity analysis

Sensitivity analysis is conducted to quantify the exposure to risk of change in the key underlying variables.

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Group will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims costs and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming temporarily or totally and permanently disabled and, in the case of temporary disablement, the duration which they remain temporarily disabled. Higher than expected incidence and duration would increase claim costs, reducing profit and shareholder equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and shareholder equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market risk	For benefits which are not contractually linked to the underlying assets, the Group is exposed to market risk.

The valuations included in the reported results are calculated using certain assumptions about these variable as disclosed above. The movement in any key variable will impact the performance and equity of the Group. The table below describes how the change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit or loss and equity net of reinsurance to changes in assumptions.

Variable	Change in following financial year's shareholder profit and equity net of reinsurance			
	2012		2011	
	+10%	-10%	+10%	-10%
	\$000	\$000	\$000	\$000
Mortality	(1,042)	1,042	(997)	997
Morbidity claims costs	(622)	622	(635)	635
Annuitant mortality	188	(188)	(175)	175
Lapses and surrenders	(801)	801	(1,083)	1,083
Renewal expenses	(994)	994	(971)	971

The impact from changes to interest rates has been reflected in note 29 (F).

(d) Life insurance risk

The life insurance business of the Group involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders. Financial risks involving the Group are in note 29.

Key objectives in managing insurance risk are;

- (i) To ensure sound business practices are in place for underwriting risks and claims management;
- (ii) To achieve a target return on capital that is invested in order to take on insurance risk;
- (iii) To ensure solvency and capital requirements are met.

Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Chief Actuary. Tight controls are also maintained over

claims management practices to ensure the correct and timely payment of insurance claims.

(i) Underwriting management procedures

Underwriting is managed by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Group provides appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies are underwritten on the merits of an employee group as a whole, subject to certain limits for individual members.

(ii) Claim management procedures

Claims are managed through a dedicated claims team, with appropriate training and development of staff to ensure procedures are adhered to. Claims are managed to ensure timely and correct payment in accordance with policy conditions. Claims experience is reviewed regularly and appropriate actuarial reserves are established.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

26. Life insurance business (continued)

(iii) Reinsurance management procedures

The Group holds appropriate reinsurance arrangements to limit exposure to individual and catastrophe risks. All reinsurance arrangements are approved by the Chief Actuary.

(iv) Terms and conditions of life insurance contracts

The nature of the terms of the insurance contracts written by the Group is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cash flows are dependent.

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability including renewable term)	Guaranteed benefits paid on death, permanent and temporary disablement or maturity that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities
Life annuity contracts	These policies provide a guaranteed regular income for the life of the insured in return for an initial single premium.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, benefit inflation, expenses and market earnings on assets backing the liabilities
Traditional life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a defined initial guaranteed sum assured that is payable on death. The guarantee amount is increased throughout the duration of the policy by the addition of bonuses annually that once added are not removed. An additional (terminal) bonus is payable on claims paid as a result of death or maturity. Terminal bonus amounts are not guaranteed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to policyholders via bonuses.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities
Investment account contracts with discretionary participating features	The gross value of the premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early termination. On certain contracts withdrawals can be deferred over limited time periods.	Fees, lapses, expenses and market earnings on assets backing the liabilities

(e) Concentration of insurance risk

The Group aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographical locations for the individual and group risk business. The Group uses reinsurance to limit the insurance risk exposure for any one individual. The group risk business unit offers insurance in respect of groups of employees. The Group is exposed to a greater risk of loss from events affecting a location where groups of insured employees work. The Group has purchased catastrophe reinsurance to limit the exposure from any one group event.

(f) Liquidity risk and future net cash outflows

The table below shows the estimated timing of future cash outflows resulting from life insurance contract liabilities. This includes estimated future claims offset by expected future premiums and reinsurance recoveries. All values are discounted to the valuation date.

	Total	Less than one year	One to two years	Two to three years	Three to five years	Over five years
	\$000	\$000	\$000	\$000	\$000	\$000
30 September 2012	201,098	778	1,421	2,697	5,945	190,257
30 September 2011	170,319	4,178	4,674	3,972	8,143	149,352

(g) Insurer financial strength rating

TOWER Health & Life Limited and TOWER Life (NZ) Limited have insurer financial strength ratings of 'A-' (Excellent) issued by international rating agency A.M. Best Company Inc. with effective dates of 27 July 2012.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

27. General and health insurance business

These disclosures include an analysis of general insurance business, and where relevant include amounts relating to the health business which has been reclassified as disposal group held for sale.

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
A ANALYSIS OF GENERAL AND HEALTH INSURANCE OPERATING RESULT				
Premium revenue	238,859	208,328	-	-
Outward reinsurance expense	(41,137)	(41,102)	-	-
Net premium income	197,722	167,226	-	-
Claims expense	171,498	513,768	-	-
Reinsurance recoveries	(44,878)	(402,087)	-	-
Net claims incurred	126,620	111,681	-	-
Acquisition costs	35,621	33,609	-	-
Other underwriting expenses	29,354	25,999	-	-
Underwriting result	6,127	(4,063)	-	-
Investment income	13,701	11,470	-	-
Operating profit before taxation	19,828	7,407	-	-
Profit before taxation from general insurance	19,828	7,407	-	-

	2012			2011		
	Risks borne in current year	Risks borne in prior years	Total	Risks borne in current year	Risks borne in prior years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
B NET GENERAL INSURANCE CLAIMS INCURRED						
Gross claims expense						
Direct claims - undiscounted	119,569	44,167	163,736	428,000	93,266	521,266
Movement in discount	(132)	7,894	7,762	(450)	(7,048)	(7,498)
Gross claims expense	119,437	52,061	171,498	427,550	86,218	513,768
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	(4,975)	(38,955)	(43,930)	(312,937)	(90,908)	(403,845)
Movement in discount	4	(952)	(948)	43	1,715	1,758
Reinsurance recoveries	(4,971)	(39,907)	(44,878)	(312,894)	(89,193)	(402,087)
Net claims incurred	114,466	12,154	126,620	114,656	(2,975)	111,681

B NET GENERAL INSURANCE CLAIMS INCURRED

Gross claims expense						
Direct claims - undiscounted	119,569	44,167	163,736	428,000	93,266	521,266
Movement in discount	(132)	7,894	7,762	(450)	(7,048)	(7,498)
Gross claims expense	119,437	52,061	171,498	427,550	86,218	513,768
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	(4,975)	(38,955)	(43,930)	(312,937)	(90,908)	(403,845)
Movement in discount	4	(952)	(948)	43	1,715	1,758
Reinsurance recoveries	(4,971)	(39,907)	(44,878)	(312,894)	(89,193)	(402,087)
Net claims incurred	114,466	12,154	126,620	114,656	(2,975)	111,681

Current year amounts relates to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years arising due to the Christchurch earthquake. Refer to note 43.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

27. General and health insurance business (continued)

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Central estimate of expected present value of future payments for claims incurred	69,775	86,785	-	-
Risk margin	6,248	7,432	-	-
Claims handling costs	7,007	6,191	-	-
	83,030	100,408	-	-
Discount	(12,329)	(19,142)	-	-
Outstanding claims liability	70,701	81,266	-	-

C OUTSTANDING CLAIMS

(a) Assumptions adopted in calculation of general and health insurance provisions

Estimates of the outstanding claims as at 30 September 2012 have been carried out by the following Actuaries:

General Insurance: J. Feyter, B.Sc, FNZSA, FIA;
P. Davies, B.Bus.Sc, FNZSA, FIA; and
C. Hett, FIA, FNZSA, Head of Actuarial Services, Deloitte

Health Insurance: J. Feyter, B.Sc, FNZSA, FIA

The New Zealand actuarial assessments are in accordance with the standards of the New Zealand Society of Actuaries. 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 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.

The following assumptions have been made in determining general insurance net outstanding claims liabilities:

	2012	2011
Inflation rates for succeeding year	1.5% to 4.25%	0.5% to 5.25%
Inflation rates for following years	1.5% to 4.25%	0.5% to 4.5%
Discount rates for succeeding year	2.9% to 6.75%	3.0% to 7.8%
Discount rates for following years	2.9% to 6.75%	3.0% to 7.8%
Claims handling expense ratio	4.7% to 22.97%	4.2% to 14.5%
Risk margin	15% to 25%	15% to 20%

The weighted average expected term to settlement of outstanding claims based on historical trends is:

	2012	2011
Short tail claims	within 1 year	within 1 year
Long tail claims in the Pacific Islands	1.05 to 2.36 years	1.05 to 2.45 years
Australian long tail claims	14.5 years	14.1 years
Inwards reinsurance	15.2 years	15.9 years

The following assumptions have been made in determining health insurance net outstanding claims liabilities reclassified as disposal group held for sale:

	2012	2011
Discount rates for succeeding year	2.8% to 3.2%	4.4% to 5.5%
Discount rates for following years	2.8% to 3.2%	4.4% to 5.5%
Claims handling expense ratio	3.4%	1.7%
Risk margin	5%	5%

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

The weighted average expected term to settlement of outstanding claims based on historical trends is:

Short tail claims	2.11 months	1.96 months
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Inflation rate

Insurance costs are subject to inflationary pressures. Inflation assumptions for all general insurance classes of business are based on current economic indicators for the relevant country.

For motor, property and health classes, for example, claim costs are related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs. These costs are expected to increase at a level between appropriate Consumer Price Index (CPI) indices and wage inflation.

Discount rate

General insurance outstanding claims liabilities are discounted at a rate equivalent to that inherent in a portfolio of risk free fixed interest securities with coupon and redemption cash flows exactly matching the projected inflation claim cash flows.

Claims handling expense

The estimate of outstanding claims liabilities incorporates an allowance for the future cost of administering the claims. This allowance is determined after analysing historical claim related expenses incurred by the classes of business.

Risk margin

The outstanding claim liability also includes a risk margin that relates to the inherent uncertainty in the central estimate of the future payments.

Risk margins are determined on a basis that reflects TOWER's business. Regard is given to the robustness of the valuation models, the reliability and volume of available data, past experience of the insurer and the industry and the characteristics of the classes of business written.

Uncertainty in claims is represented as a volatility measure in relation to the central estimate. The volatility measure is derived after consideration of statistical modelling and benchmarking to industry analysis. The measure of the volatility is referred to as the coefficient of variation, defined as the standard deviation of the distribution of future cash flows divided by the mean.

Risk margins are calculated separately for each class of business and aggregated for the portfolio. The risk margin for all classes when aggregated is less than the sum of the individual risk margins. This reflects the benefit of diversification. The measure of the parameter used to derive the diversification benefit is referred to as correlation, which is adopted with regard to industry analysis, historical experience and actuarial judgement.

The risk margins applied to future claims payments are determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability.

The following analysis is in respect of the general and health insurance businesses:

	2012			2011		
	Gross \$000	Reinsurance \$000	Net \$000	Gross \$000	Reinsurance \$000	Net \$000
Reconciliation of movements in discounted outstanding claims liability						
Balance brought forward	522,633	(441,367)	81,266	151,805	(75,446)	76,359
Effect of change in foreign exchange rates	(5,336)	190	(5,146)	(3,565)	1,236	(2,329)
Effect of changes in assumptions	3,480	(657)	2,823	3,205	(579)	2,626
Decrease in claims incurred anticipated over year	(4,092)	-	(4,092)	(2,078)	-	(2,078)
Incurred claims recognised in the income statement	272,789	(44,878)	227,911	612,917	(402,088)	210,829
Claim (payment)/recoveries during the year	(351,120)	130,017	(221,103)	(239,651)	35,510	(204,141)
Reclassified as disposal group held for sale	(10,958)	-	(10,958)	-	-	-
Balance carried forward	427,396	(356,695)	70,701	522,633	(441,367)	81,266
Reconciliation of undiscounted claims to liability for outstanding claims						
Outstanding claims undiscounted	29,720	(3,892)	25,828	49,974	(4,731)	45,243
Discount	(13,874)	1,791	(12,083)	(21,881)	2,739	(19,142)
Outstanding claims	15,846	(2,101)	13,745	28,093	(1,992)	26,101
Short tail outstanding claims			56,956			55,165
Total outstanding claims as per balance sheet			70,701			81,266

(b) Sensitivity analysis

Sensitivity analysis is conducted to quantify the exposure to risk of change in the key underlying variables. The movement in any key variable will impact the performance and equity of the Group. The table below describes how the change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit or loss and equity net of reinsurance to changes in assumptions. The following only includes general insurance liabilities.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

27. General and health insurance business (continued)

Variable	Movement	Change in following financial year's shareholder profit and equity net of reinsurance	
		2012 \$000	2011 \$000
Claim settlement period	+ 0.5 years	(267)	(310)
	- 0.5 years	275	303
Claims expenses ratio	increase of 1%	122	106
	decrease of 1%	(122)	(106)
Inflation rates	increase of 1%	2,074	1,412
	decrease of 1%	(1,685)	(1,176)
Discount rates	increase of 1%	(1,745)	(1,240)
	decrease of 1%	2,119	1,472

(c) Future net cash out flows

The following table shows the expected run-off pattern of net undiscounted outstanding claims.

	2012			2011		
	Health Insurance \$000	General Insurance \$000	Total \$000	Health Insurance \$000	General Insurance \$000	Total \$000
Expected Claims Run Off						
Reclassified as disposal group held for sale	(10,958)	-	(10,958)	-	-	-
Within 3 months	10,958	28,997	39,955	9,688	28,760	38,448
3 to 6 months	-	9,985	9,985	1,021	9,899	10,920
6 to 12 months	-	9,917	9,917	533	9,710	10,243
After 12 months	-	21,802	21,802	71	21,584	21,655
Total	-	70,701	70,701	11,313	69,953	81,266

D RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operations of the general insurance business are affected by a number of key risks including insurance risk, interest rate risk, currency risk, market risk, financial risk, compliance risk, fiscal risk and operational risk, refer to note 29. Notes on the policies and procedures employed in managing these risks in the general insurance business are set out below.

(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The risk management activities include prudent underwriting, pricing, and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance of the insurance operations and to ensure sound business practices are in place for underwriting risks and claims management;

The key processes and controls in place to mitigate risk arising from writing general insurance contracts include:

- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- monitoring natural disasters such as earthquakes, floods, storms and other catastrophes using models; and
- the use of reinsurance to limit the Group's exposure to individual catastrophic risks.

(b) Terms and conditions of insurance contracts that have a material effect on amount timing and uncertainty of cash flows

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. Certain policies within the health insurance business have premium payback clauses that allow for the return of premiums after claim payments. These liabilities are matched with suitable assets.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

(c) Concentration of insurance risk

Risk	Source of concentration	Risk Management measures
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection
Inclusion of multiple classes of casualty business in the one event	Response by a multitude of the Group's policies to the one event, for example a construction liability and professional indemnity policy	Purchase of reinsurance clash protection

(d) Development of claims

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

	Incident year						Total
	Prior	2008	2009	2010	2011	2012	
Ultimate claims cost estimate	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At end of incident year		122,903	121,562	110,692	114,656	114,465	
One year later		123,926	122,349	109,073	128,214	-	
Two years later		123,455	120,918	108,186	-	-	
Three years later		122,985	120,876	-	-	-	
Four years later		122,713	-	-	-	-	
Current estimate of ultimate claims cost		122,713	120,876	108,186	128,214	114,465	
Cumulative payments		(121,847)	(119,786)	(107,251)	(110,271)	(87,368)	
Undiscounted central estimate	21,844	866	1,090	935	17,943	27,097	69,775
Discount to present value	(11,145)	(90)	(103)	(168)	(252)	(571)	(12,329)
Discounted central estimate	10,699	776	987	767	17,691	26,526	57,446
Claims handling expense							7,007
Risk margin							6,248
Net outstanding claims liabilities							70,701
Reinsurance recoveries on outstanding claims liabilities and other recoveries							356,695
Gross outstanding claims liabilities							427,396

E LIABILITY ADEQUACY TEST

Liability adequacy tests are performed to determine whether the unearned premium liability is sufficient to cover the present value of the expected cash flows arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. The future cash flows are future claims, associated claims handling costs and other administration costs relating to the business.

If the unearned premium liability less related deferred acquisition costs exceeds the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate then the unearned premium liability is deemed to be sufficient. The risk margins applied to future claims were determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability using the same methodology as described above.

	Central estimate claim % of premium		Risk Margin	
	2012	2011	2012	2011
General Insurance	42.3%	49.5%	11.4%	10.2%
Health Insurance	60.59%	62.29%	8.75%	8.75%

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

27. General and health insurance business (continued)

Unearned premium liabilities as at 30 September 2012 were sufficient (2011: sufficient).

F INSURER FINANCIAL STRENGTH RATING

TOWER Insurance Limited and TOWER Medical Insurance Limited have insurer financial strength ratings of 'A-' (Excellent) issued by international rating agency A.M. Best Company Inc. with effective dates of 27 July 2012 for TOWER Insurance Limited and 6 September 2012 for TOWER Medical Insurance Limited.

G REINSURANCE PROGRAMME

Reinsurance programmes are structured to adequately protect the general insurance companies' solvency and capital positions. The adequacy of reinsurance cover is modelled on 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.

H NON-CURRENT HEALTH INSURANCE CONTRACT LIABILITY

A number of the Group's health insurance policies have a benefit whereby policyholders receive a proportion of premiums paid less claims received over the life of their policy, 'premium payback', if certain conditions are met. This liability represents a long term health insurance contract liability. The liability was determined based on the discounted value of the accumulated excess of premiums over claims at individual policy level. A liability adequacy test with a risk margin to cover uncertainty in the central estimate is also applied to confirm the sufficiency of the liability in aggregate.

Assumptions Used in the Calculation of the Liability and associated Liability Adequacy Test:

	2012	2011
Liability		
Discount rate for succeeding year	2.28% net of tax	2.77% net of tax
Discount rate for following years	2.28% net of tax	2.77% net of tax
Lapse Rate until 3 years from premium payback date	1% p.a.	1% p.a.
Lapse Rate within 3 years of premium payback date	0% to 1% p.a.	0% to 1% p.a.
Liability Adequacy Test		
Discount rate for succeeding and following years		
Claims and Premium Inflation rate for succeeding and following years	9% p.a.	9% p.a.
Lapse rates	0% to 25% p.a.	0% to 25% p.a.
GST rate	15%	15%
Income Tax rate	28%	28%
Administration expense per member	\$74.00	\$74.20
Expense Inflation for succeeding and following years	2% p.a.	2% p.a.

The table below includes the reconciliation of the liability as at the reporting date.

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Balance at 1 October	53,671	56,212	-	-
New funding	8,776	5,924	-	-
Benefits paid	(12,081)	(11,954)	-	-
Other	2,794	3,489	-	-
Reclassified as disposal group held for sale	(53,160)	-	-	-
Balance at 30 September	-	53,671	-	-

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

(a) Liquidity risk and future net cash outflows

The table below shows the estimated timing of cash outflows resulting from premium payback liabilities.

	Total	Less than one year	One to two years	Two to three years	Three to five years	Over five years
	\$000	\$000	\$000	\$000	\$000	\$000
30 September 2012 (reclassified to disposal group held for sale)	-	-	-	-	-	-
30 September 2011	53,671	9,444	8,475	4,862	7,217	23,673

I SOLVENCY REQUIREMENTS OF GENERAL AND HEALTH BUSINESS

The Minimum Solvency Capital required to be retained to meet solvency requirements are shown below. The Actual Solvency Capital exceeds the minimum requirements by \$39,008,000 for TOWER Insurance and \$16,548,000 for TOWER Medical Insurance.

	TOWER INSURANCE	TOWER MEDICAL INSURANCE
	2012	2012
	\$000	\$000
Actual Solvency Capital	120,902	28,668
Minimum Solvency Capital	81,894	12,120
Solvency Margin	39,008	16,548

The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standard for Non-life Insurance Business published by the Reserve Bank of New Zealand. New solvency requirements become effective this year under the Insurance (Prudential Supervision) Act 2010.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

28. Financial instruments categories

The analysis of financial assets and liabilities into their categories and classes is set out in the following tables.

Group	Total \$000	Loans and receivables \$000	Fair value through profit or loss	
			Designated \$000	Held for trading \$000
As at 30 September 2012				
Financial assets				
Cash and cash equivalents	186,477	186,477	-	-
Reinsurance recoveries receivable	376,427	376,427	-	-
Outstanding premiums and trade receivables	139,235	139,235	-	-
Unsettled investments sale	857	857	-	-
Other receivables	10,928	10,928	-	-
Derivative financial assets	91,026	-	-	91,026
Investment in equity securities	97,617	-	97,617	-
Investment in fixed interest securities	700,609	-	700,609	-
Investment in property securities	55,201	-	55,201	-
Total financial assets	1,658,377	713,924	853,427	91,026
As at 30 September 2011				
Financial assets				
Cash and cash equivalents	223,981	223,981	-	-
Reinsurance recoveries receivable	464,032	464,032	-	-
Outstanding premiums and trade receivables	125,786	125,786	-	-
Unsettled investments sale	596	596	-	-
Other receivables	6,656	6,656	-	-
Derivative financial assets	75,080	-	-	75,080
Investment in equity securities	180,277	-	180,277	-
Investment in fixed interest securities	614,830	-	614,830	-
Investment in property securities	88,538	-	88,538	-
Total financial assets	1,779,776	821,051	883,645	75,080

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

Group	Fair value through profit or loss			Financial liabilities at amortised cost
	Total	Designated	Held for trading	
	\$000	\$000	\$000	\$000
As at 30 September 2012				
Financial liabilities				
Trade payables	22,237	-	-	22,237
Reinsurance payables	8,583	-	-	8,583
Unsettled investment purchases	21	-	-	21
Other payables	12,720	-	-	12,720
Interest bearing liabilities	81,990	-	-	81,990
Derivative financial liabilities	170	-	170	-
Life investment contract liabilities	27,476	27,476	-	-
Total financial liabilities	153,197	27,476	170	125,551

As at 30 September 2011				
Financial liabilities				
Trade payables	22,260	-	-	22,260
Reinsurance payables	12,931	-	-	12,931
Unsettled investment purchases	188	-	-	188
Other payables	12,769	-	-	12,769
Interest bearing liabilities	81,263	-	-	81,263
Derivative financial liabilities	1,903	-	1,903	-
Life investment contract liabilities	28,084	28,084	-	-
Total financial liabilities	159,398	28,084	1,903	129,411

Company	Loans and receivables	
	Total	
	\$000	\$000
As at 30 September 2012		
Financial assets		
Cash and cash equivalents	72,928	72,928
Other receivables	277	277
Related party receivables	1,975	1,975
Total financial assets	75,180	75,180
As at 30 September 2011		
Financial assets		
Cash and cash equivalents	89,939	89,939
Other receivables	330	330
Related party receivables	2,951	2,951
Total financial assets	93,220	93,220

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

28. Financial instruments categories (continued)

Company	Total \$000	Financial liabilities at amortised cost \$000
As at 30 September 2012		
Financial liabilities		
Other payables	1,554	1,554
Related party payables	188,600	188,600
Total financial liabilities	190,154	190,154
As at 30 September 2011		
Financial liabilities		
Other payables	2,014	2,014
Related party payables	196,733	196,733
Total financial liabilities	198,747	198,747

29. Risk management and financial instrument information

The financial condition and operating results of the Group are affected by a number of key financial and non-financial risks. Financial risks include market risk, credit risk, financing and liquidity risk. The non-financial risks include insurance risk, compliance risk and operational risk. The Group's objectives and policies in respect of insurance risks are disclosed in notes 26 and 27, while the managing of financial and other non financial risks are set out in the remainder of this section.

TOWER's objective is to satisfactorily manage these risks in line with the Board approved Group Risk and Compliance framework policy. Various procedures are in place to help identify, mitigate and monitor the risks faced by the Group. Business managers are responsible for understanding and managing their risks including operational and compliance risk. The consolidated entity's exposure to all high and critical risks is reported monthly to the board and quarterly to the Group Audit and Compliance Committee.

The Board has delegated to the Group Audit and Compliance Committee the responsibility to review the effectiveness and efficiency of management processes, internal audit services, group risk management and internal financial controls and systems as part of their duties. A Group Risk and Compliance team is in place in an oversight and advisory capacity and to manage the risk and compliance framework.

Financial risks are generally monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored to ensure that there are no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits.

The Board has delegated to the Group Investment Committee the responsibility for:

- reviewing investment policy for TOWER shareholder and policyholder funds;
- reviewing the risk management policy and statements in respect of investment management, including the derivative policy;
- considering the establishment, adjustment or deletion of limits and

counter-party approvals, and the scope of financial instruments to be used in the management of TOWER's investments;

- reviewing the appointment of external investment managers;
- monitoring investment and fund manager performance; and
- monitoring compliance with investment policies and client mandates.

A MARKET RISK

Market risk is the risk of change in the fair value of financial instruments from fluctuations in the foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market.

The impact of reasonably possible changes in market risk on the Group shareholders' profit and equity is included in (F) below.

(i) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not the Group's functional currency.

TOWER's principal transactions are carried out in New Zealand Dollars and its exposure to foreign exchange risk arises primarily with respect to the Pacific Island General Insurance business, which does not form a significant part of the Group's operations.

TOWER generally elects to not hedge the capital invested in overseas entities, thereby accepting the foreign currency translation risk on invested capital.

The Group Investment Committee sets limits for the management of currency risk arising from its investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to. In accordance with this policy, TOWER does not hedge the currency risk arising from translation of the financial statements of foreign operations.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

The Group enters into forward foreign exchange contracts in accordance with its investment policies as economic hedges of foreign currency exposure in investments in international equities through its holdings in international equities funds. The main foreign currencies exposure of the funds is to Australian and US dollars, Japanese Yen, Euro's and British Pounds. The notional amounts and contractual cash flows of these derivatives are included in (E) below.

(ii) Interest rate risk

Interest rate risk is the risk that the value or future value cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Board is responsible for the management of the interest rate risk arising from external borrowings. As at 30 September 2012 there were no interest rate swaps in place in relation to external borrowings (2011: Nil). The Group manages interest rate risk arising from its interest bearing investments in accordance with Group Investment Committee approved policies.

General insurance

Interest rate risk arises in general insurance to the extent that there is a mismatch between the fixed interest portfolios used to back outstanding claims liabilities and those outstanding claims. Interest rate risk is managed by matching the duration profiles of investment assets and outstanding claim liabilities.

Health insurance

Interest rate risk arises in health insurance to the extent that there is a mismatch between fixed interest portfolios used to back the health non-current liabilities and those health non-current liabilities. Interest rate risk is managed by matching the duration profiles of investment assets and health non-current liabilities.

Life insurance

Interest rate risk and other market risks arise in life insurance to the extent that there is a mismatch between the policyholder liabilities and assets backing those liabilities. These mismatches could impact current period operating profits.

The primary areas of mismatch for the Group's life insurance business are:

- For non-participating life insurance contracts, the mismatch between risk free discount rates used in the policy liability calculations and the backing asset values.
- For a portion of the life investment contract business, the mismatch between the value of the financial instrument liabilities (including the discount rates used in their calculation, if applicable) and the backing asset values.

Interest rate and other market risks are managed by the Group through a strategic asset allocation policy and an investment management policy that has regard to policyholder expectations and risks and to target surplus for solvency as advised by the Chief Actuary.

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The Group is exposed to price risk because of its investments in publicly traded equity securities and other unit trusts.

Price risk is managed by diversification of the investment portfolio, which is done in accordance with the limits set by investment mandates and monitored by the Group Investment Committee.

B CREDIT RISK

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result in changes in credit risk of that instrument.

The Group's exposure to credit risk is limited to deposits and investments held with banks and other financial institutions as well as credit exposure to trade customers or other counterparties. For banks and financial institutions the minimum credit rating accepted by the Group is 'A'. Independent ratings are used for customers that are rated by rating agencies. For customers with no external ratings, internally developed minimum credit quality requirements are applied, which take into account customers' financial position, past experience and other relevant factors. Overall exposure to credit risk is monitored on a group basis in accordance with limits set by the Board.

The Company has no significant exposure to credit risk. The credit exposure in respect of the Company's cash balance is AA.

(i) Credit risk concentration

Concentration of credit risk exists when the Group enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. TOWER manages concentration of credit risk by credit rating, industry type and individual counterparty.

The significant concentrations of credit risk are outlined by industry type below.

	Carrying value	
	2012	2011
	\$000	\$000
New Zealand government	58,965	59,573
Other government agencies	109,141	165,602
Banks	778,296	645,265
Financial institutions	11,466	14,662
Other non-investment related receivable	508,554	579,443
Other industries	39,137	35,278
Total financial assets with credit exposure	1,505,559	1,499,823

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

29. Risk management and financial instrument information (continued)

(ii) Maximum exposure to credit risk

The Group's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements, is as follows:

	Carrying value	
	2012 \$000	2011 \$000
Cash and cash equivalents	186,477	223,981
Loans and receivables	527,447	597,070
Financial assets at fair value through profit or loss	700,609	603,692
Derivative financial assets	91,026	75,080
Total credit risk	1,505,559	1,499,823

For policies with a surrender or investment value, outstanding premiums are supported by the underlying assets invested. When outstanding premiums reach the value of the surrender or investment value, the assets are realised and offset against the outstanding debt. Policies with no surrender value are lapsed when outstanding premiums exceed a set value and the outstanding premiums are written off. The fully secured balance for the year ended 30 September 2012 is \$28,778,387 (2011: 29,491,346).

(iii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

Credit exposure by credit rating		
AAA	315,839	213,948
AA	605,413	589,169
A	21,850	16,142
BBB	-	578
Below BBB	15,579	4,851
Total counterparties with external credit rating by Standard and Poor's	958,681	824,688
Group 1	486,671	558,949
Group 2	-	537
Group 3	38,712	95,693
Total counterparties with no external credit rating	525,383	655,179
Total financial assets neither past due nor impaired with credit exposure	1,484,064	1,479,867

Group 1 - trade debtors outstanding for less than 6 months

Group 2 - trade debtors outstanding for more than 6 months with no defaults in the past

Group 3 - unrated investments

TOWER invests in a number of Pacific region investment markets through its Pacific Islands operations to comply with local statutory requirements and in accordance with TOWER investment policies. These investments relate to the general insurance business of the Group and generally have low credit ratings representing the majority of the value included in the 'Below BBB' and unrated categories above.

(iv) Financial assets that would otherwise be past due whose terms have been renegotiated

None of the financial assets that are fully performing have been renegotiated in the past year (2011: Nil).

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

(v) *Financial assets that are past due but not impaired*

The Group considers that financial assets are past due if payments have not been received when contractually due. At the reporting date, the total of carrying value of past due but not impaired assets held by the Group is as follows:

	Past due but not impaired				Total
	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	
	\$000	\$000	\$000	\$000	
As at 30 September 2012					
Reinsurance recoveries receivable	2,854	1,113	853	2,750	7,570
Outstanding premiums and trade receivables	8,250	3,428	1,679	568	13,925
Total	11,104	4,541	2,532	3,318	21,495
As at 30 September 2011					
Reinsurance recoveries receivable	2,494	1,307	729	2,532	7,062
Outstanding premiums and trade receivables	4,063	3,188	2,023	3,620	12,894
Total	6,557	4,495	2,752	6,152	19,956

The parent company does not have past due financial assets as at 30 September 2012 (2011: Nil).

(vi) *Financial assets that are individually impaired*

	Carrying value	
	2012	2011
	\$000	\$000
Outstanding premiums and trade receivables	-	-
Total	-	-

For policies with a surrender or investment value, outstanding premiums are supported by the underlying assets invested. When outstanding premiums reach the value of the surrender or investment value, the assets are realised and offset against the outstanding debt. Policies with no surrender value are lapsed when outstanding premiums exceed a set value and the outstanding premiums are written off. The secured balance for the year ended 30 September 2012 is \$28,778,387 (2011: 29,491,346).

C FINANCING AND LIQUIDITY RISK

Financing and liquidity risk is the risk that the Group will not be able to meet its cash outflows or refinance debt obligations, as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

To mitigate financing and liquidity risk the Group treasury function maintains sufficient liquid assets to ensure that the Group can meet its debt obligations and other cash outflows on a timely basis.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

29. Risk management and financial instrument information (continued)

(i) Financial liabilities and guarantees by contractual maturity

The table below summarises the Group's financial liabilities and guarantees into relevant maturity groups based on the remaining period at the balance date to the contractual maturity date. All amounts disclosed are contractual undiscounted cash flows that include interest payments and exclude the impact of netting agreements.

Group	Carrying value \$000	Total contractual cash flows \$000	Less than one year \$000	One to two years \$000	Two to four years \$000	Over five years \$000	On demand \$000
As at 30 September 2012							
Financial liabilities and guarantees							
Trade payables	22,237	22,237	22,237	-	-	-	-
Reinsurance payables	8,583	8,583	8,583	-	-	-	-
Unsettled investment purchases	21	21	21	-	-	-	-
Other payables	12,720	12,720	12,720	-	-	-	-
Derivative financial liabilities ⁽¹⁾	170	5,599	5,498	67	34	-	-
Interest bearing liabilities	81,990	92,460	6,950	85,510	-	-	-
Life investment contract liabilities	27,476	27,476	-	-	-	-	27,476
Funds invested guarantee	880	880	-	-	-	-	880
Total financial liabilities and guarantees	154,077	169,976	56,009	85,577	34	-	28,356
As at 30 September 2011							
Financial liabilities and guarantees							
Trade payables	22,260	22,260	22,260	-	-	-	-
Reinsurance payables	12,931	12,931	12,931	-	-	-	-
Unsettled investment purchases	188	188	188	-	-	-	-
Other payables	12,769	12,769	12,434	253	-	82	-
Derivative financial liabilities ⁽¹⁾	1,903	91,417	91,417	-	-	-	-
Interest bearing liabilities	81,263	99,410	6,950	6,950	-	85,510	-
Life investment contract liabilities	28,084	28,084	-	-	-	-	28,084
Funds invested guarantee	958	958	-	-	-	-	958
Total financial liabilities and guarantees	160,356	268,017	146,180	7,203	-	85,592	29,042

(1) Please see note 29E for total cash flows for forward foreign exchange contracts.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

Company	Carrying value \$000	Total contractual cash flows \$000	Less than one year \$000	On demand \$000
As at 30 September 2012				
Financial liabilities				
Related party payables	188,600	188,600	-	188,600
Other payables	1,554	1,554	1,554	-
Total financial liabilities	190,154	190,154	1,554	188,600
As at 30 September 2011				
Financial liabilities				
Related party payables	196,733	196,733	-	196,733
Other payables	2,014	2,014	2,014	-
Total financial liabilities	198,747	198,747	2,014	196,733

D FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value of financial instruments traded in active markets is based on quoted market prices at balance date. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Valuation techniques used to value life investments contract liabilities are described in notes 26. Refer below for details of valuation methods used for each remaining category of financial assets and liabilities.

The carrying amounts of all financial assets and liabilities reasonably approximate their fair values with the exception of senior unsecured bonds which is disclosed in note 18.

The following methods and assumptions were used by TOWER in estimating the fair values of financial instruments.

(i) Cash and cash equivalents

The carrying amount of cash and cash equivalents reasonably approximates its fair value.

(ii) Financial assets at fair value through profit or loss and held for trading

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted price at the reporting date.

(iii) Loans and receivables and other financial liabilities held at amortised cost

Carrying values of loans and receivables, adjusted for impairment values, and carrying values of other financial liabilities held at amortised cost reasonably approximate their fair values.

(iv) Derivative financial liabilities

The fair value of derivative financial liabilities is determined by reference to the quoted market price of the underlying equity securities

(v) Interest bearing liabilities

The fair value of senior unsecured bonds is determined by reference to the quoted market price of the underlying debt securities.

Financial instruments that are measured in the balance sheet at fair value (excluding short term amounts held at a reasonable approximation of fair value), are categorised by the following fair value measurement hierarchy levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – Inputs for that asset or liability that are not based on observable market data (i.e. unobservable inputs)

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

29. Risk management and financial instrument information (continued)

The following tables present the Group's assets and liabilities categorised by fair value measurement hierarchy levels.

Group	Total \$000	Level 1 \$000	Level 2 \$000	Level 3 \$000
As at 30 September 2012				
Assets				
Derivative financial assets	91,026	-	91,026	-
Investment in equity securities	97,617	46,334	48,032	3,251
Investments in fixed Interest securities	700,609	-	700,609	-
Investments in property securities	55,201	-	55,201	-
Total financial assets	944,453	46,334	894,868	3,251
Liabilities				
Derivative financial liabilities	170	-	170	-
Life investment contract liabilities	27,476	-	27,476	-
Total financial liabilities	27,646	-	27,646	-
As at 30 September 2011				
Assets				
Derivative financial assets	75,080	-	75,080	-
Investment in equity securities	180,277	48,934	131,343	-
Investments in fixed Interest securities	614,830	-	614,830	-
Investments in property securities	88,538	-	88,538	-
Total financial assets	958,725	48,934	909,791	-
Liabilities				
Derivative financial liabilities	1,903	-	1,903	-
Life investment contract liabilities	28,084	-	28,084	-
Total financial liabilities	29,987	-	29,987	-

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the

use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. At 30 September 2012, the level 3 category includes an investment in equity securities of \$3,251,000. Previously these investments were included in level 2 and were immaterial. This investment is unlisted and its fair value is calculated based on the net assets of the investment as per its most recently available financial information.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

The following table represents the changes in Level 3 instruments for the year ended 30 September 2012.

	Investment in equity securities \$000
Opening balance	-
Total gains and losses recognised in profit and loss	1,119
Transfers in/out	2,132
Closing balance	3,251

The following table shows the sensitivity of Level 3 measurements to reasonably possible favourable or unfavourable changes in assumptions used to determine the fair value of the financial asset. If the market value of the investment in equity securities were to change by +/-10% the impact is outlined below:

	Carrying amount \$000	Favourable change of 10% \$000	Unfavourable changes of 10% \$000
Investment in equity securities	3,251	325	(325)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for remaining financial instruments.

E DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises derivative financial instruments to reduce investment risk. Specifically, derivatives are used to achieve cost effective short-term re-weightings of asset class, sector and security exposures and to

hedge portfolios, as an economic hedge, when a market is subject to significant short-term risk.

Derivative financial instruments used by the Group include interest rate swaps and foreign exchange forward contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair values of interest rate swaps are calculated by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates. The average interest rate is based on the outstanding balances at the start of the financial year.

The table below details the notional principal amounts (amounts used to calculate payments made on swap contracts), fair values and remaining terms of interest rate swap contracts outstanding as at reporting date:

	Average contracted fixed		Notional principal amount		Fair value	
	2012	2011	2012	2011	2012	2011
	%	%	\$000	\$000	\$000	\$000
Less than 1 year	0%	4%	-	2,000	-	12
1 to 2 years	0%	0%	-	-	-	-
2 to 5 years	3%	0%	10,400	-	-	-
over 5 years	7%	6%	360,588	404,700	91,026	75,068
			370,988	406,700	91,026	75,080

Foreign exchange forward contracts are settled on a gross basis. All contracts mature within 12 months of the reporting date and their carrying values reasonably approximate undiscounted cash flows because the impact of discounting is not significant.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

29. Risk management and financial instrument information (continued)

Group	Total contractual cash flows \$000	Less than one year \$000
As at 30 September 2012		
Forward foreign exchange contracts		
Outflow	(62,948)	(62,948)
Inflow	63,173	63,173
As at 30 September 2011		
Forward foreign exchange contracts		
Outflow	91,417	91,417
Inflow	89,514	89,514

F SENSITIVITY ANALYSIS

The analysis below demonstrates the impact of changes in interest rates, exchange rates and equity prices on the Group's shareholder profit after tax and equity. The analysis is based on changes in economic conditions that are considered reasonably possible at the reporting date. The potential impact is assumed as at the reporting date.

(i) Interest rate

The impact of a 50 basis point change in New Zealand and international interest rates as at the reporting date on the Group's profit after tax and equity is included in the table below. The sensitivity analysis assumes changes in interest rates only. All other variables are held constant.

	2012		2011	
	Impact on		Impact on	
	profit after tax \$000	equity \$000	profit after tax \$000	equity \$000
Change in variables				
+50 basis points	(3,145)	(3,145)	(5,055)	(5,055)
-50 basis points	3,262	3,262	5,213	5,213

This analysis assumes that the sensitivity applies to the closing market yields of fixed interest investments. A parallel shift in the yield curve is assumed.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the reporting period included in the analysis.

The impact of changes in market interest rates presented here excludes insurance contract liabilities, which are also affected by the changes in market interest rates that determine the discount rates applicable to these contracts.

The table below provides a sensitivity analysis in respect of changes in interest rates as applied to insurance contract liabilities. A combined effect is necessary to appreciate the sensitivity of the Group's profit to movements in interest rates.

Change in variables				
+50 basis points	(4,375)	(4,375)	(3,331)	(3,331)
-50 basis points	4,343	4,343	3,331	3,331

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

Sensitivity to interest rates has been assessed by reference to internal investigations of the movement in insurance contract liabilities to movements in discount rates consistent with that used for internal management reporting.

(ii) Foreign currency

The table below demonstrates the impact of a 10% movement of currency rates against the New Zealand dollar on the Group's shareholder profit after tax and equity. The analysis assumes changes in foreign currency rates only, with all other variables held constant. The potential impact on the profit and equity of the Group is due to the changes in fair value of currency sensitive monetary assets and liabilities as at the reporting date.

	2012		2011	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
	\$000	\$000	\$000	\$000
Change in variables				
10% appreciation of New Zealand dollar	970	(10,435)	(56)	(56)
10% depreciation of New Zealand dollar	(1,182)	12,757	56	56

The dollar impact of the change in currency movements is determined by applying the sensitivity to the value of the unhedged international assets.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the reporting period included in the analysis.

(iii) Equity price

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The Group holds all of its equities at fair value through profit or loss.

The table below demonstrates the impact of a 10% movement in New Zealand equities on the profit after tax and equity of the Group. The potential impact is assumed as at the reporting date. The analysis below excludes investment linked business, which is disclosed in note 39. Investment linked business can be excluded because any asset movement will flow through to the policyholder.

Change in variables				
+10% in New Zealand equities	44	44	133	133
-10% in New Zealand equities	(44)	(44)	(133)	(133)

The dollar impact of the change in New Zealand equities is determined by applying the sensitivity to the value of New Zealand equities.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the two reporting periods included in the analysis.

(iv) Other price

Other price sensitivity includes sensitivity to unit price fluctuations. Unit price risk is the risk that the fair value of investments in property fund units and international equities held in unit trusts will decrease as a result of changes in the value of these units. The Group holds all of its investments in property securities, international equities and other unit trusts at fair value through profit or loss.

The table below demonstrates the impact of a 10% movement in the value of property funds, international equities and other unit trusts on the profit after tax and equity of the Group. The potential impact is assumed as at the reporting date.

Change in variables				
+10% property funds and other unit trusts	787	787	1,498	1,498
-10% property funds and other unit trusts	(787)	(787)	(1,498)	(1,498)
+10% in International equities	130	130	5,059	5,059
-10% in International equities	(130)	(130)	(5,059)	(5,059)

International equity assets are held via a unit trust which invests in a number of different countries. The sensitivity for each individual country is small so a breakdown by country has not been provided.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the two reporting periods included in the analysis.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

30. Capital risk management

The Group's objective when managing capital is to ensure that the Group's level of capital is sufficient to enable it to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders of the Group.

The Group's capital resources include ordinary equity and interest bearing liabilities.

	Group	
	2012	2011
	\$000	\$000
Interest bearing liabilities (Note 18)	81,990	81,263
TOWER shareholder equity	497,346	452,991
Total capital resources	579,336	534,254

The Group measures adequacy of their capital against published capital standards. The Group applies the Solvency Standards for Life Insurance Business and Non-life Insurance Business ("the solvency standards") published by the Reserve Bank of New Zealand.

From 31 December 2012 the Group will be required to retain the following fixed capital under the solvency standards:

- TOWER Health and Life Limited – \$5,000,000
- TOWER Life New Zealand Limited – \$5,000,000
- TOWER Medical Insurance Limited – \$3,000,000
- TOWER Insurance Limited – \$3,000,000

From 31 December 2012 the Group will be required to maintain a

solvency margin of \$ nil for each of the above entities. From this date actual solvency capital as determined under the solvency standards should be at or above the minimum solvency capital level. The amount retained as minimum solvency capital is shown in Note 26 (C) and Note 27 (I).

During the year ended 30 September 2012 the Group complied with all externally imposed capital requirements.

The Group is required to hold assets in excess of the levels specified by the various standards to ensure that they continue to meet the minimum requirements under a reasonable range of adverse scenarios. The Group's capital management strategy forms part of the Group's broader strategic planning process overseen by the Group Audit and Compliance Committee.

31. Operating leases

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
As lessee				
Rent paid under non-cancellable operating leases during the year	4,227	4,029	-	-
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
Not later than one year	5,694	5,238	-	-
Later than one year and not later than five years	2,524	6,527	-	-
Later than five years	553	16	-	-
	8,771	11,781	-	-

Operating lease payments represent the future rentals payable for office space under current leases. Leases are for an average of four years with rental rates reviewed every three to six years.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

32. Cash and cash equivalents

A RECONCILIATION OF CASH AT THE END OF THE YEAR

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Cash at bank and in hand	22,763	8,990	2,448	2,201
Deposits at call	163,714	214,991	70,480	87,738
Total cash and cash equivalents	186,477	223,981	72,928	89,939

The effective interest rate for deposits at call is 3.0% (2011: 3.0%). The balances primarily mature within three months of balance date.

B RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Profit after tax for the year	55,824	33,380	20,390	20,013
Add/(less) non-cash items				
Depreciation of property, plant and equipment	2,207	3,588	-	-
Amortisation of software	2,697	2,307	-	-
Change in life insurance and life investment contract liabilities	5,783	(39,980)	-	-
Unrealised gain on financial assets	(20,258)	(2,180)	-	-
Share based payments expense and movement in fair value of employee share option derivative	92	1,082	-	-
Decrease in deferred tax	8,198	1,572	-	-
(Gain)/loss on disposal of property, plant and equipment	(131)	364	-	-
	54,412	133	20,390	20,013
Add/(less) movements in working capital (excluding the effects of exchange differences on consolidation)				
Decrease/(increase) in receivables	64,434	(390,839)	53	(21)
(Decrease)/Increase in payables	(66,013)	383,316	1,709	1,559
Decrease in taxation	16,958	2,083	-	-
	15,379	(5,440)	1,762	1,538
Add other items classified as financing activities				
Decrease in capitalised costs	727	661	-	-
Net cash inflow/(outflow) from operating activities	70,518	(4,646)	22,152	21,551

33. Contingent liabilities

The Group has no contingent liabilities as at reporting date (2011: Nil). The Group is occasionally subject to claims and disputes as a commercial outcome of conducting its insurance and investment businesses. 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.

34. Capital commitments

The Group has capital commitments of approximately \$6,792,000 at reporting date related to software under development (2011: Nil).

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

35. Share based payments

The Company has four active executive share option schemes. Each is equity settled and has differing conditions which are set out in the tables below. The exercise prices are set at the average of the share price for the 5 days before grant date. Subject to the discretion of the Board, options are forfeited if an employee leaves the Group before the options vest.

Vesting requirements of each tranche include service and performance

conditions. The performance condition is based on a market condition such as total shareholder return achieved at the end of each reporting period. Tranche E is also subject to a non-market based performance hurdle. The holders of the options are not entitled to dividend or have other shareholder benefits, including voting rights.

The grant date fair value for options was estimated by using a binomial pricing model. The main inputs to the model were as follows:

Terms of share schemes	Tranche D	Tranche E	Tranche F	Tranche G	Tranche I
Exercise price after rights issue	\$2.46	\$1.94	\$2.10	\$1.38	\$1.93
Grant date	4-Apr-06	1-Oct-06	11-Dec-07	5-Dec-08	22-Dec-09
Vesting date	3-Apr-09	16-Oct-09	1-Dec-10	1-Dec-11	3-Dec-12
Expiry date	4-Apr-12	16-Oct-12	1-Dec-13	1-Dec-14	2-Dec-15
Expected volatility	20%	20%	20%	40%	30%
Risk free rate	5.71%	5.71%	5.71%	4.88%	6.03%
Amount expensed during 2012 year (\$000)	-	-	-	11	81
Amount expensed during 2011 year (\$000)	-	-	43	46	45

Expected volatility was determined by looking at the performance of the share price over a number of periods ranging from six months to two years adjusted to remove significant impacts arising from one off events.

The expected life is based on best estimates of management allowing for

non-transferability, exercise restrictions and behavioural considerations. No share options were issued in 2012 (2011: Nil).

The following reconciles the share options outstanding at the beginning and end of the year.

30 September 2012	Number of options					Weighted average exercise price
	Tranche D	Tranche E	Tranche F	Tranche G	Tranche I	
Outstanding at start of year	300,000	3,000,000	500,000	200,000	300,000	\$1.97
Forfeited	(300,000)	-	(200,000)	-	-	\$2.32
Outstanding at the end of the year	-	3,000,000	300,000	200,000	300,000	\$1.92
Exercisable at the end of the year	-	3,000,000	300,000	200,000	-	\$1.92

30 September 2011	Number of options				Weighted average exercise price
	Tranche B	Tranche C	Tranche D	Tranche E	
Outstanding at start of year	300,000	300,000	500,000	3,000,000	\$1.97
Forfeited	-	-	(200,000)	-	\$1.96
Exercised	(300,000)	(300,000)	-	-	\$2.04
Outstanding at the end of the year	-	-	300,000	3,000,000	\$1.97
Exercisable at the end of the year	-	-	300,000	3,000,000	\$2.00

	Number of options				Weighted average exercise price
	Tranche F	Tranche G	Tranche H	Tranche I	
Outstanding at start of year	1,000,000	400,000	100,000	600,000	\$1.97
Forfeited	(500,000)	(200,000)	(100,000)	(300,000)	\$1.96
Outstanding at the end of the year	500,000	200,000	-	300,000	\$1.97
Exercisable at the end of the year	500,000	200,000	-	-	\$2.00

Tranches D to G have been fully vested as at 30 September 2012. No share options were exercised in 2012. The weighted average share price at the date of exercise of share options in 2011 was \$2.02.

The range of exercise prices for options outstanding as at 30 September 2012 is \$1.38 to \$2.10 (2011: \$1.38 to \$2.46) and the weighted average remaining contractual life is 0.5 years (2011: 1.4 years).

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

36. Transactions and balances with related parties

The Group holds a number of equity securities portfolios across a large number of New Zealand and overseas entities. A significant part of these investments are held by TOWER Life (NZ) Limited for the purposes of meeting the requirements of the life insurance business of the Group. These portfolios, which are managed by specialist investment managers within TOWER, may from time to time include investments in companies that themselves have a shareholding in the Group.

Guinness Peat Group Plc (GPG) holds approximately 34% of TOWER's shares, which makes it a related party to the Group. The Group did not

have any material transactions or balances with GPG during the year, other than in the normal course of its investment activities, as discussed above.

A SUBSIDIARIES

During the year there have been transactions between TOWER Limited and its subsidiaries. Balances outstanding are interest free and payable on demand.

Related party receivable and payable balances of TOWER Limited at the reporting date were as follows:

Related party	2012 \$000	2011 \$000	Nature of Relationship	Type of Transaction
TOWER Financial Services Group Limited	(178,453)	(178,453)	Subsidiary	Advance
TOWER New Zealand Limited	(10,147)	(18,280)	Subsidiary	Advance
TOWER consolidated tax group members	1,975	1,945	Subsidiary	Tax losses
TOWER Option Scheme Limited	-	1,006	Subsidiary	Advance

The receivable owing from the TOWER consolidated tax group members in 2012 of \$1,975,000 (2011: \$1,945,000) represents the benefit of tax losses offset by TOWER Limited as a member of the TOWER consolidated tax group. All subsidiary companies incorporated in New Zealand listed in note 13, except for TOWER Investments Limited and TOWER Option Scheme Limited are members of the TOWER consolidated tax group.

TOWER Limited enters into transactions with its related parties in the normal course of business. Transactions during the year included partial settlement of intercompany balances and intercompany dividends as shown below:

TOWER New Zealand Limited	(8,133)	699	Subsidiary	Settlement/Advance
TOWER Financial Services Group Limited	18,960	18,000	Subsidiary	Dividend
TOWER Option Scheme Limited	1,006	608	Subsidiary	Settlement/Advance
TOWER Health & Life Limited	(8,331)	-	Subsidiary	Group tax loss offset
TOWER Medical Insurance Limited	7,919	-	Subsidiary	Group tax loss offset
TOWER Life (NZ) Limited	10,548	-	Subsidiary	Group tax loss offset
TOWER Managed Funds Limited	2,543	-	Subsidiary	Group tax loss offset
TOWER Insurance Limited	(1,391)	-	Subsidiary	Group tax loss offset
TOWER New Zealand limited	(5,030)	-	Subsidiary	Group tax loss offset
TOWER Asset Management Limited	2,888	-	Subsidiary	Group tax loss offset
TOWER Option Scheme Limited	9	-	Subsidiary	Group tax loss offset
TOWER Financial Services Group Limited	(8,338)	-	Subsidiary	Group tax loss offset
TOWER Capital Limited	709	-	Subsidiary	Group tax loss offset

B TRUSTS ADMINISTERED AND MANAGED BY THE GROUP

During the year the Group received investment management and other fees of \$24,918,000 (2011:\$ 26,694,000) from the following Trusts administered and managed by the Group:

Future Plan	Bond Plus Mortgage Plus	TOWER KiwiSaver
Freedom Plan	TOWER International Equity	TOWER Multi Sector
TOWER Cash Fund	Focus Int'l Equity	Investment Linked Superannuation Fund
GAM Global Gateway	TOWER NZ Equity Trust	TOWER LifeSaver
GAM Multi-trading Fund	TOWER Global Fund	TOWER Property Fund

All fees were calculated in accordance with the relevant management agreements pertaining to the related party involved.

Amounts receivable as at 30 September 2012 due from the related parties above were \$2,209,000 (2011: \$2,577,000).

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

36. Transactions and balances with related parties (continued)

C KEY MANAGEMENT PERSONNEL COMPENSATION

The remuneration of key management personnel during the year was as follows:

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Salaries and other short-term employee benefits paid	3,342	4,222	-	-
Termination benefits	273	613	-	-
Share based payments	89	76	-	-
Independent directors fees	600	632	600	632
	4,304	5,543	600	632

Information regarding individual directors and executives compensation is provided in the Corporate Governance section of the Annual Report.

D LOANS TO KEY MANAGEMENT PERSONNEL

There have been no loans made to directors of the Company and other key management personnel of the Group, including their personally related parties (2011: Nil).

E OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management also hold various policies and accounts with TOWER Group companies. These are operated in the normal course of business on normal customer terms.

37. Disclosures on asset restrictions and managed assets

Restrictions on assets

Investments and other assets held in each of the life insurance companies can only be used to meet the liabilities and expenses of that company, to acquire investments to further the business of the company or as distributions to shareholders. Distributions may be made to shareholders only when regulatory capital requirements are met and sufficient equity remains for the ongoing operation of the business.

Managed assets

TOWER conducts investment and other fiduciary activities that result in the holding or placing of assets on behalf of individuals, managed funds, trusts, retirement benefit plans and other institutions. These assets are not the property of TOWER and accordingly are not included in these financial statements.

The value of assets subject to funds management and other fiduciary activities were:

	Group	
	2012	2011
	\$000	\$000
Superannuation funds	1,527,930	1,338,846
Unit trust and group investment funds	1,964,919	1,919,795
Total assets under management	3,492,849	3,258,641

TOWER life companies hold funds under management of \$731,887,000, making total funds under management of \$4,224,736,000.

Arrangements are in place to ensure that the asset management activities of these funds continue to be managed separately from TOWER's financial services and life insurance operations.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

38. Guaranteed returns on funds invested – life insurance companies

TOWER or its subsidiaries guarantee capital contributed by policyholders together with any declared dividends for the following funds. At balance date the policy liabilities of these funds were:

	Group	
	2012	2011
	\$000	\$000
VITAL Investment Account and VITAL Retirement Account	880	958
Total	880	958

39. Investment linked and non-investment linked business of life insurance companies

	Group			
	2012		2011	
	Investment linked	Non- investment linked	Investment linked	Non- investment linked
	\$000	\$000	\$000	\$000
Investment assets	27,476	838,347	28,084	799,841
Other assets	-	17,617	-	20,026
Policyholder liabilities	(27,476)	(591,457)	(28,084)	(587,477)
Other liabilities	-	(57,906)	-	(52,061)
Net assets	-	206,601	-	180,329
Retained earnings	-	189,065	-	176,967
Net premium revenue	-	74,241	-	68,097
Investment revenue	3,177	98,892	(193)	45,709
Net claims expense	-	(67,407)	-	(70,096)
Other operating expenses	(183)	(43,175)	(238)	(44,918)
Change in policyholder liabilities	(2,408)	(6,470)	834	28,178
Operating profit before taxation	586	56,081	403	26,970
Taxation (expense)/credit	(325)	(23,612)	(131)	(6,043)
Operating profit/(deficit) after taxation	261	32,469	272	20,927

Investment revenue allocated to policyholders was \$3,177,000 (2011: \$193,000).

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

40. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributed to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by dividing the net profit attributed to shareholders of the Company by the weighted average number of ordinary shares on issue during the year adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

There was no dilutive impact of outstanding share options on basic earnings per share for 2012 (2011: Nil).

	Group	
	2012	2011
	\$000	\$000
Profit attributable to shareholders	55,339	33,066
	Number of shares	Number of shares
Weighted average number of ordinary shares for basic and diluted earnings per share	266,639,339	263,042,500
	Cents	Cents
Basic and diluted earnings per share from continuing operations	15.78	8.91
Basic and diluted earnings per share from discontinued operations	4.97	3.66

41. Life insurance liability discount

Profit after tax includes movements in the discount rate applied to value individual life risk policy liabilities which is based on current risk-free interest rates. The decline in risk-free interest rates led to a change in the value of individual life risk policy liabilities, generating a net gain of \$9,001,000 for the year (2011: \$2,394,000). The movement in the discount rate during the 2012 and 2011 periods impacted the individual life risk policy liabilities and increased the Group profit after tax.

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Profit for the year	42,574	23,749	20,390	20,013
Includes:				
Discount rate effect before tax - (gain)	(12,502)	(3,420)	-	-
Income tax on discount rate effect	3,501	1,026	-	-
Discount rate effect after tax - (gain)	(9,001)	(2,394)	-	-
Profit excluding discount rate	33,573	21,355	20,390	20,013

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

42. Business combination

On 24 September 2012, TOWER Life (N.Z.) Limited moved from 52% to 100% ownership of the units in TAM International Income Fund (the Fund), a unitised equity investment trust.

The Fund is held for the benefit of policyholders, and reported revenues of (\$967,000) and a net loss of (\$1.04 million) during the 6 day period from 24 September 2012 to 30 September 2012. If the increase in units held to 100% had occurred on 1 October 2011, revenues from the Fund would have been \$19.2m and profit would have been \$19.8m.

No cash was paid as consideration for the additional ownership. Control was obtained through the withdrawal of funds by other members of the Fund. The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
	\$000	\$000
Cash and cash equivalents	3,389	3,389
Receivables	1,857	1,857
Financial assets at fair value through profit and loss	161,669	161,669
Other assets - intercompany receivable	11	11
Deferred tax asset	11,693	11,693
Total assets	178,619	178,619
Payables	84,352	84,352
Total liabilities	84,352	84,352
Net assets	94,267	94,267

43. Impact of Christchurch earthquakes

For the year ended 30 September 2012, the income statement includes gross incurred claims of \$7,752,108 less reinsurance recoveries of \$1,859,292 in respect of the 23 December 2011 earthquake, resulting in a pre tax net claims expense of \$5,892,816. For the 4 September 2010, 22 February 2011 and 13 June 2011 earthquakes, the 2012 income statement includes gross incurred claims of \$53,836,695 less reinsurance recoveries of \$40,836,695 resulting in a pre tax net claims expense of \$13,000,000. Comparative income statement figures for the prior year ended 30 September 2011 include gross incurred claims of \$402,045,000 less reinsurance recoveries of \$386,834,000 resulting in a net amount of \$15,211,000 representing incurred claims expenses for 4 September 2010, 22 February 2011 and 13 June 2011 earthquakes.

In October 2012, TOWER Limited confirmed the successful placement of its reinsurance programme for the 2012/13 financial year. The programme again involves reinsurance cover for two catastrophe events. TOWER has continued to enhance its reinsurance programme, with the limit for 2012/13 increased to \$525 million per event (the excess for an event in 2012/13 is \$11.7 million compared with \$6.7 million for the 2011/12 programme).

44. Subsequent events

Dividend declared

On 29 November 2012 the Directors declared a dividend of 6 cents per share. There will be no imputation credits attached to the dividend. The dividend will be paid on 1 February 2013 (Payment Date) to all shareholders on the register as at 5pm on Friday, 18 January 2013 (Record Date). The estimated dividend payable is \$16,145,466.

TOWER will not be operating the Dividend Reinvestment Plan for the final dividend.

TOWER will withhold resident and non-resident withholding tax where applicable.

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

45. Discontinued operations and disposal group

TOWER Medical Insurance Limited held for sale

On 2 November 2012, TOWER Limited announced the sale of its health insurance business, TOWER Medical Insurance Limited to Australian health insurer, nib holdings limited for approximately \$102 million. The sale followed a strategic review of TOWER Group's businesses announced earlier in the year. The sale, which is subject to certain conditions customary for a transaction of this type, is expected to settle prior to 31 December 2012. The sale of TOWER Medical Insurance Limited has resulted in the health insurance business segment being treated as a discontinued operation of the Group.

The operating results and financial position of TOWER Medical Insurance Limited have been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as a disposal group held for sale. A more detailed breakdown of the financial performance, position and cash flows of TOWER Medical Insurance Limited is presented below.

The results of the disposal group reclassified as held for sale were as follows:

	2012	2011
	\$000	\$000
Premium revenue from insurance contracts	146,230	140,603
Less: Outwards reinsurance expense	-	-
Net premium revenue	146,230	140,603
Investment revenue	5,761	5,933
Net operating revenue	151,991	146,536
Claims expense	97,199	97,072
Net claims expense	97,199	97,072
Decrease in policy liabilities	(510)	(2,542)
Management and sales expenses	36,899	38,225
Net claims and operating expenses	133,588	132,755
Profit before taxation	18,403	13,781
Income tax expense	5,153	4,150
Profit after tax from discontinued operations	13,250	9,631
Cash flows of disposal group held for sale:		
Operating cash inflow/(outflow)	10,782	(10,713)
Investing cash (outflow)/inflow	(18,691)	21,973
Financing cash (outflow)	(7,000)	-
Total cash (outflow)/inflow	(14,909)	11,260

TOWER Limited Notes to the Financial Statements

For the year ended 30 September 2012

	2012
	\$000
Assets	
Cash and cash equivalents	13,257
Receivables	2,576
Financial assets at fair value through profit or loss	88,914
Derivative financial assets	3,318
Deferred commission	9,530
Deferred acquisition costs	22,367
Deferred tax asset	14,517
Attributed goodwill ⁽¹⁾	13,067
Total assets	167,546
Liabilities	
Payables	1,834
Current tax liability	234
Insurance liabilities	26,397
Derivative financial liability	34
Deferred tax liability	8,931
Premium payback liability	53,161
Total liabilities	90,591
Net assets	76,955

(1) Goodwill which is allocated to the health business has been included within the disposal group held for sale as attributed goodwill.

TOWER Capital Limited

Financial Statements

For the financial year ended 30 September 2012

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TOWER Capital Limited Independent Auditor's Report

For the year ended 30 September 2012



Independent Auditors' Report to the shareholder of TOWER Capital Limited

Report on the Financial Statements

We have audited the financial statements of TOWER Capital Limited on pages 130 to 143, which comprise the balance sheet as at 30 September 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, TOWER Capital Limited other than in our capacities as auditors and providers of other assurance, taxation and advisory services. These services have not impaired our independence as auditors of the Company.

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TOWER Capital Limited Independent Auditor's Report

For the year ended 30 September 2012



Independent Auditors' Report

TOWER Capital Limited

Opinion

In our opinion, the financial statements on pages 130 to 143:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company as at 30 September 2012, and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2012:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholder, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholder those matters which we are required to state to them in an auditors' 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 shareholder, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

Chartered Accountants
28 November 2012

Auckland

TOWER Capital Limited Statement of Comprehensive Income

For the year ended 30 September 2012

	Note	2012 \$000	2011 \$000
Investment revenue			
Interest income	4	8,176	8,209
Total investment revenue		8,176	8,209
Operating expenses			
Operating expenses		20	20
Total operating expenses		20	20
Financing costs			
Interest expense		6,950	6,951
Amortisation of capitalised costs		727	661
Total financing costs		7,677	7,612
Profit before tax		479	577
Income tax expense	5(a)	(134)	(173)
Total profit and comprehensive income for the year attributed to shareholders		345	404

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

TOWER Capital Limited Balance Sheet

As at 30 September 2012

	Note	2012 \$000	2011 \$000
Assets			
Cash and cash equivalents		-	953
Related party receivables	6	84,641	83,975
Total assets		84,641	84,928
Liabilities			
Bank overdraft		558	-
Related party payables	6	-	1,341
Current tax liabilities		-	372
Interest bearing liabilities	7	81,990	81,263
Deferred tax liabilities	5(b)	344	548
Total liabilities		82,892	83,524
Net assets		1,749	1,404
Equity			
Retained earnings		1,749	1,404
Total equity		1,749	1,404

The financial statements were approved for issue by the Board on 28 November 2012.



Stephen J Smith
Chairman



John L. Spencer
Director

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

TOWER Capital Limited Statement of Changes in Equity

For the year ended 30 September 2012

	Total Equity	
	Retained Earnings	
	2012	2011
	\$000	\$000
At the beginning of the year	1,404	1,000
Comprehensive income for the year		
Profit for the year	345	404
At the end of the year	1,749	1,404

The above statement of changes in equity income should be read in conjunction with the accompanying notes.

TOWER Capital Limited Statement of Cash Flows

For the year ended 30 September 2012

	Note	2012 \$000	2011 \$000
Cash flows from operating activities			
Interest received		8,176	8,209
Interest paid		(6,950)	(6,951)
Payments to suppliers and employees		(730)	(58)
Net cash inflow from operating activities	13	496	1,200
Cash flows from investing activities			
Net advances to related parties		(2,007)	(250)
Net cash outflow from investing activities		(2,007)	(250)
Net (decrease)/increase in cash and cash equivalents		(1,511)	950
Cash and cash equivalents at the beginning of the year		953	3
Cash and cash equivalents at the end of the year		(558)	953

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

TOWER Capital Limited Notes to the Financial Statements

For the year ended 30 September 2012

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial report are set out below.

TOWER Capital Limited ('The Company') is a profit-oriented company incorporated and domiciled in New Zealand. The Company was incorporated to undertake an issue of debt securities with the purpose of on-lending the proceeds within the TOWER Limited consolidated Group (the 'TOWER Group'). The address of its registered office is 22 Fanshawe Street, Auckland, New Zealand.

BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). It complies with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards as appropriate for profit-oriented entities.

Compliance with International Financial Reporting Standards

The financial statements and notes of TOWER Capital Limited comply with International Financial Reporting Standards.

The financial statements have been prepared on a historical cost basis with any exceptions noted in the accounting policies below.

The Company's owners or others do not have the power to amend the financial statements after they have been authorised for issue.

SPECIFIC ACCOUNTING POLICIES

A INVESTMENT REVENUE

Interest income is recognised on an effective interest method basis.

B EXPENSES

Expenses are recognised in the period they are incurred.

C FINANCING COSTS

Financing costs include interest on external debt and the amortisation of transaction costs and are recognised on an effective interest method basis.

D TAXATION

(i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted for each jurisdiction. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from

the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(iii) Tax consolidation

TOWER Capital Limited is part of the New Zealand tax consolidated group of which TOWER Limited is the head entity. All members of the tax consolidated group are jointly and severally liable for the tax liabilities of the group.

(iv) Income tax expense

The income tax expense is the tax payable on taxable income for the current period, based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

E GST

All revenues, expenses and certain assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

Cash flows are included in the statement of cash flows on a net basis to the extent that the GST is not recoverable and has been included in the expense or asset.

F FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in the currency of the primary economic environment in which the Company operates, being New Zealand dollars.

G CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

H FINANCIAL INSTRUMENTS AND FAIR VALUE

The Company classifies its financial assets in the following category: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Loans and receivables are recognised at settlement date, which is the date that the assets are delivered or received.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The Company's loans and receivables comprise related party receivables and cash and cash equivalents in the balance sheet. Loans and receivables are measured initially at fair value plus transactions costs and subsequently at amortised cost using the effective interest method less any impairment.

I IMPAIRMENT OF FINANCIAL ASSETS

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For financial assets carried at amortised cost, the amount of the

TOWER Capital Limited Notes to the Financial Statements

For the year ended 30 September 2012

impairment is the difference between the assets' carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. For all financial assets, the carrying amount is reduced by the impairment loss directly.

A previously recognised impairment loss is reversed when, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was initially recognised.

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are credited against the allowance account.

J INTEREST BEARING LIABILITIES

Interest bearing debt is initially measured at fair value, net of transaction costs incurred, and is subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised over the term of the borrowings.

K PAYABLES

These amounts represent liabilities for goods and services provided prior to the end of the financial year which are unsettled. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

L PROVISIONS

Provisions are only recognised when the Company has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

M CONTRIBUTED EQUITY

Ordinary shares issued by the Company are classified as equity and are recognised at fair value less direct issue costs.

N CASH FLOWS

The statement of cash flows presents the net cash flows for advances to related parties. The Company considers that knowledge of gross receipts and payments is not essential to understanding the activities of the Company and it is considered acceptable to report only the net cash flows for these items. This is based on the fact that either the turnover of these items is quick, the amounts are large, and the maturities are short.

O SEGMENT REPORTING

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 who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance. The chief operating decision-maker has been identified as the Company's Board of Directors.

2. Impact of amendments to NZ IFRS

A STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 October 2012 or later periods, and the Company has not early adopted them. The Company expects to adopt the following new standards on 1 October after the effective date.

- NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013). The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The standard is not expected to have a material impact on the financial statements.
- NZ IFRS 9 'Financial Instruments' (effective from 1 January 2015). The standard partly replaces NZ IAS 39 and introduces requirements for classifying and measuring financial assets and liabilities. The Company is in the process of evaluating the potential effect of this standard.

B STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE 2012 OR EARLY ADOPTED BY THE COMPANY.

The Company has adopted the following new and amended IFRS's as of 1 October 2011:

- IAS 24, 'Related party disclosures' (effective from 1 January 2011). The revised standard amends the definition of a related party. The revised standard has not resulted in any additional disclosures.
- NZ IFRS 7 'Financial Instruments: Disclosures – Appendix E (effective 1 April 2011). The amendment has replaced the term 'financial institution' with 'deposit taker' as defined by the Reserve Bank of New Zealand Act. The amendment to deposit taker has not resulted in any change in disclosures.
- FRS 44, 'New Zealand additional disclosures' (effective from 1 July 2011). This amends multiple standards to harmonise NZ IFRS with IFRS and Australian Accounting Standards. The amendments have not had a material impact on the financial statements.
- Improvements to NZ IFRS 2010 includes various amendments effective for periods beginning on or after 1 January 2011 and have not had a material impact on the financial statements.

3. Other expenses

Fees paid to the Company's auditor

No fees for audit or other services were paid by TOWER Capital Limited to its auditor during the year (2011: Nil). TOWER New Zealand Limited paid all fees for audit services provided to TOWER Capital Limited.

TOWER Capital Limited Notes to the Financial Statements

For the year ended 30 September 2012

4. Interest income

	2012	2011
	\$000	\$000
Interest income - external	-	33
Interest income - related party (Note 6)	8,176	8,176
Total interest income	8,176	8,209

5. Taxation

A ANALYSIS OF TAXATION EXPENSE

Current taxation	(338)	(371)
Deferred taxation	204	198
Under/(over) provided in prior years	-	-
Income tax expense	(134)	(173)
Profit before tax	479	577
Income tax expense at current rate of 28% (2011: 30%)	134	173
Income tax expense	134	173

In May 2010 legislation was passed to reduce the company tax rate from 30% to 28%. This was effective for the Company from 1 October 2011.

B DEFERRED TAX

	Opening balance at 1 October	Charged/ (credited) to statement of comprehensive income	Closing balance at 30 September
2012	\$000	\$000	\$000
Movements in deferred tax liabilities			
Unamortised capitalised bonds issue costs	548	(204)	344
Total deferred tax liabilities	548	(204)	344
Net deferred tax	(548)	204	(344)
2011			
Movements in deferred tax liabilities			
Unamortised capitalised bonds issue costs	746	(198)	548
Total deferred tax liabilities	746	(198)	548
Net deferred tax	(746)	198	(548)

TOWER Capital Limited Notes to the Financial Statements

For the year ended 30 September 2012

	2012	2011
	\$000	\$000
Deferred liabilities are analysed as		
Expected to crystallise in the next 12 months	63	204
Not expected to crystallise in the next 12 months	281	344
	344	548

C IMPUTATION CREDIT ACCOUNT

TOWER Limited, the ultimate parent company of the Company, holds an imputation credit account as the representative member of the TOWER consolidated tax group to which the Company belongs.

6. Related party transactions and balances

A SUBSIDIARIES

The Company is immediately and ultimately owned by TOWER Limited. All members of the TOWER Group are considered to be related parties of the Company. Related party receivable and payable balances of TOWER Capital Limited at the reporting date were as follows:

Related Party	2012 \$000	2011 \$000	Nature of Relationship	Type of Transaction
TOWER Financial Services Group Limited	83,975	83,975	Subsidiary of TOWER Limited	Loan/Advance
TOWER New Zealand Limited	666	(1,341)	Subsidiary of TOWER Limited	Advance

The Company issued a loan to TOWER Financial Services Group Limited (TFSG) of \$81,759,000 on 24 March 2009, bearing a fixed interest rate of 10% per annum. The loan is payable on demand and the above total includes accrued interest of \$2,216,000 (2011: \$2,216,000).

The balance owing to TOWER New Zealand Limited represents the expenses paid on behalf of the Company during the period. The balance is non-interest bearing and is payable on demand.

Related party transactions with TOWER Capital Limited during the year were as follows:

TOWER Financial Services Group Limited	8,176	8,176	Subsidiary of TOWER Limited	Interest on loan
TOWER New Zealand Limited	2,007	623	Subsidiary of TOWER Limited	Other expenses and advances
TOWER Limited	709	-	Parent	Tax losses offset

TOWER Capital Limited Notes to the Financial Statements

For the year ended 30 September 2012

B DIRECTORS TRADING IN TOWER SECURITIES

	Holding	
	2012	2011
	\$	\$
Tony Gibbs ⁽¹⁾	-	1,000,000
Bill Falconer ⁽²⁾	-	50,000
John Spencer	50,000	50,000
Susie Staley	65,000	65,000
Denis Wood ⁽³⁾	-	75,000

(1) Tony Gibbs resigned as a director of TOWER on 29 August 2011.

(2) Denis Wood resigned as a director of TOWER on 8 February 2012.

(3) Bill Falconer resigned as a director of TOWER on 13 September 2012.

7. Interest bearing liabilities

	2012	2011
	\$000	\$000
Fixed rate senior unsecured bonds	83,219	83,219
Unamortised capitalised costs	(1,229)	(1,956)
	81,990	81,263
Analysed as:		
Current	659	732
Non current	81,331	80,531
	81,990	81,263

Fixed rate senior unsecured bonds

On 24 March 2009, the Company issued \$81,759,000 of fixed rate senior unsecured bonds, bearing a fixed interest rate of 8.5% per annum. The bonds mature on 15 April 2014.

The above total of \$81,990,000 includes \$1,460,000 of accrued interest (2011: \$1,460,000). The Company capitalised \$3,499,000 of costs associated with the issuance of the bonds. These costs are amortised over the five year term of the bonds using the effective interest method. The bonds are carried at amortised cost using the effective interest method. The amortised costs during the period to 30 September 2012 were \$727,000 (2011: \$661,000).

The fair value of fixed rate senior unsecured bonds as at 30 September 2012 is \$86,104,000 (2011: \$86,109,000), this has been estimated using the method outlined in Note 12 (d)

8. Contributed equity

	Number of shares	
	2012	2011
Issued share capital (ordinary shares)	1,000	1,000

Shares have been issued for nil consideration on incorporation. Each share ranks equally with one vote attached to each share.

TOWER Capital Limited Notes to the Financial Statements

For the year ended 30 September 2012

9. Tangible assets value per bond

	2012	2011
	\$	\$
Tangible assets per bond	1.04	1.04

Tangible assets per bond represents the value of the Company's total assets divided by the number of fixed rate senior unsecured bonds on issue as at 30 September.

10. Segmental reporting

TOWER Capital Limited operates in one single business class having undertaken a bond issue to raise funds for use in operations of TOWER Group. The chief operating decision maker is considered to be the Board of Directors. The Board meet regularly with management to provide strategic guidance for the Company. The Company operates in one geographical segment, New Zealand. Consequently no segmental information is presented.

11. Financial instruments categories

The analysis of financial assets and liabilities into their categories and classes is set out in the following table:

	Total	Loans and receivables
	\$000	\$000
As at 30 September 2012		
Related party receivables	84,641	84,641
Total financial assets	84,641	84,641
As at 30 September 2011		
Cash and cash equivalents	953	953
Related party receivables	83,975	83,975
Total financial assets	84,928	84,928
		Financial liabilities at amortised cost
	Total	\$000
As at 30 September 2012		
Bank overdraft	558	558
Interest bearing liabilities	81,990	81,990
Total financial liabilities	82,548	82,548
As at 30 September 2011		
Interest bearing liabilities	81,263	81,263
Related party payables	1,341	1,341
Total financial liabilities	82,604	82,604

In the event of liquidation or the cessation of trade, interest bearing liabilities have priority over related party claims over financial assets.

TOWER Capital Limited Notes to the Financial Statements

For the year ended 30 September 2012

12. Risk management information

The financial condition and operating results of the Company are affected by a number of key financial risks. Financial risks include market risk, credit risk, and financing and liquidity risk.

These risks are managed through the parent company's (TOWER Limited) risk management policy. TOWER's objective is to satisfactorily manage these risks in line with the Board approved Group Risk and Compliance framework policy. Various procedures are in place to help identify, mitigate and monitor the risks faced by the Company. Business managers are responsible for understanding and managing their risks including operational and compliance risk. The consolidated entity's exposure to all high and critical risks is reported monthly to the board and quarterly to the Group Audit and Compliance Committee.

The Board has delegated to the Group Audit and Compliance Committee the responsibility to review the effectiveness and efficiency of management processes, internal audit services, group risk management and internal financial controls and systems as part of their duties.

A MARKET RISK

Market risk is the risk of change in the fair value of financial instruments from fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market.

(i) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Board is responsible for the management of the interest rate risk arising from external borrowings. Interest on external borrowings is fixed therefore mitigating the cash flow risk arising from changes in interest rates.

(ii) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not the Company's functional currency.

The Company is not exposed to currency risk, as there are no assets, liabilities or transactions which are denominated in a currency that is not the Company's functional currency.

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other market priced assets. The Company is not exposed to price risk because it holds no investments in publicly traded equity securities or other market priced assets.

B CREDIT RISK

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result of changes in credit risk of that instrument.

The Company's exposure to credit risk is limited to deposits held with banks and other financial institutions as well as credit exposure to related party receivables or other counterparties. For banks and financial institutions the minimum credit rating accepted by the Company is 'A'.

(i) Credit risk concentration

Concentration of credit risk exists when the Company enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. The Company manages concentration of credit risk by credit rating, industry type and individual counterparty.

The credit risk concentration is within one company located in New Zealand. The significant concentrations of credit risk are outlined by counterparty below.

	Carrying value	
	2012	2011
	\$000	\$000
Banks	-	953
Related party receivable	84,641	83,975
Total financial assets with credit exposure	84,641	84,928

(ii) Maximum exposure to credit risk

The Company's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements is the carrying amount of the financial assets held by the Company at the reporting date, which is as follows:

Asset	2012	2011
Cash and cash equivalents	-	953
Related party receivable	84,641	83,975
Total credit risk	84,641	84,928

TOWER Capital Limited Notes to the Financial Statements

For the year ended 30 September 2012

(iii) *Credit quality of financial assets that are neither past due nor impaired*

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

	Carrying value	
	2012	2011
	\$000	\$000
Credit exposure by credit rating		
AA	-	953
Related parties with no credit rating	84,641	83,975
	84,641	84,928

(iv) *Financial assets that would otherwise be past due whose terms have been renegotiated*

None of the financial assets that are fully performing has been renegotiated in the past period (2011: Nil).

(v) *Financial assets that are past due but not impaired*

None of the financial assets are past due (2011: Nil).

(vi) *Financial assets that are individually impaired*

None of the financial assets are individually impaired (2011: Nil).

To mitigate financing and liquidity risk the Company maintains sufficient current assets to ensure that it can meet its debt obligations and other cash outflows on a timely basis.

Financial assets and liabilities by expected and contractual maturity

The tables below summarise the Company's financial assets and liabilities into relevant maturity groups based on the remaining period at the balance date to the contractual and expected maturity date. All amounts disclosed are expected or contractual undiscounted cash flows that include interest payments and exclude the impact of netting agreements.

Expected cash flows

The maturity table based on the expected cash flows is presented below for the purposes of disclosing the cash flows that are actually expected to occur over the life of the Company's financial assets and liabilities.

C FINANCING AND LIQUIDITY RISK

Financing and liquidity risk is the risk that the Company will not be able to meet its cash outflows or refinance debt obligations, as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

	Carrying value	Total expected cash flows	Less than one year	One to two years	Two to three years
	\$000	\$000	\$000	\$000	\$000
As at 30 September 2012					
Financial assets					
Related party receivables	84,641	94,678	8,842	85,836	-
Total financial assets	84,641	94,678	8,842	85,836	-
Financial liabilities					
Bank overdraft	558	558	558	-	-
Interest bearing liabilities	81,990	92,460	6,950	85,510	-
Total financial liabilities	82,548	93,018	7,508	85,510	-
As at 30 September 2011					
Financial assets					
Cash and cash equivalents	953	953	953	-	-
Related party receivables	83,975	102,188	8,176	8,176	85,836
Total financial assets	84,928	103,141	9,129	8,176	85,836
Financial liabilities					
Interest bearing liabilities	81,263	99,410	6,950	6,950	85,510
Related party payables	1,341	1,341	1,341	-	-
Total financial liabilities	82,604	100,751	8,291	6,950	85,510

TOWER Capital Limited Notes to the Financial Statements

For the year ended 30 September 2012

12. Risk management information (continued)

Contractual cash flows

The table below presents the maturity analysis of the Company's financial assets and liabilities on a contractual cash flow basis.

	Carrying value	Total contractual cash flows	Less than one year	One to two years	Two to three years
	\$000	\$000	\$000	\$000	\$000
As at 30 September 2012					
Financial assets					
Related party receivables	84,641	84,641	84,641	-	-
Total financial assets	84,641	84,641	84,641	-	-
Financial liabilities					
Payable	558	558	558	-	-
Interest bearing liabilities	81,990	92,460	6,950	85,510	-
Total financial liabilities	82,548	93,018	7,508	85,510	-
As at 30 September 2011					
Financial assets					
Cash and cash equivalents	953	953	953	-	-
Related party receivables	83,975	83,975	83,975	-	-
Total financial assets	84,928	84,928	84,928	-	-
Financial liabilities					
Interest bearing liabilities	81,263	99,410	6,950	6,950	85,510
Related party payables	1,341	1,341	1,341	-	-
Total financial liabilities	82,604	100,751	8,291	6,950	85,510

D FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques referred to below:

The carrying amounts of all financial assets and liabilities reasonably approximate their fair values with the exception of senior unsecured bonds which is disclosed in Note 7.

The following methods and assumptions were used by the Company in estimating the fair values of financial instruments.

(i) Cash and cash equivalents

The carrying amount of cash and cash equivalents reasonably approximates its fair values.

(ii) Related party receivables and payables

Carrying values of related party receivables and payables reasonably approximate their fair values.

(iii) Interest bearing liabilities

The fair value of fixed rate senior unsecured bonds is determined by reference to the average quoted market price of the underlying debt securities at the end of the period.

E SENSITIVITY ANALYSIS

No sensitivity analysis has been disclosed as there is no impact on the shareholder profit after tax or equity from changes in interest rates, exchange rates and equity prices. Cash, related party loans and interest bearing liabilities are held at amortised cost and subject to fixed interest rates. Other related party balances are interest free payables.

F CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern and have the required liquidity to meet its interest payment obligations to the Bond holders. The Company's overall strategy is consistent with that of TOWER Group, which the Company is part of, and is overseen by the TOWER Group Board of Directors.

TOWER Capital Limited Notes to the Financial Statements

For the year ended 30 September 2012

The capital structure of the Company consists of debt and retained earnings.

	2012	2011
	\$000	\$000
As at 30 September		
Interest bearing liabilities	81,990	81,263
Retained earnings	1,749	1,404
Total capital resources	83,739	82,667

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

Profit after tax for the year	345	404
Add/(less) non cash items		
Decrease in deferred tax	(204)	(198)
Add/(less) movements in working capital		
Decrease in payables	-	(39)
(Decrease)/increase in taxation	(372)	23
Decrease in receivables	-	349
	(372)	333
Add other items classified as financing activities		
Decrease in capitalised costs	727	661
Net cash inflow from operating activities	496	1,200

14. Contingent liabilities

There were no contingent liabilities as at 30 September 2012 (2011: Nil).

15. Capital commitments

There were no capital commitments as at 30 September 2012 (2011: Nil).

16. Subsequent events

There have been no material events subsequent to 30 September 2012.

TOWER Directory

BOARD OF DIRECTORS

Steve Smith (Chairman)
 Rob Flannagan (Group Managing Director)
 Mike Allen
 David Hancock
 Mike Jefferies
 John Spencer
 Susie Staley
 Michael Stiasny
 Graham Stuart

CHIEF OPERATING OFFICER

Michael Boggs

COMPANY SECRETARY

Bronwyn Walsh

REGISTERED OFFICE

New Zealand

Level 11
 TOWER Centre
 22 Fanshawe Street
 PO Box 90347
 Auckland
 Telephone: +64 9 369 2000
 Facsimile: +64 9 369 2160

Australia

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

AUDITORS

PricewaterhouseCoopers

BANKERS

Westpac New Zealand Limited

SOLICITORS

DLA Phillips Fox

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

COMPANY NUMBERS

TOWER Limited (Incorporated in New Zealand)

NZ Incorporation 979635

ARBN 088 481 234

TOWER Capital Limited

NZ Incorporation 2198245

REGISTRAR

New Zealand

Computershare Investor Services Limited
 Level 2, 159 Hurstmere Road,
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 Private Bag 92119
 Auckland 1142

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Telephone New Zealand:
 +64 9 488 8777

Facsimile New Zealand:
 +64 9 488 8787

Australia (TOWER Limited Shareholders)

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 5000

Facsimile Australia:
 +61 3 9473 2500

Email: enquiry@computershare.co.nz

Website:

www.computershare.co.nz/investorcentre

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

This website enables holders to view balances, change addresses, view payment and tax information and update payment instruction 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. Bondholders payments are made in New Zealand dollars only and TOWER also recommends that all interest payments are direct credited to your nominated bank account in New Zealand.

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

Registrar

Computershare Investor Services Limited
Freephone within New Zealand: 0800 222 065
Telephone New Zealand: +64 9 488 8777
Freephone within Australia: 1800 501 366
Telephone Australia: +61 3 9415 5000
Email: enquiry@computershare.co.nz
Website: www.computershare.co.nz/investorcentre

TOWER Limited & TOWER Capital Limited Investor Relations

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Website: www.tower.co.nz

Insurance
Investments
KiwiSaver

