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24 May 2017

Tower Limited
Half Year 2017 Results for Announcement to Market

In accordance with NZSX Listing Rule 10.3.1, I enclose the following for release to the market in relation to Tower Limited's (NZE/ASX: TWR) Half Year 2017 Results:

1	Media Release
2	Management Review
3	NZX Appendix 1
4	Financial Statements (including independent review report)
5	Results announcement presentation

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

ENDS

David Callanan
Company Secretary
Tower Limited
ARBN 088 481 234
Incorporated in New Zealand

For further information, please contact:
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TOWER Limited,
Level 14, 45 Queen Street,
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Incorporated in New Zealand

24 May 2017

TOWER REPORTS STRONG UNDERLYING RESULT & INCREASE TO CANTERBURY PROVISIONS

Tower Limited (NZX/ASX:TWR) has today reported a half year loss of $8.2 million for the half year ended 31 March 2017, impacted by further adjustments to Canterbury provisions, Kaikoura earthquake and large loss events.

Underlying profit after tax was $8.1 million, a 7.6% increase from $7.6 million in the first half of 2016.

Features of HY 2017:

- Reported half year loss of $8.2 million impacted by
  - $7.2 million post-tax impact from the Kaikoura earthquake
  - $3.6 million post-tax impact from the Tasman Tempest storms and Port Hills Fires
  - $9.8 million post-tax impact from additional Canterbury provisions reflecting ongoing complexity of the situation

- Underlying profit after tax of $8.1 million, growing 7.6% from $7.6 million in H1 16

- Business initiatives driving improvements in core metrics providing confidence in strategy and future performance targets:
  - **Growth of core book**
    - Gross written premium in core book increased 2.4% over H1 16
    - Growth of 4,949 policies in core book this half
  - **Management of claims costs**
    - Claims costs continue to show positive trends, declining $3.2m compared to H1 16, before the impact of large loss events
  - **Reduction of management expenses**
    - Management expenses reduced by $2.6m compared to H1 16

- Further progress on Canterbury with just under one third of open property claims settled in the half; Tower's Appointed Actuary, Deloitte, has advised the Board to further increase provision requirements, reducing pre-tax profits by $9.8 million for the half.

- Dividend payment suspension continued

TOWER Limited,
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A strong underlying business

Tower's half year result has shown that Tower's core New Zealand business is strong and that its strategic imperatives are improving the performance of the business.

A focus on customers has delivered continued growth in the core New Zealand portfolio, with the recent launch of Tower's Airpoints partnership proving attractive for both new and renewing customers. Increased attention on underwriting and attracting the right customers with better offerings has continued increasing underwriting profit. A focus on costs has delivered a reduction in Tower's expense base and closer supply chain management has reduced claims costs.

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

"We are making it easier for customers to purchase insurance from us and the recent launch of our new products online has generated a significant increase in sales. While making it easier for our customers, we're also simplifying our business which is delivering improved operating performance," he said.

Mr Harding said while the reported result is disappointing, the initiatives in place across the business will help Tower achieve its high performance ambitions.

"The continued improvements we're seeing from initiatives already in place show that our strategy is working and we are well placed to continue moving the business forward," Mr Harding said.

Update on scheme vote and non-binding proposal

Tower's Board is working with Fairfax to determine the appropriate timing for a scheme vote and in the absence of a superior offer, continues to unanimously recommend this scheme.

With regard to Suncorp's non-binding proposal, due diligence has been undertaken and the Commerce Commission has advised that it will release its findings on 30 June 2017.

Tower's Board will update the market of any further development in due course but notes that any vote will occur after 30 June.

ENDS

Richard Harding
Chief Executive Officer
Tower Limited
ARBN 088 481 234 Incorporated in New Zealand

For media queries, please contact:
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Tower management review – Half year to 31 March 2017

Features of half year 2017

- Reported half year loss after tax of $8.2 million impacted by adjustments to Canterbury provisions, Kaikoura earthquake and large loss events
- Underlying profit after tax of $8.1 million, an increase of 7.6 percent, from $7.6 million in H1 16
- Transformation of core business continues with business initiatives delivering growth, improved underwriting profit and lower claims and management expenses
- Further progress on Canterbury with just under one third of open property claims settled in the half; Tower's Appointed Actuary, Deloitte, has advised the Board to increase provision requirements, reducing pre-tax profits by $9.8 million for the half
- Tower Limited has drawn down $30 million of a $50 million liquidity facility with BNZ and used this to strengthen Tower Insurance Limited's solvency position
- Dividend payment suspension to continue

Half year summary

Tower reported a half year loss after tax of $8.2 million for the half year ended 31 March 2017 (H1 17), compared to a loss of $8.7 million for the half year ended 31 March 2016 (H1 16). The result was impacted by further adjustments to Canterbury provisions, Kaikoura earthquake and a number of large loss events.

Despite this backdrop, Tower delivered an underlying profit after tax of $8.1 million for H1 17, an increase of 7.6% compared to H1 16.

Tower has strong underlying New Zealand and Pacific businesses. It continues to be guided by the strategic imperatives already well established in the business.

During the half, Tower continued to improve the underlying business through implementing digital initiatives, delivering better claims performance, achieving policy growth in the core New Zealand book, and reducing management expenses.

Tower continues to make solid progress settling claims in Canterbury, however, issues with EQC continue to confront the entire industry.

In September 2016, Tower had 564 property claims remaining. In the intervening 6 months, almost one third of those claims have been closed. However, new claims from the EQC continue to be received. Tower is part of an industry-wide taskforce that is improving the transparency of the number and type of outstanding claims remaining with EQC.

Against this difficult industry backdrop and challenges with Canterbury provisions in the past, Deloitte has advised Tower to increase provisions, reducing pre-tax profits by $9.8 million for the half. Increases have been partially offset by additional recoveries to be gained from the EQC.

Financial performance

GROUP PROFIT SUMMARY ($m)

	H1 17	H1 16	Movement %
Gross written premium	**145.8**	**146.2**	**(0.2%)**
New Zealand underlying profit	4.7	6.0	(21.7%)
Pacific underlying profit	4.4	2.1	112%
Corporate underlying profit	(1.0)	(0.5)	(47.1%)
Total underlying profit after tax	**8.1**	**7.6**	**7.6%**
Canterbury impact	(9.8)	(2.1)	369%
Impairment of intangibles	-	(14.1)	n/a
Impact of Kaikoura earthquake	(7.2)	-	n/a
Acquisition & separation costs	(1.0)	-	n/a
Business in runoff	1.7	-	n/a
Reported loss after tax	**(8.2)**	**(8.7)**	n/a

Tower's underlying profit increased 7.6%, to $8.1 million after tax. This compares to $7.6 million in H1 16.

This increase was driven primarily by continued focus on Tower's three strategic imperatives and improvements made to the underlying business. Positive results in key focus areas demonstrates a trend of core business improvement.

New Zealand and Pacific GWP remained stable and in line with prior periods. Underlying profit in the Pacific doubled to $4.4 million compared to the same period last year due to a benign weather environment.

It is clear that the legacy of the Canterbury Earthquakes continues to overshadow the momentum building in the underlying business.

Tower's reported loss of $8.2 million after tax, compares to a $8.7 million loss in H1 16. This reflects a $9.8 million after tax impact from movement in Canterbury provisions. There were also after-tax impacts of $7.2 million for Kaikoura earthquakes and $3.6 million for the Port Hill fires and 'Tasman Tempest' storm.

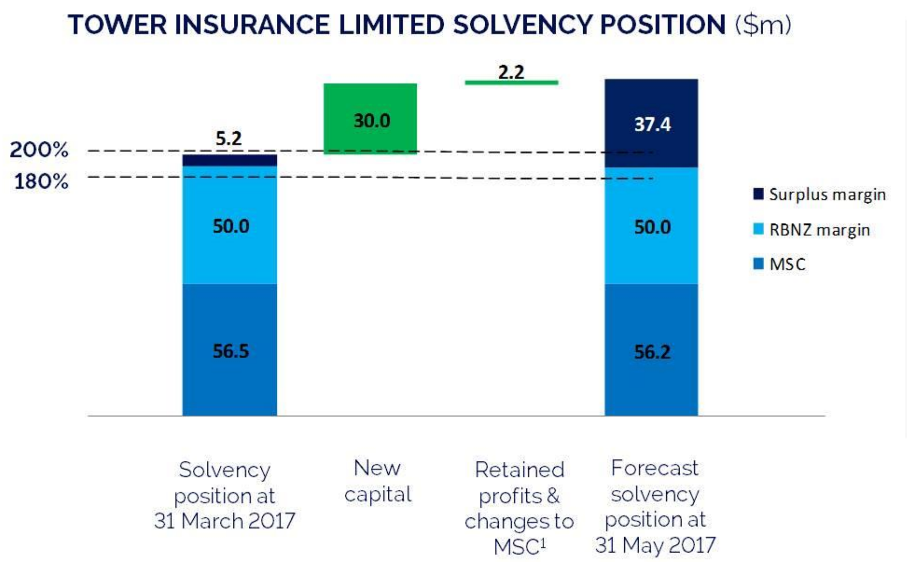
In the underlying business, Tower's claims costs reduced significantly by over $3 million, to $59.7 million, compared to H1 16. This is due to the success of initiatives launched in the past 12 months. A sharp focus on non-personnel costs saw the trend on management and sales expenses continue to decline. Expenses fell $2.6 million to $48.2 million compared to the same period last year. These savings were achieved through continued focus on efficiency and productivity, and reduced reliance on contractors and third parties.

Investment revenue fell from $4.4 million in H1 16 to $3.2 million in H1 17 as a result of lower interest rates and lower cash balances following Canterbury claims payments.

Solvency position

During May 2017, Tower Limited drew down $30 million of a $50 million liquidity facility with BNZ and used this to strengthen Tower Insurance Limited's solvency position.

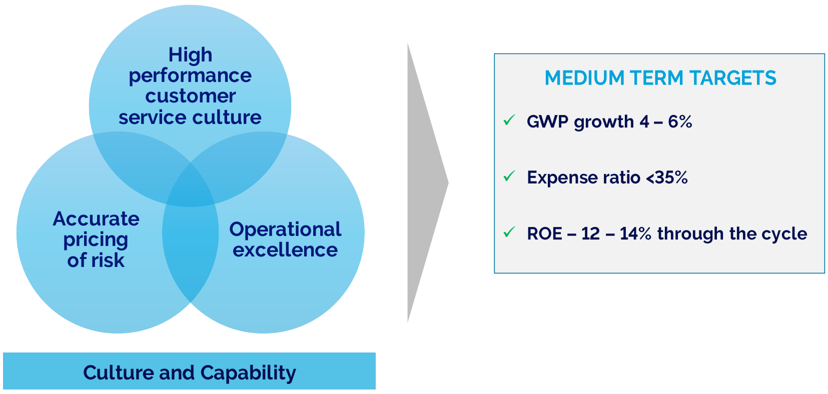
Following this drawdown, as at 31 May 2017, Tower Insurance Limited expects to hold $37.4 million over and above the minimum solvency and licence conditions required by the RBNZ. This equates to a solvency ratio of 255% and includes operating profits for April and May 2017, offset by the impact of Cyclone Debbie.



Notes:
1. Includes operating profits for April/May 2017, offset by impact of Cyclone Debbie

A strong underlying business

Tower has strong underlying New Zealand and Pacific businesses. It continues to be guided by the strategic imperatives already well established in the business.



Tower has seen solid improvements in crucial areas that will help it achieve its long-term targets:

- Focus on customers has delivered positive policy growth in Tower's core book and continues to trend upwards
- Management expenses continue the downward trend, decreasing significantly compared to the same period last year
- Tight management of claims processes and supplier networks continue delivering savings early in the financial year

Focus on customers delivers growth

Achievements

- Roll out of digital program, including quote to buy functionality, supporting core policy growth
- Launch of Airpoints partnership has proved attractive for both new and renewing customers
- Tower Direct retention has improved 1.3 percentage points compared to H1 16

Tower has continued to grow its core New Zealand portfolio adding 4,949 policies to the core book in H1 17.

Policy growth is being achieved through a combination of:

- building and refining Tower's digital offering
- working harder to attract new customers through the door, particularly in attractive segments which we will actively target
- retention improvements

The recent launch of Tower's new product suite online has enabled customers to research, quote and buy insurance from Tower through their mobile, tablet or computer, delivering a significant uplift in new business sales.

Tower's new online offering has been augmented with other innovative initiatives that are driving customer growth, including the launch of Tower's Airpoints partnership and increased marketing of the improved Trade Me Insurance platform

Since announcing the Airpoints partnership, over 17,000 customers have registered their details with Tower.

A continued focus on encouraging existing customers to stay with Tower through targeted retention initiatives and offerings has delivered an increase in retention rates for Tower Direct, up by 1.3 percentage points to 82.1% in H1 17, up from 80.8% in H1 16.

Underwriting excellence

Achievements

- Customers have more choice through a tiered product selection
- Easier for customers to purchase – less time on the phone makes them happier and increases our productivity
- Attracting the right customers is delivering positive movements in claims frequency

Increased attention on underwriting and attracting the right customers with better offerings has continued increasing underwriting profit. Tower increased pre-tax underwriting profit, excluding storms, by $4.1 million from H1 16 to $14.6 million. This positive result was impacted by the $10 million pre-tax impact from the Kaikoura earthquake and $5 million pre-tax impact from the Tasman Tempest storms and Port Hills Fires.

The increase in underwriting profit has been achieved through the re-pricing of portfolios and active targeting of profitable market segments.

Tower's new products have helped attract the right customers, with Tower experiencing a 39% reduction in claims frequency in its new comprehensive motor book when compared to its old policies, since launching in October 2016.

Claims update

Achievements
- Claims expenses decreasing despite industry-wide claims cost inflation
- Closer management of claims supply chain has delivered material savings
- Continued focus on leakage and recoveries

Tower has delivered a significant improvement in claims expenses, reducing them to $59.7 million in H1 17. This result was delivered despite New Zealand experiencing a number of large loss events during this period.

Initiatives introduced over the past 12 months have reduced Tower's claims expenses by over $3 million compared to H1 16, as a result of:
- tighter management of Tower's end-to-end claims supply chain
- simpler policy wordings enabling customers and claims teams to easily understand exactly what customers are entitled to
- continued focus on claims leakage and recoveries

Focus on management expenses

Achievements
- Increased focus on efficiency and driving greater productivity
- Lower technology expenditure for business and software support activity
- Reduced reliance on contractors and third party providers

Tower has strengthened its focus on non-personnel related costs, reducing management expenses to $48.2 million in H1 17, down from $50.8 million in H1 16.

Increased focus on cost reduction continues the positive momentum built in the past three halves and has enabled Tower to continue investing in long-term business improvement initiatives.

Tower's savings of approximately $2.6 million in its core underlying expenses compared to H1 16 has been driven by:
- Implementing new performance, development and achievement frameworks that drive performance, resulting in greater efficiency and productivity
- Identifying and reducing expenditure for business and technology support services - building capability internally
- Reducing reliance on third party providers and contractors, again building our capability to deliver sustainable savings

Tower expects expenses to continue decreasing as strategic initiatives continue to be embedded. A step change in productivity gains will be dependent on long-term IT investment.

Leveraging digital capability

With Tower's new product suite available online, access is opened to a whole new range of customers through:

- increased online presence and capability
- Trade Me Insurance and Airpoints partnerships giving access to digitally savvy customers
- tailored, targeted insurance offers for customers using digital channels

Including Tower's partnerships with digital brands, online sales are up from 9% of total transactions in March 2016, to 24% of total transactions in March 2017.

Canterbury update

The receipt of EQC over-cap claims has continued to accelerate well beyond industry expectations, offsetting the positive closure of claims.

Tower is part of an industry-wide taskforce which has been working to identify the full extent of outstanding claims remaining within the EQC.

The industry taskforce is currently reviewing approximately 8,000 EQC claims. The information uncovered is assisting Tower to identify, quantify and expedite the settlement of the last remaining claims.

In September 2016, Tower had 564 property claims remaining. In the intervening 6 months, around one third of those claims have been closed. However, new claims from the EQC continue to be received.

Despite this difficult environment, Tower is closing claims at a faster rate and settlement outcomes are in line with expectations.

Tower's independent, statutory Appointed Actuary, Rick Shaw from Deloitte, considers all liabilities and receivables relating to the Canterbury Earthquakes. The Tower Board continues to rely on this advice to enable it to establish appropriate provisions.

Against this difficult industry backdrop and challenges with provisions in the past, Deloitte has advised Tower to increase provisions. The three main drivers for this are:

- the potential for additional over-cap claims from the EQC that have been identified through the industry taskforce process
- potential for increased litigation and higher litigation costs; and
- increase in risk margins

These increases have been partially offset by additional recoveries to be gained from the EQC. As overall claims costs continue to grow, this naturally flows through to these recoveries. Deloitte has advised increasing this receivable, partly offsetting the higher risk margins.

The net result of the Appointed Actuary's recommendations is that Tower's IBNR and risk margin allowance have increased from 60% to 89% of underlying case estimates.

(NZ$m)	Mar-17	Sep-16
Case estimates	73.9	93.2
IBNR / IBNER[1]	47.4	44.0
Risk margin	18.2	11.9
Outstanding claims	**139.5**	**149.1**
Adverse development cover	43.8	43.8
Other reinsurance recoveries	2.2	7.1
EQC receivables	66.6	57.6
Total receivables	**112.5**	**108.4**
Net outstanding claims	**27.0**	**40.7**

Notes:
1. IBNR / IBNER includes claims handling expenses

While Tower is making significant progress closing claims, as previously advised, many of the remaining claims are more complex and contentious, with dispute resolution increasingly achieved through litigation.

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.

Tower's strategy to transform Tower into a high performing general insurer will help deliver positive results in light of this tough market background.

Tower's Board has made the decision to delay the IT simplification programme pending the outcome of the Fairfax scheme vote and the non-binding proposal.

While a replacement IT solution is further away than planned, Tower continues to pursue all other aspects of its strategy to:

- drive GWP growth through increased focus on customers
- reduce operating expenses and claims costs
- deliver shareholder value.

Tower remains focussed on the implementation of its strategic imperatives to continue driving the transformation of the business.

APPENDIX 1

HALF YEAR PRELIMINARY ANNOUNCEMENTS AND HALF YEAR RESULTS

RESULTS FOR ANNOUNCEMENT TO THE MARKET

TOWER LIMITED	
Reporting Period	6 months to 31 March 2017
Previous Reporting Period	6 months to 31 March 2016

	Amounts (000s)	**Percentage change**
Revenue from ordinary activities	NZ$ 155,534	1.2% decrease
Loss from ordinary activities after tax attributable to shareholders	(NZ$ 8,182)	5.73% decrease
Net loss attributable to shareholders	(NZ$ 8,447)	8.05% decrease

Interim Dividend	Amount per security	Imputed amount per security
	Nil	Nil
Record Date	Not applicable	
Dividend Payment Date	Not applicable	

Comments	
	For the half year to 31 March 2017, Tower Limited's reported loss from ordinary activities after tax was NZ $8.2 million due to increased outstanding claims provisions in respect of Canterbury earthquakes (NZ$9.8 million after tax) and the inclusion of claim provisions relating to the Kaikoura earthquakes (NZ$ 7.8 million after tax). The loss of NZ$ 8.2 million, including minority interest profit of NZ$ 0.3 million, is a decrease of 5.73% from the prior comparable period (HY16: NZ$8.7m including minority interest profit of NZ$ 0.5 million).

Additional Information	

Refer attached 31 March 2017 unaudited Financial Statements for Tower Limited and its subsidiaries and Presentation for more detailed analysis and explanation.

TOWER LIMITED
INTERIM FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 MARCH 2017

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TOWER LIMITED

INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 MARCH 2017

CONSOLIDATED INCOME STATEMENT

$ thousands		**Unaudited**	Unaudited
For the half year ended	Note	**31-Mar-17**	31-Mar-16
Revenue			
Premium revenue	4	**150,540**	151,452
Less: Outwards reinsurance expense		**(23,763)**	(24,500)
Net premium revenue		**126,777**	126,952
Investment revenue	5	**3,553**	4,748
Fee and other revenue		**1,441**	1,288
Net operating revenue		**131,771**	132,988
Expenses			
Claims expense		**133,558**	116,220
Less: Reinsurance recoveries revenue		**(36,092)**	(36,549)
Net claims expense	6, 7	**97,466**	79,671
Management and sales expenses		**44,098**	44,611
Impairment expense	11	**-**	19,649
Acquisition proposal expenses	2	**721**	-
Financing expenses		**164**	-
Total expenses		**142,449**	143,931
(Loss) attributed to shareholders before tax		**(10,678)**	(10,943)
Tax benefit attributed to shareholders' profits		**2,496**	2,264
(Loss) for the half year		**(8,182)**	(8,679)
(Loss) profit attributed to:			
Shareholders		**(8,447)**	(9,187)
Non-controlling interest		**265**	508
		(8,182)	(8,679)
Basic and diluted (loss) per share (cents)		**(5.01)**	(5.42)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$ thousands		**Unaudited**	Unaudited
For the half year ended	Note	**31-Mar-17**	31-Mar-16
Loss for the half year		**(8,182)**	(8,679)
Other comprehensive income			
Currency translation differences		**769**	(3,774)
Other comprehensive income (loss) net of tax		**769**	(3,774)
Total comprehensive loss for the half year		**(7,413)**	(12,453)
Total comprehensive (loss) income attributed to:			
Shareholders		**(7,742)**	(12,284)
Non-controlling interest		**329**	(169)
		(7,413)	(12,453)

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

CONSOLIDATED BALANCE SHEET

$ thousands As at	Note	Unaudited 31-Mar-17	Audited 30-Sep-16
Assets			
Cash and cash equivalents		**70,101**	92,228
Receivables	9	**270,591**	254,685
Investments	18	**183,306**	188,522
Derivative financial assets	18	**173**	57
Deferred acquisition costs		**19,947**	19,973
Current tax assets		**13,785**	13,168
Property, plant and equipment		**9,181**	9,511
Intangible assets	11	**33,255**	31,982
Deferred tax assets	10	**35,722**	30,155
Total assets		**636,061**	640,281
Liabilities			
Payables		**48,719**	49,500
Current tax liabilities		**128**	123
Provisions		**4,816**	4,177
Derivative financial liabilities	18	**35**	735
Insurance liabilities	7, 12	**364,192**	361,009
Deferred tax liabilities	10	**1,777**	785
Total liabilities		**419,667**	416,329
Net assets		**216,394**	223,952
Equity			
Contributed equity		**382,172**	382,172
Accumulated losses		**(51,272)**	(42,822)
Reserves		**(116,067)**	(116,772)
Total equity attributed to shareholders		**214,833**	222,578
Non-controlling interest		**1,561**	1,374
Total equity		**216,394**	223,952

The interim financial statements were approved for issue by the Board on 24 May 2017.

Michael P Stiassny
Chairman

Graham R Stuart
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributed to shareholders					
$ thousands	**Contributed equity**	**Accumulated loss**	**Reserves**	**Total**	**Non-controlling interest**	**Total Equity**
Half year ended 31 March 2017						
At the beginning of the half year	**382,172**	**(42,822)**	**(116,772)**	**222,578**	**1,374**	**223,952**
Comprehensive income						
(Loss) Profit for the half year	**-**	**(8,447)**	**-**	**(8,447)**	**265**	**(8,182)**
Currency translation differences	**-**	**-**	**705**	**705**	**64**	**769**
Total comprehensive loss	**-**	**(8,447)**	**705**	**(7,742)**	**329**	**(7,413)**
Transactions with shareholders						
Dividends paid	**-**	**-**	**-**	**-**	**(142)**	**(142)**
Other	**-**	**(3)**	**-**	**(3)**	**-**	**(3)**
Total transactions with shareholders	**-**	**(3)**	**-**	**(3)**	**(142)**	**(145)**
At the end of the half year	**382,172**	**(51,272)**	**(116,067)**	**214,833**	**1,561**	**216,394**
Half year ended 31 March 2016						
At the beginning of the half year	384,585	6,376	(111,696)	279,265	1,644	280,909
Comprehensive income						
(Loss) Profit for the half year	-	(9,187)	-	(9,187)	508	(8,679)
Currency translation differences	-	-	(3,097)	(3,097)	(677)	(3,774)
Total comprehensive loss	-	(9,187)	(3,097)	(12,284)	(169)	(12,453)
Transactions with shareholders						
Capital repayment plan	(2,413)	-	-	(2,413)	-	(2,413)
Dividends paid	-	(12,688)	-	(12,688)	-	(12,688)
Other	-	(3)	-	(3)	-	(3)
Total transactions with shareholders	(2,413)	(12,691)	-	(15,104)	-	(15,104)
At the end of the half year	382,172	(15,502)	(114,793)	251,877	1,475	253,352

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

CONSOLIDATED STATEMENT OF CASH FLOWS

$ thousands		**Unaudited**	Unaudited
For the half year ended	Note	**31-Mar-17**	31-Mar-16
Cash flows from operating activities			
Premiums received		**153,152**	146,072
Interest received		**3,771**	5,469
Net realised investment gains (losses)		**(2,247)**	852
Fee and other income received		**1,439**	1,288
Reinsurance received		**24,819**	45,758
Reinsurance paid		**(24,099)**	(23,183)
Claims paid		**(135,367)**	(154,660)
Payments to suppliers and employees		**(42,114)**	(39,756)
Income tax paid		**(2,698)**	(1,624)
Net cash outflow from operating activities	17	**(23,344)**	(19,784)
Cash flows from investing activities			
Net proceeds from financial assets		**6,986**	8,231
Purchase of property, plant and equipment and intangible assets		**(5,107)**	(3,217)
Net cash inflow from investing activities		**1,879**	5,014
Cash flows from financing activities			
Capital repayment		**-**	(2,413)
Dividends paid		**-**	(12,691)
Facility fees		**(287)**	-
Payment of non-controlling interest dividends		**(142)**	-
Net cash outflow from financing activities		**(429)**	(15,104)
Net decrease in cash and cash equivalents		**(21,894)**	(29,874)
Foreign exchange movement in cash		**(233)**	(573)
Cash and cash equivalents at the beginning of the half year		**92,228**	125,113
Cash and cash equivalents at the end of the half year		**70,101**	94,666

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1 SUMMARY OF GENERAL ACCOUNTING POLICIES

Entities reporting

The interim financial statements presented are those of Tower Limited (the Company) and its subsidiaries. The Company and its subsidiaries together are referred to in this financial report as Tower or the Group.

Statutory base

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

Basis of preparation

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

The interim financial statements of the Group have been prepared in accordance with the requirements of the NZX Main Board Listing Rules.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2016, which have been prepared in accordance with International Financial Reporting Standards and New Zealand Equivalents to International Financial Reporting Standards.

The interim financial statements for the six months ended 31 March 2017 are unaudited.

Accounting policies

The principal accounting policies adopted in the preparation of the interim financial statements are consistent with those of the audited annual financial statements for the year ended 30 September 2016.

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.

Impact of amendments to NZ IFRS

The application of new or amended accounting standards as of 1 October 2016 has not had a material impact on the financial statements.

2 ACQUISITION PROPOSALS

Fairfax Financial Holdings Limited (Fairfax)

On 9 February 2017, Tower Limited announced it had entered into a Scheme Implementation Arrangement (SIA) with Fairfax. Under this agreement, Fairfax agreed to acquire 100% of the Company's shares at $1.17 per share for an aggregate purchase price of $197 million (the Fairfax proposal).

Two of Tower's major shareholders representing more than 18% of issued shares entered into firm voting agreements under which they agreed to vote in favour of the Fairfax proposal. Given the substantial premium to the Company's share price at the time the SIA was announced, the certainty provided by the Fairfax proposal and the support it had received from two major shareholders, the Tower Board determined to unanimously recommend the Fairfax proposal to shareholders in the absence of a superior proposal.

The Fairfax proposal is subject to customary conditions and approvals, including approvals from the Reserve Bank of New Zealand (RBNZ); the New Zealand Overseas Investment Office; the High Court of New Zealand; Pacific Island regulatory authorities and Tower shareholders. Shareholder approval of the scheme at the meeting must be by at least 75% of votes cast, representing more than 50% of the total voting rights of the company. Under the SIA the parties provided for the conditions to be satisfied by 31 August 2017, or such later date as may be agreed. At the date of this report the parties are continuing to work towards satisfaction of the conditions.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

2 ACQUISITION PROPOSALS (continued)

Suncorp Group Limited / Vero Insurance New Zealand Limited (Suncorp)

On 22 February 2017, Tower announced that it had received a non-binding indicative proposal from Suncorp to acquire 100% of the Company's shares at an indicative price of $1.30 per share (the Suncorp proposal). On 15 March 2017, Suncorp announced that it had purchased 19.99% of the Company's shares for which it has paid $1.40 per share.

The Suncorp proposal was stated to be subject to customary conditions and approvals, including clearance from the New Zealand Commerce Commission; and approvals from the Reserve Bank of New Zealand; the New Zealand Overseas Investment Office; the High Court of New Zealand; and Pacific Island regulatory authorities. The Commerce Commission have extended their deadline for decision on the Suncorp clearance application to 30 June 2017. At the date of this report the Company has not agreed any contract with Suncorp and there is no certainty that the Suncorp proposal will proceed.

Interim Reporting

At 31 March 2017, Tower has provided for all costs incurred to that date in respect of the acquisition proposals. These have been recorded in the Consolidated Income Statement as a separate line item (Acquisition proposal expenses).

If either acquisition proposal is successful, there will be a number of financial impacts on the Group, including further expected costs and payments as described below. The impact of these has not been reflected in the interim financial statements for the six months ended 31 March 2017.

Adviser fees

The Company is working with various legal, financial and Board advisers to assist with the acquisition proposals. Costs for work completed by these advisers on the acquisition proposals prior to 31 March 2017 have been included in the interim financial statements. Where no invoice has been received, an estimate of likely costs up to 31 March 2017 has been made on the basis of best information available at the time.

Tower has engaged Goldman Sachs New Zealand Limited (Goldman) to act as lead financial adviser in relation to the acquisition proposals. Goldman advisory fees are linked to the outcome of any acquisition proposal. In the event that either acquisition proposal is completed, advisory fees estimated at $4.5 million before tax will become payable to Goldman.

At 31 March 2017, no provision has been made for Goldman advisory fees because at that date, the obligation to pay fees remained contingent upon the successful implementation of an acquisition proposal.

Taxation

The recoverability of tax losses will be impacted by either acquisition proposal, if completed. Accounting standards require de-recognition of deferred tax assets arising from loss carry forwards, where it is not probable that the entity will have sufficient income to use against the losses. Under New Zealand tax legislation losses are forfeited where there is a change of shareholding of more than 49%. Further information is included in Note 10.

Break fee

The Company has agreed to pay Fairfax a break fee in certain circumstances described in the SIA. The break fee is $1.97 million (plus GST if applicable), before tax. The purpose of the break fee is to compensate Fairfax for advisory costs; its management and directors' time; out of pocket expenses; and opportunity costs of pursuing the SIA in place of other initiatives should the SIA not proceed. No provision has been made for break fees at 31 March 2017 as circumstances which give rise to the break fee becoming payable under the SIA have not occurred.

Reimbursement of costs

Tower has agreed to reimburse Fairfax for reasonably incurred costs, capped at $0.4 million (plus GST if applicable), if certain conditions described in the SIA occur and the break fee provision does not apply. The purpose of this payment is to compensate Fairfax for advisory costs and expenses. No provision has been made for cost reimbursement at 31 March 2017 as circumstances which give rise to costs becoming payable under the SIA have not occurred.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

3 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Claims estimation

Valuation of net outstanding claims is an area of significant judgement and estimation. Key elements of judgement included within claims estimations are: the rate of claims closure; the quantum of closed claims reopening; the level of future increases in building and other claims costs; future claim management expenses; assessments of risk margin; apportionment of claims costs between the four main earthquake events; and the quantum of new claims being received from EQC and the average cost of these claims.

Key elements of judgement included within recoveries estimations are: the collectability of reinsurance recoveries (includes consideration of factors such as counterparty and credit risk); recoveries from EQC in respect of land damage and building costs; and the assessments of risk margin. The nature of estimation uncertainties, including from those factors listed above, mean that actual claims experience may deviate from reported results.

Refer to Note 7 for further detail on the Canterbury Earthquakes.

EQC recoveries

Valuation of additional EQC recoveries in respect of building costs and land damage is an area of significant judgement and estimation. Areas of judgement and subjectivity exist in assessments of: claim file review of earthquake event allocation; the quality of assessment information; litigation risk factors; and portfolio conservatism. Tower has filed a statement of claim against EQC in respect of land damage recoveries.

Refer to Note 7 and Note 9 for further detail on EQC recoveries for Canterbury earthquakes and Note 9 for details on EQC recoveries in relation to the Kaikoura region earthquake.

Acquisition proposal implications

Accounting implications arising from the potential acquisition proposals include areas of significant judgement and estimation. There is considerable uncertainty surrounding the acquisition proposals from Fairfax and Suncorp. There is uncertainty around completion and timing of either acquisition proposal – specifically satisfaction of conditions precedent including regulatory approvals (RBNZ; Pacific Island insurance supervisors; Commerce Commission; Overseas Investment Office; High Court of New Zealand) and shareholder approval and in the case of the Suncorp proposal, any contractual agreement. The continued recognition of certain balance sheet items (including deferred taxation and capitalised IT development costs discussed below) include judgement around the acquisition proposal outcomes. Accounting implications which may arise from the acquisition proposals include judgements and estimation which are discussed in Note 2.

Deferred taxation

Recognition of deferred tax assets is an area of significant judgement and estimation. Deferred tax assets are recognised for all unused tax losses to the extent it is probable that future taxable profits will be available against which the losses can be utilised and there is continuity of ownership (of greater than 49%). Significant management judgement and estimation is required to determine the amount of deferred tax assets recognised, based on the likely timing and quantum of future taxable profits. This assessment is completed on the basis of the approved strategic plans of Tower Insurance Limited and subsidiaries within the consolidated tax group. The recoverability of tax losses outlined above is also subject to ongoing assessment in respect of active acquisition proposals. If it becomes probable that either acquisition proposal to purchase 100% of the shares in Tower would result in a shareholder change of more than 49%, remaining deferred tax assets from loss carry forwards will be de-recognised and removed from the balance sheet. For further detail refer to Note 10.

Capitalised IT development costs

Capitalisation of IT development costs is an area of significant judgement and estimation. The application of NZ IAS 38 “Intangible Assets” includes accounting considerations required for capitalisation of IT projects. When applying NZ IAS 38, areas of judgement include consideration of impairment indicators, economic useful life, previous Board impairment decisions and potential impacts from acquisition proposals.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

4 PREMIUM REVENUE

$ thousands For the half year ended 31 March	**Unaudited** **2017**	Unaudited 2016
Gross written premiums	**145,825**	146,165
Less: Gross unearned premiums	**4,715**	5,287
Premium revenue	**150,540**	151,452

5 INVESTMENT REVENUE

$ thousands For the half year ended 31 March	**Unaudited** **2017**	Unaudited 2016
Fixed interest securities		
Interest income	**3,771**	5,470
Net realised (loss) gain	**(325)**	620
Net unrealised gain (loss)	**1,213**	(1,302)
Total fixed interest securities	**4,659**	4,788
Equity securities		
Net unrealised gain (loss)	**-**	(163)
Total equity securities	**-**	(163)
Other		
Net realised (loss) gain	**(1,922)**	232
Net unrealised gain (loss)	**816**	(109)
Total other	**(1,106)**	123
Total interest and dividend income	**3,771**	5,470
Total net realised (loss) gain	**(2,247)**	852
Total net unrealised gain (loss)	**2,029**	(1,574)
Total investment revenue	**3,553**	4,748

6 NET CLAIMS EXPENSE

$ thousands For the half year ended 31 March	Note	**Unaudited** **2017**	Unaudited 2016
Canterbury earthquake claims (4 key events)	7	**13,600**	2,900
Kaikoura earthquake claims		**10,000**	-
Other claims		**73,866**	76,771
Total net claims expense		**97,466**	79,671

NOTES TO THE INTERIM FINANCIAL STATEMENTS

7 CANTERBURY EARTHQUAKES

Tower has received over 16,081 individual claims from customers as a result of earthquakes impacting the Canterbury region during 2010 and 2011 (30 September 2016: 15,990 claims). Like other industry participants, Tower continues to receive 'over-cap' claims from the Earthquake Commission (EQC). The growth in new claims received has impacted Tower's settlement rates during the year. Of all claims received, Tower has settled over 15,607 claims at 31 March 2017 (30 September 2016: 15,426 claims), representing a 97% settlement rate by number of claims and 91% by value (30 September 2016: 96% by number and 89% by value). To date, Tower has paid out more than $793 million to customers (30 September 2016: $749 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 31 March 2017, Tower has estimated gross ultimate incurred claims of $892.7 million in respect of the four main Canterbury earthquake events (30 September 2016: $869.6 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. Tower has a commercial dispute with the provider of its adverse development cover, Peak Reinsurance Company Limited (Peak Re), which is discussed further in Note 9.

The table below presents a financial representation of Tower's net outstanding claims provision at 31 March 2017 in relation to the four main earthquake events.

Canterbury earthquake provisions

	Unaudited	Audited
$ thousands	**31-Mar-17**	30-Sep-16
Insurance liabilities		
Outstanding claims	**(139,500)**	(149,100)
Receivables		
Reinsurance recovery receivables		
Adverse development cover - Peak Re	**43,750**	43,750
Other reinsurance recovery receivables	**2,150**	7,050
Other receivables	**66,600**	57,600
Total receivables	**112,500**	108,400
Net outstanding claims	**(27,000)**	(40,700)

Outstanding claims comprises case estimates, claims incurred but not reported (IBNR) and risk margins. In the six months to 31 March 2017, case estimates have reduced as claims have been settled and paid. These decreases have been offset however, by increased costs on remaining open claims; new overcap claims being received from EQC; and the Appointed Actuary increasing IBNR and risk margins, particularly in respect of litigated claims and additional EQC recoveries.

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

	Unaudited	Unaudited
$ thousands	**31-Mar-17**	31-Mar-16
Cumulative expenses associated with Canterbury earthquakes:		
Earthquake claims estimate	**(892,660)**	(822,300)
Reinsurance recoveries	**744,133**	719,583
Claim expense net of reinsurance recoveries	**(148,527)**	(102,717)
Reinsurance expense	**(25,045)**	(25,045)
Cumulative impact of Canterbury earthquakes before tax	**(173,572)**	(127,762)
Income tax	**49,288**	36,454
Cumulative impact of Canterbury earthquakes after tax	**(124,284)**	(91,308)
Recognised in current period (net of tax)	**(9,792)**	(2,088)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

7 CANTERBURY EARTHQUAKES (continued)

The 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 474 open claims at 31 March 2017 (30 September 2016: 564 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 half year to 31 March 2017 identified the following as key contributors to the increase in expected earthquake claims costs:

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

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

Claims

- the level of future increases in building and other claims costs
- the number of new claims being received from EQC and the average cost of these claims
- the uncertainty surrounding litigated cases and potential for increased costs
- 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 (including litigation risks) 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 31 March 2017. 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 $506.9 million. Tower has reinsurance for $375.0 million on this event including catastrophe cover, proportional reinsurance and adverse development cover. During the half year ended 31 March 2017, Tower expensed $13.6 million in relation to the February 2011 event (31 March 2016: $2.9 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**	
	Unaudited	Audited
$ thousands	**31-Mar-17**	30-Sep-16
September 2010	**2,000**	7,700
June 2011	**255,700**	256,500
December 2011	**486,600**	487,500

NOTES TO THE INTERIM FINANCIAL STATEMENTS

7 CANTERBURY EARTHQUAKES (continued)

Sensitivity analysis - impact of changes in key variables

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

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

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

		Split between events				Four main earthquakes	
		Unaudited				Unaudited	Audited
$ millions	Change variable	Sep 2010	Feb 2011	Jun 2011	Dec 2011	31-Mar-17	30-Sep-16
Outstanding claims:							
(i) Change to costs and quantity of expected claim estimates including building costs and other impacts.	+ 5%	**-**	**(4.0)**	**-**	**-**	**(4.0)**	(4.1)
	- 5%	**-**	**4.0**	**-**	**-**	**4.0**	4.1
(ii) Change in apportionment of claim costs to / from February 2011 event.	+ 1%	**-**	**(9.3)**	**-**	**-**	**(9.3)**	(9.0)
	- 1%	**(4.4)**	**9.3**	**-**	**-**	**4.9**	9.0
Receivables:							
Reinsurance recovery receivables							
(iii) Adverse development cover	- 50%	**-**	**(21.9)**	**-**	**-**	**(21.9)**	(21.9)
	- 100%	**-**	**(38.8)**	**-**	**-**	**(38.8)**	(38.8)
(iv) Recoveries from EQC in respect of land damage	+ 10%	**-**	**0.7**	**-**	**-**	**0.7**	0.7
	- 10%	**-**	**(0.7)**	**-**	**-**	**(0.7)**	(0.8)
(v) Recoveries from EQC in respect of building costs	+ 10%	**-**	**0.5**	**-**	**-**	**0.5**	0.1
	- 10%	**(1.8)**	**(0.5)**	**-**	**-**	**(2.3)**	(0.1)

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

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

8 SEGMENTAL REPORTING

$ thousands	New Zealand	Pacific Islands	Other (Holding companies & eliminations)	Total
Half year ended 31 March 2017 (Unaudited)				
Revenue				
Revenue - external	**109,452**	**22,115**	**204**	**131,771**
Total revenue	**109,452**	**22,115**	**204**	**131,771**
Profit (Loss) before income tax	**(16,777)**	**6,696**	**(597)**	**(10,678)**
Income tax credit (expense)	**4,401**	**(2,283)**	**378**	**2,496**
Profit (Loss) for the half year	**(12,376)**	**4,413**	**(219)**	**(8,182)**
Half year ended 31 March 2016 (Unaudited)				
Revenue				
Revenue - external	108,947	23,277	764	132,988
Total revenue	108,947	23,277	764	132,988
Profit (Loss) before income tax	3,476	6,117	(20,536)	(10,943)
Income tax credit (expense)	(1,799)	(1,636)	5,699	2,264
Profit (Loss) for the half year	1,677	4,481	(14,837)	(8,679)
Total assets 31 March 2017 (Unaudited)	**477,981**	**82,114**	**75,966**	**636,061**
Total assets 30 September 2016 (Audited)	479,420	79,104	81,757	640,281
Total liabilities 31 March 2017 (Unaudited)	**365,286**	**51,109**	**3,272**	**419,667**
Total liabilities 30 September 2016 (Audited)	360,613	51,981	3,735	416,329

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.

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

9 RECEIVABLES

$ thousands	Note	**Unaudited** **31-Mar-17**	Audited 30-Sep-16
Reinsurance recovery receivables		**80,715**	68,406
Outstanding premiums and trade receivables		**118,529**	125,855
Other		**71,347**	60,424
Total receivables		**270,591**	254,685

Earthquake Commission receivables

Kaikoura Region Earthquake

In December 2016 Tower Insurance Limited, along with other private insurers, signed a Memorandum of Understanding (MOU) with EQC whereby private insurers would act as agents for the Crown agency in relation to the Kaikoura region earthquake. Under the agreement, Tower will directly lodge, assess and settle home and contents claims arising from the 14 November 2016 earthquake in the Kaikoura region, including claims under EQC's $100,000 cap for house claims and $15,000 cap for contents claims. Claims from earlier earthquakes in the Canterbury region which are still open or unresolved are not part of this agreement with EQC. The agreement with EQC provides for private insurers to get reimbursed for claim costs, including costs of settlement and handling. The amount due from EQC for reimbursement of claims handling expenses and claims paid in relation to the Kaikoura event is $1.4 million.

Canterbury Earthquakes

Other receivables includes an amount of $66.6 million (30 September 2016: $57.6 million) due from EQC for land damage and building costs relating to the Canterbury earthquake provisions as disclosed in Note 7. Tower has filed a statement of claim against EQC in respect of a portion of the $66.6 million. An amount of $17.5 million (30 September 2016: $20.7 million) will be payable to reinsurers in relation to this balance, which has been provided for.

EQC recoveries relating to Canterbury earthquakes are an area of significant accounting estimation and judgement. Judgement and subjectivity included in the assessment of these EQC recoveries include: earthquake event allocation, litigation risk factors and other actuarial assumptions discussed in Note 7.

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 has received external legal advice and believes that it has a strong position and remains confident of full recovery. Tower will take every step to fully recover the amounts due.

The ADC provides for recovery of claims costs 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 7).

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.

10 DEFERRED TAX

The value of deferred tax assets recognised in the financial statements involves a significant degree of judgement around the future profitability, ownership and legislative outcomes impacting the Group. In making the required judgements, management take account of all circumstances of which they are aware and current economic forecasts which might have a bearing on the tax situation concerned. Deferred tax assets held for any unused tax losses may only be recognised to the extent that it is probable that future profit will be available to offset the losses.

As at 31 March 2017, Tower Insurance Limited and companies within the Tower Limited consolidated tax group recognised deferred tax assets on loss carry forwards and other temporary differences. This is because on the basis of the approved strategic plans of Tower Insurance Limited and subsidiaries within the consolidated tax group, the Group considers it probable that the tax loss carry-forwards and temporary differences can be offset against future taxable profits.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

10 DEFERRED TAX (continued)

Potential impact of acquisition proposals

The recoverability of tax losses outlined above is subject to ongoing assessment. Accounting standards require de-recognition of deferred tax assets arising from loss carry forwards, where it is not probable that the entity will have sufficient income to use against the losses. Under New Zealand tax legislation losses are forfeited where there is a change of shareholding of more than 49%. If it becomes probable that either acquisition proposal to purchase 100% of the shares in Tower would result in a shareholder change of more than 49%, remaining deferred tax assets from loss carry forwards will be de-recognised and removed from the balance sheet.

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

$ thousands	Opening balance at 1 October	(Charged) credited to income statement	(Charged) credited to comprehensive income	Closing balance
For the Half Year Ended 31 March 2017				
Movement in deferred tax assets				
Provisions and accruals	**3,141**	**62**	**-**	**3,203**
Property, plant and equipment	**3,288**	**(199)**	**-**	**3,089**
Tax losses	**29,086**	**4,996**	**-**	**34,082**
Total deferred tax assets	**35,515**	**4,859**	**-**	**40,374**
Set-off of deferred tax liabilities pursuant to NZ IAS 12				**(4,652)**
Net deferred tax assets				**35,722**
Movement in deferred tax liabilities				
Deferred acquisition costs	**(4,851)**	**23**	**-**	**(4,828)**
Other	**(1,294)**	**(307)**	**-**	**(1,601)**
Total deferred tax liabilities	**(6,145)**	**(284)**	**-**	**(6,429)**
Set-off of deferred tax liabilities pursuant to NZ IAS 12				**4,652**
Net deferred tax liabilities				**(1,777)**
For the Year Ended 30 September 2016				
Movement in deferred tax assets				
Provisions and accruals	2,321	820	-	3,141
Property, plant and equipment	3,431	(120)	(23)	3,288
Tax losses	19,034	10,052	-	29,086
Total deferred tax assets	24,786	10,752	(23)	35,515
Set-off of deferred tax liabilities pursuant to NZ IAS 12				(5,360)
Net deferred tax assets				30,155
Movement in deferred tax liabilities				
Deferred acquisition costs	(4,885)	34	-	(4,851)
Other	(1,123)	(171)	-	(1,294)
Total deferred tax liabilities	(6,008)	(137)	-	(6,145)
Set-off of deferred tax liabilities pursuant to NZ IAS 12				5,360
Net deferred tax liabilities				(785)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

11 INTANGIBLE ASSETS

IMPAIRMENT

The Group has reviewed the carrying value of software intangible assets for indicators of impairment as at 31 March 2017. 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.

As at 31 March 2017 no impairment has been identified (31 March 2016: An impairment charge of $19.65 million was recognised relating to internally developed software and software under development categories).

		Software			
$ thousands	Goodwill	Acquired	Internally developed	Under development	Total
Half year ended 31 March 2017 (Unaudited)					
Cost:					
Opening balance	**17,744**	**5,020**	**31,305**	**4,554**	**58,623**
Additions	**-**	**81**	**4,732**	**4,332**	**9,145**
Disposals	**-**	**-**	**-**	**(17)**	**(17)**
Transfers	**-**	**-**	**-**	**(4,732)**	**(4,732)**
Foreign exchange movements	**-**	**(3)**	**-**	**-**	**(3)**
Closing balance	**17,744**	**5,098**	**36,037**	**4,137**	**63,016**
Accumulated amortisation:					
Opening balance	**-**	**(4,265)**	**(22,376)**	**-**	**(26,641)**
Amortisation charge	**-**	**(123)**	**(2,997)**	**-**	**(3,120)**
Closing balance	**-**	**(4,388)**	**(25,373)**	**-**	**(29,761)**
Net book value					
At cost	**17,744**	**5,098**	**36,037**	**4,137**	**63,016**
Accumulated amortisation	**-**	**(4,388)**	**(25,373)**	**-**	**(29,761)**
Closing net book value	**17,744**	**710**	**10,664**	**4,137**	**33,255**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

11 INTANGIBLE ASSETS (continued)

		Software			
$ thousands	Goodwill	Acquired	Internally developed	Under development	Total
Year Ended 30 September 2016 (Audited)					
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

12 INSURANCE LIABILITIES

	Unaudited	Audited
$ thousands	**31-Mar-17**	30-Sep-16
Unearned premiums	**145,928**	150,807
Outstanding claims	**218,264**	210,202
Total insurance liabilities	**364,192**	361,009

NOTES TO THE INTERIM FINANCIAL STATEMENTS

13 DISTRIBUTIONS TO SHAREHOLDERS

DIVIDEND PAYMENTS

There were no dividend payments during the half year ended 31 March 2017.

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 the Company did not offer its Dividend Reinvestment Plan for this dividend.

RETURN OF CAPITAL

On 24 May 2016 the Directors announced the voluntary on-market share buyback would stop with immediate effect. Consequently there was no on-market share buyback during the half year ended 31 March 2017.

On 26 May 2015, following the Company's half year results announcement, the Company commenced on market share buyback of up to $34 million. Capital of $2.4 million was bought back in the half year to 31 March 2016. In total $14.6 million of capital was bought back and cancelled during the period to 31 March 2016.

14 NET ASSETS PER SHARE

	Unaudited	Audited
$ dollars	**31-Mar-17**	30-Sep-16
Net assets per share	**1.28**	1.33
Net tangible assets per share	**0.88**	0.96

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.

15 SOLVENCY REQUIREMENTS

The minimum solvency capital required to be retained by Tower Insurance Limited Group 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 Tower Insurance Limited Group by $66.7 million (30 September 2016: $73.8 million) and $55.2 million for Tower Insurance Limited (30 September 2016: $64.3 million).

	Tower Insurance Limited		**Tower Insurance Limited Group**	
	Unaudited	Unaudited	**Unaudited**	Audited
$ thousands	**31-Mar-17**	30-Sep-16	**31-Mar-17**	30-Sep-16
Actual solvency capital	**111,710**	120,684	**134,071**	140,827
Minimum solvency capital	**56,548**	56,350	**67,386**	67,047
Solvency margin	**55,162**	64,334	**66,685**	73,780
Solvency ratio	**198%**	214%	**199%**	210%

On 22 August 2014 the Reserve Bank of New Zealand imposed a condition of licence 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

16 SUBSEQUENT EVENTS

Acquisition proposals

The acquisition proposals described in Note 2 remain under consideration by the Board. Timing of the proposed special meeting of shareholders to consider the Fairfax proposal remains uncertain. Both acquisition proposals remain subject to satisfactory completion of contractual conditions and regulatory approvals and in the case of the Suncorp proposal, contractual agreement.

Weather events

Large parts of New Zealand were impacted in early April by Cyclone Debbie as it passed down the country. Edgecumbe was hardest hit when the Rangitaiki River breached stop banks and flooded the township. Tower estimates losses from Cyclone Debbie to be in the range of $9.0 million to $13.0 million.

Events occurring prior to 31 March 2017 (including scrub fires in the Port Hills, Christchurch and rain storms in Auckland and the North Island) had contributed to Tower's aggregate loss reinsurance programme excess being reached. As a result, the early April flooding event is covered up to $5.0 million within Tower's aggregate loss reinsurance protection. Should ultimate claim costs for this event exceed $5.0 million, Tower's full year profit will be impacted.

Tower has not been significantly impacted with claims arising from Cyclone Cook, which covered eastern areas of the North Island in mid-April. Similarly, Cyclone Donna which impacted the lower and central North Island in early May, did not result in significant claims for Tower.

Facility drawdown

During May 2017, the Company utilised the Cash Advance Facility Agreement it has with BNZ. An amount of $30.0 million was drawn (from an available $50.0 million) and applied to additional solvency capital in Tower Insurance Limited.

17 RECONCILIATION OF PROFIT FOR THE HALF YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

$ thousands	**Unaudited**	Unaudited
For the half year ended 31 March	**2017**	2016
Loss for the half year	**(8,182)**	(8,679)
Add (less) non-cash items		
Depreciation of property, plant and equipment	**1,187**	1,228
Amortisation of software	**3,120**	1,496
Impairment of software	**-**	19,649
Unrealised (gain) loss on financial assets	**(2,029)**	1,574
Gain on disposal of property, plant and equipment	**(51)**	-
Increase in deferred tax	**(4,592)**	(5,636)
	(2,365)	18,311
Add (less) movements in working capital (excluding the effects of exchange differences on consolidation)		
(Increase) decrease in receivables	**(16,010)**	12,056
Decrease in payables	**3,529**	(43,220)
(Increase) decrease in taxation	**(603)**	1,748
	(13,084)	(29,416)
Add (less) other items classified as investing / financing activities		
Financing costs	**287**	
	287	-
Net cash outflows from operating activities	**(23,344)**	(19,784)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

18 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 31 March 2017, the Level 3 category includes investment in equity securities of $1,442,000 (30 September 2016: $1,406,000). 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 independently valued. The valuation has been calculated using the Income Capitalisation Approach.

(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 2016: nil).

NOTES TO THE INTERIM FINANCIAL STATEMENTS

18 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The following tables present the Group's assets and liabilities which were measured at fair value, categorised by fair value measurement hierarchy levels.

$ thousands	Total	Level 1	Level 2	Level 3
As at 31 March 2017 (Unaudited)				
Assets				
Investment in equity securities	**1,442**	**-**	**-**	**1,442**
Investments in fixed Interest securities	**181,830**	**-**	**181,830**	**-**
Investments in property securities	**34**	**-**	**34**	**-**
Investments	**183,306**	**-**	**181,864**	**1,442**
Derivative financial assets	**173**	**-**	**173**	**-**
Total financial assets	**183,479**	**-**	**182,037**	**1,442**
Liabilities				
Derivative financial liabilities	**35**	**-**	**35**	**-**
Total financial liabilities	**35**	**-**	**35**	**-**
As at 30 September 2016 (Audited)				
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	-

The following table represents the changes in Level 3 instruments:

	Investment in equity securities	
$ thousands	**Unaudited**	Audited
As at	**31-Mar-17**	30-Sep-16
Opening balance	**1,406**	1,972
Total gains and losses recognised in profit and loss	**-**	(163)
Foreign currency movement	**36**	(403)
Closing balance	**1,442**	1,406

The following table shows the impact of increasing or decreasing the combined inputs used to determine the fair value of the level 3 investments by 10%:

$ thousands	Carrying Amount	Favourable changes of 10%	Unfavourable changes of 10%
As at 31 March 2017			
Investment in equity securities (Unaudited)	**1,442**	**144**	**(144)**
As at 30 September 2016			
Investment in equity securities (Audited)	1,406	141	(141)

Independent review report

to the shareholders of Tower Limited

Report on the interim financial statements

We have reviewed the accompanying financial statements of Tower Limited, ("the Group") on pages 2 to 22, which comprise the consolidated balance sheet as at 31 March 2017, 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 period ended 31 March 2017, and selected explanatory notes.

Directors' responsibility for the interim financial statements

The Directors of Tower Limited are responsible for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

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. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence. We have no other interests in the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Who we report to

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
24 May 2017

TOWER

Tower Limited

Half year results

24 May 2017

Introduction

Michael Stiassny
Chairman

Chairman's update

- **Business performance**
  - Underlying business continues to perform well
- **Canterbury**
  - Operating result is impacted by increase to Canterbury provisions
- **Scheme vote and non-binding proposal**
  - Timing of Fairfax scheme vote to be confirmed, in the absence of a superior offer, the Tower board continues to unanimously recommend this scheme.
  - Commerce Commission to release findings on Suncorp non-binding proposal on 30 June 2017
- **Capital and dividend**
  - Equity raising on hold pending outcome of Fairfax scheme vote
  - Solvency position strengthened through drawing on liquidity facility
  - Dividend payment remains suspended

Performance overview

Richard Harding

Chief Executive Officer

TOWER

First half performance summary

2017 has seen Tower continue on its transformation

STRATEGIC IMPERATIVES DELIVERS RESULTS ACROSS ALL FOCUS AREAS

- **Growth of core book**
  - Gross written premium in core book increased 2.4% compared to H1 16
  - Growth of 4,949 policies in core book this half
- **Management of claims costs**
  - Claims costs continue to show positive trends, declining $3.2m compared to H1 16, before the impact of large loss events
- **Reduction of management expenses**
  - Management expenses reduced by $2.6m compared to H1 16

ACHIEVEMENTS

- ✓ Total GWP remains steady
- ✓ Continued policy growth in the core book with improved retention levels
- ✓ Growth in digital channel
- ✓ Launch of Airpoints partnership
- ✓ Containment of claims inflation through focus on supply chain management and refinement of underwriting
- ✓ Management expenses tightly controlled
- ✓ Growth in profits in Pacific

Financial performance

Reported result reflects impacts of adjustments to Canterbury provisions and other large loss events

GROUP PROFIT SUMMARY ($m)

	H1 17	H1 16	Movement %
Gross written premium	**145.8**	**146.2**	**(0.2%)**
New Zealand underlying profit	4.7	6.0	(21.7%)
Pacific underlying profit	4.4	2.1	112%
Corporate underlying profit	(1.0)	(0.5)	(47.1%)
Total underlying profit after tax	**8.1**	**7.6**	**7.6%**
Canterbury impact	(9.8)	(2.1)	369%
Impairment of intangibles	-	(14.1)	n/a
Impact of Kaikoura earthquake	(7.2)	-	n/a
Acquisition & separation costs	(1.0)	-	n/a
Business in runoff	1.7	-	n/a
Reported loss after tax	**(8.2)**	**(8.7)**	n/a

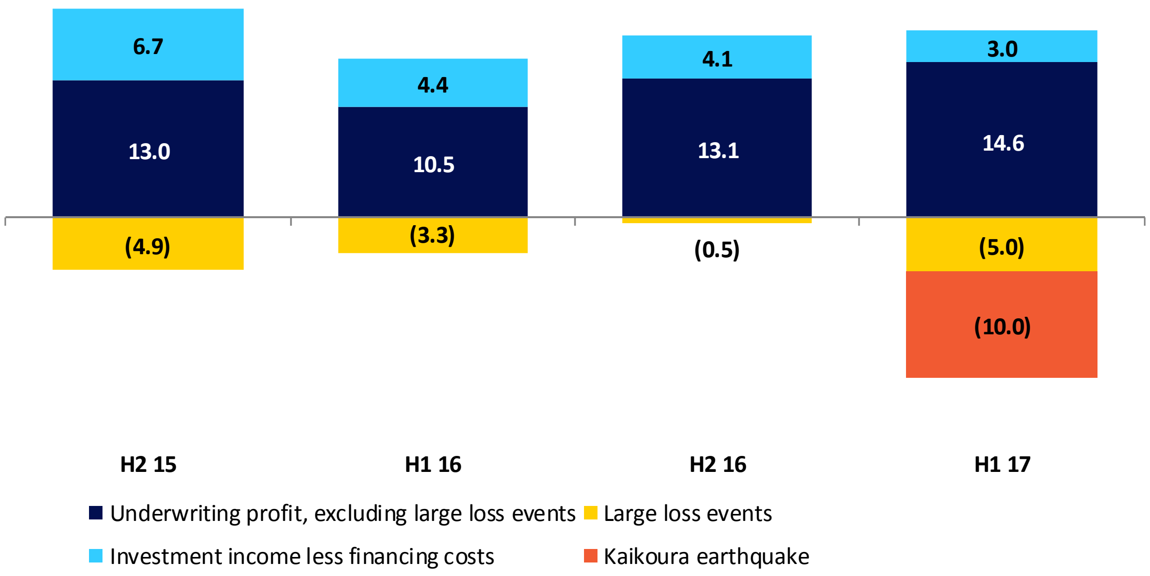
- Underlying profit of $8.1m after tax, an increase of 7.6% on H1 16
  - Underlying profit includes $3.6m[1] post-tax impact from the Port Hill fires and the 'Tasman Tempest'
- Reported loss of $8.2m after tax includes the post-tax impacts of:
  - $9.8m due to increasing Canterbury provisions
  - The Kaikoura earthquake of $7.2m
- Underlying profit growth in Pacific doubled to $4.4 m due to benign weather environment

Notes:
1. Tower Limited market announcement 20 April 2017

Underwriting results improving

Improvements in pricing, underwriting and claims costs are growing underwriting profits

UNDERWRITING PROFITS AND INVESTMENT INCOME ($m)

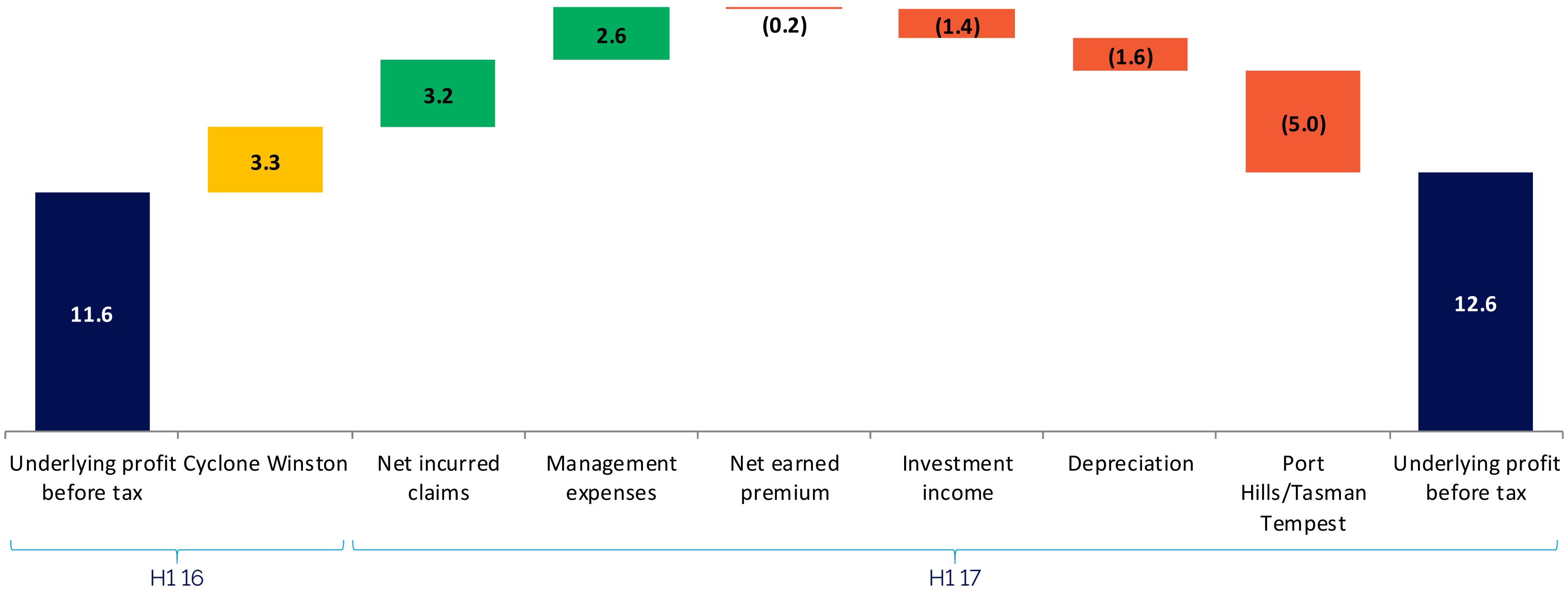


- Underwriting profit has increased $4.1m before tax, excluding large loss events, compared to the same period in 2016
- Improvements reflect:
  - re-pricing of portfolios
  - actively targeting profitable market segments
  - better control of claims costs

Underlying profit before tax

Year on year change in underlying profit before tax reflects improved claims performance and lower management expenses, partly offset by impact of large loss events and lower investment income

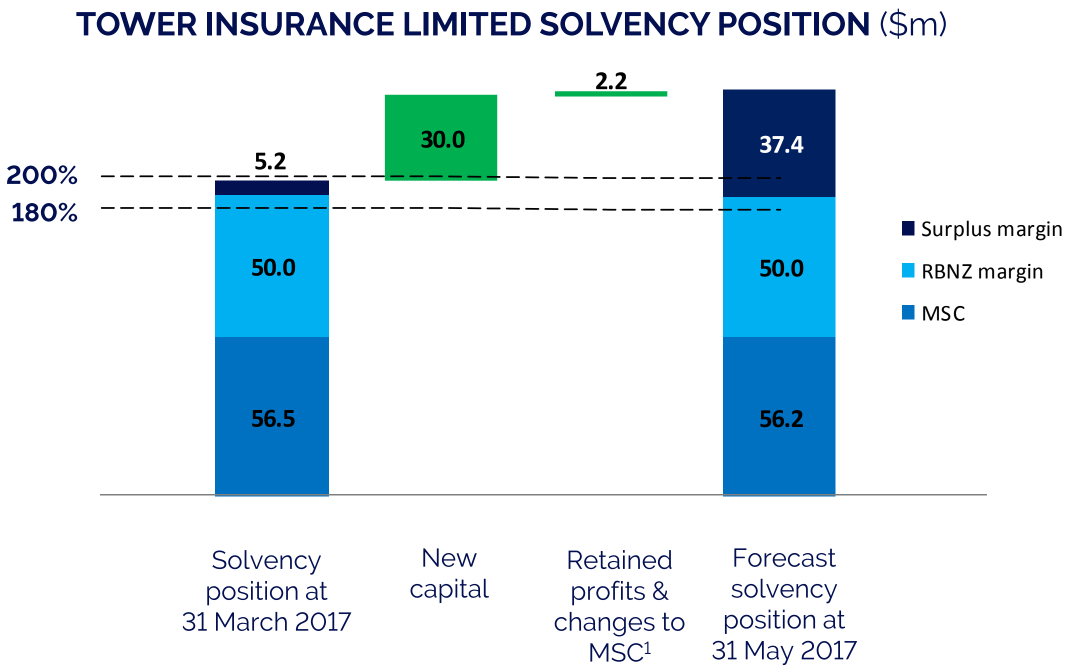
MOVEMENT IN UNDERLYING PROFIT BEFORE TAX[1] ($m)



Notes:
1. Underlying profit excludes the impact of Canterbury earthquakes, Kaikoura earthquake, IT impairments, acquisition & separation costs and profit on businesses in run-off

Solvency position

Liquidity facility drawn down to support solvency position



- Tower is required to hold $50m of capital above Minimum Solvency Capital (**MSC**)
- Additional Canterbury provisions have reduced solvency capital
- $30m of $50m BNZ facility drawn down in May and used to strengthen Tower Insurance Limited's solvency position

Notes:
1. Includes operating profits for April/May 2017, offset by impact of Cyclone Debbie

Confident in our future

TOWER

Focusing on the core

Our strategic imperatives continue driving high performance

MEDIUM TERM TARGETS

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

Focus on customers delivers growth

Core book growing as a result of strong retention

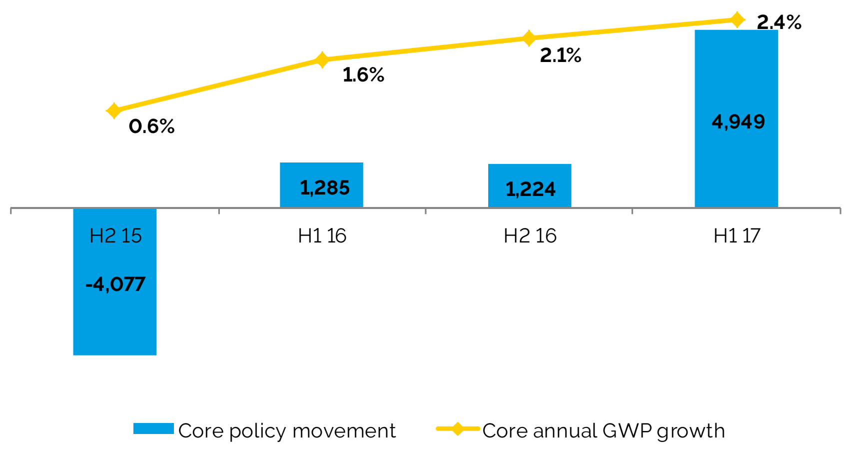
ACHIEVEMENTS

- ✓ Roll out of digital program, including quote to buy functionality, supporting core policy growth
- ✓ Launch of Airpoints partnership has proved attractive for both new and renewing customers
- ✓ Tower Direct retention has improved 1.3 percentage points compared to H1 16

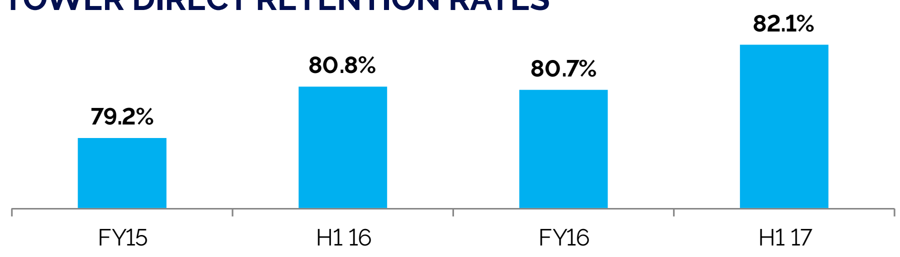
ACTIVITY CONTINUES

- Remainder of FY17 expected to benefit from further enhancement of digital channel, streamlined claims process and continued review of pricing competitiveness

GROWTH IN CORE [1] NEW ZEALAND PORTFOLIO



TOWER DIRECT RETENTION RATES



Notes:
1. Core portfolio excludes legacy ANZ portfolio

Underwriting excellence

Attracting the right customers with better offerings

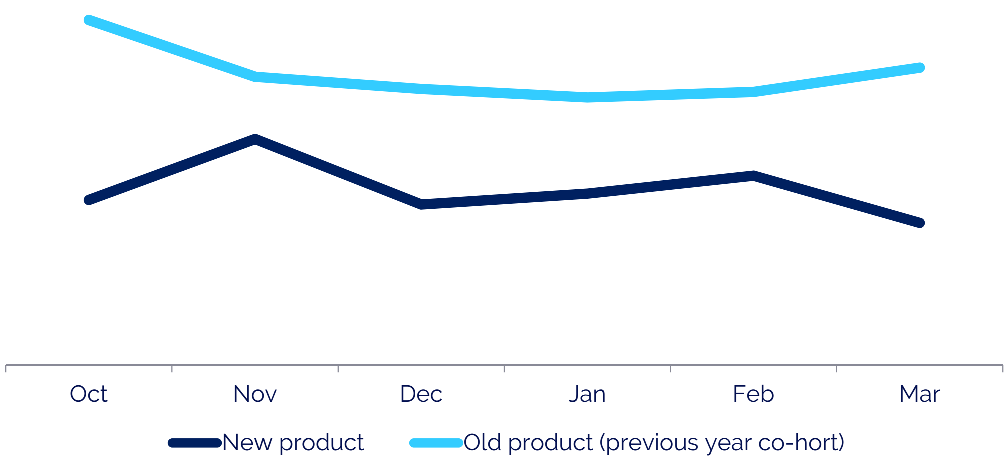
ACHIEVEMENTS

- ✓ Customers have more choice through a tiered product selection
- ✓ Easier for customers to purchase – less time on the phone makes them happier and increases our productivity
- ✓ Attracting the right customers is delivering positive movements in claims frequency

ACTIVITY CONTINUES

- Continuous review and improvement of pricing, underwriting and products
- Relentless focus on long term profitability improvements.

MOTOR COMPREHENSIVE CLAIM FREQUENCY COMPARISON



Claims update

Excluding the impact of large loss events, underlying claims costs are showing improvement

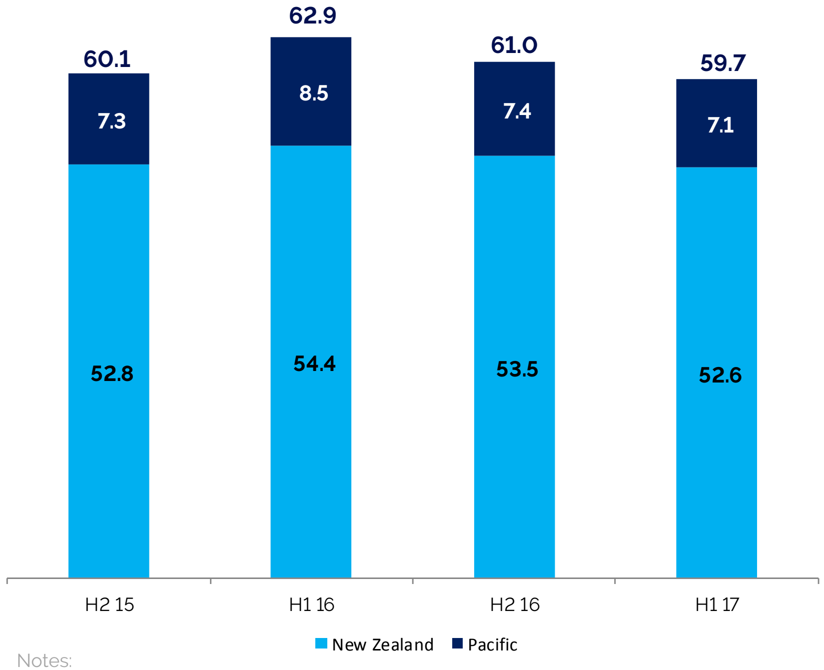
ACHIEVEMENTS

- ✓ Claims expenses[1] decreasing despite industry-wide claims cost inflation
- ✓ Closer management of claims supply chain has delivered material savings
- ✓ Continued focus on leakage and recoveries

ACTIVITY CONTINUES

- Development of improved underwriting model
- Refined product pricing models

TOWER CLAIMS EXPENSES (EXCLUDING LARGE LOSS EVENTS)[1] ($m)



Notes:
1. Excludes claims handling expenses, large loss events (e.g. Port Hill fires and Tasman Tempest), Kaikoura earthquake and changes to Canterbury provisions

Focus on management expenses

Savings initiatives continue to remain a focus and have delivered a reduction in the expense base

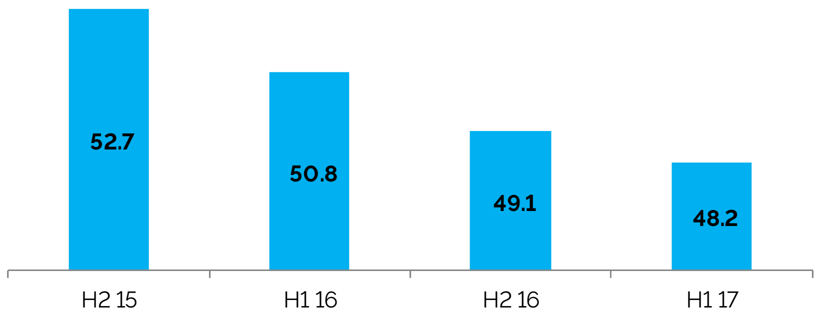
ACHIEVEMENTS

- ✓ Increased focus on efficiency and driving greater productivity
- ✓ Lower technology expenditure for business and software support activity
- ✓ Reduced reliance on contractors and third party providers

ACTIVITY CONTINUES

- Improvement in management expense will continue through embedding simplification initiatives
- Investment in initiatives that deliver long-term savings

MANAGEMENT EXPENSES[1] ($m)



Notes:
1. Includes claims handling expenses. Excludes depreciation, amortisation and one-off expenses relating to sale and ownership activity.

Leveraging digital capability

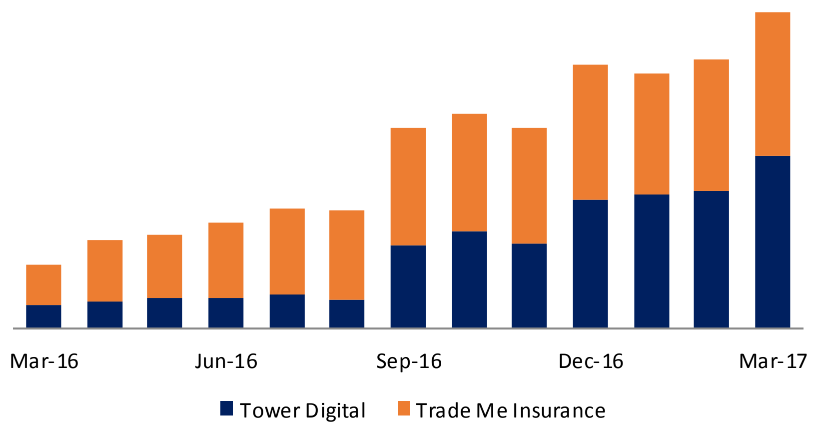
Continued focus on digital capability and partnership to deliver more customers

New product suite available online, providing access to a whole new range of customers through:

- increased online presence and capability
- Trade Me Insurance and Airpoints partnerships giving us access to digitally savvy customers
- tailored, targeted insurance offers for customers using digital channels

Including our partnerships with digital brands, online sales are up from 9% of total transactions in March 2016, to 24% of total transactions in March 2017.

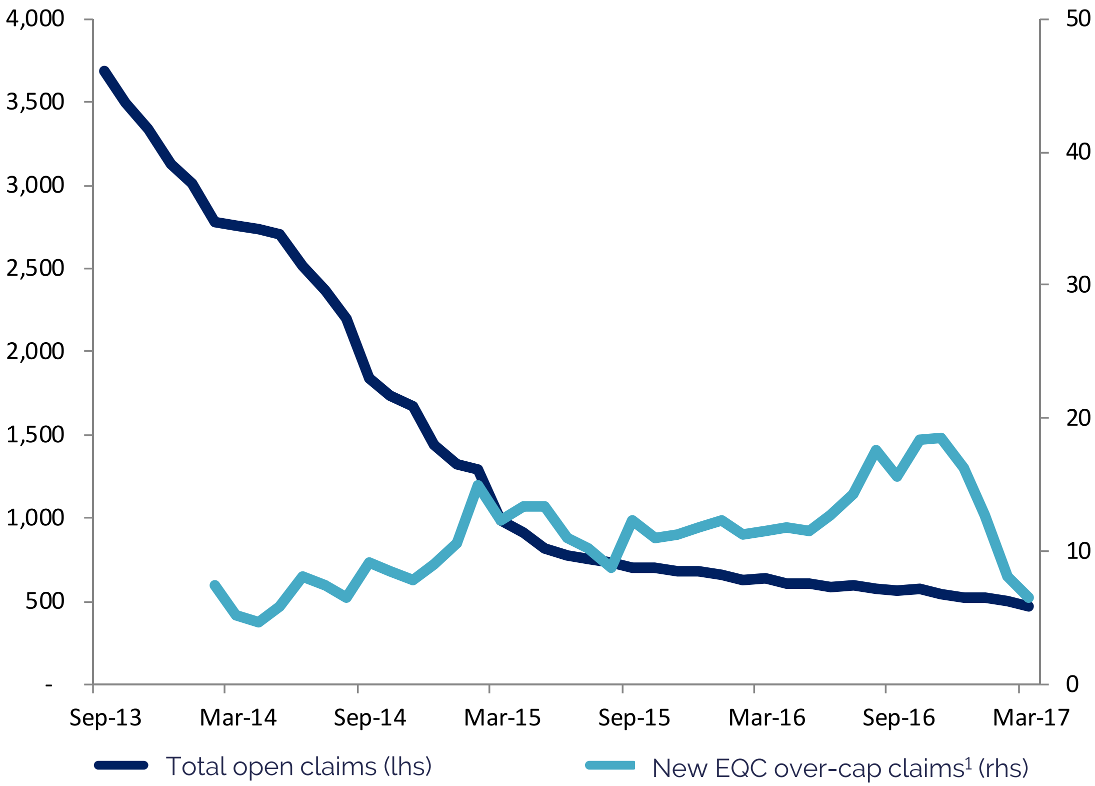
MONTHLY GWP ACROSS DIGITAL CHANNELS



Canterbury update

Canterbury claims snapshot

Open claims are reducing, yet we continue to receive new over-cap claims from EQC



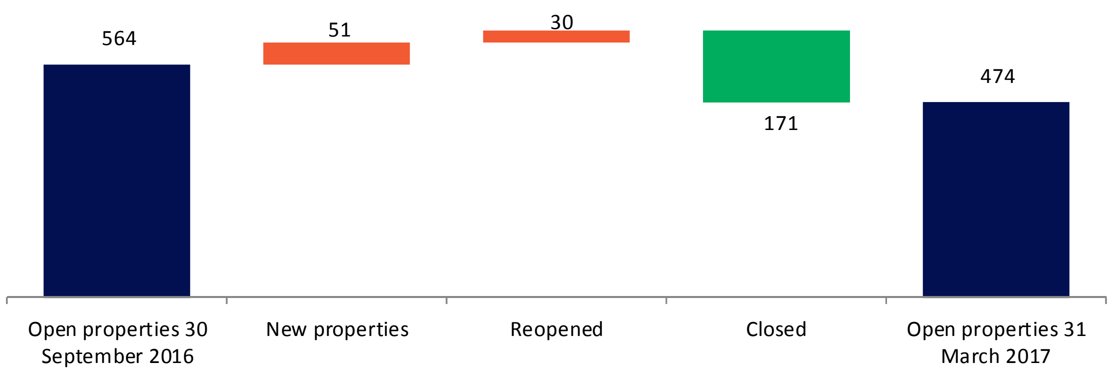
Notes:
1. 6 month rolling average of new EQC over-cap claims

- Canterbury earthquakes continue to impact every facet of the insurance industry
- From over 16,000 claims received, 474 remain
- As with other industry participants, Tower continues to receive over-cap claims from EQC
- Tower is part of the industry-wide taskforce working to identify full extent of outstanding claims within EQC

Progress in closing claims

We continue to reduce the number of open claims

MOVEMENT IN PROPERTIES



- Reduction in new and reopened claims
- Additional claims continue to be received due to:
  - EQC over-cap claims
  - Additional DFPP and accommodation claims as EQC finalise under-cap properties
  - Reopening due to litigation

Outstanding claims

IBNR/IBNER and risk margins have been increased to allow for further claims escalation or litigation

(NZ$m)	Mar-17	% of case estimates[2]	Sep-16	% of case estimates[2]
Case estimates	73.9		93.2	
IBNR/IBNER[1]	47.4		44.0	
Risk margin	18.2		11.9	
Combined IBNR/IBNER/risk margin	65.6	89%	55.9	60%
Outstanding claims	**139.5**		**149.1**	
Adverse development cover	43.8		43.8	
Other reinsurance recoveries	2.2		7.1	
EQC receivables	66.6		57.6	
Total receivables	**112.5**		**108.4**	
Net outstanding claims	**27.0**		**40.7**	

- The Appointed Actuary has recommended an increase to IBNR/IBNER and risk margins, allowing a further $9.7m for further escalation in claims costs
- Remaining claims are more complex with dispute resolution increasingly achieved through litigation

Notes:
1. IBNR / IBNER includes claims handling expenses
2. Ratio of IBNR / IBNER plus risk margin to case estimates

Outlook

Outlook

Transformation will continue to deliver improved financial performance

INDUSTRY DYNAMICS

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

TOWER DYNAMICS

Short term

- Ongoing improvement
  - Digital to drive GWP growth
  - Management expense initiatives to continue
  - Claims cost controlled
  - Pricing improvements
- Some benefits delayed due to pausing of IT simplification

Medium term

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

Appendices

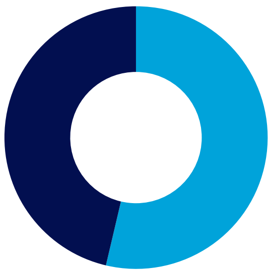
A New Zealand and Pacific general insurer

TOWER

HY17

$8.1m

UNDERLYING **NPAT**[1]

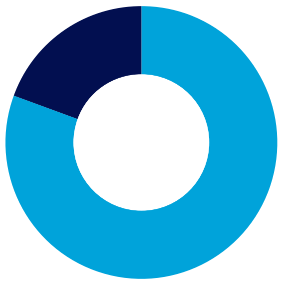


- New Zealand 52%[2]
- Pacific Islands 48%[2]

HY17

$145.8m

GWP

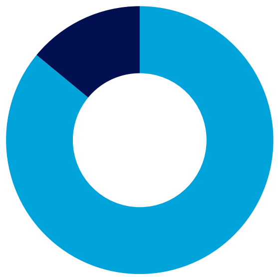


- New Zealand 81%
- Pacific Islands 19%

As at 31 March 2017

475k

INFORCE POLICIES

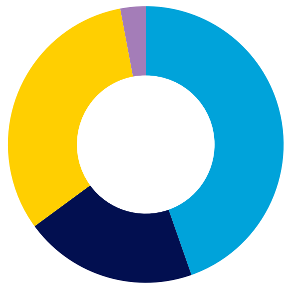


- New Zealand 86% (Direct 67% / Alliances 33%)
- Pacific Islands 14%

As at 31 March 2017

Personal lines focus

GWP breakdown



- House 45%
- Contents 20%
- Motor 32%
- Other 3%

Notes:
1. Underlying profit excludes the impact of Canterbury earthquakes, Kaikoura earthquake, IT impairments , sale & ownership costs and profit on businesses in run-off
2. Represents percentage of General Insurance underlying profit, excluding Corporate

Underlying performance
Tower Group

$ million	H1 17	H1 16	Movement %
Gross written premium	145.8	146.2	(0.2%)
Gross earned premium	150.5	151.5	(0.6%)
Reinsurance costs	(23.8)	(24.5)	(3.0%)
Net earned premium	**126.8**	**127.0**	**(0.1%)**
Net incurred claims[1]	(59.7)	(62.9)	(5.2%)
Large loss events[2]	(5.0)	(3.3)	52.6%
Management and sales expenses	(48.2)	(50.8)	(5.2%)
Depreciation and amortisation	(4.3)	(2.7)	58.3%
Underwriting profit	**9.6**	**7.2**	**33.6%**
Investment revenue	3.2	4.4	(27.9%)
Financing costs	(0.2)	0.0	n/a
Underlying profit before tax[3]	**12.6**	**11.6**	**8.8%**
Income tax expense	(4.5)	(4.0)	11.2%
Underlying profit after tax	**8.1**	**7.6**	**7.6%**

Notes:
1. Net incurred claims excludes claims handling expenses, which are included in management and sales expenses
2. Large loss events refers to events with cumulative claims cost greater than $1m
3. Underlying profit excludes the impact of Canterbury earthquakes, Kaikoura earthquake, IT impairments, acquisition & separation costs and profit on businesses in run-off

Balance sheet
Tower Group

$ million	HY17	HY16	Movement $	Movement %
Cash & call deposits	70.1	94.7	(24.6)	(25.9%)
Investment assets	183.5	201.3	(17.8)	(8.9%)
Deferred acquisition costs	19.9	19.8	0.2	1.0%
Intangible assets	33.3	29.2	4.1	14.0%
Other assets	329.3	324.8	4.4	1.4%
Total assets	**636.1**	**669.8**	**(33.7)**	**(5.0%)**
Policy liabilities & insurance provisions	(364.2)	(355.8)	(8.4)	2.4%
External debt	0.0	0.0	0.0	0.0%
Other liabilities	(55.5)	(60.6)	5.2	(8.5%)
Total liabilities	**(419.7)**	**(416.4)**	**(3.3)**	**0.8%**
Total equity	**216.4**	**253.4**	**(37.0)**	**(14.6%)**

General Insurance
New Zealand

$ million	H1 17	H2 16	H1 16	H2 15
Key financial metrics				
Gross written premium	117.5	127.6	116.3	127.7
Net incurred claims[1]	52.6	53.5	54.4	52.8
Large loss events[2]	5.1	(0.3)	(0.1)	4.9
Underwriting profit	9.2	9.2	5.4	3.5
Underlying NPAT[3]	4.7	9.6	6.0	6.1
Key operating metrics				
Net incurred loss ratio	49.6%	50.5%	51.8%	50.3%
Loss ratio including large loss events	54.4%	50.3%	51.8%	55.0%
Core policies inforce	346,058	341,109	339,885	338,600
ANZ policies inforce	62,902	65,648	69,152	72,884
Total policies inforce	408,960	406,757	409,037	411,484

Notes:
1. Net incurred claims excludes claims handling expenses, which are included in management and sales expenses
2. Large loss events refers to events with cumulative claims cost greater than $1m
3. Underlying profit excludes the impact of Canterbury earthquakes, Kaikoura earthquake, IT impairments, acquisition & separation costs and profit on businesses in run-off

General Insurance
Pacific

$ million	H1 17	H2 16	H1 16	H2 15
Key financial metrics				
Gross written premium	28.3	29.4	29.9	32.0
Net incurred claims[1]	7.1	7.4	8.5	7.3
Large loss events[2]	(0.1)	0.8	3.3	-
Underwriting profit	6.2	4.8	3.2	6.0
Underlying NPAT	4.4	3.4	2.1	4.5
Key operating metrics				
Net incurred loss ratio	34.1%	35.2%	38.8%	31.5%
Loss ratio including large loss events	33.5%	39.0%	53.9%	31.5%
Policies outstanding	66,688	68,291	68,382	68,747

Notes:
1. Net incurred claims excludes claims handling expenses, which are included in management and sales expenses
2. Large loss events refers to events with cumulative claims cost greater than $1m

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