A confident future

2016 Tower Limited Annual Report

Highlights and achievements

Claims costs contained

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

Reversed trend on management expenses

We have turned the tide on management expenses with overall expenses falling, allowing us to reinvest in our future ▶

Returned to policy growth

A focus on retaining our customers has delivered positive policy growth in the core New Zealand book ▶

Launched new, straight-forward product packages

Simple and easy to understand insurance products that make selecting and buying insurance easy for our customers ▶

Re-entered the digital marketplace

Launched Tower Online and relaunched TradeMe Insurance in 2016, setting us up for growth in 2017 ▶

Reported net loss after tax

$21.5m

Underlying net profit after tax[1]

$20.1m

Gross written premium

$303.2m

Pacific net profit after tax

$5.5m

1. Underlying net profit excludes the impact of Canterbury earthquakes, impairment of intangibles and loss of foreign tax credits

Chair's report
on behalf of the directors

We have repositioned Tower for a **more certain, brighter future**

Michael Stiassny
Chair

Tower's underlying full year result has shown that our 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.

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.

Tower reported an underlying profit of $20.1[1] million for the full year and experienced marked improvement in its core metrics in the second half with underlying profit increasing from $7.6 million in the first half to $12.6 million in the second half.

It has been pleasing to see Tower 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 also been reversed. By targeting non-personnel costs and improving vendor control, management expenses fell $2.0 million to $99.9 million, which, importantly, has allowed for investment back into the business.

Supply chain initiatives instituted in the first half have seen claims cost growth reduced in the second half, despite an industry-wide claims inflation environment. Tower's full year claims costs grew by 7.2% to $123.9 million, considerably less than the industry inflation figure of 11%.[2]

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

1. Underlying profit excludes the impact of Canterbury earthquakes, foreign tax credits and IT impairment
2. ICNZ statistics – personal lines gross claims growth September 2015 – September 2016

However, the full year result makes it clear that the legacy of the Canterbury earthquakes continues to overshadow fundamental improvement in Tower's underlying business.

We have therefore resolved to draw a line under the legacy of the Canterbury earthquakes to benefit 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.

Our intention is to create a separate company, RunOff Co, dedicated to Canterbury claims' resolution and maximising disputed recoveries.

The Board is currently working through the separation process and anticipates bringing a proposal to shareholders for approval at the Annual Shareholder Meeting in March 2017.

As a result, the full year dividend has been suspended to facilitate structural separation. This would be a short term measure as the new Tower will be a successful and profitable business, capable of paying dividends at a rate comparable with industry peers once separation is complete.

In closing, my fellow Directors join with me in acknowledging and thanking former Director, Rebecca Dee-Bradbury who left Tower's Board earlier this year. We also wish to thank Richard Harding and the entire Tower team for their drive and determination to see Tower become a high performing General Insurer.

I would also like to thank our customers, shareholders and business partners for their continued loyalty and support.

Michael Stiassny
Chair

We have resolved to draw a line under the legacy of the Canterbury earthquakes to benefit 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**

Update
from the CEO

Amplifying and accelerating underlying business strength

Richard Harding
Chief Executive Officer

Our focus on improving Tower's underlying business over the past 12 months has been relentless, and pleasingly, delivered positive results in the second half of 2016.

We have made significant inroads into a large 'to do' list and achieved a huge amount that I believe will set us up for a strong future as a market challenger. We've concentrated on getting the fundamentals right and in doing so, have succeeded in moving the needle.

One of the most significant results has been reversing the trend on management expenses. The savings seen here are just the start, but prove we are on the right track. This is particularly true given that we are not only managing to reduce expenses, we're doing so while still investing in transforming the business. Save to invest to improve is the mantra.

We have also seen solid improvements in the retention of our customers where our focus has returned Tower's core New Zealand business to positive policy growth and have begun revamping our claims processes and supplier networks early in the year.

In addition to these three very visible achievements, we have repriced our product portfolio, appointed a highly capable management team, re-entered the digital market with the launch of Tower Online, and introduced a range of simple, straightforward product packages that make selecting and buying insurance policies easy.

This progress will help us build a strong platform for next year and beyond and it is pleasing to see the clear shift in momentum in the second half as our initiatives have started to bite.

Tower has been part of New Zealand life for almost 150 years, offering Kiwis another option for insurance and peace of mind.

Our ambition to be a challenger brand means doing things differently. Every part of our business is starting to change and challenge the norms and our strategy supports this. From the progression of our technology replacement programme, to the realignment of processes, the way we are working is different – agile, robust and importantly, enjoyable.

We are confident in our plan and the foundation of our strong underlying business means we are well positioned to continue improving what we do over the coming year. I'm looking forward to continuing to lead the business through this change, realising Tower's significant potential and delivering strong shareholder returns.

Richard Harding
Chief Executive Officer

Tower's reported loss of $21.5 million, compares to a $6.6 million loss in the 2015 financial year (FY15). This reflects a $25.3 million impact from movement in Canterbury provisions and 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.[1] 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 second half year underlying profit of $12.6 million versus first half year 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% 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.

1. FY15 underlying profit restated from $28.2m to $30.3m due to the classification of foreign tax credits as one off items

FINANCIAL PERFORMANCE

$ MILLION	FY16	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%	

Source: Tower Limited FY16 Results Announcement Presentation; 29 November 2016.

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
3. Reflects underlying profit rather than reported profit

Gross Written Premium (GWP) was slightly down year on year. Pacific GWP fell by $1.2 million due to a tightening position on risk in Papua New Guinea (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 the 2016 financial year (FY16). This will assist to drive GWP growth into the 2017 financial year (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[1] grew from 89.6% to 92.2% due to increased claims costs. The expense ratio[2] remained flat at 41.9% with the reduction in management expenses offset by the increase in depreciation.

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 and exchange rates. As a result, Tower's claims 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:

- 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. 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.

1. Combined ratio is the sum of claims costs plus management and sales expenses divided by net earned premium
2. Expense ratio is management and sales expenses divided by net earned premium

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.

Net Profit After Tax (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 underwriting frameworks are in place to profitably execute on those opportunities.

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 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.

Creating certainty with Canterbury

CANTERBURY UPDATE

Canterbury remains a complex and difficult situation for all insurers. The situation continues to evolve with the Earthquake Commission (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 $77.6 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 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.

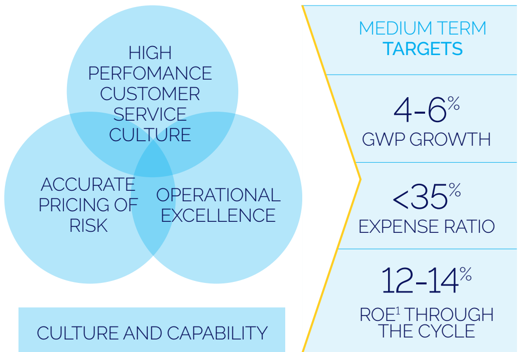
The new claims are a result of the EQC claims going overcap or additional hard landscaping and accommodation claims opening as the EQC finalises undercap properties.

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.

▶ A strong underlying business and the right plan in place ▸

UNLOCKING TOWER'S POTENTIAL

Tower has strong underlying New Zealand and Pacific businesses. 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[1] of 12-14% through the cycle, delivered through growth, expense control and underwriting.

1. ROE is Return on Equity.

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 Cover4Car. 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 has recently extended 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.

Tower **outlook**

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.

Separation could allow Tower to enjoy clear air to continue what it 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.

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:

4-6%
GWP GROWTH

<35%
EXPENSE RATIO

12-14%
ROE THROUGH THE CYCLE

Board of Directors

Michael Stiassny Chair
LLB, BCom, FCA, CFInstD
Non-Executive Director
Independent
Appointed Director: 12 October 2012

Michael is a Fellow of Chartered Accountants Australia and New Zealand and senior partner of KordaMentha, based in Auckland, which specialises in financial consulting work. He has both a Commerce and Law degree from the University of Auckland. He is currently Chairman of Vector Limited, Chairman of Ngati Whatua Orakei Whai Rawa Limited, and is a director of a number of other companies. Michael is President and a Chartered Fellow of the Institute of Directors in New Zealand (Inc).

Michael resides in Auckland, New Zealand.

David Hancock
BBus, GAICD
Non-Executive Director
Not Independent
Appointed Director: 16 November 2012

David was Chief Executive Officer of Tower from July 2013 to August 2015. David has over 25 years of broad experience in financial services. This experience includes being a former Executive General Manager at the Commonwealth Bank of Australia, with a variety of roles including capital markets, fixed income and equities. He held several board positions at the bank including Commonwealth Securities (ComSec), as well as external professional board positions. Prior to that he served in roles at JPMorgan where he was a Managing Director with responsibilities in New Zealand, Australia and Asia across various operations. David was the Interim Chief Executive Officer at Firstfolio Limited, an Australian listed financial services company. He holds a Bachelor of Business from the Queensland University of Technology, Brisbane.

David resides in Sydney, Australia.

Warren Lee
BCom, CA
Non-Executive Director
Independent
Appointed Director: 26 May 2015

Warren has extensive experience and a long record of leadership in the international insurance industry, including 15 years at AXA in senior management positions within the company's Australian and Asian businesses. Warren's two most recent positions were Chief Executive Officer of the Victorian Funds Management Corporation and Chief Executive Officer, Australia and New Zealand for AXA Asia Pacific Holdings Limited. He has a Bachelor of Commerce from the University of Melbourne and is a member of Chartered Accountants Australia and New Zealand.

Warren resides in Melbourne, Australia.

Steve Smith
BCom, CA, Dip Bus (Finance), CFInstD
Non-Executive Director
Independent
Appointed Director: 24 May 2012

Steve has been a professional Director since 2004. He has over 35 years' business experience, including being a specialist corporate finance partner at a leading New Zealand accountancy firm. He has a Bachelor of Commerce and Diploma in Business from the University of Auckland, is a member of Chartered Accountants Australia and New Zealand and a Chartered Fellow of the Institute of Directors in New Zealand (Inc). Steve is Chairman of Hellaby Holdings Ltd and Pascaro Investments Ltd, and a Director of Fulton Hogan Ltd, Rimu S.A. (Chile), and the National Foundation for the Deaf Inc.

Steve resides in Auckland, New Zealand.

Graham Stuart
BCom (Hons), MS, FCA
Non-Executive Director
Independent
Appointed Director: 24 May 2012

With over 30 years of senior management experience, Graham has held senior leadership roles with several major corporates, in New Zealand and overseas, the latest being the Sealord Group of which he was Chief Executive Officer for 7 years. Prior to that he held a number of diverse leadership roles including CEO of Mainland Products, Managing Director of Lion Nathan International, and Chief Financial Officer and Director of Strategy for the Fonterra Co-operative Group. Graham has a Bachelor of Commerce (First Class Hons) from the University of Otago, a Master of Science from Massachusetts Institute of Technology and is a Fellow of Chartered Accountants Australia and New Zealand. Graham has served on a number of Government bodies including the Food & Beverage Taskforce and the Maori Economic Development Panel.

Graham resides in Auckland, New Zealand.

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For the **year** ended 30 September 2016

Independent **Auditors' Report**

For the **year** ended 30 September 2016

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 17 to 46, 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.

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Independent Auditors' Report

Tower Limited

Opinion

In our opinion, the consolidated financial statements on pages 17 to 46 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

Consolidated **Income Statement**

For the **year** ended 30 September 2016

	NOTE	2016 $000	2015 $000
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)**

		CENTS	CENTS
Basic and diluted (loss) per share for continuing operations	23	(13.21)	(4.79)
Basic and diluted earnings per share for discontinued operations	23	–	0.80

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

Tower Limited

Consolidated Statement of **Comprehensive Income**

For the **year** ended 30 September 2016

	NOTE	2016 $000	2015 $000
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.

Tower Limited

Consolidated **Balance Sheet**

As at 30 September 2016

	NOTE	2016 $000	2015 $000
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.

Tower Limited

Consolidated Statement of **Changes in Equity**

For the **year** ended 30 September 2016

	NOTE	ATTRIBUTED TO SHAREHOLDERS CONTRIBUTED EQUITY $000	ACCUMULATED (LOSSES) PROFIT $000	RESERVES $000	TOTAL $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
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.

Tower Limited

Consolidated Statement of **Cash Flows**

For the **year** ended 30 September 2016

	NOTE	2016 $000	2015 $000
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 Consolidated **Financial Statements**

For the **year** ended 30 September 2016

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.

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.

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.

Notes to the Consolidated **Financial Statements**

For the **year** ended 30 September 2016

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.

3. Premium revenue

	2016 $000	2015 $000
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

	2016 $000	2015 $000
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.

5. Net claims expense

	NOTE	2016 $000	2015 $000
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.

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

	2016 $000	2015 $000
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.

	2016 $000	2015 $000
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)

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

6. Canterbury earthquakes (continued)

- 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 2016 $000	2015 $000
September 2010	7,700	17,100
June 2011	256,500	261,800
December 2011	487,500	487,700

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.

	CHANGE VARIABLE	SPLIT BETWEEN EVENTS: SEP 2010 $M	FEB 2011 $M	JUN 2011 $M	DEC 2011 $M	FOUR MAIN EARTH QUAKES: 30-SEP-16 $M	30-SEP-15 $M
Outstanding claims:							
(i) Change to costs and quantity of expected claim estimates including building costs and other impacts.	+ 5% – 5%	– –	(4.1) 4.1	– –	– –	(4.1) 4.1	(6.5) 6.5
(ii) Change in apportionment of claim costs to / from February 2011 event.	+ 1% – 1%	– –	(9.0) 9.0	– –	– –	(9.0) 9.0	(6.8) 6.8
Receivables:							
Reinsurance recovery receivables							
(iii) Adverse development cover	– 50% –100%	– –	(21.9) (38.8)	– –	– –	(21.9) (38.8)	(21.9) (38.8)
(iv) Recoveries from EQC in respect of land damage	+ 10% – 10%	– –	0.7 (0.8)	– –	– –	0.7 (0.8)	0.9 (0.9)
(v) Recoveries from EQC in respect of building costs	+ 10% – 10%	– –	0.1 (0.1)	– –	– –	0.1 (0.1)	0.5 (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.

7. Management and sales expenses

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

	2016 $000	2015 $000
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.

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

	2016 $000	2015 $000
Analysis of tax expense		
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.

(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

	2016 $000	2015 $000
Analysis of current tax assets		
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

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8. Taxation (continued)

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:

	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	$000	$000	$000	$000	$000	$000
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)
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:

FOR THE YEAR ENDED 30 SEPTEMBER 2015	BALANCE AT 30 SEPTEMBER 2015 $000	JURISDICTIONAL OFFSETTING $000	RESTATED 30 SEPTEMBER 2015 $000
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.

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.

	2016 $000	2015 $000
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.

9. Segmental reporting

	NEW ZEALAND	PACIFIC ISLANDS	OTHER (HOLDING COMPANIES & ELIMIN-ATIONS)	TOTAL
YEAR ENDED 30 SEPTEMBER 2016	$000	$000	$000	$000
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	$000	$000	$000	$000
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

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9. Segmental reporting (continued)

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.

10. Cash and cash equivalents

	2016 $000	2015 $000
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

	2016 $000	2015 $000
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

12. Receivables

	NOTE	2016 $000	2015 $000
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 $000	2015 $000
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.

13. Intangible assets

		SOFTWARE			
	GOODWILL	ACQUIRED	INTERNALLY DEVELOPED	UNDER DEVELOPMENT	TOTAL
	$000	$000	$000	$000	$000
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

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13. Intangible assets (continued)

		SOFTWARE			
	GOODWILL	ACQUIRED	INTERNALLY DEVELOPED	UNDER DEVELOPMENT	TOTAL
	$000	$000	$000	$000	$000
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

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:

	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).

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

	2016 $000	2015 $000
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.

15. Property, plant and equipment

	LAND AND BUILDINGS $000	OFFICE EQUIPMENT & FURNITURE $000	MOTOR VEHICLES $000	COMPUTER EQUIPMENT $000	TOTAL $000
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

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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.

16. Payables

	2016 $000	2015 $000
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

	2016 $000	2015 $000
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.

18. Insurance liabilities

	2016 $000	2015 $000
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 an 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.

20. Contributed equity

	2016 $000	2015 $000
Ordinary share capital (fully paid)	382,172	384,585
Total contributed equity	382,172	384,585
Represented by:	NUMBER OF SHARES	
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

	2016 $000	2015 $000
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.

21. Reserves (continued)

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.

22. Net assets per share

	2016	2015
Net assets per share (dollars)	1.33	1.65
Net tangible assets per share (dollars)	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:

	2016 $000	2015 $000
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).

	2016 $000	2015 $000
Loss attributable to shareholders from continuing operations	(22,328)	(8,378)
Profit attributable to shareholders from discontinued operations	–	1,396
	NUMBER OF SHARES	
Weighted average number of ordinary shares for basic and diluted earnings per share	169,069,382	175,024,794
	CENTS	
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		
	RISKS BORNE IN CURRENT YEAR	RISKS BORNE IN PRIOR YEARS	TOTAL	RISKS BORNE IN CURRENT YEAR	RISKS BORNE IN PRIOR YEARS	TOTAL
	$000	$000	$000	$000	$000	$000
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.

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.

The following analysis is in respect of the insurance liabilities:

	2016 $000	2015 $000
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**

	2016			2015		
	GROSS $000	REINSURANCE $000	NET $000	GROSS $000	REINSURANCE $000	NET $000
Reconciliation of movements in discounted outstanding claim liabilities						
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**

24. Insurance business disclosure (continued)

Reconciliation of movements in undiscounted claims to outstanding claim liabilities

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.

(c) Future net cash out flows

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

	2016 $000	2015 $000
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

(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:

	PRIOR $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	TOTAL $000
Ultimate claims cost estimate							
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%

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).

	2016 $000	2015 $000
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.

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For the **year** ended 30 September 2016

25. Financial instruments (continued)

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.

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	
	TOTAL $000	LOANS AND RECEIVABLES $000	FINANCIAL LIABILITIES $000	DESIGNATED $000	HELD FOR TRADING $000
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	–
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	–	–

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).

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

	TOTAL $000	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000
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	
	2016 $000	2015 $000
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%:

	CARRYING AMOUNT $000	FAVOURABLE CHANGES OF 10% $000	UN-FAVOURABLE CHANGES OF 10% $000
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)

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.

26. Risk management (continued)

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.

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.

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	
	2016 $000	2015 $000
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	
	2016 $000	2015 $000
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

(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	
	2016 $000	2015 $000
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:

	LESS THAN 30 DAYS $000	31 TO 60 DAYS $000	61 TO 90 DAYS $000	OVER 90 DAYS $000	TOTAL $000
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
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	
	2016 $000	2015 $000
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.

	CARRYING VALUE $000	TOTAL CONTRACTUAL CASH FLOWS $000	LESS THAN ONE YEAR $000	ONE TO TWO YEARS $000	TWO TO THREE YEARS $000	THREE TO FIVE YEARS $000
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	–	–	–

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For the **year** ended 30 September 2016

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 $000	2015 $000	2016 $000	2015 $000
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 IMPACT ON:		2015 IMPACT ON:	
	PROFIT AFTER TAX $000	EQUITY $000	PROFIT AFTER TAX $000	EQUITY $000
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.

(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 IMPACT ON:		2015 IMPACT ON:	
	PROFIT AFTER TAX $000	EQUITY $000	PROFIT AFTER TAX $000	EQUITY $000
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.

	2016 IMPACT ON:		2015 IMPACT ON:	
	PROFIT AFTER TAX $000	EQUITY $000	PROFIT AFTER TAX $000	EQUITY $000
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.

	NOTE	2016 $000	2015 $000
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

	2016 $000	2015 $000
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.

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:

	2016 $000	2015 $000
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.

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30. Transactions with related parties (continued)

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:

	2016 $000	2015 $000
For the year ended 30 September		
Investments business	–	13
Non-participating life business	–	491
Participating life business attributable costs	–	892
Profit from discontinued operations	–	1,396

Corporate governance and disclosures

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

The Board has adopted and developed corporate governance structures and practices that are consistent with best practice and ensure the integrity of the governance framework, with continual reassessment of its practices against these standards. Where developments arise in corporate governance, the Board is committed to reviewing Tower's practices and incorporating changes where appropriate to ensure Tower maintains best practice governance structures. Tower's governance team will undertake a review of Tower's corporate governance practices and disclosures once NZX finalises its amended Corporate Governance Code in 2017.

Compliance with governance requirements and recommendations

For the reporting period to 30 September 2016, Tower considers its corporate governance practices have adhered to the NZX Corporate Governance Best Practice Code and the Financial Markets Authority's 'Corporate Governance in New Zealand: Principles and Guidelines' handbook (FMA Handbook), other than as outlined in this corporate governance section.

Copies of Tower's principal governance documents and more detail about Tower's governance practices are available on Tower's website at www.tower.co.nz under the heading 'Corporate Governance' in the Investor Centre section.

This statement is current as at 11 November 2016 and has been approved by Tower's Board.

Role of the Board of directors

The Board, elected by Tower shareholders, is responsible for the performance of the company. In practice, this is achieved through formal delegation to the Chief Executive Officer and to Tower's two Board Committees (Audit and Risk Committee and Remuneration and Appointments Committee – the role of each of these Committees is outlined on pages 51 and 52). Each year the Board holds a strategy session with senior management to review Tower's business direction. The application of these strategies is reviewed regularly at Board meetings.

The Board is primarily governed by the Board Charter, Board Protocols and the Code of Ethics.

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

The Board reserves certain functions to itself. These include:

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

The Board Protocols describe internal board procedures for efficient decision making. They set out how the Board will be structured, how directors are appointed and evaluated, how directors gain access to training and information, and they provide that the Company Secretary is accountable to the Board on all matters to do with the proper functioning of the Board. At 30 September 2016, David Callanan was Tower's company secretary.

The Code of Ethics ensures decision making is in accordance with Tower's values.

The Board Charter, Board Protocols and Code of Ethics can be found on Tower's website at www.tower.co.nz under the heading 'Corporate Governance'.

Role of senior executives

The day-to-day leadership and management of the company is undertaken by the Chief Executive Officer and senior management. The Chief Executive Officer is solely accountable to the Board for management performance.

The Chief Executive Officer has also formally delegated decision making to senior management within their areas of responsibility and subject to quantitative limits to ensure consistent and efficient decision making across the company. Senior management has no power to do anything which the Chief Executive Officer cannot do pursuant to his delegations. Within this formal delegation framework those executives who report directly to the Chief Executive Officer have authority to sub-delegate certain authorities to their direct reports. The Board meets regularly with management to provide strategic guidance for Tower and effective oversight of management.

Board composition, nominations and appointments

Board composition

At 30 September 2016, the Board comprised five non-executive directors. Tower's constitution currently requires a minimum of five directors and provides for a maximum of eight. Directors' profiles are on pages 12 and 13.

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

The Remuneration and Appointments Committee has considered and is satisfied that the composition of the Board reflects an appropriate range of skills and experience for Tower to effectively discharge its responsibilities. An independent evaluation of the Board is currently being undertaken in accordance with the Board Charter.

Role of Chair

The Chair's role is to lead and manage the Board so that it operates effectively, and to facilitate interaction between the Board and the Chief Executive Officer. The Chair of the Board is elected by the directors. The Board supports the separation of the roles of Chair and Chief Executive Officer as recommended by the NZX Corporate Governance Best Practice Code, and these roles are separate at Tower. Michael Stiassny was appointed Chair of Tower on 21 March 2013.

Nominations, appointments and ongoing education

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

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

To ensure that the Board appoints directors and officers who have appropriate skills, knowledge, experience and integrity to perform their duties and to fulfil their roles, Tower has developed a Fit and Proper Policy benchmarked to the requirements of the Insurance (Prudential Supervision) Act 2010 and the Fit and Proper Standard for Licensed Insurers, along with the Fit and Proper Policy Guidelines for Licensed Insurers issued by the Reserve Bank of New Zealand. This policy is applied to all directors and relevant officers.

The Remuneration and Appointments Committee undertakes appropriate checks before appointing a person or putting forward to shareholders a new candidate for election as a director. Such checks have been undertaken in relation to all current Board members, and will be undertaken prior to the appointment or election of any new Board candidate.

In the case of a candidate standing for election as a director for the first time, Tower will provide information to shareholders about the candidate to enable them to make an informed decision on whether or not to elect the candidate, including material adverse information revealed by any checks the Remuneration and Appointments Committee has performed on the candidate; details of any interest, position, association or relationship that might influence, or reasonably be perceived to influence in a material respect the candidate's capacity to exercise judgement on board matters or to act in the best interests of Tower and its shareholders; the Board's view on whether the candidate will be considered to be an independent director; and a recommendation by the Board in respect of the candidate's election.

Where directors are seeking re-election at a general meeting, Tower will provide information to shareholders to enable them to make an informed decision on whether or not to re-elect the director, including their relevant qualifications and experience and the skills they bring to the Board; details of any other material directorships currently held by the candidate; the term of office already served by the director; whether the director is considered to be independent; and a recommendation by the Board in respect of the re-election of the director.

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

Directors are expected to develop their skills, competencies and industry knowledge by taking responsibility for their continuing education. To ensure ongoing education, directors are regularly informed of developments that affect Tower's industry and business environment, as well as company and legal issues that impact the directors themselves. Directors receive comprehensive board papers and briefing information before Board meetings, including a report from the Chief Executive Officer and reports from senior management.

Directors have unrestricted access to management and any additional information they consider necessary for informed decision making. Senior management also attend Board meetings in order to provide presentations to the Board and answer any queries directors may have. This allows the Board to understand the practical issues affecting Tower and the impact of these issues on its performance.

A director may obtain independent professional advice relating to the affairs of Tower or his/her responsibilities as a director or Committee member. Where the director has the approval of the Board Chair or Committee Chair to obtain independent professional advice, Tower will meet the reasonable costs of the advice.

Director independence

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

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

- influence, in a material way, his/her decisions relating to Tower, or
- materially interfere with his/her ability to act in Tower's best interests and the interests of Tower's securityholders generally.

Examples of relationships that remove independence include relationships with a material Tower customer, supplier, professional advisor or substantial shareholder.

As at 30 September 2016, the Board considered that four of the five directors were independent. Those directors are Michael Stiassny, Steve Smith, Graham Stuart, and Warren Lee. David Hancock's two-year tenure as Chief Executive Officer concluded on 16 August 2015. David remains a non-executive director on the Board, and is not considered to be independent. Tower's Board Protocols provide that being an executive of Tower within the last three years or being a director after ceasing to hold such employment is a relationship that removes independence.

The FMA Handbook recommends that the Chair should be an independent director. Michael Stiassny is considered to be an independent director.

The roles of Chair and Chief Executive Officer are not exercised by the same person. The role of Chief Executive Officer is held by Richard Harding.

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

Retirement, election and re-election

During the year Rebecca Dee-Bradbury resigned from the Tower Limited Board.

At least one-third of the total number of directors must retire from office each year by rotation and, if they choose, stand for re-election by shareholders at the Annual Shareholders' Meeting. Directors who retire each year are those who have been in office longest since their last election. If several directors have held office for equal terms and cannot agree who will retire, it is determined by lot. The directors who will retire and stand for re-election at the 2017 Annual Shareholders' Meeting are Graham Stuart and Michael Stiassny.

In addition, all directors appointed by the Board since the last Annual Shareholders' Meeting to fill a casual vacancy must stand for election. Shareholders will be provided with relevant information on the directors standing for re-election prior to the Annual Shareholders' Meeting to enable them to make informed decisions when voting. No directors have been appointed to fill a casual vacancy since the last Annual Shareholders' Meeting.

The length of service of each director on the Board is disclosed on the 'Director Profiles' section on pages 12 and 13.

Performance reviews of the Board, Board committees and individual directors

The Board recognises that the performance of the directors and Board Committees is crucial to Tower's success and to the interests of its shareholders. The Board regularly reviews its own composition and performance and that of the Board Committees in accordance with the terms of the Board Charter (which also includes a review of the Board structure, policies, Board succession, delegations and the necessity for and composition of the Committees). A performance evaluation of the Board and Board Committees is currently being undertaken, in accordance with the Board Charter.

The Remuneration and Appointments Committee is responsible for the regular performance management and annual appraisal of the Chief Executive Officer, individual directors and senior executives. Evaluations may be carried out by an external consultant. A performance evaluation of the Chief Executive Officer and individual directors is currently being undertaken.

Director share ownership

All directors are required by the Company's constitution to hold Tower shares. Directors and management are required to comply with Tower's Insider Trading and Market Manipulation Policy when purchasing and disposing of Tower securities. The number of shares held by each director and their dealings in Tower securities during the financial year are disclosed on page 59.

Indemnities and insurance

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

Board committees

The Board currently has two standing committees: the Audit and Risk Committee and the Remuneration and Appointments Committee. Other committees are established from time to time to examine specific issues as required by the Board.

The Committees are governed by written terms of reference, which detail their specific functions and responsibilities. The terms of reference for each Committee are reviewed periodically. Copies of each Committee's terms of reference are available on the Tower website at www.tower.co.nz under the 'Corporate Governance' section.

The Committees make recommendations to the Board. They have no decision-making ability except where expressly provided by the Board. The Board is required to annually confirm the membership and Chair of each of the Committees. The experience and skills of individual Committee members are set out in the directors' profiles on pages 12 and 13. Member attendance at each Committee meeting is set out on page 52.

Audit and Risk Committee

Members: Graham Stuart (Chair), Michael Stiassny, Steve Smith, Warren Lee and David Hancock.

Tower has a structure to independently verify and safeguard the integrity of its financial reporting. The principal components of this are the Audit and Risk Committee, the external and internal auditors, and the certifications provided to the Board by senior management. These certifications include a representation letter from the CEO and CFO (or equivalent) provided to the Board prior to the Board's approval of Tower's financial statements, which states that, to the best of the CEO and CFO's knowledge and belief, Tower's financial records have been properly maintained, that Tower's accounting policies and financial statements comply with the appropriate accounting standards, and that the financial statements fairly present the financial position of Tower as at the balance date. This letter is provided on the basis that Tower has maintained an internal control structure which is sufficient to produce reliable accounting records.

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

- independently and objectively review the financial information presented by management to the Board, the external auditors and the public
- review draft half year and annual financial statements and the external auditor's report, and make recommendations to the Board as to their adoption
- recommend the appointment of, and oversee the performance of, the external auditor and be satisfied as to the auditor's independence

- review the effectiveness and efficiency of management processes, risk management and internal financial controls and control systems
- monitor and review compliance with regulatory and statutory requirements and obligations
- monitor the internal audit function and receive regular reports from the internal auditors on risks, exposures and compliance
- maintain open and direct lines of communication with the external and internal auditors, and
- make recommendations to the Board as to the appointment of the external auditors.

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

The Terms of Reference require that the Committee has a minimum of three non-executive directors, the majority of whom are independent. The Board appoints the Chair of the Committee, who cannot also be Chair of the Board, and who is an independent director.

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

Remuneration and Appointments Committee

Members: Michael Stiassny (Chair), Steve Smith, Graham Stuart and Warren Lee.

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

- the appointment and succession of directors, and director remuneration
- the composition and structure of the Board
- induction and continuing professional development programmes for directors
- performance evaluations of the Board and individual directors, and
- the Chief Executive Officer and senior executive appointments, termination, performance appraisal and remuneration.

The Terms of Reference for the Remuneration and Appointments Committee require that the Committee comprises suitably qualified non-executive directors, the majority of whom are independent. The Board appoints the Chair of the Committee, who will be an independent, non-executive director.

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

The Company's remuneration policies for directors and senior executives are set out on pages 56 and 57.

Board and Committee meeting attendance

There were seven scheduled Board meetings during the year from 1 October 2015 to 30 September 2016. Director attendance at Board and Committee meetings is set out below. The Chief Executive Officer attends all Board and Committee meetings. The Chief Financial Officer (or equivalent) attends all Board meetings and the Audit and Risk Committee meetings. All Board and Committee meetings are attended by an appropriately qualified person who is responsible for taking accurate minutes of each meeting and ensuring that Board procedures are observed.

2015/2016 Tower Limited directors' attendance record

	TOWER LIMITED BOARD	AUDIT AND RISK COMMITTEE	REMUNERATION AND APPOINTMENTS COMMITTEE
Meetings held	**7**	**5**	**1**
Michael Stiassny	7	5	1
Steve Smith	7	5	1
Graham Stuart	7	5	1
Rebecca Dee-Bradbury[1]	6	5	1
Warren Lee	7	5	1
David Hancock[2]	5	1	-

1 Rebecca Dee-Bradbury resigned as a Tower director on 14 September 2016.

2 David Hancock returned from a sabbatical in February 2016.

Promoting ethical and responsible behaviour

Ethical and responsible behaviour

Tower is committed to meeting its legal and other obligations to stakeholders, including shareholders, employees, customers, policyholders and the wider community. Maintaining Tower's reputation for honesty and fairness is crucial to its success as a financial services business. The

Board has adopted a Code of Ethics which is an important tool for achieving these aims as it sets out the minimum standards of conduct and behaviour Tower expects of its directors, executives and employees and requires them to adhere to these standards. The Code of Ethics is available to staff both on the Tower website and through the induction process. The types of behaviour addressed in the Code of Ethics include:

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

Any person who becomes aware of a breach or suspected breach of the Code of Ethics is required to report it immediately in accordance with the Policy.

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

Insurance (Prudential Supervision) Act 2010

The New Zealand insurance industry is regulated by the Reserve Bank of New Zealand, under the Insurance (Prudential Supervision) Act 2010 (IPSA). All companies carrying on insurance business in New Zealand must hold a licence under IPSA. Tower's licensed general insurance company is Tower Insurance Limited.

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

The Tower Insurance Limited Board:

- is governed by a Board Charter
- comprises the same directors as the Board of Tower Limited, and
- has two standing committees, being the Audit and Risk Committee and the Remuneration and Appointments Committee, which are governed by written terms of reference.

Further information on the governance of Tower Insurance Limited will be contained in the annual report of that company, which will be registered with the Companies Office.

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

Insider trading

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

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

Diversity Policy

Tower's Diversity Policy has been designed to ensure that diversity is encouraged, respected and embraced in our day-to-day business practices. Our people bring different experiences, backgrounds and skills to our business. Tower believes that by valuing diversity, this will help drive our performance culture, brand and shareholder returns. The overall goal is an inclusive, flexible workplace with people motivated to do their very best for our customers and for each other. Nurturing an environment that values and promotes diversity will help improve the quality of our decision making, productivity, and collaboration.

The Board is responsible for overseeing the implementation of the Diversity Policy, with delegation to the Remuneration and Appointments Committee to review and report annually on the status of diversity within Tower and on policy effectiveness. The Board considers that Tower has addressed the requirements of its Diversity Policy. Tower's diversity programme and policy is currently undergoing review and will be finalised when NZX finalises its amended Corporate Governance Code in 2017.

The following table shows gender representation across Tower as at 30 September 2016:

	2015-2016		2014-2015	
GROUP	% BY GROUP	NUMBER	% BY GROUP	NUMBER
Board of Directors				
Male	100%	5	84%	5
Female	0%	0	16%	1
Executive leadership team[1]				
Male	63%	5	66%	4
Female	37%	3	34%	2
Senior leadership team[2]				
Male	50%	16	65%	15
Female	50%	16	35%	8
Employees				
Male	45%	231	42%	235
Female	55%	285	58%	318
Total company[3]				
Male	45%	252	44%	254
Female	55%	304	56%	328

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

2 'Senior Leadership Team' is the second level of employees below the Chief Executive Officer, who report directly to the Executive Leadership Team.

3. 'Total Company' figures do not include the Board of Directors.

Market and shareholder communication and shareholder participation at meetings

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

Tower has policies and procedures in place designed to ensure that all investors have equal and timely access to material information concerning Tower, to ensure that company announcements are factual and presented in a clear and balanced way, and that Tower complies with the continuous disclosure requirements of the NZX and ASX. Announcements of financial results, changes in profit forecasts and other material market announcements require Board approval.

Tower's website, www.tower.co.nz, provides information to shareholders and investors about Tower. The website includes copies of past annual reports, results announcements, media releases (including NZX and ASX announcements) and general Tower information. It also has a comprehensive corporate governance section for shareholders at http://www.tower.co.nz/investor-centre.

Tower encourages shareholders to receive communications from, and send communications to, Tower and the share registry electronically, for reasons of speed, convenience, cost and environmental considerations. Tower shareholders can receive company information electronically by registering their email addresses online with Tower's share registry http://www.investorcentre.com/nz.

Tower's Annual Shareholders' meeting is an opportunity for shareholders to receive updates from the Chief Executive Officer and Chair on Tower's performance, ask questions of the Board and vote on the various resolutions affecting Tower's business. Shareholders are also given an opportunity at the Annual Shareholders' Meetings to ask questions of Tower's auditors regarding the conduct of the audit and preparation and content of the auditor's report.

Whilst shareholders are encouraged to attend meetings in person, in the event that they are unable to do so, they are encouraged to participate in the meeting by proxy, attorney or representative who will vote on their behalf.

Announcements

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

- Annual results are announced in late November
- Annual reports are released in December
- Tower's Notice of Annual Shareholders' Meeting is generally sent to shareholders in December or January
- Tower's Annual Shareholders' Meeting is held in February or March
- Half year results are announced in late May
- Half year reports are released in June.

Credit Rating

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

Tower Insurance Limited
Financial Strength Rating A – (Excellent)
Issuer Credit Rating a-
Effective 15 July 2016

Tower Limited
Issuer Credit Rating bbb – (Good)
Effective 15 July 2016

Audit and risk management at Tower

Tower has established a framework to identify, assess, monitor and manage risk. At the forefront of this are the internal audit and compliance processes, and the risk management process for each operating company. Tower faces a range of risks that are inherent to the business activities undertaken. Tower stakeholders, including shareholders, clients, staff and suppliers, require assurance that Tower will manage its exposure to risk. Executive and senior management and staff must be able to demonstrate that reasonable steps have been taken to effectively manage Tower's risks.

Risk and compliance framework

Tower's Risk and Compliance Framework sets out Tower's commitment to managing risk and compliance, and provides an overview of the core components including roles and responsibilities and requirements that must be met.

The Framework applies to Tower and all of its subsidiaries and related companies, and all staff and contractors employed by Tower and any of its subsidiaries. Effective management of risk and compliance is essential to ensure that Tower remains a viable business and is able to achieve its objectives. This is integral in providing guidance to management and staff of Tower in dealing with its risk and compliance obligations.

The Audit and Risk Committee regularly reviews its risk management procedures and framework to ensure that it complies with its legal obligations. Changes to the enterprise risk management framework during the financial year included the adoption of a Risk Appetite Statement. The Risk Appetite Statement articulates the amount and type of risk that Tower is willing to take in order to meet its strategic objectives and provides direction to management on how to manage risks.

The Audit and Risk Committee is responsible for reviewing whether Tower has any material exposure to any economic, environmental and social sustainability risks, and if so, to develop strategies to manage such risks, and present such strategies to the Board.

Internal audit

During the 2016 financial year, Tower contracted an independent chartered accounting firm, Ernst & Young (EY), to carry out the internal audit function. That firm reported to the Chair of the Audit and Risk Committee and had full access to other Committee members and the Board. The Committee approves the Internal Audit Policy that governs the internal audit function across the company. Tower is currently reviewing its internal audit policies and procedures.

The Internal Audit Policy formally records the delegations the Audit and Risk Committee has made to the internal auditor in relation to the internal control systems and processes of Tower. Under the current Policy, the Audit and Risk Committee approves the appointment of the internal auditor following the Chief Executive Officer's recommendation.

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

Tower regularly evaluates the effectiveness of its risk management framework, including the internal audit function, to ensure that its internal control systems and processes are monitored and updated on an on-going basis.

External audit

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

PwC was re-appointed as auditor by shareholders at the Annual Shareholders' Meeting in February 2016 to audit the financial statements for Tower and its subsidiaries.

A formal engagement letter with PwC sets out the respective obligations and responsibilities of PwC and Tower in relation to the preparation and audit of financial statements. The Board also has a formal External Audit Independence Policy.

The Policy describes the Board's approach to the approval of Tower's external audit firm; what services the external auditor may and may not provide to Tower; auditor rotation; and hiring of staff from the audit firm. The Board reviews external auditor quality and effectiveness by reference to obligations described in the Policy. Tenure and reappointment of the external auditor is managed through compliance with relevant legislation and NZX and FMA guidance.

The Board mitigates any threats to auditor independence by prohibiting Tower's external audit firm from providing any non-audit services. Allowable services are limited to statutory financial statement audit engagements and directly related assurance engagements (including assurance opinions on solvency returns; regulatory return audits; and opinions required by legislation such as shareholder meeting votes or proxy counts). Should a situation arise which may require Tower's external audit firm to provide services beyond these, any such engagement must first be pre-approved by Tower's Audit and Risk Committee.

Under the Policy, PwC is required to provide the Audit and Risk Committee with an annual certification of its continued independence, and in particular confirm that it has not carried out any engagements during the year which would impair its professional independence. Non-audit services provided by PwC to Tower and its subsidiaries during the financial year did not, in Tower's opinion, affect auditor objectivity and independence.

The Policy is overseen by the Audit and Risk Committee. The Policy is available on Tower's website at www.tower.co.nz under the 'Corporate Governance' section.

Representatives from Tower's external auditor will be present at the Annual Shareholders' Meeting to be held in March 2017 and will be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Details of PwC fees for audit and other services provided to Tower are set out in note 7 of the Tower Limited financial statements.

Corporate governance policies and procedures

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

Remuneration at Tower

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

Tower has different policies for remunerating non-executive directors as opposed to the Chief Executive Officer and senior executives. The following section discusses Tower's remuneration policies and arrangements for non-executive directors, the Chief Executive Officer, the senior executives and staff in general.

Role of the Remuneration and Appointments Committee

The Remuneration and Appointments Committee is responsible for assisting and advising the Board in relation to, amongst other things:

- remuneration strategy, structure and policy
- remuneration of the Chief Executive Officer
- setting non-executive directors' remuneration
- setting Board committee members' fees, and
- determining remuneration packages of senior executives, following recommendations from the Chief Executive Officer.

Non-executive director remuneration

The Board's policy is to remunerate directors at a similar level to comparable Australasian companies, with a small premium to reflect the complexity of the insurance and financial services sector. At the Annual Shareholders' Meeting in February 2004 shareholders approved an increase in non-executive director annual remuneration to the current maximum of NZ$900,000 per annum.

Tower seeks external advice when reviewing Board remuneration. The Remuneration and Appointments Committee is responsible for reviewing directors' fees. Non-executive directors are also paid additional annual fees for sitting on certain Board Committees.

BOARD/COMMITTEE	CHAIR	MEMBER
Base fee – Board of directors	$130,000	$78,570
Audit and Risk Committee	$15,000	$9,000
Remuneration and Appointments Committee[1]	-	-

1 The Board determined that from 1 December 2012 no fees would be payable for sitting on the Remuneration and Appointments Committee

Additional fees may be paid to non-executive directors for one-off tasks and/or additional appointments where required, for example, sitting on a due diligence committee.

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

2015/2016 directors' remuneration and benefits of Tower and its subsidiaries

Amounts in the table below reflect fees paid and accrued for the year ended 30 September 2016.

Fees include base fees and additional fees in the financial year for one-off tasks and additional appointments.

DIRECTORS' REMUNERATION AND BENEFITS OF TOWER LIMITED	
FOR THE YEAR TO 30 SEPTEMBER 2016	FEES (NZ$)
Michael Stiassny	139,000
Steve Smith	87,570
Graham Stuart	93,570
Rebecca Dee-Bradbury[1]	87,570
Warren Lee[2]	98,770
David Hancock[3]	56,880

1. Rebecca Dee-Bradbury resigned as a Tower director on 14 September 2016.
2. Warren Lee's remuneration includes a one-off consultancy fee paid to him.
3. David Hancock was on sabbatical from August 2015 to February 2016 and did not receive directors' fees during that time. David received directors' fees from his return from sabbatical in February 2016, and Audit and Risk Committee fees from his appointment to the Committee in April 2016.

DIRECTORS' REMUNERATION AND BENEFITS OF TOWER LIMITED SUBSIDIARIES	
FOR THE YEAR TO 30 SEPTEMBER 2016	FEES (WST$)
Alden Godinet[1]	$5,625
Rodney Reid[1]	$5,625

1. Fees earned in capacity as director of National Pacific Insurance Limited. NPI fees are paid in Western Samoan Tala.

Under the terms of Tower's Insider Trading and Market Manipulation Policy, directors are prohibited from entering into transactions which operate to limit the economic risk of their Tower securities (including under any equity-based remuneration scheme).

Chief Executive Officer and senior executive remuneration

The Board's policy for remunerating the Chief Executive Officer and other key executives is to provide market based remuneration packages comprising a blend of fixed and incentive based remuneration with clear links between individual and company performance, and reward. Remuneration packages currently comprise a mixture of fixed and performance-based remuneration in the form of short and long term incentives. The Remuneration and Appointments Committee reviews the remuneration packages of the Chief Executive Officer and other senior executives at least annually. The policy is intended to encourage Tower's executives to meet Tower's short and long term objectives.

Richard Harding's annual base salary is $750,000, with the potential to earn short-term incentives up to $500,000.

Employee remuneration

Set out in the following table are the number of employees or former employees of Tower (including Tower's Pacific subsidiaries), not being directors or former directors, who received remuneration and other benefits valued at or exceeding $100,000 for the year ended 30 September 2016. Remuneration includes redundancy payments and termination payments made during the year to employees whose remuneration would not otherwise have been included in the table. The remuneration bands are expressed in New Zealand Dollars.

FROM	TO	2015-2016	2014-2015
100,000	109,999	19	13
110,000	119,999	21	14
120,000	129,999	7	12
130,000	139,999	10	14
140,000	149,999	11	10
150,000	159,999	4	5
160,000	169,999	5	1
170,000	179,999	3	3
180,000	189,999	6	4
190,000	199,999	3	2
200,000	209,999	2	2
210,000	219,999	2	-
220,000	229,999	1	2
230,000	239,999	-	2
240,000	249,999	1	-
270,000	279,999	2	-
280,000	289,999	1	2
310,000	319,999	-	1
380,000	389,999	-	1
400,000	409,999	1	1
410,000	419,999	1	-
430,000	439,999	1	-
490,000	499,999	1	1
590,000	599,999	1	-
720,000	729,999	-	1
750,000	759,000	1	-
Total		104	91

The table includes base salaries, short-term incentives (if applicable) and vested or exercised long-term incentives. If the individual is a KiwiSaver member the table does not include contributions of 3% of gross earnings towards that individual's KiwiSaver scheme.

Donations

During the financial year ended 30 September 2016, total donations made by Tower and its subsidiaries are as follows:

Tower Limited	NZ$0
Tower Limited subsidiaries	NZ$39,120

Disclosures

Interests register

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

General disclosures of interest

During the financial year, Tower's directors disclosed interests, or a cessation of interests (indicated by an asterisk (*)), in the following entities pursuant to section 140 of the Companies Act 1993. No disclosures were made by directors of any other Tower subsidiary.

Rebecca Dee-Bradbury[1]	
Bluescope Steel	Director
GrainCorp Ltd	Director
LMH Investments Pty Ltd	Director
Business Advisory Board, Monash Business School	Member
David Hancock	
Afterpay Pty Limited	Director
Finarch Pty Limited	Director
Finclear Pty Limited	Director
Freedom Insurance Pty Limited	Chair
Steve Smith	
Fulton Hogan Limited and subsidiary companies	Director
Hellaby Holdings Limited	Chair
Kinrich Trust	Trustee
Kinrich Holdings Limited	Director
Summerlee Investments Limited	Director
Unison Securities Limited	Director
Unison Capital Advisors Limited	Director
Pascaro Investments Limited	Chair
Spanbild Holdings Limited and subsidiary companies	Chair*
Trebol Investments Limited and subsidiary companies	Director
Rimu SA (Chile) and subsidiary companies	Director
The National Foundation for the Deaf Incorporated	Board Member
Good Soundz Limited	Board Member
Michael Stiassny	
Atapo Corporation Limited	Director
Bengadol Corporation Limited	Director
Frequency Media Group Limited	Director
Emerald Group Limited	Director
Gadol Corporation Limited	Director
Geffen Holdings Limited	Director
Glenogle Trust Limited	Director
Knotser Properties Limited	Director
Kordamentha Limited and subsidiary companies	Director
Michael Spencer Limited	Director
Ngati Whatua Orakei Housing Trustee Limited	Director
Ngati Whatua Orakei Whai Rawa Limited	Chair
NZ Windfarms Limited and subsidiary companies	Director*
Plan B Limited	Director
Poukawa Estate Limited	Director
Queenstown Airport Corporation Limited	Director
Sasha Properties Limited	Director
SB Entertainment Holdings and subsidiary companies	Director
Stride Property Limited and related companies	Director
Ted Kingsway Limited	Director
Triceps Holdings Limited	Director*
UCI Holdings Limited	Director
Vector Limited and subsidiary companies	Chair
WEST24 Limited	Director
Whai Rawa GP Limited	Director
Whai Rawa Kainga Development Limited	Director
Institute of Directors in New Zealand	President
Graham Stuart	
Leroy Holdings Limited	Director

1. Rebecca Dee-Bradbury resigned as a director of Tower on 14 September 2016.

Indemnity and insurance

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

Use of company information by directors

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

Directors' shareholdings

At 30 September 2016, Tower Limited directors held the following interests in Tower Limited shares:

	ORDINARY SHARES
DIRECTOR	BENEFICIAL
Rebecca Dee-Bradbury[1]	5,000
David Hancock	–
Steve Smith[2]	9,230
Michael Stiassny	82,732
Graham Stuart	6,154
Warren Lee	2,000

1. These shares were purchased by LMH Investments Pty Limited, of which Rebecca is a director. Rebecca has a beneficial interest in LMH Investments Pty Limited through her family trust. Rebecca resigned as a director of Tower on 14 September 2016.
2. These shares are owned by Kinrich Holdings Limited, of which Steve is a director. Steve has a beneficial interest in Kinrich Holdings Limited through his family trust.

Directors' trading in Tower securities

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

DIRECTOR	DATE OF DISCLOSURE	INTEREST	NUMBER ACQUIRED (DISPOSED)	CONSIDERATION
Michael Stiassny	02/08/2016	Beneficial	397	Nil

Buyback

An on market share buyback of up to $34 million continued during the first half of 2016.

As at 31 March 2016, Tower had purchased 1,321,320 shares at an average price of $1.83, returning approximately $2.41 million to shareholders. This represented less than 1% of total issued Tower shares. The share buyback was not renewed following Tower's half-year results announcement on 24 May 2016.

Tower subsidiary company director disclosures

The following persons held office as directors of subsidiary companies at 30 September 2016. Those who retired during the year are indicated with an (R). Those who retired or were appointed after 30 September 2016 are footnoted.

TOWER SUBSIDIARY COMPANY DIRECTOR DISCLOSURES	
Tower Insurance Limited	David Hancock, Warren Lee, Steve Smith, Michael Stiassny, Graham Stuart, Rebecca Dee-Bradbury (R)
Tower Financial Services Group Limited	David Hancock, Warren Lee, Steve Smith, Michael Stiassny, Graham Stuart, Rebecca Dee-Bradbury (R)
The National Insurance Company of New Zealand Limited	Richard Harding, Brett Wilson[2], David Callanan[3]
Tower New Zealand Limited	Richard Harding, Brett Wilson[2], David Callanan[3]
Tower Operations Limited[1]	Richard Harding, Brett Wilson[2]
National Insurance Company (Holdings) Limited	Vanessa Dudley (R), Paul Absell (R), Richard Harding, Sarah-Jane Wild, Christopher Sutherland, Brett Wilson[2], David Callanan[3]
Southern Pacific Insurance Company (Fiji) Limited	Vanessa Dudley (R), Paul Absell (R), Richard Harding, Sarah-Jane Wild, Christopher Sutherland, Brett Wilson[2], David Callanan[3]
Tower Insurance (Fiji) Limited	Vanessa Dudley (R), Paul Absell (R), Richard Harding, Sarah-Jane Wild, Christopher Sutherland, Brett Wilson[2], David Callanan[3]
Tower Insurance (Cook Islands) Limited	Vanessa Dudley (R), Mark Savage (R), Richard Harding, Christopher Sutherland, Brett Wilson[2], David Callanan[3]
Tower Insurance (PNG) Limited	Vanessa Dudley (R), Paul Absell (R), Mark Savage (R), Richard Harding, Christopher Sutherland, Brett Wilson[2], David Callanan[3], Jeremy Fergusson[4]
Southern Cross Marine Limited	Vanessa Dudley (R), Paul Absell (R), Mark Savage (R), Richard Harding, Christopher Sutherland, Brett Wilson[2], David Callanan[3], Jeremy Fergusson[4]
National Pacific Insurance Limited	Vanessa Dudley (R), Alden Godinet, Richard Harding, Rodney Reid, Christopher Sutherland, Brett Wilson[2], David Callanan[3]
National Pacific Insurance (Tonga) Limited	Vanessa Dudley (R), Alden Godinet, Richard Harding, Rodney Reid, Christopher Sutherland, Brett Wilson[2], David Callanan[3]
Tower Insurance (Vanuatu) Limited	Vanessa Dudley (R), David Hancock (R), Richard Harding, Mike Petrie, Christopher Sutherland, Brett Wilson[2],David Callanan[3]

1. Tower Operations Limited was amalgamated with Tower Financial Services Group Limited on 29 April 2016 and became Tower Financial Services Group Limited.
2. Brett Wilson resigned as director of these companies on 7 October 2016.
3. David Callanan was appointed a director of these companies on 7 October 2016.
4. Jeremy Fergusson resigned as director of these companies on 26 October 2016.

No employee appointed as a director of a subsidiary receives any remuneration in their role as a director. The number of employees who receive remuneration of more than $100,000 is included in the remuneration table on page 57. Auditor fees paid on behalf of Tower and its subsidiaries are disclosed in the financial statements.

Shareholder and exchange disclosures

Shareholder analysis

Tower's shares are quoted on both the NZSX and ASX. As at 11 November 2016, 17,057 Tower shareholders held less than A$500 of Tower shares (i.e. less than a marketable parcel as defined in the ASX Listing Rules), holding a total of 5,710,642 Tower shares.

Total voting securities

As at 11 November 2016, Tower had 168,662,150 ordinary shares held by 28,432 holders. Tower's ordinary shares each carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney.

Voting may be conducted by a show of hands or a poll.

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

Substantial product holders (as at 11 November 2016)

The names and holdings of Tower's substantial product holders based on notices filed with Tower under the Securities Markets Act 1988 and the Financial Markets Conduct Act 2013 as at 11 November 2016 were:

NAME	TOTAL ORDINARY SHARES[1]
Salt Funds Management Limited	18,755,235
Accident Compensation Corporation	13,980,252
UBS Group	11,413,975
Perpetual Limited	11,274,196
Westpac Banking Corporation	10,854,312
National Australia Bank	10,708,635

1. Total ordinary shares held by the substantial product holder is the number of shares disclosed in the latest Substantial Product Holder notice filed with Tower.

Principal shareholders (as at 11 November 2016)

The names and holdings of the 20 largest registered Tower shareholders as at 11 November 2016 were:

	NAME	TOTAL ORDINARY SHARES	%
1	Accident Compensation Corporation	13,913,935	8.24
2	UBS Nominees Pty Limited	11,274,196	6.68
3	Citibank Nominees (New Zealand) Limited	10,783,563	6.39
4	Guardian Nominees No 2 A/C	10,744,391	6.37
5	FNZ Custodians Limited	9,869,932	5.85
6	HSBC Custody Nominees New Zealand Limited	5,763,669	3.41
7	BNP Paribas Nominees (NZ) Limited	5,452,757	3.23
8	National Nominees New Zealand Limited	4,944,805	2.93
9	RBC Investor Services Australia Nominees Pty Limited	3,692,257	2.18
10	HSBC Nominees (New Zealand) Limited	2,389,864	1.41
11	JP Morgan Chase Bank NA NZ Branch	2,372,933	1.4
12	Citicorp Nominees Pty Limited	2,186,604	1.29
13	HSBC Nominees (New Zealand) Limited A/C State Street	1,481,942	0.87
14	National Nominees Limited	1,087,023	0.64
15	Forsyth Barr Custodians Limited	958,783	0.56
16	BNP Paribas Nominees Pty Limited	953,675	0.56
17	New Zealand Depository Nominee Limited	866,782	0.51
18	Leveraged Equities Finance Limited	815,596	0.48
19	FNZ Custodians Limited (DRP NZ A/C)	720,295	0.42
20	FNZ Custodians Limited (DTA Non Resident A/C)	691,469	0.4

Tower Limited Shareholder Statistics (as at 11 November 2016)

HOLDING RANGE	HOLDER COUNT	HOLDER COUNT %	HOLDING QUANTITY (ORDINARY SHARES)	HOLDING QUANTITY %
1 to 1,000	20,723	72.89	8,603,079	5.1
1,001 to 5,000	5,181	18.22	11,007,238	6.53
5,001 to 10,000	1,136	4	8,485,669	5.03
10,001 to 100,000	1,306	4.59	34,429,077	20.41
100,001 and over	86	0.3	106,137,087	62.93
Total	28,432	100	168,662,150	100

Other matters

Limits on acquisition of securities under New Zealand law

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

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

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

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

Corporations Act 2001 (Australia)

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

Waivers

There were no applications to NZX or ASX for any waivers in the financial year ending 30 September 2016.

ASX Listing Status

Tower Limited changed its ASX admission category to 'ASX Foreign Exempt Listing' on 18 May 2016. As an ASX Foreign Exempt Listing, Tower Limited is primarily regulated by the listing rules of its home exchange (being the NZX Main Board (NZSX)) and is exempt from complying with most of ASX's Listing Rules. Tower confirms that it continues to comply with the NZX Listing Rules.

The Annual Report is signed on behalf of the Board by

Michael Stiassny
Chair

Graham Stuart
Director

Tower Directory

Enquiries

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

For investor enquiries:
Telephone: +64 9 369 2000
Email: investor.relations@tower.co.nz
Website: www.tower.co.nz

Board of Directors

Michael Stiassny (Chair)
David Hancock
Warren Lee
Steve Smith
Graham Stuart

Chief Executive Officer

Richard Harding

Company Secretary

David Callanan

Executive Leadership Team

Richard Harding
Tony Antonucci
David Callanan
Michelle James
Faye Luxton
Glenys Talivai
Glenn Vade

Registered Office

New Zealand

Level 14
Tower Centre
45 Queen Street
PO Box 90347
Auckland

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

Australia

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

Auditor

PricewaterhouseCoopers

Banker

Westpac New Zealand Limited

Solicitor

DLA Piper New Zealand

Company numbers

Tower Limited
(Incorporated in New Zealand)

NZ Incorporation 979635
NZBN 9429 0374 84576
ARBN 088 481 234

Stock exchanges

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

Registrar

New Zealand

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road,
Takapuna, Auckland
Private Bag 92119
Auckland 1142

Freephone within New Zealand: 0800 222 065
Telephone New Zealand: +64 9 488 8777
Facsimile New Zealand: +64 9 488 8787

Australia

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
GPO Box 3329
Melbourne Vic 3000

Freephone within Australia: 1800 501 366
Telephone Australia: +61 3 9415 4083
Facsimile Australia: +61 3 9473 2500
Email: enquiry@computershare.co.nz

Website: investorcentre.com/nz

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

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

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

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

Tower Limited Investor Relations

Telephone: +64 9 369 2000
Email: investor.relations@tower.co.nz
Website: www.tower.co.nz

Registrar

Computershare Investor Services Limited
Freephone within New Zealand: 0800 222 065
Telephone New Zealand: +64 9 488 8777
Freephone within Australia: 1800 501 366
Telephone Australia: +61 3 9415 4083
Email: enquiry@computershare.co.nz
Website: www.investorcentre.com/nz

TOWER