Market Information
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Level 1, NZX Centre
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New Zealand

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Level 6, 20 Bridge Street
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29 November 2016

Tower Limited
FY16 Full Year Results for Announcement to Market

In accordance with NZSX Listing Rule 10.3.1, I enclose the following for release to the market in relation to Tower Limited's (NZE/ASX: TWR) FY16 Full Year Results:

1	Media Release
2	Management Review
3	NZX Appendix 1
4	Financial Statements (including Independent Auditor's Report)
5	Results announcement presentation

Tower's Chairman Michael Stiassny and Chief Executive Officer Richard Harding will discuss the full year results at 10:00am New Zealand time today.

ENDS

David Callanan
Company Secretary
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29 November 2016

TOWER REPORTS STRONG UNDERLYING RESULT & INTENTION TO CREATE NEW COMPANY

Tower Limited (NZX/ASX:TWR) has today reported a full year loss of $21.5 million for the year ended 30 September 2016, impacted by further adjustments to IT impairments and Canterbury provisions.

Underlying profit after tax was $20.1 million, reflecting an improved second half performance which grew from $7.6 million in H116 to $12.6 million in H216.

Features of FY2016:

- Reported full year loss of $21.5 million impacted by IT impairments and further Canterbury provisions
    - $14.1 million impact from impairment of technology assets announced in the first half following review of IT infrastructure
    - $25.3 million impact from additional Canterbury provisions reflecting ongoing complexity of the situation

- Underlying profit after tax of $20.1 million, improved second half performance with underlying profit growing from $7.6 million in H1 16 to $12.6 million in H2 16

- Business initiatives driving improvements in core metrics providing confidence in strategy and future performance targets:
    - Reduction in management expenses allowing investment in the future
    - Return to positive policy growth in the core New Zealand book
    - 2.6% improvement in Tower Direct retention rates over the year
    - Supply chain initiatives curtailing claims cost growth in the second half
    - Invested in new products and digital capability

- Canterbury continues to present a complex and difficult situation for all insurers. The Board announces its intention to create a separate company dedicated to Canterbury claims resolution to assist the market to more transparently value Tower

- Full year dividend placed on hold to retain capital to facilitate structural separation

- Medium term strategic targets underpinned by digital transformation strategy:
    - GWP growth of 4-6%
    - An expense ratio of less than 35%
    - ROE of 12-14% through the cycle.

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Overview

Tower's full year result has shown that Tower's core New Zealand business is strong, the Pacific business has solid unrealised potential and that initiatives put in place earlier in the year to improve performance are beginning to take effect.

Tower has seen a return to policy growth in the core New Zealand book as a result of a concerted focus on retention, with Tower Direct retention rates improving by 2.6% in the year. And, the trend on management expenses has been reversed. By targeting non-personnel costs and improving vendor control, management expenses have been reduced which funded investment back into the business.

These green shoots give confidence that Tower's strategy to become a high performing General Insurer is on track and beginning to bear fruit.

Intention to create a separate company

Tower Chairman Michael Stiassny said that the legacy of the Canterbury earthquakes continues to overshadow fundamental improvement and announced the Board's intention to create a separate company, RunOff Co.

"In our view, the industry model is broken with claims inflation continuing unabated, construction far slower than anticipated and little effective co-ordination between the EQC and insurers. These are all symptoms of a system that can no longer do right by the people, communities or insurers it is supposed to serve.

"In the past year, we have received around 300 new claims, a significant number of which are new overcap claims from the EQC with a value of $22 million.

"We have therefore resolved to draw a line under the Canterbury legacy to benefit both policyholders and shareholders' interests, enhance the prospects of our strong underlying business and enable Tower to accelerate its journey to become a high performing General Insurer.

"Separation will enable the market to more transparently value Tower. The component parts – RunOff Co and New Tower – are undoubtedly worth more than the whole. Separation provides a vehicle to unlock that value" Mr Stiassny said.

Mr Stiassny noted that separation creates options to raise capital. The Board is evaluating a number of potential sources for capital – including strategic sources – and discussions are ongoing. As a result, the full year dividend will be suspended.

The Board is working through this process and hopes to be in a position to bring a proposal to shareholders for approval at the ASM in March 2017.

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A confident future

Tower Chief Executive Richard Harding is pleased with Tower's underlying performance and the continuing transformation of the business.

"In the last 12 months we have made significant progress towards simplifying our business. We have seen solid improvements in two crucial areas: returning Tower's core business to positive policy growth and reducing management expenses.

"We have also repriced our product portfolio, appointed a highly capable management team, re-entered the digital market with the launch of Tower online and introduced a simple packaged product range that make selecting and buying Tower insurance policies easy," he said.

Mr Harding noted that separation and the proposed investment in the appropriate technology platform would help accelerate Tower's high performance ambitions.

"The early indicators from initiatives already in place are that our strategy is working and New Tower would enjoy clear air to continue what we have started," Mr Harding said.

ENDS

Richard Harding
Chief Executive Officer
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Tower management review – year to 30 September 2016

Features of FY16

- Reported full year loss of $21.5 million impacted by IT impairments and further Canterbury provisions
  - $14.1 million impact from impairment of technology assets announced in the first half following review of IT infrastructure
  - $25.3 million impact from additional Canterbury provisions reflecting ongoing complexity of the situation
- Underlying profit after tax of $20.1 million, improved second half performance with underlying profit growing from $7.6 million in H116 to $12.6 million in H216
- Business initiatives driving improvements in core metrics providing confidence in strategy and future performance targets:
  - Reduction in management expenses allowing investment in the future
  - Return to positive policy growth in the core New Zealand book
  - 2.6% improvement in Tower Direct retention rates over the year
  - Supply chain initiatives curtailing claims cost growth in the second half
  - Investment in new products and digital capability
- Canterbury continues to present a complex and difficult situation for all insurers. The Board intends to create a separate company dedicated to Canterbury claims resolution to assist the market to more transparently value Tower
- Full year dividend to be placed on hold to retain capital to facilitate structural separation
- Medium term strategic targets underpinned by digital transformation strategy:
  - GWP growth of 4-6%
  - An expense ratio of less than 35%
  - ROE of 12-14% through the cycle

Summary

FY16 has shown that Tower's core New Zealand business is strong, the Pacific business has solid potential and that initiatives put in place to improve performance are beginning to take effect.

Further, Tower has made the tough decisions necessary to reposition the business for a more certain, brighter future.

Tower reported an underlying profit of $20.1 million for the full year. Tower experienced marked improvement in its core metrics in the second half: underlying profit grew from $7.6 million in the first half to $12.6 million in the second half.

Initiatives launched early in FY16 to improve retention rates and reduce management expenses are advancing well:

- Tower has seen a return to policy growth in the core New Zealand book as a result of a concerted focus on retention, with Tower Direct retention rates improving by 2.6% in the year.
- The trend on management expenses has been reversed. By targeting non-personnel costs and improving vendor control, management expenses have been reduced which has allowed for investment back into the business.

These green shoots give confidence that Tower's strategy to become a high performing General Insurer is on track and beginning to bear fruit.

Tower has reported a full year loss of $21.5 million, driven by an impairment of technology assets of $14.1 million and additional provisions for Canterbury of $25.3 million after tax. This includes a further $7.0 million after tax impact due to further movement in provisions following our 8 September announcement, much of which related to risk margin increase as a result of the continued uncertainty.

These results make it clear that the legacy of Canterbury continues to overshadow fundamental improvement, particularly in regard to constant reassessment of overcap claims by the EQC.

Therefore, the Board has taken two decisions to benefit both policyholders and shareholders' interests, enhance the prospects of the strong underlying business and enable Tower to accelerate its journey to become a high performing General Insurer:

- The intention to create a separate company, RunOff Co, dedicated to Canterbury claims' resolution is being proposed.
- The intention to invest in a new modern core insurance platform.

Separation will enable the market to more transparently value Tower's assets. The component parts – RunOff Co and New Tower – are undoubtedly worth more than the whole. Separation provides a vehicle to unlock value.

Tower as a business requires capital and separation creates options to raise that capital. The Board is evaluating a number of potential sources for that capital – including strategic sources – and discussions are ongoing. As a result, the full year dividend will be suspended.

The Board believes that separation will draw a line under Canterbury, and enhance the prospects of Tower's strong underlying business.

TOWER

Proposed separation

Tower shareholders

"New" Tower

- High performing General Insurer
- Challenger to the large incumbent Australian brands in New Zealand
- Market leader in the Pacific
- Strong underlying profitability and cash generation
- Consistent and stable dividends

RunOff Co

- Settle remaining 564 claims in a fair manner
- Maximise disputed recoveries
  – $43.7m from Peak Re
  – $57.6m from EQC
- Long term goal is to maximise capital return to shareholders

Under the proposed separation, two entities, New Tower and RunOff Co, would be created – each with a very clear and distinct mandate and strategy.

New Tower would realise its potential to become a high performing General Insurer, while RunOff Co would manage the legacy liabilities relating to Canterbury.

RunOff Co would be established to maximise capital returns over the medium term. It would own all Canterbury related liabilities and assets and be managed by a team of experts charged with making the hard calls. This company would be tasked with:

- Settling the remaining 564 claims in a fair manner; and
- Maximising the disputed recoveries which currently sit at $43.7 million for Peak Re and $57.6 million for EQC

Tower is well advanced with recovery action and has complete confidence in its position on Peak Re and EQC. The Board will not resile from litigation should it prove necessary. Successful resolution of these disputes will support capital returns for RunOff Co shareholders in the longer term.

Without the burden of Canterbury – and coupled with the proposed investment in IT – New Tower would have the platform required to take on the large, incumbent Australian brands, amplify the results of Tower's underlying business, and realise the potential in the Pacific. In so doing, New Tower would return to providing shareholders with consistent and stable dividends.

The strategy required to separate into two entities is largely complete, with a number of additional steps to be actioned before a final decision can be made.

The Board will work through the process and anticipates bringing a proposal to shareholders for approval at the ASM in March.

Financial performance

$ million	FY 16	FY15	Movement %
Gross written premium	303.2	305.6	(0.8%)
Gross earned premium	302.9	304.7	(0.6%)
Reinsurance costs	(49.1)	(51.9)	(5.5%)
Net earned premium	**253.8**	**252.8**	**0.4%**
Net incurred claims	(123.9)	(115.6)	7.2%
Large events claims	(3.8)	(4.9)	(23.7%)
Management and sales expenses	(99.9)	(101.9)	(1.9%)
Depreciation and amortisation	(6.4)	(4.0)	160%
Underwriting profit	**19.8**	**26.3**	**(24.6%)**
Investment revenue	8.5	14.0	(39.6%)
Underlying profit before tax	**28.3**	**40.3**	**(29.8%)**
Income tax expense	(8.2)	(10.0)	(18.5%)
Underlying profit after tax	**20.1**	**30.3** [1]	**(33.6%)**
Canterbury impact	(25.3)	(36.2)	
Impairment of intangibles	(14.1)	-	
Profit on discontinued businesses	-	1.4	
Foreign tax credits written off[2]	(2.2)	(2.1)	
Reported loss	**(21.5)**	**(6.6)**	
Underlying EPS (c) [3]	11.9	17.8	
DPS (c)	8.5	16.0	
Key ratios			
Claims ratio	50.3%	47.7%	
Expense ratio	41.9%	41.9%	
Combined ratio	92.2%	89.6%	

Notes:
1. FY15 underlying profit restated from $28.2m to $30.3m due to the classification of foreign tax credits as one off items
2. Tower has lost the ability to use foreign tax credits due to the New Zealand business being in a loss making position following Canterbury provision increases and IT impairments
3. Reflects underlying profit rather than reported profit

Tower's reported loss of $21.5 million, compares to a $6.6 million loss in FY15. This reflects a $25.3 million impact from movement in Canterbury provisions. This figure includes a further $7.0 million impact (post tax) due to further movement in provisions at the end of September, much of which relates to risk margin increase. This decision was taken on the advice of Tower's appointed actuary. There was also a $14.1 million impact from intangible asset impairment announced in the first half.

Underlying profit was $20.1 million, compared to $30.3 million in FY15. This drop was driven primarily by the lower investment income ($5.6 million reduction) and increased claims costs in line with industry trends. Underlying profit increased by 66% in the second half, with H216 underlying profit of $12.6 million versus H116 underlying profit of $7.6 million demonstrating a trend of core business improvement.

Tower's claims costs rose 7.2% to $123.9 million, significantly lower than the industry wide figure of 11%[1] due to the success of initiatives launched in the first half of the year.
A sharp focus on non-personnel costs saw the trend on management and sales expenses reverse. Expenses fell $2.0 million to $99.9 million. These savings were achieved while at the same time Tower continued to reinvest in the business to drive future growth.

GWP was slightly down year on year. Pacific GWP fell by $1.2 million due to a tightening position on risk in PNG and the Solomon Islands. New Zealand GWP fell by $1.2 million with the continued run off of the ANZ portfolio offset by growth in the core Tower book. Tower returned to positive policy growth in the core New Zealand book in FY16, this will assist to drive GWP growth into FY17.

Reduced reinsurance costs reflect the soft underlying reinsurance market, enabling Tower to increase coverage.

Investment revenue fell from $14.0 million in FY15 to $8.5 million in FY16 as a result of lower interest rates and lower cash balances following Canterbury claims payments and the on market share buy back.

The underlying combined ratio grew from 89.6% to 92.2% due to increased claims costs. The expense ratio remained flat at 41.9% with the reduction in management expenses offset by the increase in depreciation.

Capital position

At 30 September 2016, the Tower Insurance Group had a solvency ratio of 210% and excess capital of $23.8 million above regulatory requirements.

Tower Insurance Limited (the New Zealand licensed insurance entity), had a solvency ratio of 214% and excess capital of $14.3 million above regulatory requirements.

In addition to this, Tower Limited held $12.2 million of cash that can be used for solvency capital if required and retains access to a $50 million undrawn liquidity facility.

Tower's reinsurance programme is expected to limit the impact of the Kaikoura earthquake to a $13 million reduction in solvency capital. Adjusting for this and other operational movements, as at 28 November, Tower Insurance Limited is expected to have $3.6 million of capital above regulatory minimums, and Tower Insurance Group would have $16.0 million of capital above regulatory minimums, and would remain within the Board's targeted range of 180 – 200% of MSC.

Operational performance

A focus on claims

The insurance industry is currently facing inflationary pressure in the claims line from a range of factors including ongoing building inflation, more (and larger) cars on the road, inflation in the motor parts market, exchange rates etc. As a result, Tower's costs grew from $115.6 million to $123.9 million in FY16.

Tower has implemented a broad-based claims cost savings programme which is successfully addressing escalating claims costs. Initiatives include:

[1] Source: ICNZ statistics – personal lines gross claims growth September 2015 – September 2016

- New claims handling processes
- Developing a preferred supplier network for motor
- Updating assessment and supply chain processes for house and contents; and
- Updating pricing and policies.

These claims initiatives resulted in a reduction in claims costs in the second half. Tower's full year claims costs rose by 7.2%, considerably less than the industry growth of 11%.

Focus on costs

Cost-out initiatives have been pursued vigorously over the year and are already having the desired effect. Tower has successfully reversed the trend of increasing expenses through its sharp focus on getting the fundamentals right and reducing non-personnel related costs. Importantly, Tower's ability to reduce expenses has allowed investment for the future of the business.

Tower achieved overall savings of approximately $5 million in its core underlying expenses while simultaneously increasing investment in those areas essential to the future success of the business including digital capability, updated pricing, new products; and a general capability uplift across the organisation.

Medium term change initiatives – in particular IT simplification and product rationalisation – will greatly accelerate expense base improvement.

Return to positive policy growth

Retention has been at the heart of one of Tower's most significant results this year – the return to positive policy growth on the core New Zealand book. From losing 5,442 policies in FY15, Tower has added 2,509 policies to the core book in FY16. Growing our core policy base is critical to delivering long term profit growth.

The improvement in FY16 has been largely driven by retention initiatives. Tower Direct retention rates increased 2.6% over FY15 from 81.6% to 84.2%.

Improved digital capability – and using that capability to leverage key partnerships – will enable Tower to accelerate its policy growth in the short to medium term.

Disciplined approach to the Pacific

Tower is confident in the underlying strength and untapped growth potential of its Pacific business.

Pacific GWP reached $59.3 million in FY16 which reflected a drop on FY15.

NPAT of $5.5 million in FY16 reflects the impact of Cyclone Winston earlier in the year, costs associated with the launch of Tower in Vanuatu and one off losses in PNG.

Tower is tightening its focus to ensure the appropriate risk frameworks are in place to profitably execute on those opportunities.

Creating certainty with Canterbury

Canterbury update

Canterbury remains a complex and difficult situation for all insurers. The situation continues to evolve with the EQC, and six years on, insurers still do not have clarity on the number and value of the claims that remain in Canterbury.

As an example, Tower has received around 300 new claims, a significant number of which are new overcap claims from the EQC with a total value of $22 million; 150 of these have been received in the past six months alone. Insurers are not seeing any slow down in new overcap claims from EQC.

Largely as a consequence of delays and frustration, a litigation industry has arisen around the Canterbury tail. Tower is currently facing or expecting litigation on up to 100 claims.

Our provisions include an allowance for further EQC overcap claims and litigation.

Over the course of FY16, gross claims costs have increased by $78 million to reach $870 million. This has resulted in a net impact on Tower of $35.1 million pre-tax, or $25.3 million post tax. This continued cost escalation is primarily driven by EQC and litigation claims.

Since Tower announced an increase in provisions on 8 September, a further $7.0 million post tax ($9.7 million pre tax) has been added. At the recommendation of Tower's appointed actuary, Deloitte, risk margins were increased reflecting the continued uncertainty.

As at 1 October 2015, Tower had 703 property claims remaining. In the intervening 12 months to 30 September 2016, 534 of those claims were closed. However, in the interim 297 completely new claims were received, and 98 claims have been reopened.

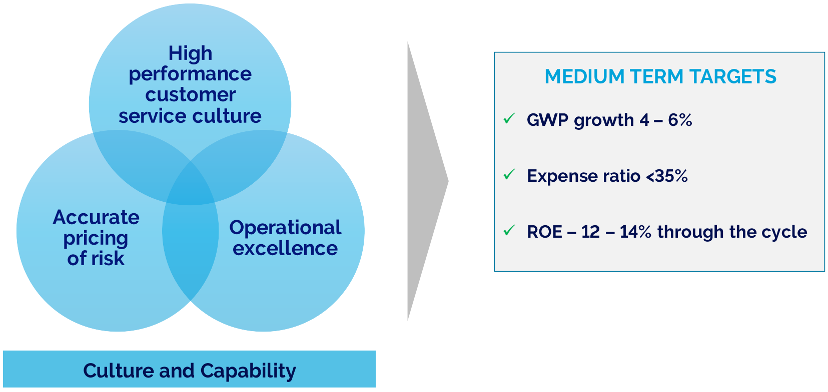
The new claims are a result of the EQC claims going overcap or additional hard landscaping and accommodation claims opening as the EQC finalises undercap properties.

Of the 564 remaining properties, Tower's particular focus is on 311 which are the most complex and challenging to resolve. Dealing with these claims requires the singular focus of a specially skilled management team that the creation of RunOff Co would bring.

A strong core

Unlocking the potential of 'new' Tower

Tower has strong underlying New Zealand and Pacific businesses that could further benefit from the singular focus separation would bring. It will continue to be guided by the three strategic imperatives already well established in the business.



These are now underpinned by Tower's improved capability and a culture that champions agility, flexibility and the mind-set required of a challenger brand.

By successfully executing this strategy, Tower believes it can deliver the following medium term targets:

- ***GWP growth of 4-6% per annum***, through a combination of digital, retention and new product initiatives.
- ***An expense ratio below 35 %***, on the back of IT simplification, product rationalisation and a continued focus on costs.
- ***Consistent ROE of 12-14% through the cycle***, delivered through growth, expense control and underwriting.

Delivering simple and easy products and service

Digital delivery is essential to the future growth and prosperity of Tower. The focus is on making it as simple and easy as possible for customers to do business with Tower.

Increasingly, customers research insurance products online and want to be able to compare prices. Due to Tower's limited ability to offer customers an online quote, an increasing share of new business policy sales have been to existing customers.

Tower needs to be able to offer customers their preferred communication channel at their preferred time.

On 5 October 2016, Tower launched an online offer called Cover for Car. This was a return to active online acquisition following a two-year absence. This has opened up an entirely new customer base, and since launch has resulted in a 10% increase in new business motor sales, largely from new customers coming to Tower. Tower is about to extend this offer to house and contents products.

From an operational perspective, digital is essential to drive efficiencies in the Tower business; transaction costs fall dramatically as more services move online.

Tower aims to have over 50% of all transactions online within the next three to five years. Full self-service and an omni channel experience will be possible with a new IT platform.

Leveraging digital partnerships

With improved digital capabilities, Tower will have a far greater ability to grow and leverage partnerships.

Tower has access to over 4 million customers through various partnerships, the largest of which are the newly formed partnerships with Airpoints with 1.8 million members, and TradeMe with 1.4 million. These customer bases are diverse and feature limited cross over with Tower's existing partnerships.

Digital capability will allow Tower to actively target niche customer segments with bespoke offers using data held by its partners.

On 11 November 2016, Tower went live with the revamped TradeMe Insurance platform. This stable new platform provides a significant increase in flexibility to optimise the site and adjust to customer demands.

With improved digital capability, Tower can add to those 4 million potential customers by attracting new partners at low cost using the Tower online solution.

Delivering underwriting excellence

The focus on achieving underwriting excellence is a constant for Tower.

Underwriting excellence results from targeting and retaining the right customers with compelling and appropriately priced products.

Tower is introducing the concept of risk based pricing, whereby profitable market segments are actively targeted to take market share off the incumbents. Underwriting excellence is the capability set that will enable Tower to achieve this.

Tower made a number of important steps this year toward achieving its underwriting excellence goal:

- Launching new "simple and easy" products
- Identifying problem wording in products and removing them from the on sale policies
- Repricing a number of portfolios, some of which had not been repriced for years
- Investing in capability; and
- Building a new data store to enable accurate portfolio monitoring

The longer term key enabler to achieve underwriting excellence will be a new IT platform to improve access to information, deliver a more granular rating engine, improve flexibility and allow the integration of external data sources into pricing models.

Simple and easy products

Tower currently has 444 products in the New Zealand business alone. This complexity makes it hard for both staff and customers, consequently impacting sales.

In addition, Tower's claims teams need to be experts in individual product wordings to appropriately assess how to treat claims.

Tower's recent launch of a simple, straightforward range of products building on packages is an exciting first step towards a smaller manageable set of products.

The new products have:

- Removed complexity;
- Improved understanding and introduced targeted wording to address claims leakage; and
- Simplified selection and buying of insurance policies for customers.

The concept of packaged products is new to New Zealand: they offer clear choices and simplify complexity. Customers can choose the level and value of cover they want from a three-tiered structure to suit their needs.

Tower has mapped the existing product set to these new products and will be able to complete the rationalisation process with a new IT platform.

IT simplification

The benefits of the IT simplification programme cannot be overstated: there are a raft of operational efficiencies to be derived from moving from four core IT systems with dozens of ancillary systems, to a single core system with a small number of critical interfaces.

Tower has selected EIS as its preferred partner to conduct detailed scoping over the next four months. This involves working with the Tower team to establish a firm implementation timeline and clear project deliverables. This phase is expected to end in March 2017, at which point Tower will confirm its preferred platform – and expected cost – and seek approval from the Board.

The new build is likely to take between six and twelve months, after which new business will be live on the new system and the migration of the legacy book can begin.

Developing a challenger culture

Tower has a proud heritage, and increasingly needs to look, feel and act like a challenger brand. As the Tower business is repositioned, it will have an agility and ethos that reflects the sort of culture that underpins a high performance enterprise: dynamic, constructive and eager.

Tower has continued to build its insurance capability at both executive and senior leadership team level. These specialised skills are not only crucial to the successful implementation of Tower's strategy, but also to provide the leadership necessary to deliver high performance.

To complete this journey Tower has:

- Started new leadership development programmes;
- Developed and rolled out new competencies that align to strategic imperatives; and
- Refreshed the Tower Values to align with the desired challenger culture.

Outlook

Separation would provide Tower with exciting new opportunities and an ability to drive the business harder and faster.

The challenges that face the general insurance industry remain – high claims necessitating pricing reviews, a low interest rate environment, increasing digital competition and the existing EQC framework.

However, without the legacy of Canterbury, these become business as usual challenges that can be effectively mitigated through Tower's simple and easy strategy.

From a shareholder perspective there would be comfort in the knowledge that RunOff Co's position is protected through the dedicated focus of a specialist team with a clear mandate to settle claims and maximise returns.

New Tower would enjoy clear air to continue what Tower has started. In the short term, ongoing incremental improvement in digital capability to drive GWP growth, reducing levels of management expense, better control of claims costs and pricing improvements are anticipated.

Irrespective of separation, Tower believes successful implementation of its strategic imperatives will deliver an improved financial trajectory. Over the next three to five years Tower is aiming to deliver:

- GWP growth of 4-6%
- Expense ratio of less than 35%
- ROE of 12-14% through the cycle

ENDS

Richard Harding
Chief Executive Officer
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APPENDIX 1

FULL YEAR PRELIMINARY ANNOUNCEMENTS AND FULL YEAR RESULTS

RESULTS FOR ANNOUNCEMENT TO THE MARKET

TOWER LIMITED	
Reporting Period	12 months to 30 September 2016
Previous Reporting Period	12 months to 30 September 2015

	Amounts (000s)	Percentage change
Revenue from ordinary activities	NZ$ 315,351	2.2% decrease
Loss from ordinary activities after tax attributable to shareholders	(NZ$ 21,515)	167.9% increase
Net loss attributable to shareholders	(NZ$ 22,328)	219.8% increase

Final Dividend	Amount per security	Imputed amount per security
	Nil	Nil
Record Date	n/a	
Dividend Payment Date	n/a	

Comments	
	Net loss from ordinary activities after tax and Net loss attributable to shareholders are greater than the prior period due to increased outstanding claims provisions in respect of Canterbury earthquakes (NZ$ 25.3 million after tax) and the recognition of an impairment charge (NZ$ 14.1 million after tax). Net loss for the FY16 was NZ$ 21.5 million, including minority interest profit of NZ$ 0.8 million (FY15: NZ$ 6.6 million loss including minority interest profit of NZ$ 0.3 million).

Additional Information	

Refer attached 2016 audited Financial Statements for Tower Limited and its subsidiaries and Presentation for more detailed analysis and explanation.

TOWER LIMITED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2016

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CONSOLIDATED INCOME STATEMENT

$ thousands For the year ended 30 September	Note	2016	2015
Revenue			
Premium revenue	3	**302,940**	304,730
Less: Outwards reinsurance expense		**(49,106)**	(56,765)
Net premium revenue		**253,834**	247,965
Investment revenue	4	**8,998**	14,734
Fee and other revenue		**3,413**	2,984
Net operating revenue		**266,245**	265,683
Expenses			
Claims expense		**240,138**	252,244
Less: Reinsurance recoveries revenue		**(54,526)**	(64,907)
Net claims expense	5	**185,612**	187,337
Management and sales expenses	7	**87,410**	88,276
Impairment expense	13	**19,649**	-
Total expenses		**292,671**	275,613
Loss attributed to shareholders before tax		**(26,426)**	(9,930)
Tax benefit attributed to shareholders' profits	8A	**4,911**	1,898
Loss for the year from continuing operations		**(21,515)**	(8,032)
Profit from disposal of subsidiaries	34	**-**	1,396
Profit for the year from discontinued operations		**-**	1,396
Loss for the year		**(21,515)**	(6,636)
Loss attributed to:			
Shareholders		**(22,328)**	(6,982)
Non-controlling interest		**813**	346
		(21,515)	(6,636)
Basic and diluted (loss) per share for continuing operations (cents)	23	**(13.21)**	(4.79)
Basic and diluted earnings per share for discontinued operations (cents)	23	**-**	0.80

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$ thousands For the year ended 30 September	Note	2016	2015
Loss for the year		**(21,515)**	(6,636)
Other comprehensive income			
Currency translation differences		**(5,910)**	3,518
Gain on asset revaluation	15	**181**	129
Deferred income tax relating to asset revaluation	8D	**(23)**	(18)
Other comprehensive (loss) income net of tax		**(5,752)**	3,629
Total comprehensive loss for the year		**(27,267)**	(3,007)
Total comprehensive loss attributed to:			
Shareholders		**(27,404)**	(4,095)
Non-controlling interest		**137**	1,088
		(27,267)	(3,007)
Total comprehensive loss attributed to equity arises from:			
Continuing operations		**(27,267)**	(4,403)
Discontinued operations		**-**	1,396
		(27,267)	(3,007)

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

CONSOLIDATED BALANCE SHEET

$ thousands As at 30 September	Note	2016	2015
Assets			
Cash and cash equivalents	10	**92,228**	125,113
Receivables	12	**254,685**	257,851
Investments	25	**188,522**	213,593
Derivative financial assets	25	**57**	-
Deferred acquisition costs	14	**19,973**	20,277
Current tax assets	8B	**13,168**	14,893
Property, plant and equipment	15	**9,511**	10,221
Intangible assets	13	**31,982**	48,373
Deferred tax assets	8D	**30,155**	19,877
Total assets		**640,281**	710,198
Liabilities			
Payables	16	**49,500**	48,472
Current tax liabilities	8C	**123**	568
Provisions	17	**4,177**	3,273
Derivative financial liabilities	25	**735**	-
Insurance liabilities	18	**361,009**	375,877
Deferred tax liabilities	8D	**785**	1,099
Total liabilities		**416,329**	429,289
Net assets		**223,952**	280,909
Equity			
Contributed equity	20	**382,172**	384,585
Accumulated (losses) profit		**(42,822)**	6,376
Reserves	21	**(116,772)**	(111,696)
Total equity attributed to shareholders		**222,578**	279,265
Non-controlling interest		**1,374**	1,644
Total equity		**223,952**	280,909

The financial statements were approved for issue by the Board on 29 November 2016.

Michael P Stiassny
Chairman

Graham R Stuart
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributed to shareholders					
$ thousands	Note	Contributed equity	Accumulated (losses) profit	Reserves	Total	Non-controlling interest	Total Equity
Year Ended 30 September 2016							
At the beginning of the year		**384,585**	**6,376**	**(111,696)**	**279,265**	**1,644**	**280,909**
Comprehensive income							
(Loss) Profit for the year		**-**	**(22,328)**	**-**	**(22,328)**	**813**	**(21,515)**
Currency translation differences		**-**	**-**	**(5,234)**	**(5,234)**	**(676)**	**(5,910)**
Gain on asset revaluation	15	**-**	**-**	**181**	**181**	**-**	**181**
Deferred income tax relating to asset revaluation	8D	**-**	**-**	**(23)**	**(23)**	**-**	**(23)**
Total comprehensive loss		**-**	**(22,328)**	**(5,076)**	**(27,404)**	**137**	**(27,267)**
Transactions with shareholders							
Capital repayment plan	19, 20	**(2,413)**	**-**	**-**	**(2,413)**	**-**	**(2,413)**
Dividends paid	19	**-**	**(27,024)**	**-**	**(27,024)**	**(407)**	**(27,431)**
Other		**-**	**154**	**-**	**154**	**-**	**154**
Total transactions with shareholders		**(2,413)**	**(26,870)**	**-**	**(29,283)**	**(407)**	**(29,690)**
At the end of the year		**382,172**	**(42,822)**	**(116,772)**	**222,578**	**1,374**	**223,952**
Year Ended 30 September 2015							
At the beginning of the year		396,819	42,174	(114,583)	324,410	1,599	326,009
Comprehensive income							
(Loss) Profit for the year		-	(6,982)	-	(6,982)	346	(6,636)
Currency translation differences		-	-	2,776	2,776	742	3,518
Gain on asset revaluation	15	-	-	129	129	-	129
Deferred income tax relating to asset revaluation		-	-	(18)	(18)	-	(18)
Total comprehensive income (loss)		-	(6,982)	2,887	(4,095)	1,088	(3,007)
Transactions with shareholders							
Capital repayment plan	19, 20	(12,234)	-	-	(12,234)	-	(12,234)
Dividends paid		-	(28,999)	-	(28,999)	(1,043)	(30,042)
Other		-	183	-	183	-	183
Total transactions with shareholders		(12,234)	(28,816)	-	(41,050)	(1,043)	(42,093)
At the end of the year		384,585	6,376	(111,696)	279,265	1,644	280,909

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

CONSOLIDATED STATEMENT OF CASH FLOWS

$ thousands For the year ended 30 September	Note	2016	2015
Cash flows from operating activities			
Premiums received		**295,867**	308,232
Interest received		**10,088**	14,873
Dividends received		**9**	25
Net realised investment gain (loss)		**3,251**	(1,077)
Fee and other income received		**3,413**	2,984
Reinsurance received		**67,935**	138,499
Reinsurance paid		**(47,248)**	(57,105)
Claims paid		**(261,779)**	(299,642)
Payments to suppliers and employees		**(77,248)**	(84,912)
Income tax paid		**(4,598)**	(3,940)
Net cash (outflow) inflow from operating activities	11	**(10,310)**	17,937
Cash flows from investing activities			
Net proceeds from financial assets		**18,380**	1,141
Purchase of property, plant and equipment and intangible assets		**(9,175)**	(21,606)
Disposal of property, plant and equipment and intangible assets		**70**	1,161
Net cash inflow (outflow) from investing activities		**9,275**	(19,304)
Cash flows from financing activities			
Capital repayment		**(2,413)**	(12,234)
Dividends paid		**(27,024)**	(28,999)
Payment of non-controlling interest dividends		**(407)**	(1,043)
Net cash outflow from financing activities		**(29,844)**	(42,276)
Net decrease in cash and cash equivalents		**(30,879)**	(43,643)
Foreign exchange movement in cash		**(2,006)**	694
Cash and cash equivalents at the beginning of year		**125,113**	168,062
Cash and cash equivalents at the end of year	10	**92,228**	125,113

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

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF GENERAL ACCOUNTING POLICIES

Entities reporting

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

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

Statutory base

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

Basis of preparation

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

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

The consolidated Group financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars. They have been prepared on a fair value measurement basis with any exceptions noted in the accounting policies below.

Principles of consolidation

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

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

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

The acquisition of controlled entities from external parties 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. Acquisition related costs are expensed as incurred.

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

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

Foreign currency

(i) *Functional and presentation currencies*

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

(ii) *Transactions and balances*

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF GENERAL ACCOUNTING POLICIES (continued)

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

(iii) Consolidation

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

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

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

Cash flows

The consolidated statement of cash flows presents the net changes in cash flow for financial assets. Tower considers that knowledge of gross receipts and payments is not essential to understanding certain activities of Tower based on 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.

Comparatives

Restatement of receivables and insurance liabilities

The 30 September 2015 comparative information has been restated to correct the presentation of receivables and insurance liabilities, each by $43.8 million. On the balance sheet, receivables has been reduced by $43.8 million to $257.9 million and insurance liabilities has reduced by $43.8 million to $375.9 million. Total assets and total liabilities have reduced accordingly. There is no change to net assets. For further details, refer to note 6. On the basis the impact on the opening balance sheet is not deemed material for users of financial statements the opening balances have not been represented.

Within note 11 Reconciliation of loss for the period to net cash flows from operating activities, the balances for ‘Decrease in receivables’ and 'Decrease in payables’ have both been adjusted by $43.8 million. The 'Decrease in receivables' balance has increased $43.8 million and the 'Decrease in payables' has increased $43.8 million.

Within note 12 Receivables, the 2015 balance for Reinsurance recoveries on outstanding claims has decreased $43.8 million, all of which has been classified as current. Within note 18 Insurance liabilities, the 2015 balance for Outstanding claims has decreased $43.8 million, all of which has been classified as current. Note 9 Segmental reporting 2015 comparative balances for Total assets and Total liabilities have decreased $43.8 million reflecting the above reclassifications.

Within note 24 Insurance business disclosure, 2015 comparative amounts for gross outstanding claims and reinsurance on outstanding claims have been decreased by $43.8 million. Note 25 Financial instruments 2015 comparative balances for Trade and other receivables have been decreased by $43.8 million. This has been allocated to ‘Other non-investment related receivables’ in the credit risk concentration table of note 26B (i) and to ‘Loans and receivables’ in the maximum exposure to credit risk table of note 26B (ii). The $43.8 million has been allocated as a ‘Group 1’ receivable balance in the credit quality table of note 26B (iii).

Restatement of deferred tax assets and deferred tax liabilities

The 30 September 2015 comparative information has been restated to offset the presentation of deferred tax assets and deferred tax liabilities. On the balance sheet, deferred tax liabilities has been reduced by $4.9 million to $1.1 million and deferred tax assets has been reduced by $4.9 million to $19.9 million. Total assets and total liabilities have reduced accordingly. There is no change to net assets. For further details, refer to note 8. On the basis the impact on the opening balance sheet (1 October 2014) is not deemed material for users of financial statements the opening balances have not been represented.

Within note 9 Segmental reporting, 2015 comparative balances for Total assets and Total liabilities have decreased $4.9 million reflecting the above reclassifications.

NOTES TO THE FINANCIAL STATEMENTS

2 IMPACT OF AMENDMENTS TO NZ IFRS

2A 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 2016 or later periods, and the Group has not adopted them early. The Group expects to adopt the following new standards on 1 October after the effective date.

- **NZ IFRS 15 Revenue from Contracts with Customers** is effective for periods beginning on or after 1 January 2018. The standard will provide a single source of requirements for accounting for all contracts with customers (except for some specific exceptions, such as lease contracts, insurance contracts and financial instruments) and will replace all current accounting pronouncements on revenue. New revenue disclosures are also introduced. Tower has yet to fully evaluate the impact this standard will have on the financial statements.
- **NZ IFRS 16 Leases** is effective for periods beginning on or after 1 January 2019. The standard replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Tower has yet to fully evaluate the impact this standard will have on the financial statements.
- **NZ IFRS 9 Financial instruments** is effective for periods beginning on or after 1 January 2018. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The Group intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

2B Standards, amendments and interpretations to existing standards effective 30 September 2016 or early adopted by the Group

The application of new or amended accounting standards as of 1 October 2015 has not had a material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

3 PREMIUM REVENUE

$ thousands	Note	**2016**	2015
Gross written premiums		**303,236**	305,582
Less: Gross unearned premiums		**(296)**	(852)
Premium revenue		**302,940**	304,730

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 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.

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

4 INVESTMENT REVENUE

$ thousands	Note	**2016**	2015
Fixed interest securities			
Interest income		**10,088**	14,873
Net realised gain (loss)		**441**	(971)
Net unrealised gain (loss)		**(3,142)**	867
Total fixed interest securities		**7,387**	14,769
Equity securities			
Dividend income		**9**	25
Net unrealised gain (loss)		**(163)**	-
Total equity securities		**(154)**	25
Other			
Net realised gain (loss)		**2,810**	(106)
Net unrealised gain (loss)		**(1,045)**	46
Total other		**1,765**	(60)
Total investment revenue		**10,097**	14,898
Total net realised gain (loss)		**3,251**	(1,077)
Total net unrealised gain (loss)		**(4,350)**	913
Total investment revenue		**8,998**	14,734

Investment revenue is recognised as follows:

(i) *Interest income on fixed interest securities*

Interest income is recognised using the effective interest method.

(ii) *Dividend income on equity securities*

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

(iii) *Fair value gains and losses*

Fair value gains and losses on investments are recognised through the income statement in the period in which they arise. The gains and losses from fixed interest, equity and property securities have been generated by financial assets designated on initial recognition at fair value through profit or loss. Other investment gains and losses have been generated by derivative financial assets and financial liabilities classified as held for trading at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

5 NET CLAIMS EXPENSE

$ thousands	Note	2016	2015
Canterbury earthquake claims (4 key events)	6	**35,084**	45,450
Other claims		**150,528**	141,887
Total net claims expense		**185,612**	187,337

Claims expense is recognised when claims are notified. Provision is made at the end of the year for the estimated cost of claims incurred but not settled at balance date, including the cost of claims incurred but not yet reported to the Group.

The estimated cost of claims includes direct expenses incurred in settling claims net of any expected salvage value 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 have 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 current claims will be consistent with past experience. Allowance is made for changes or uncertainties which may create distortions in 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;
- the effects of inflation; and
- the impact of large losses.

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 reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Provisions are calculated gross of any reinsurance recoveries except risk margin, which is net of 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 24.

Reinsurance recoveries are recognised as revenue. Amounts recoverable are assessed in accordance with the terms of the reinsurance contracts in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of expected future receipts.

NOTES TO THE FINANCIAL STATEMENTS

6 CANTERBURY EARTHQUAKES

Tower has received over 15,990 individual claims from customers as a result of earthquakes impacting the Canterbury region during 2010 and 2011 (2015: 15,800 claims). Like other industry participants, Tower continues to receive 'over-cap' claims from EQC. The growth in new claims received has impacted Tower's settlement rates during the year. Of all claims received, Tower has settled over 15,426 claims at 30 September 2016 (2015: 15,100 claims), representing a 96% settlement rate by number of claims and 89% by value (2015: 96% by number and 88% by value). To date, Tower has paid out more than $749 million to customers (2015: $654 million) in respect of the four main earthquakes that occurred on 4 September 2010; 22 February 2011; 13 June 2011 and 23 December 2011.

As at 30 September 2016, Tower has estimated gross ultimate incurred claims of $869.6 million in respect of the four main Canterbury earthquake events (2015: $792.0 million).

The financial cost to Tower of the Canterbury earthquakes is reduced through reinsurance and is reflected within net outstanding claims. Tower continues to work closely with its catastrophe reinsurance partners as it works through its Canterbury claims settlement programme. Catastrophe reinsurance partners are required to have a financial strength rating of at least A- issued by a recognised international rating agency. Details on Tower's reinsurance programme is provided in note 24F. Tower has a commercial dispute with the provider of its adverse development cover, Peak Re, which is discussed further in note 12A.

The table below presents a financial representation of Tower’s net outstanding claims provision at 30 September 2016 in relation to the four main earthquake events.

Canterbury earthquake provisions

$ thousands	**2016**	2015
Insurance liabilities		
Outstanding claims	**(149,100)**	(163,000)
Receivables		
Reinsurance recovery receivables		
Adverse development cover - Peak Re	**43,750**	43,750
Other reinsurance recovery receivables	**7,050**	15,650
Other receivables	**57,600**	57,400
Total receivables	**108,400**	116,800
Net outstanding claims	**(40,700)**	(46,200)

Restatement of comparative receivables and insurance liabilities

At September 2015, an element of EQC contributions ($43.8 million) had been included within outstanding claims and reinsurance recovery receivables. This amount did not represent a liability for Tower nor a related reinsurance receivable. Accordingly, both outstanding claims and reinsurance recovery receivables have been reduced. There is no change to net outstanding claims.

The following table presents the cumulative impact of the four main Canterbury earthquake events on the income statement.

$ thousands	**2016**	2015
Cumulative expenses associated with Canterbury earthquakes:		
Earthquake claims estimate	**(869,600)**	(792,000)
Reinsurance recoveries	**734,699**	692,183
Claim expense net of reinsurance recoveries	**(134,901)**	(99,817)
Reinsurance expense	**(25,045)**	(25,045)
Cumulative impact of Canterbury earthquakes before tax	**(159,946)**	(124,862)
Income tax	**45,454**	35,642
Cumulative impact of Canterbury earthquakes after tax	**(114,492)**	(89,220)
Recognised in current period (net of tax)	**(25,272)**	(36,198)

6 CANTERBURY EARTHQUAKES (continued)

The Tower Board are actively engaged in monitoring Canterbury earthquake developments. Board process relies on the Appointed Actuary's determination of earthquake ultimate incurred claims estimates and the derivation of estimated outcomes. Tower has 564 open claims at 30 September 2016 (2015: 703 open claims). Recognising relative complexities which exist within remaining open claims, the Appointed Actuary has reviewed each remaining property file with Tower claims staff. This individual claim methodology included review of the latest specialist assessment reports and scope of works to repair or rebuild properties to determine the propensity for future costs to vary. In addition, further provision was made for claims re-opening; claims moving over the EQC cap of $100,000; claims in litigation and other claim categories. A risk margin has been allowed for at 75% probability of sufficiency.

The actuarial reviews performed during the year to 30 September 2016 identified the following as key contributors to the increase in expected earthquake claims costs:

- Greater than anticipated new claims from EQC;
- Growth in the level of litigation and customer disputes;
- Continued development of claim costs as they progress through the claims life cycle; and
- Refinement of actuarial assumptions incorporating claims incurred but not reported.

The key elements of judgement within the claims estimation are as follows:

Claims

- the level of future increases in building and other claims costs
- the number of new claims being received from EQC and the average cost of these claims
- the rate of closed claims reopening
- apportionment of claim costs to each of the four main earthquake events
- risk margin
- future claim management expenses, and

Recoveries

- collectability of reinsurance recoveries
- recoveries from EQC in respect of land damage and building costs
- risk margin.

Given the nature of estimation uncertainties (including those listed above) actual claims experience may still deviate, perhaps substantially, from the gross outstanding claims liabilities recorded as at 30 September 2016. Any further changes to estimates will be recorded in the accounting period when they become known.

Tower has exceeded its catastrophe reinsurance and adverse development cover limits in relation to the February 2011 event. The estimated ultimate incurred claims cost of the February 2011 event totals $482.0 million. Tower has reinsurance for $375.35 million on this event including catastrophe cover, proportional reinsurance and adverse development cover. During the year ended 30 September 2016, Tower expensed $35.1 million in relation to the February 2011 event (2015: $45.5 million).

For the three other main earthquake events, the catastrophe reinsurance cover headroom remaining is included in the table below.

Date of event	**Catastrophe reinsurance cover remaining**	
$ thousands	**2016**	2015
September 2010	**7,700**	17,100
June 2011	**256,500**	261,800
December 2011	**487,500**	487,700

6 CANTERBURY EARTHQUAKES (continued)

Sensitivity analysis - impact of changes in key variables

Net outstanding claims are comprised of several key elements, as set out earlier in this note. Sensitivity of net outstanding claims is therefore driven by changes to the assumptions underpinning each of these elements. The impact of changes in significant assumptions on the net outstanding claims liabilities, and hence on Tower's profit, are shown in the table below. Each change in assumption has been calculated in isolation of any other changes in assumptions.

The impact of a change to claims costs is offset by reinsurance where there is reinsurance capacity remaining. The impact will be nil where the change in claims costs is less than the remaining reinsurance capacity. However, if the change in claims costs exceeds the reinsurance capacity then Tower's profit will be impacted by the amount of claims costs in excess of the reinsurance capacity.

The changes in the table below reflect the impact on Tower's profits should that event occur.

			Split between events			**Four main earthquakes**	
$ millions	**Change variable**	**Sep 2010**	**Feb 2011**	**Jun 2011**	**Dec 2011**	**30-Sep-16**	30-Sep-15
Outstanding claims:							
(i) Change to costs and quantity of expected claim estimates including building costs and other impacts.	+ 5%	**-**	**(4.1)**	**-**	**-**	**(4.1)**	(6.5)
	- 5%	**-**	**4.1**	**-**	**-**	**4.1**	6.5
(ii) Change in apportionment of claim costs to / from February 2011 event.	+ 1%	**-**	**(9.0)**	**-**	**-**	**(9.0)**	(6.8)
	- 1%	**-**	**9.0**	**-**	**-**	**9.0**	6.8
Receivables:							
Reinsurance recovery receivables							
(iii) Adverse development cover	- 50%	**-**	**(21.9)**	**-**	**-**	**(21.9)**	(21.9)
	- 100%	**-**	**(38.8)**	**-**	**-**	**(38.8)**	(38.8)
(iv) Recoveries from EQC in respect of land damage	+ 10%	**-**	**0.7**	**-**	**-**	**0.7**	0.9
	- 10%	**-**	**(0.8)**	**-**	**-**	**(0.8)**	(0.9)
(v) Recoveries from EQC in respect of building costs	+ 10%	**-**	**0.1**	**-**	**-**	**0.1**	0.5
	- 10%	**-**	**(0.1)**	**-**	**-**	**(0.1)**	(0.5)

(i) Calculated as the change in case estimates (net of EQC contributions) plus IBNR/IBNER and the impact on Tower's profit quantified. Changes in case estimates include overcap claims, closed claims re-opening and risk margin.

(ii) Calculated as 1% of total reported costs (net of EQC contributions) plus IBNR/IBNER moved to/from Feb 2011 event and the impact on Tower's profit quantified.

(iii) Calculated as the impact on net outstanding claims due to 50% or 100% lower recoveries being received.

NOTES TO THE FINANCIAL STATEMENTS

7 MANAGEMENT AND SALES EXPENSES

Included in total management and sales expenses are the following requiring separate disclosures:

$ thousands	Note	**2016**	2015
Amortisation of deferred acquisition costs		**20,277**	20,028
Bad debts written off		**162**	155
Change in provision for doubtful debts		**(307)**	104
Amortisation of software		**3,950**	1,660
Depreciation		**2,438**	2,374
Office equipment and furniture		**840**	676
Motor vehicles		**170**	184
Computer equipment		**1,428**	1,514
Directors' fees		**565**	455
Employee benefits expense		**54,396**	51,038
(Gain) loss on disposal of property, plant and equipment		**(43)**	15
Claims related management expenses reclassified to claims expense		**(22,846)**	(21,352)

Auditors remuneration		
Fees paid to Group's auditors:		
Audit of financial statements (1)	**364**	343
Other assurance related services (2)	**30**	33
Non-assurance advisory related services (3)	**149**	8
Total fees paid to Group's auditors	**543**	384
Fees paid to subsidiaries' auditors different to Group auditors:		
Audit of financial statements (4)	**51**	39
Total fees paid to auditors	**594**	423

(1) The audit of financial statements includes fees for both the annual audit of financial statements and the review of interim financial statements.

(2) Other assurance related services includes the solvency return assurance, share register audit and regulatory returns.

(3) Non-assurance advisory related services related to IT Platform review and Annual Shareholders' Meeting procedures.

(4) Tower Insurance Limited paid all fees for audit services provided to the Group, other than the audit fees of National Pacific Insurance Limited and Tower Insurance (Vanuatu) Limited.

NOTES TO THE FINANCIAL STATEMENTS

8 TAX

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.

8A TAX EXPENSE

Analysis of tax expense

$ thousands	Note	**2016**	2015
Current tax		**6,026**	4,223
Deferred tax		**(10,615)**	(5,082)
(Over) under provided in prior years		**(322)**	(1,039)
Total tax benefit		**(4,911)**	(1,898)

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

Loss before tax from continuing operations	**(26,426)**	(9,930)
Income tax at the current rate of 28%	**(7,399)**	(2,780)
Tax effect of:		
Prior period adjustments	**(322)**	(1,325)
Non-deductible expenditure/non-assessable income	**216**	253
Foreign tax credits written off	**2,226**	2,132
Other	**368**	(178)
Total tax benefit	**(4,911)**	(1,898)

(i) Current tax

Current tax is the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and laws that have been enacted or substantively enacted by the 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) Tax consolidation

Tower Limited and its subsidiaries are part of a single consolidated group for tax purposes, with the exception of Tower Insurance Limited.

(iii) 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.

(iv) 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.

NOTES TO THE FINANCIAL STATEMENTS

8 TAX (continued)

(v) Tax cash flows

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

8B CURRENT TAX ASSETS

Analysis of current tax assets

$ thousands	Note	2016	2015
Current		**912**	3,629
Non-current		**12,256**	11,264
Total current tax assets		**13,168**	14,893

A non-current tax asset of $12,256,000 is recognised in the financial statements of the Group as at 30 September 2016 in relation to excess tax payments made in previous years (2015: $11,263,821). Non-current tax assets are expected to be recovered from 2019, as determined by the Board approved operational plan for financial years 2016 to 2019. A current tax asset of $595,000 is recognised in relation to excess tax payments made in the Pacific Islands over and above the estimated tax liabilities for the year (2015: $3,629,212).

8C CURRENT TAX LIABILITIES

Current tax liabilities of $123,000 relate to taxes payable to off shore tax authorities in the Pacific Islands (2015: $568,000).

8D DEFERRED TAX ASSETS AND LIABILITIES

The movement in deferred income tax assets and liabilities during the year is as follows:

$ thousands	Opening balance at 1 October	(Charged) credited to income statement	(Charged) credited to comprehensive income	Discontinued operations	(Charged) credited to other Group companies	Closing balance at 30 September
For the Year Ended 30 September 2016						
Movement in deferred tax assets						
Provisions and accruals	**2,321**	**820**	**-**	**-**	**-**	**3,141**
Property, plant and equipment	**3,431**	**(120)**	**(23)**	**-**	**-**	**3,288**
Tax losses	**19,034**	**10,052**	**-**	**-**	**-**	**29,086**
Total deferred tax assets	**24,786**	**10,752**	**(23)**	**-**	**-**	**35,515**
Set-off of deferred tax liabilities pursuant to NZ IAS 12						**(5,360)**
Net deferred tax assets						**30,155**
Movement in deferred tax liabilities						
Deferred acquisition costs	**(4,885)**	**34**	**-**	**-**	**-**	**(4,851)**
Other	**(1,123)**	**(171)**	**-**	**-**	**-**	**(1,294)**
Total deferred tax liabilities	**(6,008)**	**(137)**	**-**	**-**	**-**	**(6,145)**
Set-off of deferred tax liabilities pursuant to NZ IAS 12						**5,360**
Net deferred tax liabilities						**(785)**

NOTES TO THE FINANCIAL STATEMENTS

8 TAX (continued)

The movement in deferred income tax assets and liabilities during the prior year is as follows:

$ thousands	Opening balance at 1 October	(Charged) credited to income statement	(Charged) credited to comprehensive income	Discontinued operations	(Charged) credited to other Group companies	Closing balance at 30 September
For the Year Ended 30 September 2015						
Movement in deferred tax assets						
Provisions and accruals	3,427	(649)	-	(457)	-	2,321
Property, plant and equipment	4,813	(1,382)	-	-	-	3,431
Tax losses	11,063	6,968	-	949	54	19,034
Total deferred tax assets	19,303	4,937	-	492	54	24,786
Set-off of deferred tax liabilities pursuant to NZ IAS 12						(4,909)
Net deferred tax assets						19,877
Movement in deferred tax liabilities						
Deferred acquisition costs	(4,810)	(75)	-	-	-	(4,885)
Other	(1,323)	218	(18)	-	-	(1,123)
Total deferred tax liabilities	(6,133)	143	(18)	-	-	(6,008)
Set-off of deferred tax liabilities pursuant to NZ IAS 12						4,909
Net deferred tax liabilities						(1,099)

Prior year deferred tax assets and liabilities have been restated in the balance sheet as follows:

$ thousands	Balance at 30 September 2015	Jurisdictional offsetting	Restated 30 September 2015
For the Year Ended 30 September 2015			
Total deferred tax assets	24,786	(4,909)	19,877
Total deferred tax liabilities	(6,008)	4,909	(1,099)

Restatement of comparatives

At September 2015, deferred tax assets and deferred tax liabilities had been disclosed separately in the balance sheet without jurisdictional offsetting. Pursuant to NZ IAS 12, the deferred tax assets and deferred tax liabilities are offset to the extent that the entity has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax liabilities and assets on a net basis.

Accordingly, deferred tax liabilities and deferred tax assets have been reduced. There is no change to net deferred tax.

8 TAX (continued)

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.

Recognition of deferred tax assets is a key area of judgement. Management expects to utilise the tax losses against future profits over the next 3 years.

Deferred tax liabilities of $166,000 have not been recognised in respect of temporary differences associated with investments in subsidiaries (2015: liabilities of $156,000).

8E IMPUTATION CREDITS

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

$ thousands	**2016**	2015
Imputation credits available for use in subsequent reporting periods	**489**	489

The balance of the imputation account at the end of the year is determined having adjusted for imputation credits that will arise from the payment of income tax provided; dividends recognised as a liability; and the receipt of dividends recognised as receivables at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

$ thousands	New Zealand	Pacific Islands	Other (Holding companies & eliminations)	Total
9 SEGMENTAL REPORTING				
Year Ended 30 September 2016				
Revenue				
Revenue - external	**218,992**	**45,765**	**1,488**	**266,245**
Total revenue	**218,992**	**45,765**	**1,488**	**266,245**
Earnings before interest, tax, depreciation and amortisation	**(12,577)**	**9,617**	**(17,078)**	**(20,038)**
Depreciation and amortisation	**(2,076)**	**(379)**	**(3,933)**	**(6,388)**
Profit (Loss) before income tax	**(14,653)**	**9,238**	**(21,011)**	**(26,426)**
Income tax credit (expense)	**2,760**	**(3,729)**	**5,880**	**4,911**
Profit (Loss) for the year	**(11,893)**	**5,509**	**(15,131)**	**(21,515)**
Total assets 30 September 2016	**479,420**	**79,104**	**81,757**	**640,281**
Total liabilities 30 September 2016	**360,613**	**51,981**	**3,735**	**416,329**
Acquisition of property plant and equipment and intangibles	**481**	**1,523**	**7,553**	**9,557**
Year Ended 30 September 2015				
Revenue				
Revenue - external	216,813	46,919	1,951	265,683
Total revenue	216,813	46,919	1,951	265,683
Earnings before interest, tax, depreciation and amortisation	(22,474)	14,844	1,734	(5,896)
Depreciation and amortisation	(2,954)	(239)	(841)	(4,034)
Profit (Loss) before income tax	(25,428)	14,605	893	(9,930)
Income tax credit (expense)	6,249	(4,989)	638	1,898
Profit (Loss) for the year	(19,179)	9,616	1,531	(8,032)
Total assets 30 September 2015 (restated)	550,162	86,621	73,415	710,198
Total liabilities 30 September 2015 (restated)	370,356	54,236	4,697	429,289
Acquisition of property plant and equipment and intangibles	12,496	3,429	4,847	20,772

Description of segments and other segment information
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.

Tower Group operates predominantly in two geographical segments, New Zealand and the Pacific region. Dormant operations in the United Kingdom and the United States are a negligible part of the Group's operations and assets.

The New Zealand segment comprised general insurance business written in New Zealand. The Pacific Islands segment includes general insurance business with customers in the Pacific Islands written by Tower Insurance Limited subsidiaries and branch operations. Other includes head office expenses, financing costs and eliminations.

The Group does not derive revenue from any individual or entity that represents 10% or more of the Group's total revenue.

NOTES TO THE FINANCIAL STATEMENTS

10 CASH AND CASH EQUIVALENTS

$ thousands	2016	2015
Cash at bank and in hand	**25,792**	28,330
Deposits at call	**60,932**	90,043
Restricted cash	**5,504**	6,740
Total cash and cash equivalents	**92,228**	125,113

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.

The effective interest rate at 30 September for deposits at call is 2.60% (2015: 3.25%). There was no offsetting within cash and cash equivalents (2015: nil).

Tower is a party to the Canterbury Earthquake Shared Property Process – Insurer Contract (SPP) which sets out obligations for insurers and appoints a lead insurer to act on behalf of other insurers with respect to the repair and rebuild of shared properties (known as multi-units). As lead insurer on Canterbury multi-unit repairs or rebuilds, Tower receives cash from other insurance companies as settlement of their obligations under building contracts covered within the SPP. Tower separately holds this cash on behalf of other insurers in a segregated bank account.

At 30 September, Tower was holding $5.5 million (2015: $6.7 million) cash in respect of multi-unit claims as lead insurer on Canterbury claims. This is recognised within Cash and cash equivalents on the balance sheet. Related to this are corresponding amounts being $2.7 million (2015: $3.2 million) recorded within Insurance liabilities for Tower's portion of multi-unit outstanding claims; and $2.8 million (2015: $3.5 million) recorded within Payables as held on behalf of other insurers in respect of SPP claims.

11 RECONCILIATION OF LOSS FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

$ thousands	2016	2015
Loss for the year	**(21,515)**	(6,636)
Add (less) non-cash items		
Depreciation of property, plant and equipment	**2,438**	2,374
Amortisation of software	**3,950**	1,660
Impairment of software	**19,649**	-
Unrealised (gain) loss on financial assets	**4,350**	(913)
Movement on disposal of property, plant and equipment	**(43)**	(16)
Increase in deferred tax	**(10,560)**	(5,608)
	19,784	(2,503)
Add (less) movements in working capital (excluding the effects of exchange differences on consolidation)		
Decrease in receivables	**1,984**	116,043
Decrease in payables	**(11,614)**	(87,465)
Decrease (increase) in taxation	**1,051**	(1,502)
	(8,579)	27,076
Net cash inflows (outflows) from operating activities	**(10,310)**	17,937

NOTES TO THE FINANCIAL STATEMENTS

$ thousands	Note	2016	2015
12 RECEIVABLES			
Reinsurance recovery receivables	12A	**68,406**	69,950
Outstanding premiums and trade receivables		**125,855**	124,658
Other		**60,424**	63,243
Total receivables		**254,685**	257,851
Analysed as			
Current		**173,613**	178,763
Non current		**81,072**	79,088
Total receivables		**254,685**	257,851

Outstanding premiums and trade receivables are presented net of allowance for credit losses and impairment. The tables below include reconciliations of outstanding premiums and trade receivables, together with the provision for cancellation at the reporting date.

	2016	2015
Outstanding premiums and trade receivables	**127,605**	126,715
Allowance for credit losses and impairment	**(1,750)**	(2,057)
	125,855	124,658
Opening balance	**2,057**	1,953
Provisions added during the year	**45**	155
Provisions released during the year	**(224)**	(51)
Foreign exchange movements	**(128)**	-
Closing balance	**1,750**	2,057

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

Collectability of trade receivables is reviewed on an on-going basis. 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.

Trade and other receivables, including EQC reinsurance recoveries, are included in current assets except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also determined 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.

12A REINSURANCE CONTRACT IN DISPUTE

Tower has a commercial dispute with Peak Re, the provider of the Adverse Development Cover (ADC) entered into in April 2015. As a result the parties have agreed to an arbitration process in accordance with the ADC agreement. Tower anticipates the arbitration will take place in the second half of 2017. Tower remains confident in its position that it is fully entitled to claim on the ADC policy on the basis of strong legal advice. Tower will take every step to fully recover the amounts due.

The ADC provides for recovery of claims cost on the February 2011 earthquake. The maximum value of the ADC recovery is $43.75 million which has been fully recognised in the calculation of Tower's net claims expense in respect of the Canterbury earthquakes, refer to note 6.

Tower notes that, while it has confidence in its position, the process of legal redress has risk and collection of the $43.75 million receivable cannot be certain.

NOTES TO THE FINANCIAL STATEMENTS

13 INTANGIBLE ASSETS

		Software			
$ thousands	Goodwill	Acquired	Internally developed	Under development	Total
Year Ended 30 September 2016					
Cost:					
Opening balance	**17,744**	**4,223**	**34,861**	**14,279**	**71,107**
Additions	**-**	**846**	**339**	**7,070**	**8,255**
Disposals	**-**	**(39)**	**-**	**-**	**(39)**
Transfers	**-**	**-**	**-**	**(339)**	**(339)**
Foreign exchange movements	**-**	**(10)**	**-**	**-**	**(10)**
Transfers to Property, plant and equipment	**-**	**-**	**-**	**(702)**	**(702)**
Impairment expense	**-**	**-**	**(3,895)**	**(15,754)**	**(19,649)**
Closing balance	**17,744**	**5,020**	**31,305**	**4,554**	**58,623**
Accumulated amortisation:					
Opening balance	**-**	**(4,047)**	**(18,687)**	**-**	**(22,734)**
Amortisation charge	**-**	**(261)**	**(3,689)**	**-**	**(3,950)**
Amortisation on disposals	**-**	**40**	**-**	**-**	**40**
Foreign exchange movements	**-**	**3**	**-**	**-**	**3**
Closing balance	**-**	**(4,265)**	**(22,376)**	**-**	**(26,641)**
Net book value					
At cost	**17,744**	**5,020**	**31,305**	**4,554**	**58,623**
Accumulated amortisation	**-**	**(4,265)**	**(22,376)**	**-**	**(26,641)**
Closing net book value	**17,744**	**755**	**8,929**	**4,554**	**31,982**
Year Ended 30 September 2015					
Cost:					
Opening balance	17,744	4,186	25,063	9,563	56,556
Additions	-	33	9,798	15,349	25,180
Disposals	-	(1)	-	(109)	(110)
Transfers	-	-	-	(9,819)	(9,819)
Foreign exchange movements	-	5	-	-	5
Transfers to Property, plant and equipment	-	-	-	(705)	(705)
Closing balance	17,744	4,223	34,861	14,279	71,107
Accumulated amortisation:					
Opening balance	-	(3,745)	(17,328)	-	(21,073)
Amortisation charge	-	(301)	(1,359)	-	(1,660)
Amortisation on disposals	-	1	-	-	1
Foreign exchange movements	-	(2)	-	-	(2)
Closing balance	-	(4,047)	(18,687)	-	(22,734)
Net book value					
At cost	17,744	4,223	34,861	14,279	71,107
Accumulated amortisation	-	(4,047)	(18,687)	-	(22,734)
Closing net book value	17,744	176	16,174	14,279	48,373

13 INTANGIBLE ASSETS (continued)

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	3-10 years

Following the impairment review discussed below, the Group has reduced the estimated useful economic life and amortisation period of the core operating system software to 3 years from 1 April 2016, which increased the annual amortisation by $844,000.

The determination of estimated useful economic life is a key area of judgement.

IMPAIRMENT OF SOFTWARE

The Group has reviewed the carrying value of software intangible assets (both internally developed and under development) for indicators of impairment as at 30 September 2016. Assessment of impairment indicators included reviewing the technical feasibility of completing the software development so it would be available for use; the intention to complete the software development; and whether the software would generate probable future economic benefits.

The review was undertaken in light of revised expectations for future technology platforms required to support growth in the New Zealand and Pacific insurance businesses. The Directors concluded that impairment of certain software intangible assets was required as at 31 March 2016. An impairment charge of $19.65 million was recorded at 31 March 2016, and has been recognised in these financial statements (2015: nil) relating to Internally developed software and Software under development categories.

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.

IMPAIRMENT TESTING FOR GOODWILL

Goodwill is allocated to the New Zealand general insurance cash generating unit. The carrying amount of goodwill allocated to the cash generating unit is shown below:

$ thousands	**2016**	2015
Carrying amount of goodwill	**17,744**	17,744

Impairment of goodwill is a key area of judgement.

Goodwill is subject to impairment testing at the cash-generating unit level every six months. No impairment loss has been recognised in 2016 as a result of the impairment review (2015: Nil).

13 INTANGIBLE ASSETS (continued)

IMPAIRMENT REVIEW METHOD

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 14% was used in the calculation (2015: 14%). Other assumptions used are consistent with the actuarial assumptions in note 24 in respect of Tower Insurance. The projected cash flows have been determined using a steady average growth rate of 2% (2015: 2%). 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 amount from the general insurance business, as determined by the appraisal value, will exceed the carrying value under a reasonable range of adverse scenarios.

14 DEFERRED ACQUISITION COSTS

$ thousands	Note	**2016**	2015
Balance at the beginning of year		**20,277**	20,028
Acquisition costs during the year		**19,973**	20,277
Current period amortisation		**(20,277)**	(20,028)
Total deferred acquisition costs		**19,973**	20,277
Analysed as:			
Current		**19,973**	20,277
Non-current		**-**	-
Total deferred acquisition costs		**19,973**	20,277

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.

NOTES TO THE FINANCIAL STATEMENTS

$ thousands	Land and buildings	Office equipment and furniture	Motor vehicles	Computer equipment	Total
15 PROPERTY, PLANT AND EQUIPMENT					
For the Year Ended 30 September 2016					
Cost					
Opening balance	**2,754**	**6,749**	**1,396**	**13,597**	**24,496**
Additions	**-**	**1,182**	**203**	**619**	**2,004**
Revaluations	**181**	**-**	**-**	**-**	**181**
Disposals	**-**	**(85)**	**(122)**	**(33)**	**(240)**
Foreign exchange movements	**(225)**	**(365)**	**(200)**	**(145)**	**(935)**
Closing balance	**2,710**	**7,481**	**1,277**	**14,038**	**25,506**
Accumulated depreciation					
Opening balance	**-**	**(1,513)**	**(1,022)**	**(11,740)**	**(14,275)**
Depreciation	**-**	**(840)**	**(170)**	**(1,428)**	**(2,438)**
Disposals	**-**	**82**	**124**	**7**	**213**
Foreign exchange movements	**-**	**267**	**138**	**100**	**505**
Closing balance	**-**	**(2,004)**	**(930)**	**(13,061)**	**(15,995)**
Closing balance					
Cost / revaluation	**2,710**	**7,481**	**1,277**	**14,038**	**25,506**
Accumulated depreciation	**-**	**(2,004)**	**(930)**	**(13,061)**	**(15,995)**
Net book value	**2,710**	**5,477**	**347**	**977**	**9,511**
For the Year Ended 30 September 2015					
Cost					
Opening balance	2,374	6,896	1,365	13,155	23,790
Additions	-	5,583	101	432	6,116
Revaluations	129	-	-	-	129
Disposals	-	(6,005)	(246)	(16)	(6,267)
Foreign exchange movements	251	275	176	26	728
Closing balance	2,754	6,749	1,396	13,597	24,496
Accumulated depreciation					
Opening balance	-	(6,295)	(992)	(10,218)	(17,505)
Depreciation	-	(676)	(184)	(1,514)	(2,374)
Disposals	-	5,755	237	15	6,007
Foreign exchange movements	-	(297)	(83)	(23)	(403)
Closing balance	-	(1,513)	(1,022)	(11,740)	(14,275)
Closing balance					
Cost / revaluation	2,754	6,749	1,396	13,597	24,496
Accumulated depreciation	-	(1,513)	(1,022)	(11,740)	(14,275)
Net book value	2,754	5,236	374	1,857	10,221

15 PROPERTY, PLANT AND EQUIPMENT (continued)

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

Land and buildings are shown at fair value, based on periodic valuations by external independent appraisers less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Depreciation

Depreciation is calculated using the straight line method to allocate the assets' 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
Furniture & fittings	5-9 years
Motor Vehicles	5 years
Buildings	50-100 years
Leasehold property improvements	3-12 years

Land and buildings are located in Fiji and Papua New Guinea and are stated at fair value. Fair value is determined using an income approach whereby future rental streams are capitalised at a rate appropriate for the type of property and lease arrangement. This value is then adjusted to take into account recent market activity. Valuation was performed as at 16 September 2016 by Rolle Associates, registered valuers in Fiji. There has been no material movement in the valuation between 16 September 2016 and 30 September 2016. Inputs to the valuation of the Fiji property are considered to be based on non-observable market data, thus classified as level 3 in the fair value hierarchy. Inputs include gross rentals per square meter of similar property in the Suva area, recent comparable sales of commercial property in Suva and a capitalisation rate of 7.0% (2015: 7.5%).

Had land and buildings been recognised under the cost model the carrying amount would have been $1,145,000 (2015: $1,145,000). The revaluation surplus for the period is recorded in other comprehensive income and has no restrictions on the distribution of the balance to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

$ thousands	Note	2016	2015

16 PAYABLES

Trade payables		**16,125**	15,847
Reinsurance payables		**4,445**	2,612
Payable to other insurers		**2,798**	3,481
Other payables		**26,132**	26,532
Total payables		**49,500**	48,472
Analysed as:			
Current		**49,500**	48,472
Non current		**-**	-
Total payables		**49,500**	48,472

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 less transaction costs and subsequently measured at amortised cost using the effective interest method.

Tower is a party to the Shared Property Process – Insurer Contract (SPP) which sets out obligations for insurers and appoints a lead insurer to act on behalf of other insurers with respect to the repair and rebuild of shared properties (known as multi-units). As lead insurer on multi-unit repairs or rebuilds, Tower receives cash from other insurance companies as settlement of their obligations under building contracts covered within the SPP. Tower has recorded amounts received from other insurers as a Payable, recognising these funds are restricted in use. Funds can only be applied to the rebuild or repair of properties within the SPP that Tower is lead insurer for. Tower holds this cash on behalf of other insurers in a segregated bank account.

At 30 September there was $2.8 million (2015: $3.5 million) recorded within Payables as funds held on behalf of other insurers in respect of SPP claims. Refer also note 10 for further details on cash held in respect of multi-unit claims as lead insurer.

17 PROVISIONS

Employee benefits		**4,177**	3,064
Business separation		**-**	209
Total provisions		**4,177**	3,273
Analysed as:			
Current		**4,177**	3,273
Non current		**-**	-
Total provisions		**4,177**	3,273

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 as the best estimate of future cash flows discounted to present value where the effect is material.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

$ thousands	Note	2016	2015
18 INSURANCE LIABILITIES			
Unearned premiums		**150,807**	155,677
Outstanding claims		**210,202**	220,200
Total insurance liabilities		**361,009**	375,877
Analysed as			
Current		**291,845**	337,498
Non current		**69,164**	38,379
Total insurance liabilities		**361,009**	375,877

The table below includes the reconciliation of the unearned premiums as at the reporting date:

Opening balance		**155,677**	150,504
Premiums written		**288,537**	290,780
Premiums earned		**(293,911)**	(286,376)
Foreign exchange movements		**504**	769
Closing balance		**150,807**	155,677

Outstanding claims are measured at the central estimate of the present value of expected future payments after allowing for inflation 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.

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.

19 DISTRIBUTIONS TO SHAREHOLDERS

DIVIDEND PAYMENTS

On 24 November 2015 the Directors declared a final dividend for the 2015 financial year of 7.5 cents per share. The dividend was paid on 3 February 2016. The total amount paid was $12,687,553. There were no imputation credits attached to the dividend and Tower did not offer its Dividend Reinvestment Plan for this dividend.

On 24 May 2016 the Directors declared an interim dividend for the half year ended 31 March 2016 of 8.5 cents per share. The dividend was paid on 30 June 2016. The total amount paid was $14,336,340. There were no imputation credits attached to the dividend and Tower did not offer its Dividend Reinvestment Plan for this dividend.

RETURN OF CAPITAL

On 26 May 2015, following the Company's half year results announcement, Tower commenced on market share buyback of up to $34 million. Capital of $2.4 million was bought back in the year to 30 September 2016 (2015: $12.2 million). In total $14.6 million of capital was bought back and cancelled during the 10 months to 31 March 2016. Refer to note 20 for movement in ordinary shares relating to buyback.

On 24 May 2016 the Directors announced the voluntary on-market share buyback would stop with immediate effect.

NOTES TO THE FINANCIAL STATEMENTS

20 CONTRIBUTED EQUITY

$ thousands	**2016**	2015
Ordinary share capital (fully paid)	**382,172**	384,585
Total contributed equity	**382,172**	384,585

Represented by:

Number of shares	**2016**	2015
Ordinary shares (issued and fully paid)	**168,662,150**	169,983,470
Movement in ordinary shares:		
Opening balance	**169,983,470**	175,749,449
Buyback of share capital	**(1,321,320)**	(5,765,979)
Closing balance	**168,662,150**	169,983,470

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

21 RESERVES

$ thousands	Note	**2016**	2015
Foreign currency translation reserve (FCTR)			
Opening balance		**791**	(1,985)
Currency translation differences arising during the year		**(5,234)**	2,776
Closing balance		**(4,443)**	791
Separation Reserve			
Opening balance		**(113,000)**	(113,000)
Closing balance		**(113,000)**	(113,000)
Asset revaluation reserve			
Opening balance		**513**	402
Gain on revaluation, net of deferred tax		**158**	111
Closing balance		**671**	513
Total reserves		**(116,772)**	(111,696)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

22 NET ASSETS PER SHARE

$ dollars	**2016**	2015
Net assets per share	**1.33**	1.65
Net tangible assets per share	**0.96**	1.26

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

Reconciliation to net tangible assets is provided below:

$ thousands	**2016**	2015
Net assets	**223,952**	280,909
Less: deferred tax	**(29,370)**	(18,778)
Less: intangible assets	**(31,982)**	(48,373)
Net tangible assets	**162,600**	213,758

23 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributed to shareholders 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.

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 on basic earnings per share for 2016 (2015: nil).

$ thousands	**2016**	2015
Loss attributable to shareholders from continuing operations	**(22,328)**	(8,378)
Profit attributable to shareholders from discontinued operations	**-**	1,396

Number of shares	**2016**	2015
Weighted average number of ordinary shares for basic and diluted earnings per share	**169,069,382**	175,024,794

Cents	**2016**	2015
Basic and diluted (loss) earnings per share from continuing operations	**(13.21)**	(4.79)
Basic and diluted (loss) earnings per share from discontinued operations	**-**	0.80

24 INSURANCE BUSINESS DISCLOSURE

24A NET CLAIMS EXPENSE

	2016			2015		
$ thousands	**Risks borne in current year**	**Risks borne in prior years**	**Total**	Risks borne in current year	Risks borne in prior years	Total
Gross claims expense						
Direct claims - undiscounted	**148,710**	**91,358**	**240,068**	141,049	109,663	250,712
Movement in discount	**53**	**17**	**70**	54	1,478	1,532
Total gross claims expense	**148,763**	**91,375**	**240,138**	141,103	111,141	252,244
Reinsurance and other recoveries						
Reinsurance and other recoveries - undiscounted	**(12,094)**	**(42,428)**	**(54,522)**	(3,901)	(61,026)	(64,927)
Movement in discount	**(3)**	**(1)**	**(4)**	18	2	20
Total reinsurance recoveries	**(12,097)**	**(42,429)**	**(54,526)**	(3,883)	(61,024)	(64,907)
Net claims expense	**136,666**	**48,946**	**185,612**	137,220	50,117	187,337

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years including those arising due to the Canterbury earthquakes. Refer to note 5 and 6.

24B OUTSTANDING CLAIMS

(a) Assumptions adopted in calculation of insurance liabilities

The estimation of outstanding claims as at 30 September 2016 has been carried out by the following Actuaries:

Rick Shaw, B.Sc. (Hons), FIAA; and

Peter Davies, B.Bus.Sc, FIA, FNZSA.

Tower appointed Rick Shaw (Deloitte Australia) as Appointed Actuary on 10 November 2015, replacing Charles Hett (Deloitte New Zealand).

The New Zealand actuarial assessments are undertaken 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 by the Actuaries at a level that is appropriate and sustainable to cover the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

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

	2016	2015
Inflation rates varied from	0.0% - 3.8%	2.5% - 3.8%
Inflation rates for succeeding year	0.0% - 3.8%	2.5% - 3.8%
Inflation rates for following years	0.0% - 3.8%	2.5% - 3.8%
Discount rates varied from	2.5% - 6.3%	2.5% - 6.3%
Discount rates for succeeding year	2.5% - 6.3%	2.5% - 6.3%
Discount rates for following years	2.5% - 6.3%	2.5% - 6.3%
Claims handling expense ratio	0.0% - 56.4%	4.7% - 43.0%
Risk margin	6.3% - 21.8%	8.0% - 14.8%

In addition to the risk margin range shown above, the total risk margin also includes $17,700,000, gross of reinsurance (2015: $19,300,000) associated with the Canterbury earthquakes.

24 INSURANCE BUSINESS DISCLOSURE (continued)

The weighted average expected term to settlement of outstanding claims (except for Canterbury earthquake claims) based on historical trends is:

	2016	2015
Short tail claims within 1 year	within 1 year	within 1 year
Long tail claims in the Pacific Islands	0.9 to 1.8 years	0.9 to 1.8 years
Inwards reinsurance	greater than 10 years	greater than 10 years

Inflation rate

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

For motor and property 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

Outstanding claim liabilities are discounted to present value using a risk free rate relevant to the term of the liability and the jurisdiction.

EQC recoveries

Tower has adopted an approach which allocates recoverable amounts from EQC according to various tiers reflecting the likelihood of recovery. For example, tier 1 represents Tower having good information and a strong position for recovery, whereas tier 5 represents Tower having to rely on EQC information and having a lower likelihood of recovery.

Apportionment

Tower assesses claims and apportions damage between Canterbury earthquake events on an individual property basis. The allocation process uses a hierarchical approach based on the relative quality and number of claim assessments completed after each of the four main earthquakes. Results from the hierarchical approach are used as an input to the actuarial valuations which estimate the ultimate claims costs.

Claims handling expense

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

Risk margin

The outstanding claim liabilities also include 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 the 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 (CoV), defined as the standard deviation of the distribution of future cash flows divided by the mean.

Risk margins are calculated by jurisdiction. 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 75% probability of adequacy for both the outstanding claims liability and the unexpired risk liability.

NOTES TO THE FINANCIAL STATEMENTS

24 INSURANCE BUSINESS DISCLOSURE (continued)

The following analysis is in respect of the insurance liabilities:

$ thousands	Note	**2016**	2015
Central estimate of expected present value of future payments for claims incurred		**129,058**	139,111
Risk margin		**14,663**	11,675
Claims handling costs		**4,177**	3,766
		147,898	154,552
Discount		**(201)**	(266)
Net outstanding claims		**147,697**	154,286

Reconciliation of movements in discounted outstanding claim liabilities

	2016			2015		
$ thousands	**Gross**	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Balance brought forward	**220,200**	**(65,914)**	**154,286**	271,768	(175,455)	96,313
Effect of change in foreign exchange rates	**699**	**3**	**702**	2,210	(4,059)	(1,849)
Incurred claims recognised in the income statement	**240,138**	**(54,526)**	**185,612**	252,244	(64,907)	187,337
Claim (payment) recoveries during the year	**(250,835)**	**57,932**	**(192,903)**	(306,022)	178,507	(127,515)
Total outstanding claims	**210,202**	**(62,505)**	**147,697**	220,200	(65,914)	154,286

Reconciliation of movements in undiscounted claims to outstanding claim liabilities

	2016			2015		
$ thousands	**Gross**	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Outstanding claims undiscounted	**1,731**	**(90)**	**1,641**	2,200	(129)	2,071
Discount	**(13)**	**2**	**(11)**	(28)	7	(21)
Outstanding claims	**1,718**	**(88)**	**1,630**	2,172	(122)	2,050
Short tail outstanding claims			**146,067**			152,236
Total outstanding claims			**147,697**			154,286

(b) Sensitivity analysis

The Group's insurance business is generally short tail in nature. Key sensitivities relate to the volume of claims in particular for significant events such as earthquakes or extreme weather.

The Group has exposure to some inwards reinsurance business which is in run off. While this business is not large, it is sensitive to claims experience, timing of claims and changes in assumptions. Movement in these variables does not have a material impact on the performance and equity of the Group.

24 INSURANCE BUSINESS DISCLOSURE (continued)

(c) Future net cash out flows

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

$ thousands	Note	2016	2015
Expected claim payments			
Within 3 months		**39,580**	51,307
3 to 6 months		**22,255**	22,982
6 to 12 months		**19,234**	6,063
After 12 months		**66,628**	73,934
Total outstanding claim liabilities		**147,697**	154,286

24C RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operations of the 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 26). Notes on the policies and procedures employed in managing these risks in the 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 policies in place to mitigate risks arising from writing 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) 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

NOTES TO THE FINANCIAL STATEMENTS

24 INSURANCE BUSINESS DISCLOSURE (continued)

(c) Development of claims

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

	$ thousands						
Ultimate claims cost estimate	**Prior**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
At end of incident year		113,839	123,816	138,878	137,220	136,666	
One year later		117,277	124,667	138,720	151,751		
Two years later		116,819	125,502	139,588			
Three years later		117,862	125,363				
Four years later		119,415					
Current estimate of ultimate claims cost		119,415	125,363	139,588	151,751	136,666	
Cumulative payments		(119,048)	(124,719)	(138,988)	(149,642)	(102,716)	
Undiscounted central estimate	91,388	367	644	600	2,109	33,950	129,058
Discount to present value	(1)	-	(1)	(2)	(11)	(186)	(201)
Discounted central estimate	91,387	367	643	598	2,098	33,764	128,857
Claims handling expense							4,177
Risk margin							14,663
Net outstanding claim liabilities							147,697
Reinsurance recoveries on outstanding claim liabilities and other recoveries							62,505
Gross outstanding claim liabilities							210,202

24D 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 expected future cash flows plus additional risk margin then the unearned premium liability is deemed to be adequate. The risk margins applied to future claims were determined with the objective of achieving at least 75% probability of adequacy of the unexpired risk liability using the methodology described above. The unearned premium liabilities as at 30 September 2016 were sufficient (2015: sufficient).

%	**2016**	2015
Central estimate claim % of premium	**45.3%**	41.1%
Risk margin	**9.3%**	9.3%

24 INSURANCE BUSINESS DISCLOSURE (continued)

24E INSURER FINANCIAL STRENGTH RATING

Tower Insurance Limited has an insurer financial strength rating of 'A-' (Excellent) issued by international rating agency AM Best Company Inc. with an effective date of 15 July 2016.

24F REINSURANCE PROGRAMME

Reinsurance programmes are structured to adequately protect the solvency and capital positions of the insurance business. The adequacy of reinsurance cover is modelled by assessing Tower's exposure under a range of scenarios. The plausible scenario that has the most financial significance for Tower is a major Wellington earthquake. Each year, as part of setting the coming year's reinsurance cover, comprehensive modelling of the event probability and amount of the Group's exposure is undertaken.

24G SOLVENCY REQUIREMENTS

The minimum solvency capital required to be retained to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 is shown below. Actual solvency capital exceeds the minimum solvency capital requirement for the Group by $73.8 million (2015: $86.9 million).

$ thousands	**2016**	2015
Actual solvency capital	**140,827**	156,646
Minimum solvency capital	**67,047**	69,730
Solvency margin	**73,780**	86,916
Solvency ratio	**210%**	225%

On 22 August 2014 the Reserve Bank of New Zealand imposed a condition of license requirement for Tower Insurance Limited to maintain a minimum solvency margin of $50.0 million. This minimum solvency requirement was confirmed on 15 September 2015 by the Reserve Bank of New Zealand.

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.

24H ASSETS BACKING INSURANCE BUSINESS

The Group has determined that all assets within its insurance companies are held to back insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries.

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.

25 FINANCIAL INSTRUMENTS

25A FINANCIAL INSTRUMENT CATEGORIES

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

(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 transaction costs and subsequently at amortised cost using the effective interest method less any impairment.

(ii) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments that are not quoted on an active market. The Group's financial liabilities comprise trade, reinsurance and other payables in the balance sheet. Financial liabilities are measured initially at fair value plus transaction costs and subsequently at amortised cost less any impairment.

(iii) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities 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 statements. The net gain or loss recognised in the income statements 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.

(iv) Fair value

Financial assets and liabilities are measured in the balance sheet at fair value with the exception of short term amounts which are held at a reasonable approximation of fair value.

(v) 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.

The Group does not hold financial assets and financial liabilities subject to offsetting arrangements other than cash and cash equivalents. Refer to note 10.

(vi) 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.

25 FINANCIAL INSTRUMENTS (continued)

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

			At amortised cost		At fair value through profit or loss	
$ thousands	Note	Total	Loans and receivables	Financial liabilities	Designated	Held for trading
As at 30 September 2016						
Assets						
Cash and cash equivalents		**92,228**	**92,228**	**-**	**-**	**-**
Trade and other receivables		**253,115**	**253,115**	**-**	**-**	**-**
Investments		**188,522**	**-**	**-**	**188,522**	**-**
Derivative assets		**57**	**-**	**-**	**57**	**-**
Total financial assets		**533,922**	**345,343**	**-**	**188,579**	**-**
Liabilities						
Trade and other payables		**26,532**	**-**	**26,532**	**-**	**-**
Derivative financial liabilities		**735**	**-**	**-**	**735**	**-**
Total financial liabilities		**27,267**	**-**	**26,532**	**735**	-

			At amortised cost		At fair value through profit or loss	
$ thousands	Note	Total	Loans and receivables	Financial liabilities	Designated	Held for trading
As at 30 September 2015						
Assets						
Cash and cash equivalents		125,113	125,113	-	-	-
Trade and other receivables		254,388	254,388	-	-	-
Investments		213,593	-	-	213,593	-
Total financial assets		593,094	379,501	-	213,593	-
Liabilities						
Trade and other payables		26,229	-	26,229	-	-
Total financial liabilities		26,229	-	26,229	-	-

25 FINANCIAL INSTRUMENTS (continued)

25B FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Refer below for details of valuation methods and assumptions used by Tower for each category of financial assets and liabilities.

(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 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. The following fair value measurements are used:

- The fair value of fixed interest securities is based on the maturity profile and price/yield.

- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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 2016, the Level 3 category included an investment in equity securities of $1,406,000 (2015: $1,972,000). These investments are in unlisted shares of a company which provides reinsurance to Tower and a company which owns a building used by Tower. The fair value is calculated based on the net assets of the company from the most recently available financial information. In the case of the property owning company, the property is periodically valued by a third party independent valuer. The valuation has been calculated using the Income Capitalisation Approach and a sensitivity analysis has been performed later in this note.

(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 and assets

The fair value of derivative financial liabilities and assets is determined by reference to market accepted valuation techniques using observable market inputs. There have been no transfers between levels of the fair value hierarchy during the current financial period (30 September 2015: nil).

NOTES TO THE FINANCIAL STATEMENTS

25 FINANCIAL INSTRUMENTS (continued)

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

$ thousands	Note	Total	Level 1	Level 2	Level 3
As at 30 September 2016					
Assets					
Investment in equity securities		**1,406**	**-**	**-**	**1,406**
Investments in fixed interest securities		**187,082**	**-**	**187,082**	**-**
Investments in property securities		**34**	**-**	**34**	**-**
Investments		**188,522**	**-**	**187,116**	**1,406**
Derivative financial assets		**57**	**-**	**57**	**-**
Total financial assets		**188,579**	**-**	**187,173**	**1,406**
Liabilities					
Derivative financial liabilities		**735**	**-**	**735**	**-**
Total financial liabilities		**735**	**-**	**735**	**-**
As at 30 September 2015					
Assets					
Investment in equity securities		1,972	-	-	1,972
Investments in fixed interest securities		211,587	-	211,587	-
Investments in property securities		34	-	34	-
Total financial assets		213,593	-	211,621	1,972

The following table represents the changes in Level 3 instruments:

	Investment in equity securities	
$ thousands	**2016**	2015
Opening balance	**1,972**	1,835
Total gains and losses recognised in profit or loss	**(163)**	-
Foreign currency movement	**(403)**	137
Closing balance	**1,406**	1,972

The following table shows the impact of increasing or decreasing the combined inputs used to determine the fair value of the investment by 10%:

$ thousands	Carrying Amount	Favourable changes of 10%	Unfavourable changes of 10%
As at 30 September 2016			
Investment in equity securities	**1,406**	**141**	**(141)**
As at 30 September 2015			
Investment in equity securities	1,972	197	(197)

NOTES TO THE FINANCIAL STATEMENTS

25 FINANCIAL INSTRUMENTS (continued)

25C 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 carrying amount and the present value of 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 receipt of 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.

26 RISK MANAGEMENT

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 note 24, while the managing of financial and other non financial risks are set out in the remainder of this note.

Tower Limited's objective is to satisfactorily manage these risks in line with the Board approved Group Risk and Compliance policy. Various procedures are put in place to control and mitigate 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 Audit and Risk Committee.

The Board has delegated to the Audit and Risk Committee the responsibility to review the effectiveness and efficiency of management processes, internal audit services, risk management and internal financial controls and systems as part of their duties. The 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 responsibility for:

- reviewing investment policies for Tower Limited 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 Limited's investments;
- reviewing the appointment of external investment managers;
- monitoring investment and fund manager performance; and
- monitoring compliance with investment policies and client mandates.

26 RISK MANAGEMENT (continued)

26A 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.

The impact of reasonably possible changes in market risk on the Group shareholders' profit and equity is included in note 26F.

(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. The exposure is not considered to be material.

Tower Limited'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 insurance business.

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

The Board 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 Insurance does not hedge the currency risk arising from translation of the financial statements of foreign operations other than through net investment in foreign operations.

(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.

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 Appointed Actuary.

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

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The exposure is not considered to be material. Refer to note 26F.

NOTES TO THE FINANCIAL STATEMENTS

26 RISK MANAGEMENT (continued)

26B 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. Credit exposure in respect of the Group's cash deposit balances is limited to banks with minimum AA credit ratings. Investments held with banks and financial institutions that are managed by investment managers have a minimum credit rating accepted by the Group of '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 Group has no significant exposure to credit risk.

(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 Limited 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	
$ thousands	**2016**	2015
New Zealand government	**3,744**	3,760
Other government agencies	**12,390**	72,152
Banks	**237,842**	300,874
Financial institutions	**25,770**	17,555
Other non-investment related receivables	**252,736**	196,747
Total financial assets with credit exposure	**532,482**	591,088

(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	
$ thousands	**2016**	2015
Cash and cash equivalents	**92,228**	125,113
Loans and receivables	**253,115**	254,388
Financial assets at fair value through profit or loss	**187,082**	211,587
Derivative financial assets	**57**	-
Total credit risk	**532,482**	591,088

26 RISK MANAGEMENT (continued)

(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	
$ thousands	**2016**	2015
Credit exposure by credit rating		
AAA	**81,795**	92,119
AA	**180,515**	214,153
A	**412**	-
BBB	**-**	-
Below BBB	**12,437**	16,705
Total counterparties with external credit rating by Standard and Poor's	**275,159**	322,977
Group 1	**234,274**	246,547
Group 2	**-**	-
Group 3	**6,026**	13,964
Total counterparties with no external credit rating	**240,300**	260,511
Total financial assets neither past due nor impaired with credit exposure	**515,459**	583,488

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 Insurance invests in Pacific regional investment markets through its Pacific Island operations to comply with local statutory requirements and in accordance with Tower Insurance investment policies. These investments generally have low credit ratings representing the majority of the value included in the 'Below BBB' and unrated categories in the table above.

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

No financial assets have been renegotiated in the past year (2015: nil).

(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 carrying value of past due but not impaired assets held are as follows:

$ thousands	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
As at 30 September 2016					
Reinsurance recoveries receivable	**1,875**	**2,442**	**45**	**3**	**4,365**
Outstanding premiums and trade receivables	**3,150**	**7,978**	**1,244**	**285**	**12,657**
Total	**5,025**	**10,420**	**1,289**	**288**	**17,022**

26 RISK MANAGEMENT (continued)

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

$ thousands	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
As at 30 September 2015					
Reinsurance recoveries receivable	243	28	2	196	469
Outstanding premiums and trade receivables	3,644	2,031	1,433	22	7,130
Total	3,887	2,059	1,435	218	7,599

(vi) Financial assets that are individually impaired

	Carrying value	
$ thousands	**2016**	2015
Outstanding premiums and trade receivables	**-**	1
Total	**-**	1

26C 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 maintains sufficient liquid assets to ensure that the Group can meet its debt obligations and other cash outflows on a timely basis.

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 to the contractual maturity date at balance date. All amounts disclosed are contractual undiscounted cash flows that include interest payments and exclude the impact of netting agreements.

$ thousands	**Carrying value**	**Total contractual cash flows**	**Less than one year**	**One to two years**	**Two to three years**	**Three to five years**
As at 30 September 2016						
Financial liabilities						
Trade payables	**18,923**	**18,923**	**18,923**	**-**	**-**	**-**
Reinsurance payables	**4,445**	**4,445**	**4,445**	**-**	**-**	**-**
Other payables	**3,164**	**3,164**	**3,164**	**-**	**-**	**-**
Derivative financial liabilities	**735**	**735**	**735**	**-**	**-**	**-**
Total	**27,267**	**27,267**	**27,267**	**-**	**-**	**-**
As at 30 September 2015						
Financial liabilities						
Trade payables	19,329	19,329	19,329	-	-	-
Reinsurance payables	2,612	2,612	2,612	-	-	-
Other payables	4,288	4,288	4,288	-	-	-
Total	26,229	26,229	26,229	-	-	-

26 RISK MANAGEMENT (continued)

26D FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Refer to note 25.

26E 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 are interest rate swaps. 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 the reporting date:

	Average contracted fixed interest		**Notional principal amount**		**Fair value**	
	2016	2015	**2016**	2015	**2016**	2015
	%		$ thousands		$ thousands	
Less than 1 year	**0%**	0%	**29,419**	-	**(735)**	-
1 to 2 years	**0%**	0%	**-**	-	**-**	-
2 to 5 years	**2%**	0%	**12,000**	-	**57**	-
Over 5 years	**0%**	0%	**-**	-	**-**	-
			41,419	-	**(678)**	-

26F SENSITIVITY ANALYSIS

The analysis below demonstrates the impact of changes in interest rates, exchange rates and equity prices on profit after tax and equity on continuing business. 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 profit after tax and equity is included in the tables below. The sensitivity analysis assumes changes in interest rates only. All other variables are held constant.

	2016		2015	
	Impact on:		Impact on:	
$ thousands	**Profit after tax**	**Equity**	Profit after tax	Equity
Change in variables				
+ 50 basis points	**(515)**	**(515)**	(664)	(664)
- 50 basis points	**469**	**469**	660	660

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.

26 RISK MANAGEMENT (continued)

(ii) Foreign currency

The following tables demonstrate the impact of a 10% movement of currency rates against the New Zealand dollar on 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.

	2016		2015	
	Impact on:		Impact on:	
$ thousands	**Profit after tax**	**Equity**	Profit after tax	Equity
Change in variables				
10% appreciation of New Zealand dollar	**86**	**(2,284)**	153	(6,010)
10% depreciation of New Zealand dollar	**(105)**	**2,791**	(187)	7,394

The dollar impact of the change in currency movements is determined by applying the sensitivity to the value of the 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 does not hold any listed equities at fair value through profit or loss (2015: nil).

(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 following tables demonstrate the impact of a 10% movement in the value of property funds and other unit trusts on the profit after tax and equity. The potential impact is assumed as at the reporting date.

			2015	
	Impact on:		Impact on:	
$ thousands	**Profit after tax**	**Equity**	Profit after tax	Equity
Change in variables				
+ 10% property funds and other unit trusts	**2**	**2**	2	2
- 10% property funds and other unit trusts	**(2)**	**(2)**	(2)	(2)

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.

27 CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to ensure that the level of capital is sufficient to meet the Group's statutory solvency obligations including on a look forward basis to enable it to continue as a going concern in order to meet the needs of its policyholders, to provide returns for shareholders, and to provide benefits for other stakeholders of the Group.

The Group's capital resources include shareholders' equity.

$ thousands	Note	**2016**	2015
Tower shareholder equity		**222,578**	279,265
Standby credit facility	27A	**50,000**	-
Total capital resources		**272,578**	279,265

The Group measures adequacy of capital against the Solvency Standards for Non-life Insurance Business (the solvency standards) published by the Reserve Bank of New Zealand (RBNZ) alongside additional capital held to meet RBNZ minimum requirements and any further capital as determined by the Board.

The Group is required by RBNZ to maintain a minimum solvency margin of no less than $50.0 million (2015: $50.0 million) in Tower Insurance Limited. The actual solvency capital as determined under the solvency standards is required to exceed the minimum solvency capital level by at least this amount.

During the year ended 30 September 2016 the Group complied with all externally imposed capital requirements.

The Group holds assets in excess of the levels specified by the various solvency requirements to ensure that it continues 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 Audit and Risk Committee of the Board.

27A STANDBY CREDIT FACILITY

The Group entered into a cash advance facility with Bank of New Zealand on 7 September 2016. The facility provides for an amount of up to $50 million that can be drawn for general corporate purposes over a three year term and is subject to normal terms and conditions for a facility of this nature including financial covenants.

28 OPERATING LEASES

$ thousands	**2016**	2015
As lessee		
Rent payable to the end of the lease terms are:		
Not later than one year	**3,044**	2,934
Later than one year and not later than five years	**7,763**	9,326
Later than five years	**3,733**	7,001
	14,540	19,261

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. Operating lease payments represent future rentals payable for office space under current leases. Initial leases were for an average of four years with rental rates reviewed every two to six years.

NOTES TO THE FINANCIAL STATEMENTS

29 SUBSIDIARIES

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

Name of company	Country Incorporated in	Holdings 2016	Holdings 2015	Nature of business
Incorporated in New Zealand				
Tower Financial Services Group Limited	NZ	**100%**	100%	Holding company
Tower Insurance Limited	NZ	**100%**	100%	General insurance
Tower New Zealand Limited	NZ	**100%**	100%	Management services
Tower Operations Limited	NZ	**0%**	100%	Non-operating company (amalgamated 29 April 2016)
Incorporated Overseas				
Tower Insurance (Cook Islands) Limited	Cook Islands	**100%**	100%	General insurance
Tower Insurance (Fiji) Limited	Fiji	**100%**	100%	General insurance
Tower Insurance (PNG) Limited	PNG	**100%**	100%	General insurance
National Pacific Insurance Limited	Samoa	**71%**	71%	General insurance
Tower Insurance (Vanuatu) Limited	Vanuatu	**100%**	100%	General insurance

30 TRANSACTIONS WITH RELATED PARTIES

30A KEY MANAGEMENT PERSONNEL COMPENSATION

The remuneration of key management personnel during the year was as follows:

$ thousands	Note	2016	2015
Salaries and other short term employee benefits paid		**4,219**	4,321
Independent director fees		**565**	455
		4,784	4,776

The 2015 comparative figure for salaries and other short term employee benefits has been restated to ensure comparability of current year presentation.

Information regarding individual director and executive compensation is provided in the Corporate Governance section of the annual report.

30B 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 (2015: nil).

30C OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management hold various policies and accounts with Tower Group companies. These are operated in the normal course of business on normal customer terms.

31 CONTINGENT LIABILITIES

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

The Group has no other contingent liabilities (2015: nil).

32 CAPITAL COMMITMENTS

The Group has no capital commitments at reporting date (2015: $815,000 related to software licensing).

33 SUBSEQUENT EVENTS

NOVEMBER EARTHQUAKES

On 14 November a large earthquake occurred near Kaikoura, with a large number of aftershocks experienced in the subsequent days.

At the time of preparing this note the extent of claims on Tower Insurance Limited was unable to be accurately quantified. However, under the existing reinsurance arrangements of Tower Insurance Limited, catastrophe cover attaches at $10,000,000. As early indications are that the impact of the event is extremely unlikely to exceed the limit of Tower Insurance Limited catastrophe cover, the maximum potential financial impact on Tower Insurance Limited, and therefore Tower Limited, is $10,000,000, or $7,200,000 after tax, plus the cost of any reinsurance reinstatement.

SEPARATION OF CANTERBURY EARTHQUAKE CLAIMS

Tower Insurance Limited continues to be impacted by the Canterbury earthquake claims and the ongoing reassessment of over-cap claims by the EQC.

To enhance the prospects of the strong underlying business, the board has determined to restructure the Tower group with the separation of Canterbury earthquake claims into a separate company. Tower Insurance Limited will be the likely entity for the Canterbury earthquake claims business, with the remaining underlying insurance business to be transferred to another company within the Tower Limited group with the same beneficial shareholding.

There are three essential steps to implement this separation.

- RBNZ approval and separate licences for each entity.
- The raising of additional capital to fund the separation.
- Shareholder approval to execute the separation.

34 DISCONTINUED OPERATIONS

The operating results and financial position of the divested businesses have been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as discontinued operations below.

Consolidated results of discontinued operations are as follows:

$ thousands For the year ended 30 September	**2016**	2015
Investments business	**-**	13
Non-participating life business	**-**	491
Participating life business attributable costs	**-**	892
Profit from discontinued operations	**-**	1,396

Independent Auditors' Report

to the shareholders of TOWER Limited

Report on the Consolidated Financial Statements

We audited the consolidated financial statements of TOWER Limited ("the Company") on pages 2 to 51, which comprise the consolidated balance sheet as at 30 September 2016 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of general accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 30 September 2016 or from time to time during the financial year.

Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Group's preparation and fair presentation of the consolidated financial statements 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 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 consolidated financial statements.

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

We are independent of the Group. Our firm carries out other services for the Group in the areas of assurance and advisory. The provision of these other services has not impaired our independence as auditors of the Group. In addition, certain partners and employees of our firm may deal with Tower Limited and the Group on normal terms within the ordinary course of trading activities of Tower Limited and the Group. These matters have not impaired our independence. We have no other interests in Tower Limited or the Group.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
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Independent Auditors' Report
TOWER Limited

Opinion
In our opinion, the consolidated financial statements on pages 2 to 51 present fairly, in all material respects, the financial position of the Group as at 30 September 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Restriction on Use of our Report
This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state 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.

PricewaterhouseCoopers

Chartered Accountants
29 November 2016

Auckland

Tower Limited

Full Year Results to 30 September 2016

29 November 2016

Introduction

Michael Stiassny
Chairman

Results overview

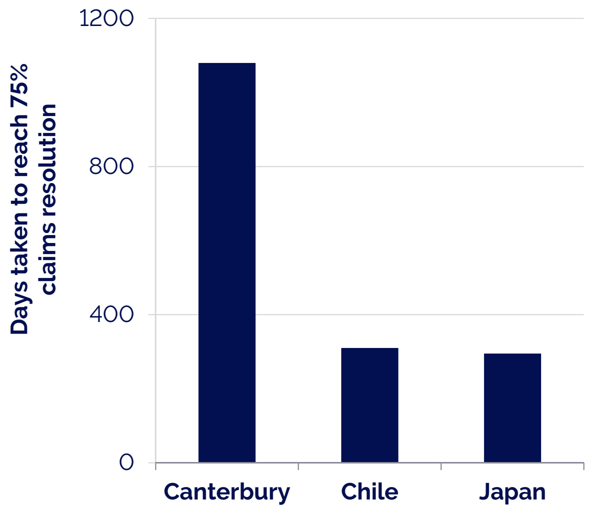
- **FY16 has been a year of tough decisions setting Tower up for the future**
  - reported loss of $21.5m due to IT impairments and adjustments to Canterbury provisions
  - underlying profit of $20.1m reflecting competitive industry environment
- **Improving core metrics gives confidence in underlying business**
  - return to policy growth in the core New Zealand book
  - reversed trend on management expenses
  - reduction in claims costs in H2
- **Decisions taken to enable Tower to become a high performer**
  - separation of the business to remove Canterbury risk
  - moving forward with new core insurance platform
- **Dividend on hold to preserve capital for RunOff Co**
  - dividend expected to resume once separation complete

A broken industry model

The Canterbury quakes are taking longer to settle and costing more than other comparable events

TIME TAKEN TO RESOLVE CLAIMS

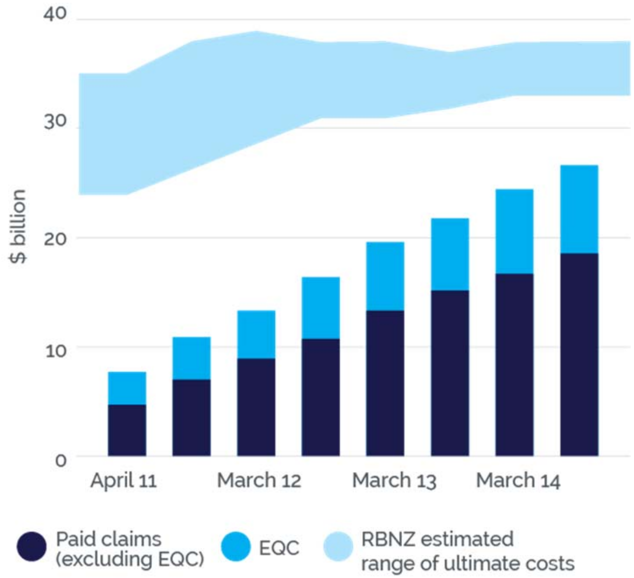
Canterbury quakes have taken significantly longer to resolve than other comparable events



Source: Marsh

CONTINUED ESCALATION

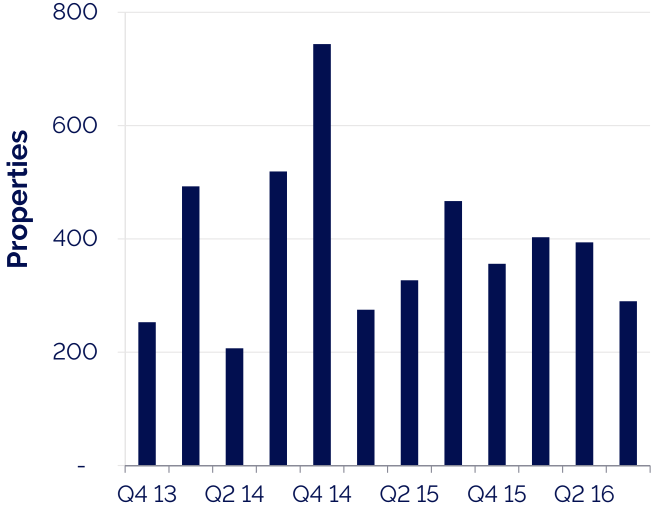
No material slow down in claims paid with continued growth in ultimate cost estimates



Source: RBNZ

INDUSTRY OVERCAP PROPERTIES BY QUARTER

No slow down in industry overcap properties coming back to insurers



Source: ICNZ

Creating focus

Separation will create focus, the two businesses will be separately managed for the benefit of both shareholders and policy holders

Tower shareholders

"New" Tower

- High performing General Insurer
- Challenger to the large incumbent Australian brands in New Zealand
- Market leader in the Pacific
- Strong underlying profitability and cash generation
- Consistent and stable dividends

RunOff Co

- Settle remaining 564 claims in a fair manner
- Maximise disputed recoveries
  - $43.7m from Peak Re
  - $57.6m from EQC
- Long term goal is to maximise capital return to shareholders

CAPITAL

- Additional capital will be required to enable separation
- Working through possible sources of capital - strategic discussions ongoing

Performance overview

Richard Harding

Chief Executive Officer

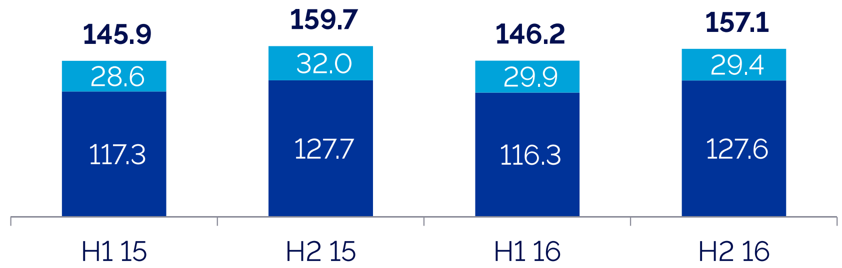
FY16 in review

FY16 has been a year of tough decisions, setting up Tower for the future

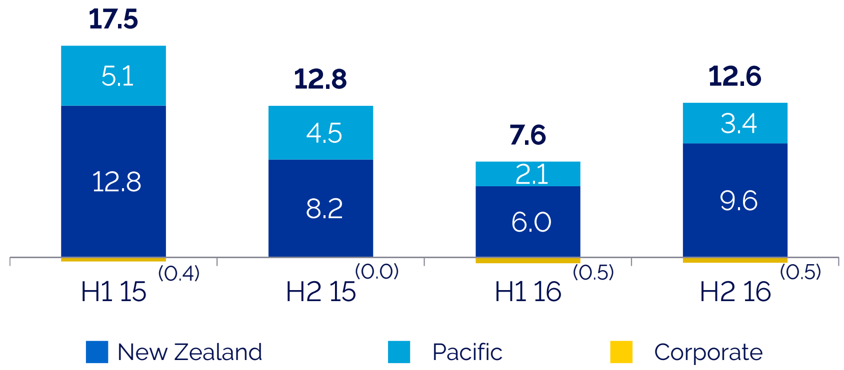
ACHIEVEMENTS

- ✓ Return to policy growth in the core NZ book
- ✓ Reversed trend on management expenses
- ✓ Claims costs controlled in H2
- ✓ Product portfolio repriced
- ✓ New management team appointed
- ✓ Launch of Tower online
- ✓ Launch of new products
- ✓ Identification of required technology platform

GWP (NZ$m)



UNDERLYING PROFIT (NZ$m)



Financial performance

Reported loss of $21.5m for the full year driven by IT impairments and further Canterbury provisions

GROUP PROFIT SUMMARY (NZ$m)

$ million	FY 16	FY15	Movement $	Movement %
Gross written premium	303.2	305.6	(2.3)	(0.8%)
Underwriting profit	19.8	26.3	(6.5)	(24.7%)
Underlying profit after tax	**20.1**	**30.3** [1]	**(10.2)**	**(33.6%)**
Canterbury impact	(25.3)	(36.2)		
Impairment of intangibles	(14.1)	-		
Profit on discontinued businesses	-	1.4		
Foreign tax credits written off[2]	(2.2)	(2.1)		
Reported loss	**(21.5)**	**(6.6)**		
Underlying EPS (c) [3]	11.9	17.8		
DPS (c)	8.5	16.0		
Key ratios				
Claims ratio	50.3%	47.7%		
Expense ratio	41.9%	41.9%		
Combined ratio	92.2%	89.6%		

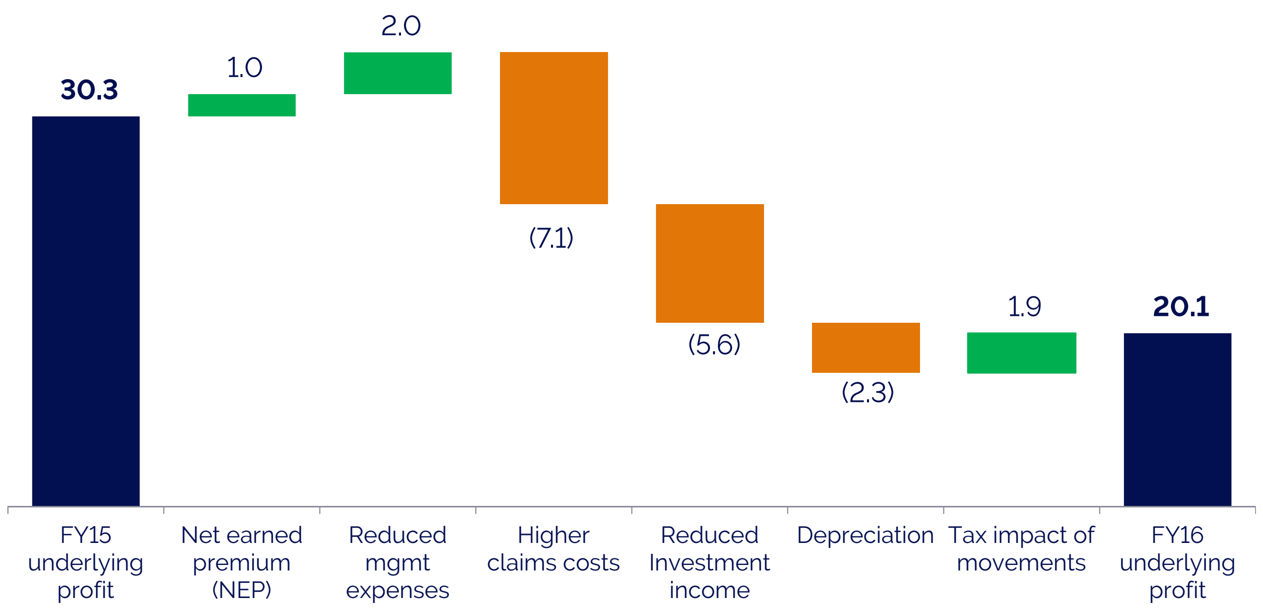
- Reported loss reflects :
  - $25.3m impact from movement in Canterbury provisions ($35.1m pre-tax)
  - $14.1m impact from intangible asset impairment ($19.6m pre-tax)
- Provisions increased at year end - $7.0m post tax impact related to risk margin increases post 8 September announcement
- Underlying profit returned to long term trends in H2
  - H2 underlying profit of $12.6m vs H1 underlying profit of $7.6m

Notes:
1. FY15 underlying profit restated from $28.2m to $30.3m due to the classification of foreign tax credits written off one off items
2. Tower has lost the ability to use foreign tax credits due to the New Zealand business being in a loss making position following Canterbury provision increases and IT impairments
3. Reflects underlying profit rather than reported profit

Movement in profit

Full year profit impacted by industry claims inflation and lower interest rate environment

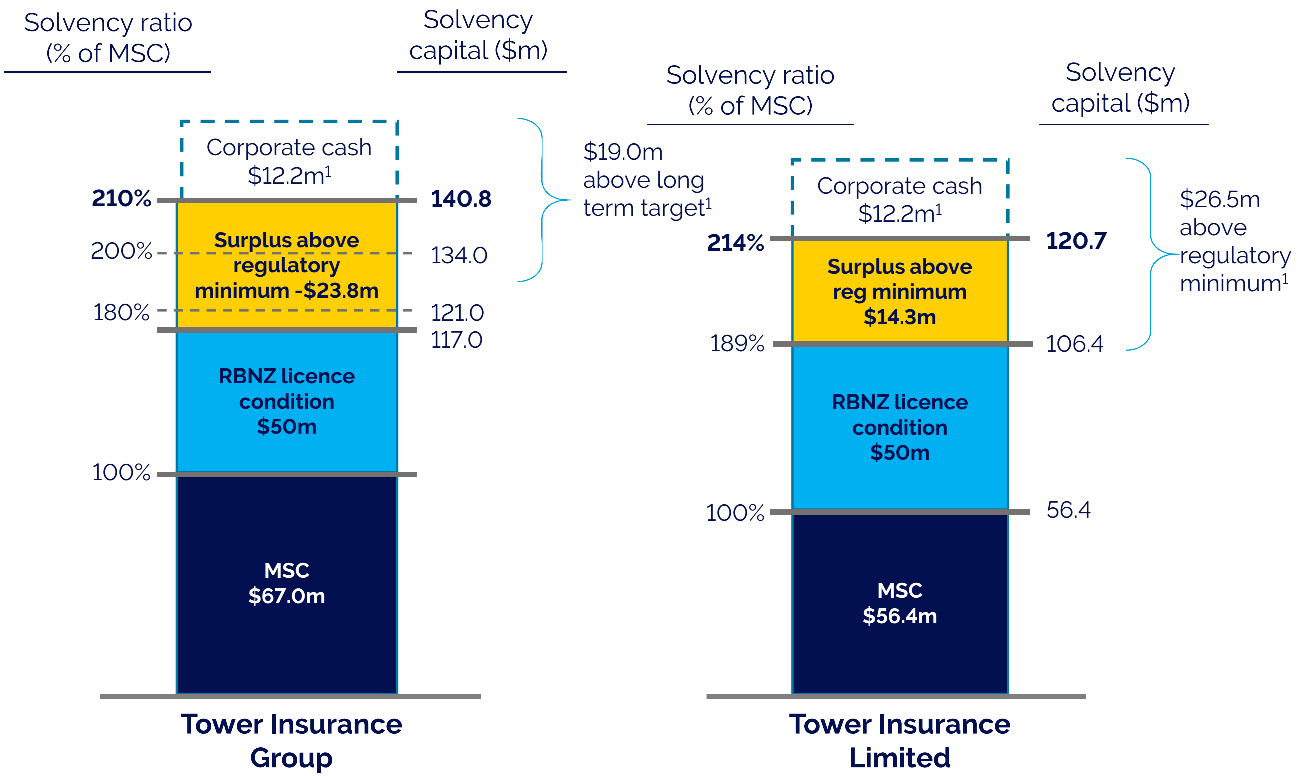
MOVEMENT IN UNDERLYING PROFIT (NZ$m)



- Higher NEP due to reinsurance cost savings
- Reduced expenses as a result of focus on costs
- Higher claims costs in line with industry claims inflation and Cyclone Winston in the Pacific
- Lower interest rate environment impacted investment income
- Increased depreciation following go live of new systems

Capital position

$26.5m capital above regulatory minimum including corporate cash at the year end



- Tower Board has a long term target of 180 – 200% solvency ratio for Tower Insurance Group
- Tower Insurance Limited (New Zealand licensed entity) is required to hold $50m of capital above MSC due to RBNZ licence condition
- Corporate cash available that can be injected into insurance entities at short notice
- $50m liquidity facility also available if required
- Reinsurance program likely to limit impact of Kaikoura to $13m reduction in solvency

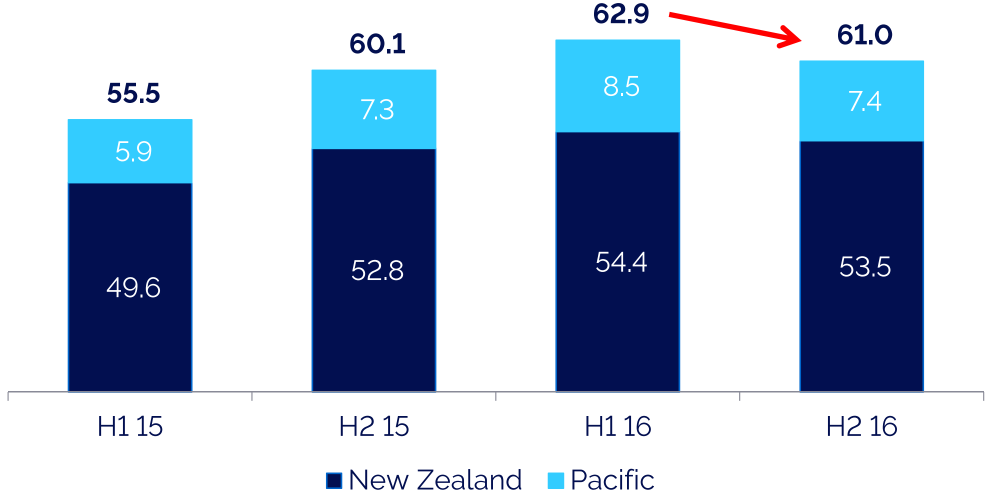
Notes:
1. Corporate cash sits outside of regulated insurance entity, though is available to be injected into regulated entities as additional solvency capital if required
2. Capital above long term target / regulatory minimum includes corporate cash due to ability to be injected into regulated entities as additional solvency capital if required
3. MSC refers to minimum solvency capital as prescribed by RBNZ non-life solvency standard

Claims update

Claims management initiatives have driven reduced claims costs in the second half

- **Claims costs increased due to:**
  - Industry wide trends
  - Active storm season in the Pacific
  - Legacy policy issues in New Zealand
- **Actions to address escalating claims costs:**
  - Rollout of preferred supplier network in New Zealand
  - New claims handling processes
  - Product and pricing reviews

TOWER CLAIMS EXPENSES ($m)

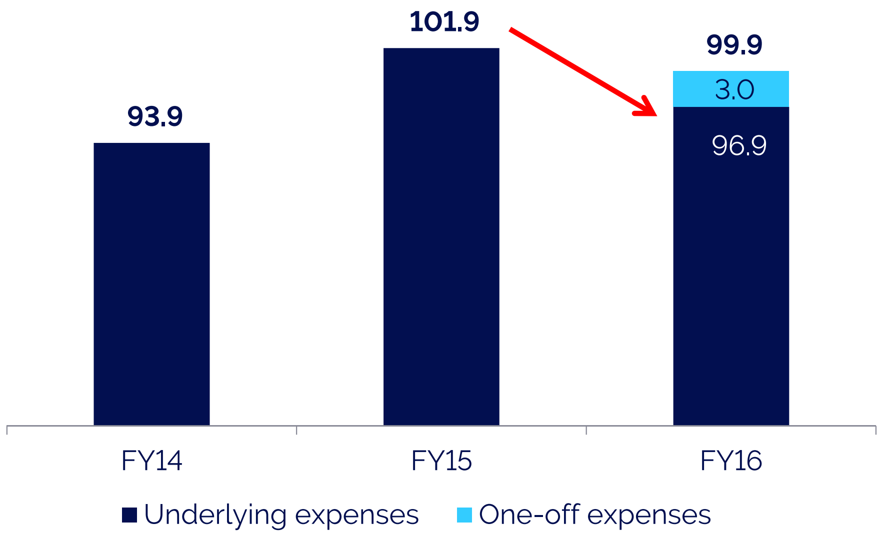


Focus on costs

Tide has turned on management expenses. Overall expenses have fallen allowing reinvestment in the business

- Focus on simple initiatives has reduced expenses
  - supplier and vendor management
  - review of wastage across all business areas
- Some expense savings have been reinvested into key areas (digital, new products, improved capability)
- $3.0m of one-off expenses incurred in FY16 preparing Tower for the future
- Significant improvement in expense base will be possible through longer term change initiatives (IT simplification and product rationalisation)

MANAGEMENT EXPENSES (NZ$m)

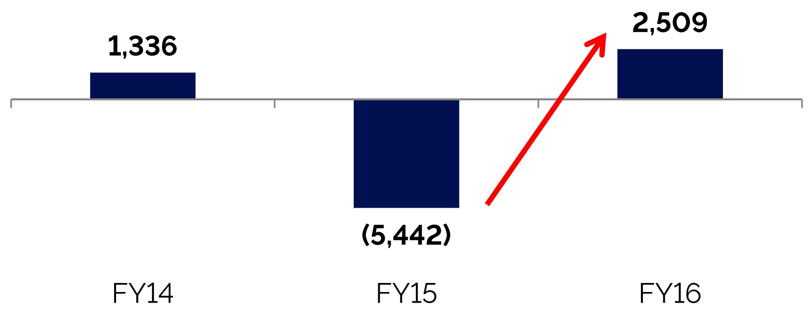


Return to positive policy growth

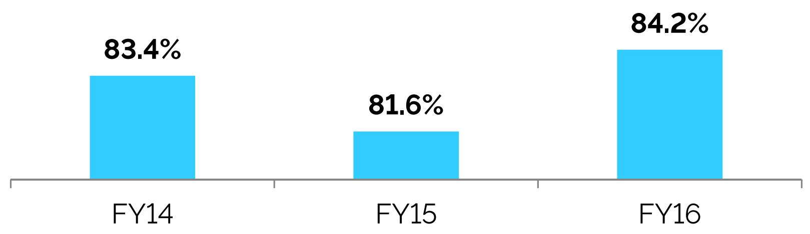
Focus on retention has delivered policy growth

- Positive policy growth critical to delivering long term profit growth
- FY16 improvement driven by focus on retention
- FY17 expected to benefit from new business improvement
  - Digital launch in Tower Direct
  - TradeMe Insurance replatform
  - Recently signed Air NZ Airpoints partnership

CORE [1] NEW ZEALAND POLICY MOVEMENT
(policies)



TOWER DIRECT RETENTION RATES



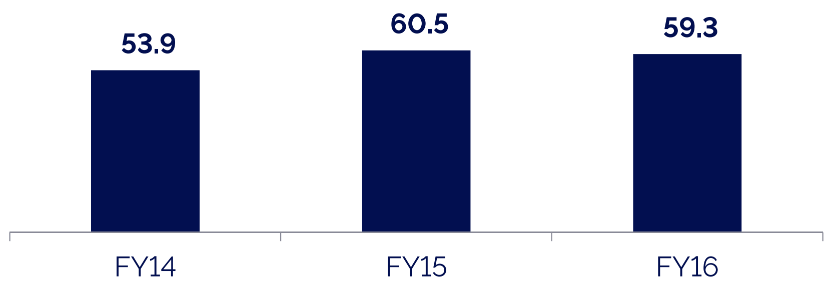
Notes:
1. Core portfolio excludes legacy ANZ portfolio

Disciplined approach to the Pacific

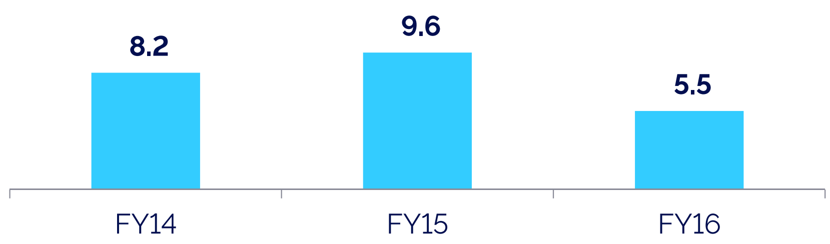
The Pacific has significant potential for Tower, we will increase our focus on this important market going forward

- FY16 NPAT impacted by Cyclone Winston ($2.9m post tax impact), launch in Vanuatu and one off fire losses in PNG
- Year of transition for the Pacific
  - Increasing risk focus impacted GWP in PNG and Solomon Islands
  - Launch of Vanuatu increased expenses and claims costs
  - Repricing of portfolios underway
  - Concentration on key pan Pacific partners

PACIFIC GWP (NZ$m)



PACIFIC NPAT (NZ$m)

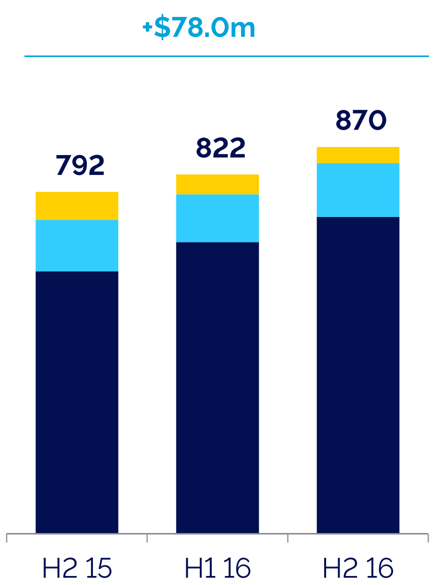


Canterbury update

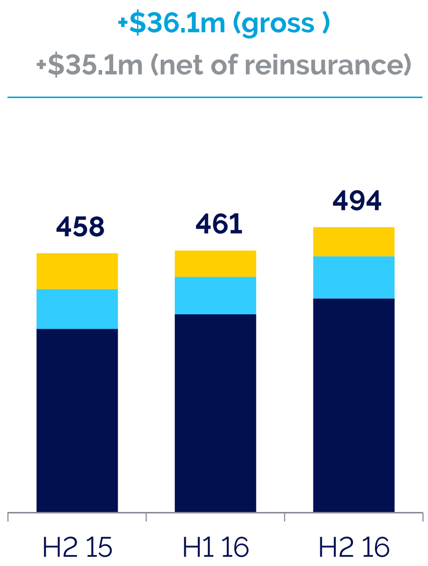
Canterbury update

Costs continue to escalate, driven primarily by EQC and disputed claims

TOTAL CANTERBURY CLAIM COSTS ($m)



FEB 11 EVENT CLAIM COSTS ($m)



Paid claims   Case estimates   IBNR / Risk margin

- Ultimate incurred claims costs increase by $78m, net impact on Tower of $35.1m (before tax)
  - Further $9.7m increase (before tax) in provisions since 8 September announcement, with risk margin increases
- No material reduction in case estimates or IBNR given ongoing escalation
- Retain complete confidence in positions on PeakRe and EQC recoveries

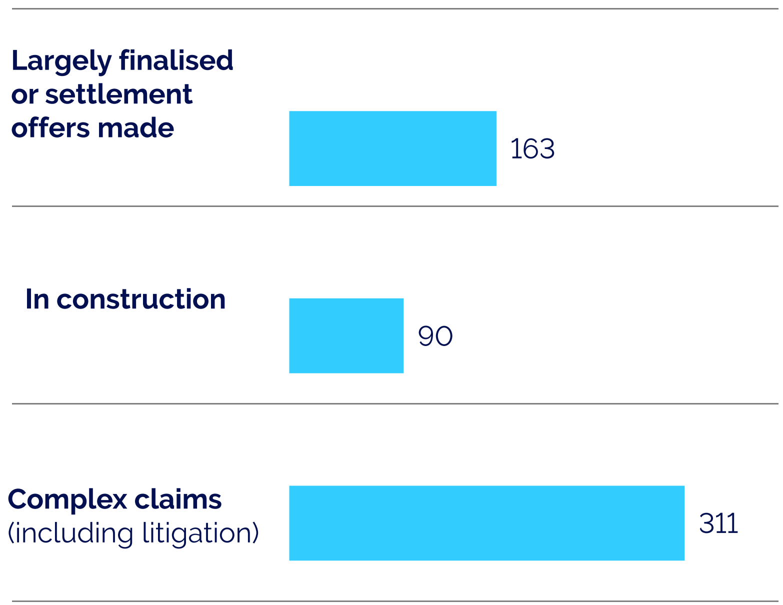
Continued uncertainty

We continue to receive new claims from EQC and additional hard landscaping claims when EQC does the work

MOVEMENT IN PROPERTIES

- New claims continue to be received due to:
  - EQC overcap claims
  - Additional hard landscaping and accommodation claims as EQC finalise undercap properties
- Reopenings due to customer disputes and EQC

BREAKDOWN OF REMAINING PROPERTIES



Creating focus

TOWER

Strength gained from separation based on singular focus – RunOff Co to manage Canterbury tail and New Tower to build on improving core business

	"New" Tower	RunOff Co
Ownership structure	• Listed on NZX	• Separate legal entity
Management and Board	• Current management and Board structure	• Management team and Board to be appointed
Strategy	• Become a high performing General Insurer challenging market incumbents	• Manage Canterbury liabilities to maximise capital return
Assets held	• Tower's underlying core businesses in New Zealand and the Pacific	• All liabilities and receivables associated with Canterbury including: – Reinsurance and EQC receivables – Customer liabilities
Capital requirements	• Long term target of 160 – 180% of MSC	• Capital requirement to be finalised
Dividend policy	• In line with industry peers	• Capital requirement assessed annually, excess capital to be repaid to shareholders (with RBNZ approval)

Creating focus

Three key steps required for the separation

RBNZ approval

- Separate licence required for both RunOff Co and New Tower
- Initial discussions have been held - RBNZ has consented to the creation of two separate licensed entities, subject to licensing criteria being satisfied
- Process ongoing to receive formal RBNZ approval

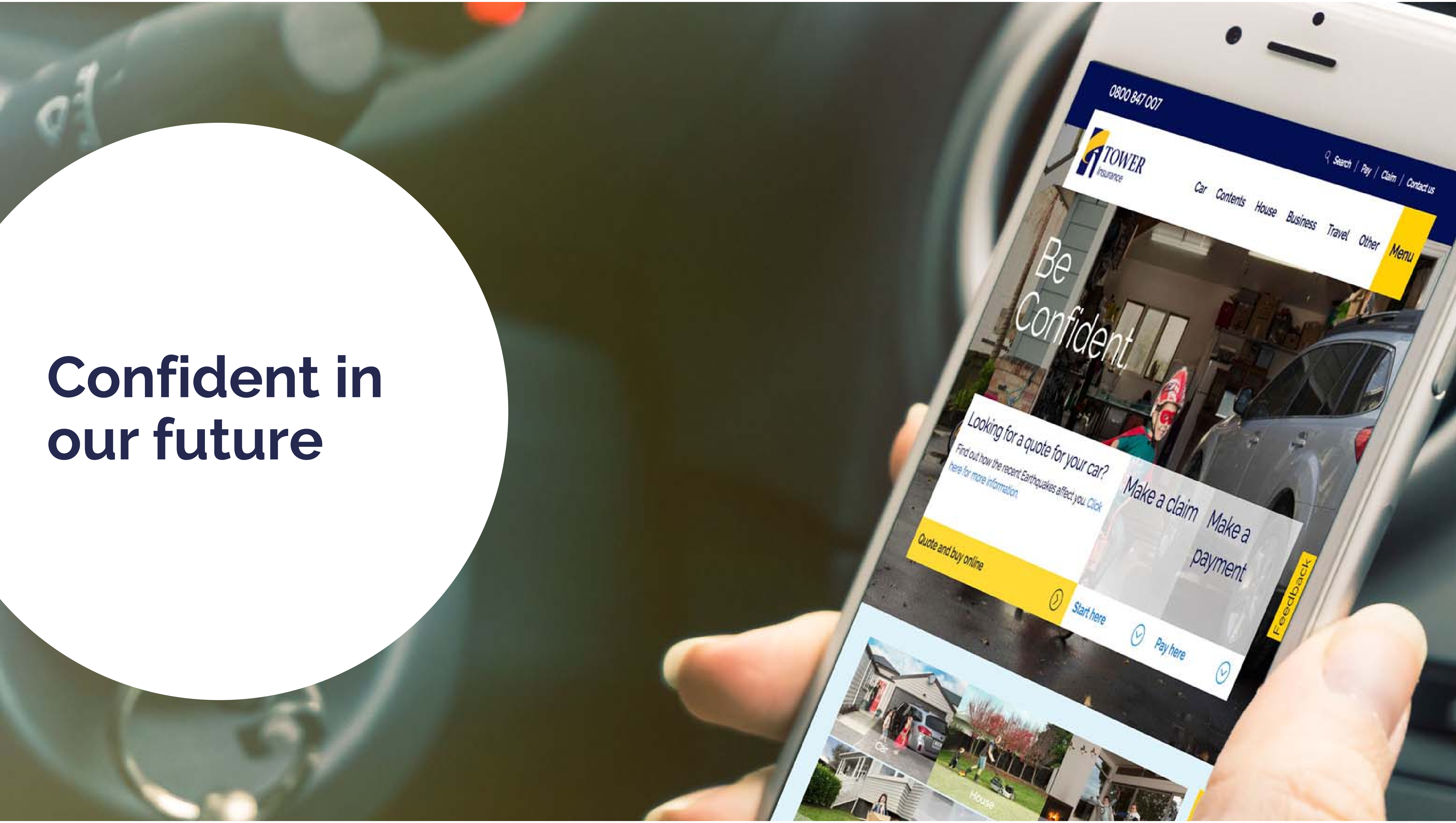
Capital

- Extra capital required to implement separation
  - exact quantum to be finalised
- Exploring options – both capital markets and strategic partner options considered
  - discussions are ongoing

Shareholder approval

- Shareholder approval required to execute separation
- Likely to take place with ASM in March 2017

Confident in our future



Focusing on the core

Our strategic imperatives will drive high performance

Culture and Capability

MEDIUM TERM TARGETS

- ✓ GWP growth 4 – 6%
- ✓ Expense ratio <35%
- ✓ ROE of 12 – 14% through the cycle

Creating simple and easy access

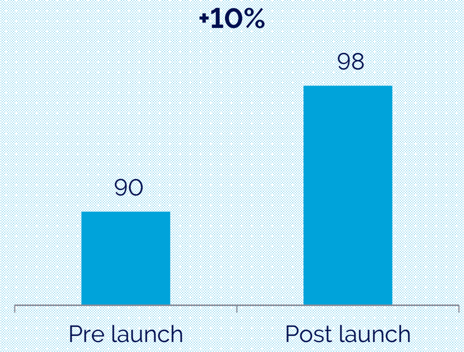
We will build our digital capability - 50% of all transactions to be online within the next 3 – 5 years

- Programs in place to enable digital functionality:
  - Cover for car relaunch
  - Online quote to buy functionality for house and contents
  - TradeMe Insurance replatform
- Current programme will improve attractiveness to new to Tower customers
- Enhanced mobile capability and responsiveness
- Longer term omni-channel experience available following IT simplification

TOWER COVER 4 CAR RELAUNCH

- Cover for Car launched on 5 October
- Opens Tower to new markets and wider customer set
- Great response from customers
- Conversion rates exceeding expectations

Daily policy sales



Leveraging digital partnerships

We will use our enhanced digital capability to leverage our key partnerships

- Digital capability will allow us to work with partners and deliver attractive targeted propositions
- Combining Tower capability with partners information and customer base creates compelling propositions

airpoints™

- 1.8 million subscribers
- Offer Tower customers retention and acquisition propositions
- Different demographic to current Tower partnerships

trademe insurance

- 1.4 million registered customers
- Bespoke offering developed specifically for TradeMe customers
- Technology refresh adds capability and stability – marketing to be restarted

Delivering underwriting excellence

TOWER

Underwriting excellence is critical to delivering growth and consistent levels of profitability

	Product	Pricing	Risk selection	Monitoring
Requirements	• Modern effective products in plain English • Continual updates to wording reflective of claims and market environment	• Advanced rating algorithms using external and internal data sources • Targeting niche segments • Price to profit targets based on cost of risk	• Ensure active underwriting with appropriate delegations • Automatic underwriting where possible, though skilled underwriters available where necessary	• Monitoring of portfolio for movements in pricing or customer behaviour • Post claims underwriting
Recent activities	✓ Launch of new products ✓ Excess refund removed ✓ Wording for illegal substances	✓ Portfolio repriced	✓ Capability build	✓ New data store built

Simple and easy products

Rationalising into a simple and easy package style product

TOWER

OUR NEW PRODUCTS

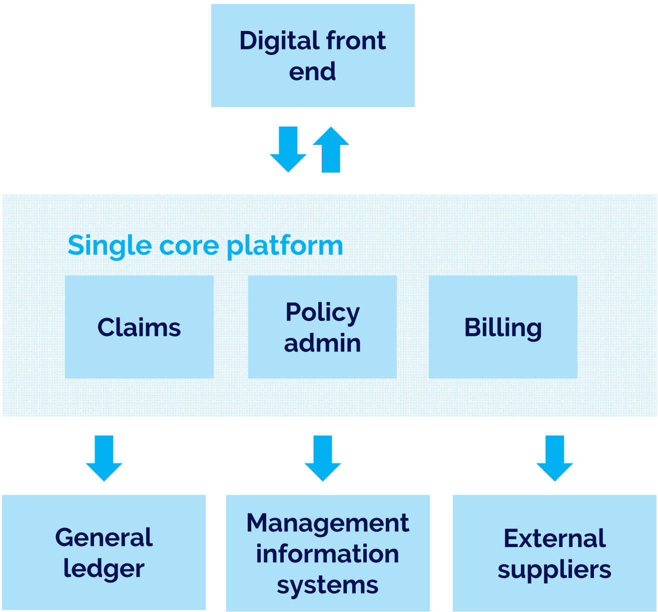
- ✓ Modern product packages
- ✓ Tiered product structure to create choice and clarity of offer
- ✓ Tightened wording to address claims leakage
- ✓ Simple clear products to enable staff to easily serve customers

	Premium cover	Plus cover	Standard cover
Accidental loss or damage	✓	✓	✓ at your house
Basis of settlement	✓ Replacement value	✓ Replacement value	✓ Replacement value
Unspecified jewellery per item	✓ $10,000	✓ $2,500	✓ $1,000
Specified jewellery per item	✓ >$10,000	✓ >$2,500	✓ >$1,000
Unspecified jewellery total	✓ $30,000	✓ $15,000	✓ $5,000
Any one item or set limit	✓ $10,000	✓ $5,000	✓ $1,000
Specified items	✓ >$10,000	✓ >$5,000	✓ >$1,000
Collections	✓ $5,000	✓ $3,000	✓ $1,500
Specified collections	✓ >$5,000	✓ >$3,000	✓ >$1,500

IT simplification

IT simplification is a key enabler that will allow us to both drive growth and reduce costs

OUR FUTURE STATE



EXPECTED BENEFITS

- ✓ Operational efficiencies
- ✓ Granular pricing
- ✓ Flexibility to update products and pricing
- ✓ Improved claims management
- ✓ Digital and self service capability
- ✓ Improved information and reporting

THE PROCESS

Scoping
- Determine costs, timeline and appropriate MVP

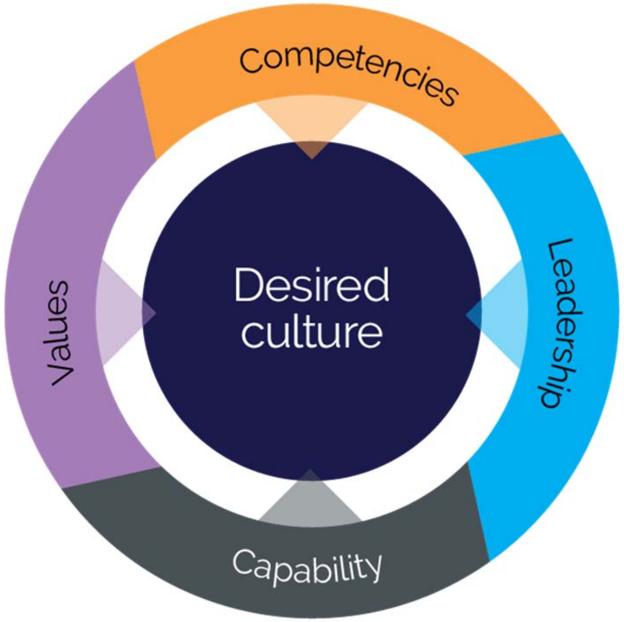
Approval
- Board approval to proceed will be sought once costs and timeline confirmed

Build
- Configuration of products and processes

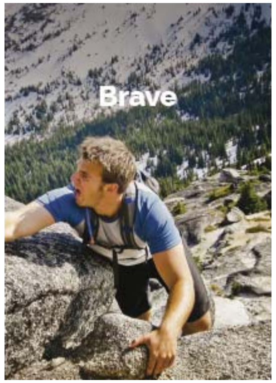
Migrate
- Migrate existing policies to new platform

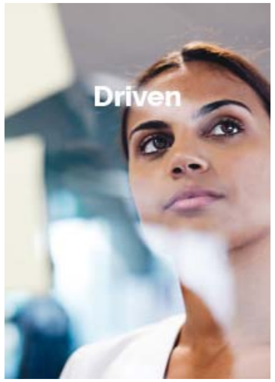
Developing a challenger culture

Building a more dynamic, constructive culture will help deliver improved financial performance



OUR VALUES





Our plan

We have a plan that addresses change across our entire business

	FY17	FY18	FY19
Digital	Tower online New TradeMe Insurance platform	Full omni-channel service proposition	
Underwriting excellence	Remediation of legacy policy issues and repricing	Implementation of more sophisticated pricing and increased number of rating factors	
Product rationalisation	New products live in market	Migration of legacy product set to new products	
IT simplification	EIS scoping | Product configuration Decision to proceed	Migration of back book to new system	
Culture & capability	Capability build and embedding desired culture		

Outlook

Successful delivery of our transformation will deliver an improved financial trajectory for Tower

INDUSTRY DYNAMICS

- High claims environment resulting in movement on pricing
- Increasing digital competition
- Canterbury complexity playing out for all participants
- Low interest rate environment

TOWER DYNAMICS

Short term

- Ongoing improvement
  - Digital to drive GWP growth
  - Management expense initiatives to continue
  - Claims cost controlled
  - Pricing improvements

Medium term

- **GWP growth 4 – 6%**
- **Expense ratio <35%**
- **ROE of 12 – 14% through the cycle**

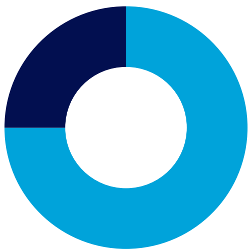
Appendices

A New Zealand and Pacific general insurer

FY16

$20.1m

UNDERLYING **NPAT**[1]

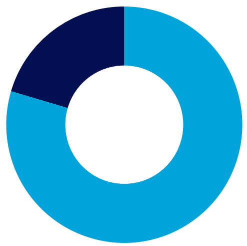


- New Zealand 74%[2]
- Pacific Islands 26%[2]

FY16

$303.2m

GWP

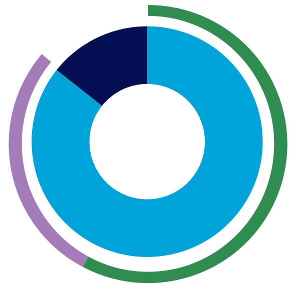


- New Zealand 80%
- Pacific Islands 20%

As at 30 September 2016

475k

INFORCE POLICIES



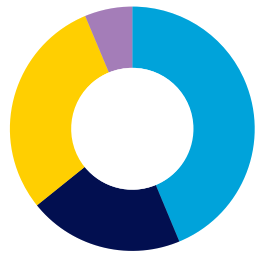
- New Zealand 86%
- Pacific Islands 14%

- New Zealand - Direct 69%
- New Zealand - Alliances 31%

As at 30 September 2016

Personal lines focus

GWP breakdown



- House 43.7%
- Contents 20.5%
- Motor 29.5%
- Other 6.3%

Notes:

1. Excludes impact of the Canterbury earthquakes, foreign tax credits lost and IT impairment
2. Represents percentage of General Insurance underlying profit, excluding Corporate

Underlying performance
Tower Group

$ million	Half year results H2 16	H1 16	H2 15	H1 15	Full year results FY 16	FY15	Movement %
Gross written premium	157.1	146.2	159.7	145.9	303.2	305.6	(0.8%)
Gross earned premium	151.5	151.5	154.3	150.4	302.9	304.7	(0.6%)
Reinsurance Costs	(24.6)	(24.5)	(26.3)	(25.7)	(49.1)	(51.9)	(5.5%)
Net earned premium	**126.9**	**127.0**	**128.1**	**124.7**	**253.8**	**252.8**	**0.4%**
Net incurred claims	(61.0)	(62.9)	(60.1)	(55.5)	(123.9)	(115.6)	7.2%
Large events claims[1]	(0.5)	(3.3)	(4.9)	0.0	(3.8)	(4.9)	(23.7%)
Management and sales expenses	(49.1)	(50.8)	(52.7)	(49.2)	(99.9)	(101.9)	(1.9%)
Depreciation and amortisation	(3.7)	(2.7)	(2.2)	(1.8)	(6.4)	(4.0)	
Underwriting profit	**12.6**	**7.2**	**8.1**	**18.3**	**19.8**	**26.3**	**(24.6%)**
Investment revenue	4.1	4.4	6.7	7.3	8.5	14.0	(39.6%)
Underlying Profit before tax	**16.7**	**11.6**	**14.8**	**25.6**	**28.3**	**40.3**	**(29.8%)**
Income tax expense	(4.1)	(4.0)	(2.0)	(8.0)	(8.2)	(10.0)	(18.5%)
Underlying profit after tax[2]	**12.6**	**7.6**	**12.8**	**17.5**	**20.1**	**30.3**	**(33.6%)**

Notes:
1. Large event claims refer to events with cumulative claims cost greater than $1m
2. Underlying profit excludes the impact of Canterbury earthquakes, foreign tax credits, IT impairments and profit on discontinued businesses,

General Insurance
New Zealand

$ million	Half year results H2 16	H1 16	H2 15	H1 15	Full year results FY 16	FY15	Movement %
Key financial metrics							
Gross written premium	127.6	116.3	127.7	117.3	243.9	245.1	(0.5%)
BAU claims	53.5	54.4	52.8	49.6	107.9	102.4	5.3%
Large event claims[1]	(0.3)	(0.1)	4.9	(0.0)	(0.3)	4.9	n/a
Underwriting profit	9.2	5.4	3.5	12.5	14.7	16.0	(8.2%)
Underlying NPAT[2]	9.6	6.0	8.2	12.8	15.6	21.0	(25.9%)
Key operating metrics							
BAU loss ratio	41.9%	51.8%	50.3%	47.7%			
Total loss ratio	41.7%	51.8%	55.0%	47.7%			
Policies inforce (000)	341.1	339.9	338.6	342.7	341.1	338.6	0.7%
ANZ inforce (000)	65.6	69.2	72.9	77.5	65.6	72.9	(9.9%)
Total policies inforce (000)	406.8	409.0	411.5	420.2	406.8	411.5	(1.1%)

Notes:
1. Large event claims refer to events with cumulative claims cost greater than $1m
2. Underlying profit excludes the impact of Canterbury earthquakes and foreign tax credits lost ,

General Insurance
Pacific

$ million	Half year results H2 16	H1 16	H2 15	H1 15	Full year results FY 16	FY15	Movement %
Key financial metrics							
Gross written premium	29.4	29.9	32.0	28.6	59.3	60.5	(2.0%)
BAU Claims	7.4	8.5	7.3	5.9	16.0	13.2	21.5%
Large event claims[1]	0.8	3.3	-	-	4.1	-	n/a
Underwriting profit	4.8	3.2	6.0	7.3	8.0	13.2	(39.6%)
Underlying NPAT	3.4	2.1	4.5	5.1	5.5	9.6	(42.7%)
Key operating metrics							
BAU loss ratio	25.3%	38.8%	31.5%	28.3%			
Total loss ratio	27.9%	53.9%	31.5%	28.3%			
Policies outstanding	68,291	68,382	68,747	68,237	68.3	68.7	(0.7%)

Notes:
1. Large event claims refer to events with cumulative claims cost greater than $1m

Balance sheet
Tower Group

TOWER

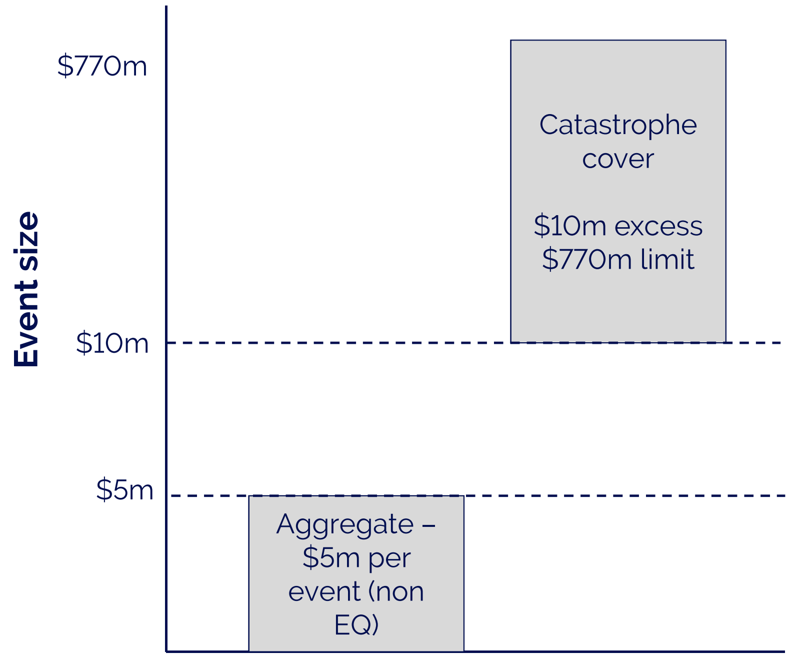
$ million	FY16	FY15	Movement $	Movement %
Cash & call deposits	92.2	125.1	(32.9)	(26.3%)
Investment assets	188.6	213.6	(25.0)	(11.7%)
Deferred acquisition costs	20.0	20.3	(0.3)	(1.5%)
Intangible assets	32.0	48.4	(16.4)	(33.9%)
Other operational assets	307.5	302.9	4.7	1.5%
Total assets	**640.3**	**710.2**	**(69.9)**	**(9.8%)**
Policy liabilities & insurance provisions	(361.0)	(375.9)	14.9	(4.0%)
External debt	0.0	0.0	0.0	0.0%
Other operational (liabilities)/assets	(55.3)	(53.3)	(2.0)	3.7%
Total liabilities	**(416.3)**	**(429.2)**	**12.9**	**(3.0%)**
Total equity	**224.0**	**281.0**	**(57.1)**	**(20.3%)**

Impact of Canterbury claims

	Feb 11 event			Total Canterbury		
($m)	H2 16	H1 16	H2 15	H2 16	H1 16	H2 15
Ultimate incurred claims						
Customer claims	493.6	461.4	457.5	869.6	822.3	792.0
Reinsurance recoveries	(375.4)	(375.4)	(374.4)	(734.7)	(719.7)	(692.2)
Net claims cost to Tower	**118.2**	**86.0**	**83.2**	**134.9**	**102.7**	**99.8**
Intra period movements						
Movements in claims costs	32.2	3.9	53.1	47.3	30.3	43.6
Reinsurance recoveries	0.0	(1.0)	(39.0)	(15.0)	(27.5)	(29.5)
Cost of the ADC	-	0.0	4.8	-	-	4.8
Net increase	32.2	2.9	18.9	32.2	2.9	18.9
Income tax benefit	(9.0)	(0.8)	(5.3)	(9.0)	(0.8)	(5.3)
Net impact after tax	**23.2**	**2.1**	**13.6**	**23.2**	**2.1**	**13.6**

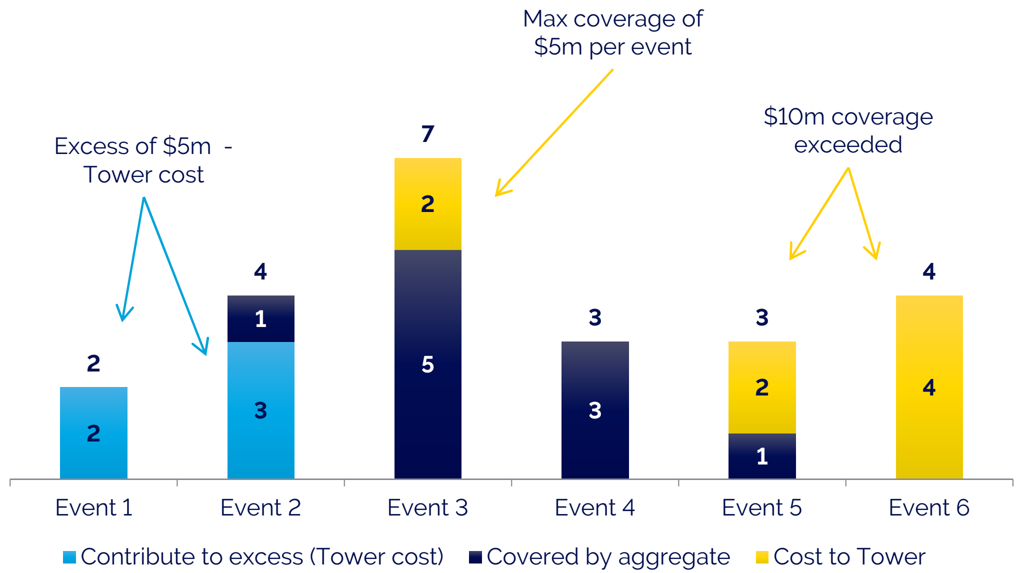
Reinsurance structure overview

STRUCTURE OVERVIEW (per event)



AGGREGATE OVERVIEW

- Min event size of $1m to qualify, max of $5m per event coverage
- $10m cover once $5m excess filled
- No coverage for EQ



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