Tower Limited 2017 Annual Report

Transformation into a New Zealand challenger brand underway

With additional capital in place, we will now accelerate our momentum through **continued investment in transformation initiatives that will achieve a true step change.**

Michael Stiassny
Chair

Turning the corner and **accelerating transformation.**

There is no hiding the fact that the past few years have been challenging ones for the Tower business and our shareholders. Faced with an exceptional set of circumstances, Tower has had to dig deep to find new ways to prosper by embracing disruption and innovation.

While it is most certainly early days, Tower is turning the corner. The positive trends experienced over the past two years allow for greater confidence in both Tower's strategy and future performance targets.

Tower's full year result has shown improvement in core metrics including policy and premium growth, claims control and expense reduction.

The Board's focus over the past 12 months has been on creating a suitable and sustainable structure to enable Tower to confidently invest in its future – while also mitigating the fundamental uncertainty relating to the legacy of the Canterbury earthquakes. This platform is now in place.

Following an extensive independent review of Tower's solvency capital, Tower has now successfully raised the $70.8 million additional capital required to achieve those joint objectives.

We are increasingly optimistic, but also remain appropriately cautious. The Board acknowledges the complexity of the environment surrounding Canterbury claims and the ongoing uncertainty in finalising these. Therefore, we elected to create an additional risk margin of $10 million over and above the provision of the Appointed Actuary. This is equivalent to a probability of sufficiency between the 80-85th percentile. This capital will be released once uncertainty surrounding outstanding Canterbury claims liability declines.

Tower reported a full year loss of $8 million, an improvement of $13.5 million on the prior year. This reported loss was driven by additional Canterbury provisions of $11.4 million after tax and further after tax impacts of $7.2 million from the additional risk margin for Canterbury, as determined by the Board; $4.1 million from the Kaikoura earthquake; and $3.1 million from corporate transaction activity.

Despite an unprecedented number of large natural events, underlying profit after tax of $18 million reflected the positive impact of the initiatives driving Tower's transformation into a digital challenger brand.

As we have previously outlined, investment in digital and IT is required to successfully complete Tower's emergence as a challenger brand.

We remain confident that investment in these programmes of work that underpin the Tower transformation strategy will deliver long-term value for shareholders.

With additional capital in place, we will accelerate our momentum through continued investment in transformation initiatives that will achieve a true step change.

Tower has inherently strong cash flows and a long history of paying dividends to shareholders. Tower's Board and management team remain strongly committed to paying dividends and to the efficient management of capital. The Board will review the dividend policy and look to recommence dividends in FY18.

In closing, my fellow Directors join with me in acknowledging the work and dedication of Richard Harding and the Tower team. Despite the uncertainty over Tower's future ownership, they have remained resolute in their determination to enact our transformation strategy and deliver solid results.

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

Michael Stiassny
Chair

Transformation of underlying business underway.

Richard Harding
Chief Executive Officer

Significant opportunity exists in the Tower business. The positive momentum we've gained over the past 12 months shows that we have a powerful platform to grow from.

We have made progress transforming our business, with our focus on improving everything we do having a real impact, delivering a stable underlying performance.

Our simplification strategy has driven growth in customers and Gross Written Premium (GWP), controlled claims costs, while at the same time improving management expenses. Over the past year:

- 12,441 policies were added to Tower's core NZ book
- core GWP grew 5.8%, delivering full year GWP of $312.4 million
- digital sales grew to 30% of new business transactions, up from 9% in March 2016
- business as usual claims costs successfully contained at $124.2 million
- management expenses reduced $3.9 million on the prior year

These positive trends demonstrate that Tower's transformation into a digital challenger brand is progressing and shows that the strength of our underlying business provides a powerful platform for future growth.

Over the coming years, Tower will keep growing thanks to our focus on customers and the continued momentum being gained through our digital channels. Sound underwriting, efficient claims management and improved business processes will see continued stabilisation of claims costs and management expenses.

There remains significant opportunity in the Tower business and I am confident that investment in our transformation strategy will accelerate the progress we have seen, by allowing us to rapidly respond in today's constantly changing digital landscape.

Investment will drive our transformation into a digital challenger brand and deliver a step change in our results.

With our capital raise now complete, we are well positioned to complete this transformation and I'm looking forward to leading the business through the change, realising Tower's significant potential and delivering strong shareholder returns.

Richard Harding
Chief Executive Officer

Full year
summary

Tower reported a loss after tax of $8 million for the year ended 30 September 2017 (FY17), compared to a loss of $21.5 million for the year ended 30 September 2016 (FY16).

Tower's FY17 result was impacted by further adjustments to Canterbury provisions, an additional risk margin Tower's Board allocated for Canterbury claims, the Kaikoura earthquake and a number of other large loss events.

Tower delivered an underlying profit after tax of $18 million for FY17, a slight decline from $20.1 million in FY16 due to an unusually large number of natural events and the impact of lower interest rates on investment revenue.

Tower has strong underlying New Zealand and Pacific businesses with its strategic imperatives driving ongoing transformation.

During the year, Tower continued to improve the business, achieving policy growth in the core New Zealand book, growing its digital offering, delivering better claims performance, and reducing management expenses.

These improvements and positive results show Tower's transformation is well underway. However, this has been offset by an unusually large number of natural events in FY17 and the impact of lower interest rates on investment revenue.

Thanks to improvements in pricing and digital, Tower added over 12,000 policies to its core New Zealand portfolio, seeing GWP grow 3% over the year to $312.4 million.

Tower's claims costs were controlled at $131.6 million despite experiencing one of the most severe natural disaster years in history. This was due to the success of initiatives launched in the past 12 months and continued focus on underwriting excellence.

A sharp focus on non-personnel costs saw the trend on management and sales expenses continue to decline. Expenses fell $3.9 million to $102.4 million for the year. These savings were achieved by driving high performance and productivity, building internal capability and close management of expenses.

Underlying profit in the Pacific increased to $7.2 million for FY17, compared to $5.5 million in FY16, due to a benign weather environment and improved underwriting.

Group Profit Summary (NZ$m)[1]

$ MILLION	FY17	FY16
Gross written premium	312.4	303.2
Gross earned premium	306.8	302.9
Reinsurance costs	(49.8)	(49.1)
Net earned premium	**256.9**	**253.8**
Net claims expense	(131.6)	(127.7)
Management and sales expenses	(102.4)	(106.3)
Underwriting profit	**22.9**	**19.8**
Investment revenue and other revenue	6.1	8.5
Financing costs	(0.8)	–
Underlying profit before tax	**28.2**	**28.3**
Income tax expense	(10.2)	(8.2)
Underlying profit after tax	**18.0**	**20.1**
Canterbury impact		
– Increase in outstanding claims	(11.4)	(25.3)
– Additional risk margin	(7.2)	–
Kaikoura impact	(4.1)	–
Impairment of intangibles	–	(14.1)
Business in runoff	1.7	–
Corporate transaction costs	(3.1)	–
Foreign tax credits written off	(1.9)	(2.2)
Reported loss after tax	**(8.0)**	**(21.5)**

Investment revenue fell $2.4 million to $6.1 million in FY17, as a result of lower interest rates and lower cash balances following Canterbury claims payments.

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

In September 2016, Tower had 564 property claims remaining. In the intervening 12 months, the number of open Canterbury Earthquake claims was reduced by 241. However, new claims from the EQC continue to be received.

Tower's Appointed Actuary recommended a further $1.6m after-tax strengthening in the second half, bringing the full after tax impact to $11.4 million for the year.

1. Note: "Underlying profit" does not have a standardised meaning prescribed by Generally Accepted Accounting Practice (GAAP) and may not be comparable to similar measures presented by other entities. While Tower has applied a consistent approach to measuring underlying profit in the current and comparative periods, it is not subject to audit or independent review. Tower uses underlying profit as an internal reporting measure as management believes it provides a better measure of Tower's underlying performance than reported profit, as it excludes large or non-recurring items that may obscure trends in the underlying performance of the Tower group. Tower considers that underlying profit is useful to investors as it makes it easier to compare the underlying financial performance of Tower between periods. "Reported loss after tax" is calculated and presented in accordance with GAAP and is taken from Tower Limited's audited financial statements for the year ended 30 September 2017.

A New Zealand and Pacific general insurer

As one of the leading general insurers in New Zealand and the Pacific, we have a powerful platform for future growth.

Tower has seen improvements in crucial areas that demonstrate the business' transformation into a digital challenger brand is underway:

- focus on customers has delivered policy and GWP growth
- management expenses continue the downward trend, decreasing $3.9 million when compared to the prior year
- tight management of claims processes and supplier networks resulted in contained claims costs

There is significant opportunity in the Tower business and the clear strategic plan that has delivered these results will continue to drive Tower's transformation into New Zealand's leading digital challenger brand.

Tower is confident that it can continue the transformation of the underlying business and deliver long-term shareholder value by continuing to pursue all aspects of its strategy to:

- drive GWP growth of 4 – 6%
- reduce expense ratio to below 35%
- deliver return on equity of 12 – 14% through the cycle

The implementation of Tower's strategy will continue driving the transformation of the business, however, a fundamental step change in Tower's performance will be delivered through IT simplification. Significant management focus will go into this in FY18, with benefits expected to flow through from FY19.

In the longer term, the results of the work being delivered will strengthen Tower's performance, unlock further opportunities and create long-term, sustainable shareholder value.

Digital is essential to the future growth and prosperity of Tower

Almost one year ago, we launched Tower's new simple and easy product suite online, opening us up to a new customer base. Since launching, we have seen online sales increase from 9% of new-business transactions in March 2016 to 30% in September 2017.

The increased stability and added functionality has enabled better marketing and targeting of customers. While starting from a small base, this growth shows that we understand the market and have the right capabilities to continue delivering growth through digital.

Focus on customers delivers growth

Achievements

- New digital programme supporting core GWP growth of 5.8% over prior year
- Tower Direct retention improved 2.0% points on prior year
- Online sales increased from 9% of new business transactions in March 2016, to 30% in September 2017
- New, simple and easy products improving lead conversion – currently 4% points above target

Tower's focus on customers has seen continued growth in its core New Zealand portfolio in FY17, with 12,441 policies added to the core book and GWP increasing 5.8%.

With Tower's new product suite fully available online, more customers can research, quote and buy insurance from Tower through their mobile, tablet or computer, delivering a significant uplift in new business sales.

Encouraging existing customers to stay with Tower through targeted retention initiatives and offerings has delivered an increase in retention rates for the direct Tower business, up 2% points.

This positive result is being achieved through a combination of:

- building and refining Tower's digital offering, including the relaunch of the new Trade Me Insurance platform
- working harder to attract new customers to Tower, particularly in attractive segments which are actively targeted
- new products making it easier for Tower's team to convert sales leads
- tailored, targeted insurance offers available for customers using digital channels

Claims and underwriting update

Achievements

- Over 30 product updates, pricing reviews and targeted rate changes across all New Zealand portfolios
- Supply chain and preferred supplier initiatives delivered material savings
- New vehicle risk ratings further reducing claims frequency
- Excess changes significantly improved average claims costs

Tower is actively managing its portfolio and delivering simple and easy insurance, which is helping attract the right customers to Tower. This focus on underwriting excellence has helped control claims costs, despite an unprecedented number of large natural events.

The New Zealand insurance industry is also experiencing inflation in the frequency and cost of motor claims. This is due to the greater number of cars on the road and the increased costs and constraints in the repair industry supply chain.

Recent storms have resulted in large event claims increasing by $3.6 million, to $7.4 million, compared to the same period last year.

While industry inflation has eroded some of the gains made in the first half of the year, initiatives introduced over the past 12 months have contained business as usual claims costs at $124.2 million.

This positive result in controlling claims costs is a result of:

- better risk selection and underwriting processes
- tighter management of end-to-end claims supply chain
- simpler policy wordings enabling customers and claims teams to easily understand exactly what customers are entitled to
- regular review and improvements to policy wordings, including the capping of meth benefits and removal of excess refund
- continued focus on claims leakage and recoveries

Investment will improve long-term profitability

Investment in Tower will deliver better digital, data, pricing and risk selection which will continue improving long-term profitability by:

- using data and address-level earthquake rating capabilities to build advanced rating algorithms to accurately underwrite risks
- increasing the use of data to manage and regularly review pricing, ensuring we offer products that are priced well for customers' specific locations and requirements
- developing data capability to deliver rapid insights enabling change and improvement across all facets of the customer experience

Kaikoura earthquake and storm events

Achievements

- 100% of Tower motor claims, 97% of contents and 79% of over-cap and other house claims finalised
- 99% of EQC contents claims and 82% of EQC home claims that relate to Tower's Kaikoura customers closed
- $3.1m reduction of after tax impact of Kaikoura earthquakes from H1, from $7.2m to $4.1m
- $1.5m reduction of after tax impact of Ex-Cyclone Debbie and associated flooding in Edgecumbe since April 2017, from $3.6m to $2.1m

While Tower's aggregate reinsurance cover is helping to absorb some of the costs of the recent storm volatility, efficient and proactive management of claims has had the biggest impact in reducing the total cost of these events.

Tower's team has been working hard to set things right for customers in Kaikoura, Edgecumbe and other areas that have experienced large natural events.

The after tax impact of the Kaikoura earthquakes, attributable to Tower, reduced by $3.1 million from the first half (down from $7.2 million to $4.1 million).

The after tax impact of Ex-Cyclone Debbie claims, attributable to Tower, reduced by $1.5 million since April 2017 (down from $3.6 million to $2.1 million).

Thanks to dedicated claims teams, Tower's customers impacted by the Kaikoura earthquake can be confident that their claims will be finalised in early 2018. Tower is confident that most, if not all customers impacted by the Edgecumbe floods will have their claim finalised, or where repairs are being undertaken, will be back in their homes by Christmas.

This pleasing result is thanks to:

- a focus on early intervention and effective claims management
- a single point of contact for customers enabling quick resolution of claims
- new ways of working with EQC providing insurers with complete visibility of all claims relating to their customers

Focus on costs

Achievements

- Increased focus on efficiency and productivity
- Significant saving through in-housing IT service desk and other key support functions
- Whole of business procurement review and close management of contract negotiations
- Some costs deferred as a result of acquisition and separation activity

Tower has strengthened its focus on non-personnel related costs, reducing management expenses to $102.4 million in FY17, down from $106.3 million in FY16.

Tower's savings of approximately $3.9 million in its core underlying expenses, compared to FY16, 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 and building capability internally

Tower expects expenses will continue to decrease as simplification programme initiatives are embedded. A step change in productivity gains and expense reduction will be dependent on long-term IT investment.

IT simplification

Tower has continued stabilising core legacy systems and enhancing its digital offerings to deliver a consistent customer experience.

While some improvements have been made, there are many operational efficiencies to be derived from moving from four core IT systems with dozens of ancillary systems, to a single core system with a small number of critical interfaces.

Tower has selected EIS as its preferred partner to complete the formal scoping and costing processes following a comprehensive tender. Some work has already commenced, with EIS working with the Tower team to establish a firm implementation timeline and itemised project deliverables. Board approval will be sought once costs and the timeline are confirmed.

The new build is likely to take 12 months, following which new business will immediately go live on the new platform and migration of the legacy book can start.

Canterbury update

As has been regularly reiterated by Tower and other industry players, the ongoing legacy of the Canterbury earthquakes has resulted in significant issues for customers and insurers, with the receipt of EQC over-cap claims continuing in 2017.

Tower is making good progress closing Canterbury Earthquake claims. In September 2016, Tower had 564 property claims remaining. In the past 12 months, 403 have been closed, while receiving 73 completely new over-cap claims from the EQC, and 33 new under-cap claims in the interim. This resulted in the number of open Canterbury claims reducing by 241 in FY17.

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

Tower's Appointed Actuary recommended a further $1.6m after-tax strengthening in the second half, bringing the full after tax impact to $11.4 million for the year.

Given the complexity of the Canterbury claims situation and the ongoing uncertainty in finalising these, Tower's Board has elected to create an additional risk margin of $10 million over and above the provision recommendation of the Appointed Actuary. This is currently equivalent to a probability of sufficiency between the 80-85th percentile.

The net result of the Appointed Actuary's recommendation is that Tower's IBNR and risk margin allowance have increased from 60% in September 2016 to 99% of underlying case estimates in September 2017.

While Tower is making significant progress closing claims, more certainty is still required. EQC Act reform will assist in ensuring past experience is not repeated. It is also important that the changes in EQC protocols that have made Kaikoura successful are included in any future reform. Tower continues to strongly believe more needs to be done by the EQC and New Zealand government.

403

Canterbury property claims closed

99.0%

IBNR and risk margin allowance

Update on EQC and Peak Re

Tower has commenced recovery action against Peak Re and EQC and remains confident in its position.

In regards to the Peak Re dispute, Tower anticipates that arbitration will take place in early 2018.

Tower remains confident that it will be successful but both the process and the hearing hold risk and collection of the owed amount is not certain. An adverse outcome could lead to a nil recovery due to the binary nature of the process.

Tower, in consultation with its reinsurers, is progressing its recovery programme against the EQC in relation to the costs incurred due to building and land work following the 2010 and 2011 Canterbury earthquakes.

To date, Tower along with IAG, have issued proceedings against the EQC seeking compensation for remediation of land damage with a court hearing expected in late 2018. Further litigation in regards to land is expected. Tower is also applying significant resources to the EQC building recovery programme. Based on legal advice to date, Tower is confident in its position on the recovery programme.

Tower estimates the gross amount receivable due from EQC is significantly higher than the $65.1 million currently in its accounts, but has adopted this amount, which is the actuarial valuation of the Appointed Actuary. The method by which the actuarial valuation is completed recognises the inherent risk and uncertainty with recovery of the full gross amount.

If the amount of $65.1m is received from EQC, an amount of $17.7 million will be payable to reinsurers.

Due to the nature of the claims and the potential for litigation or an alternate dispute resolution process, the actual recoveries may be higher or lower than anticipated.

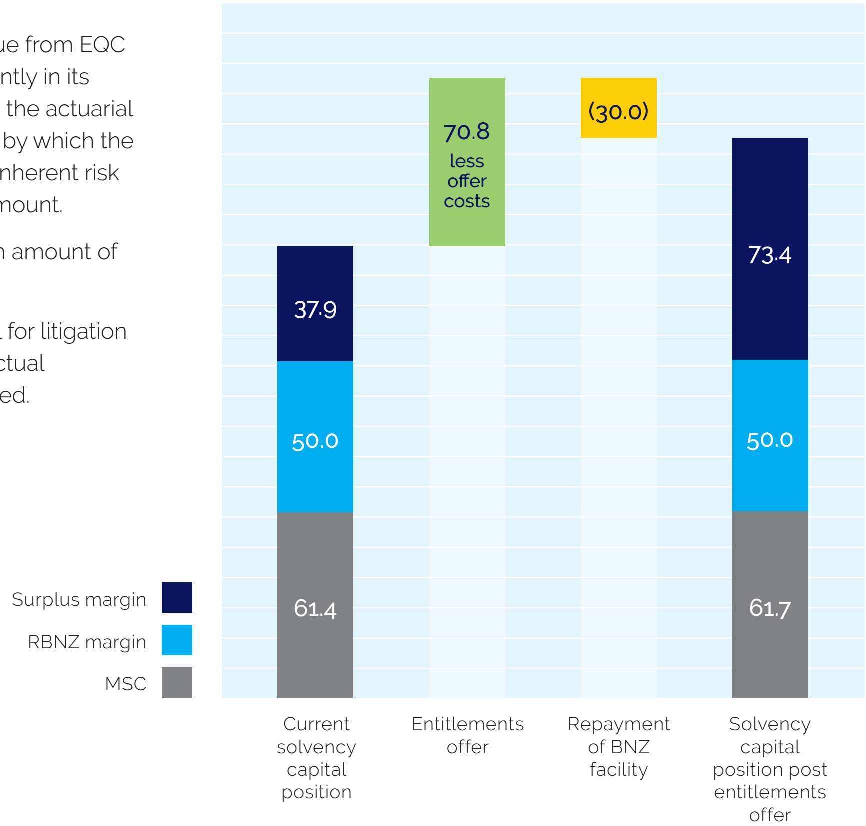
Solvency position and capital requirements

Following extensive, independent review of Tower's solvency capital, Tower's Board determined that additional capital of $70.8 million is required to address the inherent uncertainty faced by the business, repay the BNZ facility, and to permit the signalled and ongoing reinvestment in Tower's NZ business.

If applied to Tower's solvency position at 30 September 2017, this would have resulted in Tower holding $123.4 million above minimum solvency capital requirements, or approximately 300% MSC.

Tower recognises the need for capital in the medium-term, however remains strongly committed to paying dividends and to the efficient management of capital. The Tower Board will review the dividend policy and look to recommence dividends in FY18.

Tower Insurance Limited Solvency Position (NZ$m)



Note:
Solvency capital calculation based on $70.8m entitlement offer less offer costs

Michael
Stiassny

David
Hancock

Board of Directors

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

Michael is a Fellow of Chartered Accountants Australia and New Zealand. He has both a Commerce and Law degree from the University of Auckland. He is currently Chairman of Vector Limited, Chairman of Ngati Whatua Orakei Whai Rawa Limited, and is a director of a number of other companies. Michael is the immediate past President and a Chartered Fellow of the Institute of Directors in New Zealand (Inc).

Michael resides in Auckland, New Zealand.

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

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

David resides in Sydney, Australia.

Warren
Lee

Steve
Smith

Graham
Stuart

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

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

Warren resides in Melbourne, Australia.

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

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

Steve resides in Auckland, New Zealand.

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

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

Graham resides in Auckland, New Zealand.

Tower Limited

Financial Statements

For the **year** ended 30 September 2017

Contents

Independent **Auditor's Report**

For the **year** ended 30 September 2017

Independent auditor's report

To the shareholders of Tower Limited

The financial statements comprise:

- the consolidated balance sheet as at 30 September 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of general accounting policies.

Our opinion

In our opinion, the financial statements of Tower Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 September 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall group materiality: $3,068 thousand, which represents approximately 1% of premium revenue.

We chose premium revenue as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Group and is not as volatile as other profit and loss measures, and is a generally accepted benchmark. The 1% is based on our professional judgement, noting that it is also within the range of commonly accepted revenue related thresholds.

The following have been determined as key audit matters:

- Outstanding claims and related reinsurance and other recoveries
- Recoverability of the deferred tax asset

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Our Group audit scope focused on the most financially significant subsidiary, which contributes 80% of the Group's premium revenue. We performed further audit procedures over the balances and transactions of the non-significant subsidiaries and the consolidation of the Group's subsidiaries.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
1) Outstanding claims and related reinsurance and other recoveries from the Earthquake Commission (EQC) and Peak Re This is a key audit matter because of the complexity involved in the estimation process and the significant judgements that management make in determining the balances. Notes 8, 20 and 27 to the financial statements describe the elements of the outstanding claims, related reinsurance and other recoveries and assumptions used in the calculation.	
(a) Outstanding claims ($181,156 thousand)	

Central estimate of expected present value of future payments for claims incurred
The valuation of outstanding claims involves significant judgement given the inherent uncertainty in the calculation of the central estimate of the expected present value of future payments for claims incurred (central estimate).
In particular, judgement arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the Group, or claims that have been reported but there is uncertainty over the amount which will be settled.
This estimate relies on the quality of underlying data, including historical claims data, and the application of complex and subjective actuarial models and methodologies, judgements and assumptions about future events.
	Our audit procedures included the following:
	• Re-performing key actuarial data reconciliations by agreeing claims data to the general ledger.
	• Inspecting a sample of claims paid during the year to check that they were supported by appropriate documentation and approved within delegated authority limits.
	• Testing the historical claims data by:
	  ○ evaluating the design and effectiveness of controls over the processing of claims,
	  ○ for a sample of claims outstanding at year end, agreeing to supporting documents.
	• We utilised our actuarial specialists to assist us with:
	  ○ evaluating the actuarial models and methodologies by comparing with generally accepted models and methodologies applied in the sector and with the prior year,
	  ○ assessing key actuarial judgements and assumptions by comparing with our expectations based on the Group's experience, our own sector knowledge and independently observable trends, and
	  ○ considering the work and findings of the external independent actuaries engaged by the Group.

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Risk margin Outstanding claims include a risk margin that allows for the inherent uncertainty in the central estimate of the future claim payments. In determining the risk margin, the Group makes judgements about the volatility of each class of business written and the correlation between each division and between different geographical locations.	With the assistance of our actuarial specialists we assessed the Group's approach to determining the risk margin by comparing to known industry practices and the Actuaries Institute recommended framework. In particular we focused on the assessed level of uncertainty in the central estimate. We have no matters to report from the procedures performed.
(b) Reinsurance and other recoveries from EQC ($65,100 thousand) and Peak Re ($43,750 thousand) Significant management judgement is required to value: • expected recoveries from EQC in respect of land damage and building costs, as these recoveries are subject to agreement with EQC, and • reinsurance recoveries from Peak Re, as these are dependent upon the outcome of a legal arbitration process. The expected recoveries from EQC are related to the Canterbury earthquakes, and require judgement and actuarial expertise to evaluate the attribution of claims cost between the major earthquake events, in particular the September 2010 and February 2011 events.	We assessed management's approach to estimate the recoveries from EQC. We reviewed correspondence with EQC and held discussions with management, lawyers and external independent actuaries to understand assumptions, including the attribution of losses to the different Canterbury earthquake events, used to establish the right to recovery. We compared these assumptions with sector peers and sought evidence for any significant variances. For reinsurance recoveries from Peak Re, we discussed with management the status of the arbitration process. We reviewed the legal correspondence between the Group and Peak Re lawyers and held discussions with the lawyers advising the Group. We have no matters to report from the procedures performed.

2) Recoverability of the deferred tax asset

The Group has a deferred tax asset balance of $32,745 thousand, of which $26,958 thousand relates to deferred tax assets arising from past tax losses. We focused on the deferred tax asset from tax losses as its recoverability is sensitive to the Group's expected future profitability and its entitlement to offset these losses against future profits. Significant management judgement is involved in forecasting future taxable profits which are inherently uncertain. Refer to note 10 to the financial statements.	We evaluated the progress made by management in improving the profitability of the business in recent periods, which includes the remediation of the causes of past losses through, amongst other things, assessment of the Canterbury earthquakes claims and related reinsurance and other recoveries (assessment of the recoverability of the receivables from EQC and Peak Re) and other expense reduction and income initiatives. We noted that progress has been made in relation to each of these matters. We assessed the operational plan used in the deferred tax asset recoverability assessment by comparing previous business plans with actual results and assessed the appropriateness of the assumptions used in the operational plan. We used our tax specialist to assess whether the Group is entitled to offset the tax losses against future profits. We have no matters to report from the procedures performed.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:
https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Karl Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
14 November 2017

Auckland

Tower Limited

Consolidated **Income Statement**

For the **year** ended 30 September 2017

	NOTE	2017 $000	2016 $000
Revenue			
Premium revenue	5	306,760	302,940
Less: Outwards reinsurance expense		(49,845)	(49,106)
Net premium revenue		**256,915**	**253,834**
Investment revenue	6	7,643	8,998
Fee and other revenue		3,040	3,413
Net operating revenue		**267,598**	**266,245**
Expenses			
Claims expense		217,547	240,138
Less: Reinsurance recoveries revenue		(29,996)	(54,526)
Net claims expense	7	**187,551**	**185,612**
Management and sales expenses	9	81,744	87,410
Acquisition proposal expenses	4	3,467	–
Impairment expense	15	–	19,649
Financing expenses		835	–
Total expenses		**273,597**	**292,671**
Profit (Loss) attributed to shareholders before tax		(5,999)	(26,426)
Tax (expense) benefit attributed to shareholders' profits	10A	(2,001)	4,911
Profit (Loss) for the year		**(8,000)**	**(21,515)**
Profit (Loss) attributed to:			
Shareholders		(8,461)	(22,328)
Non-controlling interest		461	813
		(8,000)	**(21,515)**

		CENTS	CENTS
Basic and diluted profit (loss) per share	26	(5.02)	(13.21)

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

Tower Limited

Consolidated Statement of **Comprehensive Income**

For the **year** ended 30 September 2017

	NOTE	2017 $000	2016 $000
Profit (Loss) for the year		**(8,000)**	**(21,515)**
Other comprehensive income (loss)			
Currency translation differences		105	(5,910)
Gain on asset revaluation	17	247	181
Deferred income tax relating to asset revaluation	10D	(29)	(23)
Other comprehensive income (loss) net of tax		**323**	**(5,752)**
Total comprehensive income (loss) for the year		**(7,677)**	**(27,267)**
Total comprehensive income (loss) attributed to:			
Shareholders		(8,143)	(27,404)
Non-controlling interest		466	137
		(7,677)	**(27,267)**

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

Tower Limited

Consolidated **Balance Sheet**

As at 30 September 2017

	NOTE	2017 $000	2016 $000
Assets			
Cash and cash equivalents	12	102,876	92,228
Receivables	14	261,375	254,685
Investments	28	167,702	188,522
Derivative financial assets	28	231	57
Deferred acquisition costs	16	20,961	19,973
Current tax assets	10B	13,462	13,168
Property, plant and equipment	17	8,780	9,511
Intangible assets	15	31,334	31,982
Deferred tax assets	10D	32,745	30,155
Total assets		**639,466**	**640,281**
Liabilities			
Payables	18	51,124	49,500
Current tax liabilities	10C	560	123
Provisions	19	5,773	4,177
Derivative financial liabilities	28	–	735
Insurance liabilities	20	336,004	361,009
Borrowings	22	29,921	–
Deferred tax liabilities	10D	340	785
Total liabilities		**423,722**	**416,329**
Net assets		**215,744**	**223,952**
Equity			
Contributed equity	23	382,172	382,172
Accumulated (losses) profit		(51,299)	(42,822)
Reserves	24	(116,454)	(116,772)
Total equity attributed to shareholders		**214,419**	**222,578**
Non-controlling interest		1,325	1,374
Total equity		**215,744**	**223,952**

The financial statements were approved for issue by the Board on 14 November 2017.

Michael P Stiassny
Chairman

Graham R Stuart
Director

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

Tower Limited

Consolidated Statement of **Changes in Equity**

For the **year** ended 30 September 2017

	NOTE	ATTRIBUTED TO SHAREHOLDERS CONTRIBUTED EQUITY $000	ACCUMULATED (LOSSES) PROFIT $000	RESERVES $000	TOTAL $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
Year Ended 30 September 2017							
At the beginning of the year		**382,172**	**(42,822)**	**(116,772)**	**222,578**	**1,374**	**223,952**
Comprehensive income (loss)		**–**	**(8,461)**	**318**	**(8,143)**	**466**	**(7,677)**
Transactions with shareholders							
Dividends paid	21	–	–	–	–	(515)	(515)
Other		–	(16)	–	(16)	–	(16)
Total transactions with shareholders		**–**	**(16)**	**–**	**(16)**	**(515)**	**(531)**
At the end of the year		**382,172**	**(51,299)**	**(116,454)**	**214,419**	**1,325**	**215,744**
Year Ended 30 September 2016							
At the beginning of the year		**384,585**	**6,376**	**(111,696)**	**279,265**	**1,644**	280,909
Comprehensive income (loss)		**–**	**(22,328)**	**(5,076)**	**(27,404)**	**137**	**(27,267)**
Transactions with shareholders							
Capital repayment plan	21, 23	(2,413)	–	–	(2,413)	–	(2,413)
Dividends paid	21	–	(27,024)	–	(27,024)	(407)	(27,431)
Other		–	154	–	154	–	154
Total transactions with shareholders		**(2,413)**	**(26,870)**	**–**	**(29,283)**	**(407)**	**(29,690)**
At the end of the year		**382,172**	**(42,822)**	**(116,772)**	**222,578**	**1,374**	**223,952**

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

Tower Limited

Consolidated Statement of **Cash Flows**

For the **year** ended 30 September 2017

	NOTE	2017 $000	2016 $000
Cash flows from operating activities			
Premiums received		309,147	295,867
Interest received		7,734	10,088
Dividends received		–	9
Net realised investment gain (loss)		(1,928)	3,251
Fee and other income received		3,040	3,413
Reinsurance received		28,962	67,935
Reinsurance paid		(50,228)	(47,248)
Claims paid		(248,183)	(261,779)
Payments to suppliers and employees		(76,408)	(77,248)
Income tax paid		(4,908)	(4,598)
Net cash inflow (outflow) from operating activities	13	**(32,772)**	**(10,310)**
Cash flows from investing activities			
Net proceeds from financial assets		21,852	18,380
Purchase of property, plant and equipment and intangible assets		(6,883)	(9,175)
Disposal of property, plant and equipment and intangible assets		136	70
Net cash inflow (outflow) from investing activities		**15,105**	**9,275**
Cash flows from financing activities			
Capital repayment		–	(2,413)
Dividends paid		–	(27,024)
Facility fees and interest paid		(778)	–
Proceeds of borrowings		30,000	–
Capital raise costs		–	–
Payment of non-controlling interest dividends		(515)	(407)
Net cash inflow (outflow) from financing activities		**28,707**	**(29,844)**
Net increase (decrease) in cash and cash equivalents		**11,040**	**(30,879)**
Foreign exchange movement in cash		(392)	(2,006)
Cash and cash equivalents at the beginning of year		92,228	125,113
Cash and cash equivalents at the end of year	12	**102,876**	**92,228**

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

Tower Limited

Notes to the **Financial Statements**

For the **year** ended 30 September 2017

1. Summary of General Accounting Policies

Entities reporting

The financial statements presented are those of Tower Limited (the Company) and its subsidiaries (the Group). The Company and its subsidiaries together are referred to in this financial report as Tower or the Group or the consolidated entity. The address of the Company's registered office is 45 Queen Street, Auckland, New Zealand.

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

Statutory base

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

Basis of preparation

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

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

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

Principles of consolidation

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

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

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

The acquisition of controlled entities from external parties is accounted for using the acquisition method of accounting. The share of net assets of controlled entities attributable to minority interests is disclosed separately in the balance sheet, income statement and statement of comprehensive income. Acquisition related costs are expensed as incurred.

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

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

Foreign currency

(i) Functional and presentation currencies

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

(ii) Transactions and balances

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

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

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

(iii) Consolidation

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

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

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

Cash flows

The consolidated statement of cash flows presents the net changes in cash flow for financial assets. Tower considers that knowledge of gross receipts and payments is not essential to understanding certain activities of Tower based on either: the turnover of these items is quick, the amounts are large, and the maturities are short or the value of the sales are immaterial.

2. Impact of Amendments to NZ IFRS

2A Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 October 2017 or later periods, and the Group has not adopted them early. The Group expects to adopt the following new standards on 1 October after the effective date.

- NZ IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2018. The standard will provide a single source of requirements for accounting for all contracts with customers (except for some specific exceptions, such as lease contracts, insurance contracts and financial instruments) and will replace all current accounting pronouncements on revenue. New revenue disclosures are also introduced. Tower is assessing the effect of adopting NZ IFRS 15 on its financial statements.
- NZ IFRS 16 Leases is effective for periods beginning on or after 1 January 2019. The standard replaces the current guidance in NZ IAS 17 Leases. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Work continues on assessing the impact of adopting IFRS 16 on Tower's financial statements. Preliminary assessments indicate the treatment of office buildings, motor vehicles, and other equipment leases will change. The potential financial impact of changes will result in the creation of a 'right of use asset' of approximately $11 million, with a corresponding lease liability amount to be recognised, in effect as a gross up to the balance sheet, of approximately $11 million to $12 million.
- NZ IFRS 9 Financial instruments is effective for periods beginning on or after 1 January 2018. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The Group intends to adopt NZ IFRS 9 on its effective date and is assessing the effect of adopting NZ IFRS 9 on its financial statements.
- NZ IFRS 17 Insurance Contracts is effective for periods beginning on or after 1 January 2021. The standard replaces the current guidance in NZ IFRS 4, and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. The implementation date for the Group will be for the year ending 30 September 2022. A detailed assessment of the effect of adopting NZ IFRS 17 will be commenced during 2018.
- Amendments to NZ IAS 7 Statement of Cash Flows is effective for periods beginning on or after 1 October 2017 unless early adopted. Comparatives are not required on first application. The standard requires additional disclosures regarding both cash and non-cash changes in liabilities arising from financing activities. The standard is not expected to have a material impact.

2B Standards, amendments and interpretations to existing standards effective 30 September 2017 or early adopted by the Group

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

Notes to the **Financial Statements**

For the **year** ended 30 September 2017

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 8 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 8 and Note 14 for further detail on EQC recoveries for Canterbury earthquakes.

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 Limited and subsidiaries within the consolidated tax group. The recoverability of tax losses outlined above is also subject to ongoing assessment in respect of the active acquisition proposal. If it becomes probable that the 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, assessments of economic useful life, previous Board impairment decisions and potential impacts from the active acquisition proposal. For further detail refer to Note 15.

Reinsurance recovery receivables

Valuation of reinsurance recovery receivables is an area of significant judgement and estimation. Key elements of judgement included within recovery estimations are: counterparty and credit risk; and risks around the arbitration process for the reinsurance contract in dispute. The nature of estimation uncertainties, including from those factors listed above, mean that actual reinsurance recoveries may differ from expected outcomes. Refer to Note 14 for further detail.

Goodwill

Goodwill is an area of significant judgement and estimation. Areas of judgement and subjectivity exist in the assessment of cash generating units and assumptions underlying goodwill impairment testing. Refer to Note 15 and Note 27 for further details of key assumptions used.

4. Acquisition Proposals

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

On 27 June 2017, Tower Limited announced it had entered into a Scheme Implementation Arrangement (SIA) with Suncorp. Under this agreement, Suncorp agreed to acquire 100% of the Company's shares at $1.40 per share for an aggregate purchase price of $236 million. On 26 July 2017, the New Zealand Commerce Commission announced that it had declined Suncorp's application to purchase 100% of Tower shares.

On 23 August 2017, Suncorp advised that they would be appealing the Commerce Commission decision. On 5 September 2017 the Tower Board lodged its own cross appeal against the Commerce Commission's decision to decline Suncorp's application to acquire 100% of Tower.

On 7 November 2017, Tower advised that the SIA with Suncorp had passed its end date and had been terminated. Suncorp subsequently announced that as a result, it would no longer be proceeding with its appeal of the Commerce Commission's decision to decline its application to acquire Tower.

The Tower Board has withdrawn its cross appeal against the Commerce Commission's decision.

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).

The Fairfax SIA was terminated on 29 June 2017 following Tower's announcement on 27 June 2017 that it had entered into a SIA with Suncorp. Tower has reimbursed $400,000 of Fairfax's costs under the conditions of its discontinued scheme. Under the Fairfax mutual termination agreement, a break fee of a further $1.57 million is payable to Fairfax if another party completes an acquisition of Tower by 31 August 2018. Refer to Note 34 Contingent Liabilities.

Acquisition proposal expenses

At 30 September 2017, Tower has provided for all costs incurred to that date in respect of the acquisition activity. These have been recorded in the Consolidated Income Statement as a separate line item (Acquisition proposal expenses).

Adviser fees

The Company has worked 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 30 September 2017 have been included in the Income Statement. Where no invoice has been received, an estimate of likely costs up to 30 September 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 and potential capital raising. Goldman advisory fees are linked to the outcome of any acquisition proposal and capital raising. In the event that an acquisition proposal or capital raising is completed, advisory fees estimated up to $4.5 million before tax will become payable to Goldman.

At 30 September 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 or completion of capital raising.

5. Premium Revenue

	2017 $000	2016 $000
Gross written premiums	312,396	303,236
Less: Gross unearned premiums	(5,636)	(296)
Premium revenue	**306,760**	**302,940**

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract. The proportion of premiums not earned in the income statement at reporting date is recognised in the balance sheet as unearned premiums.

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

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

6. Investment Revenue

	2017 $000	2016 $000
Fixed interest securities		
Interest income	7,734	10,088
Net realised gain (loss)	(631)	441
Net unrealised gain (loss)	913	(3,142)
Total fixed interest securities	**8,016**	**7,387**
Equity securities		
Dividend income	–	9
Net unrealised gain (loss)	(3)	(163)
Total equity securities	**(3)**	**(154)**
Other		
Net realised gain (loss)	(1,297)	2,810
Net unrealised gain (loss)	927	(1,045)
Total other	**(370)**	**1,765**
Total investment revenue	7,734	10,097
Total net realised gain (loss)	(1,928)	3,251
Total net unrealised gain (loss)	1,837	(4,350)
Total investment revenue	**7,643**	**8,998**

Investment revenue is recognised as follows:

(i) Interest income on fixed interest securities

Interest income is recognised using the effective interest method.

(ii) Dividend income on equity securities

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

(iii) Fair value gains and losses

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

Notes to the **Financial Statements**

For the **year** ended 30 September 2017

7. Net Claims Expense

	NOTE	2017 $000	2016 $000
Canterbury earthquake claims (4 key events)	8	15,916	35,084
Additional risk margin	8	10,000	–
Kaikoura earthquake claims		5,739	–
Other claims		155,896	150,528
Total net claims expense		**187,551**	**185,612**

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

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

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

— changes in Group processes which might accelerate or slow down the development and (or) recording of paid or incurred claims, compared with statistics from previous periods;

— the effects of inflation; and

— the impact of large losses.

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

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

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

8. Canterbury Earthquakes

Tower has received over 16,106 individual claims from customers as a result of earthquakes impacting the Canterbury region during 2010 and 2011 (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 15,783 claims at 30 September 2017 (2016: 15,426 claims), representing a 98% settlement rate by number of claims and 93% by value (2016: 96% by number and 89% by value). To date, Tower has paid out more than $825 million to customers (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 30 September 2017, Tower has estimated gross ultimate incurred claims of $897.4 million in respect of the four main Canterbury earthquake events (2016: $869.6 million).

Outstanding claims comprises case estimates, claims incurred but not reported (IBNR) and risk margins. In the year ended 30 September 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 over-cap 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 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 completes 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 14.

The table below presents a financial representation of Tower's net outstanding claims provision at 30 September 2017 in relation to the four main earthquake events.

Canterbury earthquake provisions

	2017 $000	2016 $000
Insurance liabilities		
Gross outstanding claims	(107,200)	(149,100)
Additional risk margin	(10,000)	–
	(117,200)	**(149,100)**
Receivables		
Reinsurance recovery receivables	13,600	50,800
EQC related to open claims	5,800	57,600
Less: EQC payable to reinsurers	(1,700)	–
	17,700	**108,400**
Net outstanding claims	**(99,500)**	**(40,700)**

Change in presentation of comparative insurance liabilities and receivables

The 2016 comparative information in the table above includes receivables from Peak Re and EQC as deductions from gross outstanding claims relating to both open and closed claims. As the gross outstanding claims liability continues to reduce, only EQC recoveries for open claims have been deducted from gross outstanding claims liability for the September 2010 and February 2011 events. For the other earthquakes, EQC recoveries for open claims and reinsurance recoveries are deducted. Due to the nature of EQC recoveries, the categorisation between open claims and closed claims is an approximation that takes into account the split between open and closed claims for EQC recoveries already received as well as EQC recoveries expected to be received.

Tower has two significant receivable amounts related to closed Canterbury earthquake claims, being $43.75 million from Peak Re and $65.1 million from EQC (2016: $57.6 million). $17.7 million of this EQC amount is payable to reinsurers which has been allowed for (2016: $20.7 million). A risk margin of $10.7 million has been allowed for on the receivable from EQC (2016: $4.3 million).

Recognising the challenging history of Canterbury earthquake claims and the potential for ongoing complexity in finalising remaining claims and potential new over-cap claims, the Board has elected to create an additional risk margin of $10.0 million over and above the provision of the Appointed Actuary, which is set at the 75th percentile probability of sufficiency.

This additional risk margin approximates the 80-85th percentile probability of sufficiency of the Appointed Actuary's central estimate as at 30 September 2017. This provision will remain at $10.0 million, subject to review by the Board each half year and will be released once Canterbury Outstanding Claims Liability has sufficiently run off.

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

	2017 $000	2016 $000
Cumulative expenses associated with Canterbury earthquakes:		
Earthquake claims estimate	(897,440)	(869,600)
Reinsurance recoveries	746,623	734,699
Claim expense net of reinsurance recoveries	(150,817)	(134,901)
Reinsurance expense	(25,045)	(25,045)
Additional risk margin	(10,000)	–
Cumulative impact of Canterbury earthquakes before tax	(185,862)	(159,946)
Income tax	52,710	45,454
Cumulative impact of Canterbury earthquakes after tax	**(133,152)**	**(114,492)**
Recognised in current period (net of tax)	**(18,660)**	**(25,272)**

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 323 open claims at 30 September 2017 (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.

The actuarial reviews performed during the year ended 30 September 2017 identified the following as key contributors to the increase in expected earthquake claims costs:

- Continued growth in the level of litigation claims received;
- Continued development of claim costs as they progress through the claims life cycle;
- Greater than anticipated new over-cap claims received from EQC;
- Increase in the level of future claims handling expenses; and
- Refinement of actuarial assumptions, including the setting of risk margins.

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 litigated claims received and the average cost of these claims
- the number of new claims expected from EQC and the average cost of these claims
- the rate of closed claims reopening
- 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 30 September 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 $507.0 million including risk margin. Tower has reinsurance for $375.4 million on this event including catastrophe cover, proportional reinsurance and adverse development cover. During the year ended 30 September 2017, Tower expensed $13.3 million in relation to the February 2011 event (2016: $35.1 million).

8. Canterbury Earthquakes (continued)

Tower has also exceeded its catastrophe reinsurance cover limit in relation to the September 2010 event. The estimated ultimate incurred claims cost of the September 2010 event totals $303.4 million including risk margin. Tower has reinsurance for $295.8 million on this event including catastrophe cover and proportional reinsurance cover. During the year ended 30 September 2017, Tower expensed $2.6 million in relation to the September 2010 event (2016: nil).

The catastrophe reinsurance cover headroom remaining is included in the table below.

	CATASTROPHE REINSURANCE COVER REMAINING	
DATE OF EVENT	2017 $000	2016 $000
September 2010	–	7,700
February 2011	–	–
June 2011	254,200	256,500
December 2011	486,500	487,500

Sensitivity analysis – impact of changes in key variables

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

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

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

		SPLIT BETWEEN EVENTS				FOUR MAIN EARTHQUAKES	
	CHANGE VARIABLE	SEP 2010 $M	FEB 2011 $M	JUN 2011 $M	DEC 2011 $M	30-SEP-17 $M	30-SEP-16 $M
Outstanding claims:							
(i) Change to costs and quantity of expected claim estimates including building costs and other impacts.	+ 5%	(1.3)	(3.0)	–	–	(4.3)	(4.1)
	- 5%	1.3	3.0	–	–	4.3	4.1
(ii) Change in apportionment of claim costs to / from February 2011 event.	+ 1%	4.9	(9.0)	–	–	(4.1)	(9.0)
	- 1%	(7.0)	9.0	–	–	2.0	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%	0.1	0.7	–	–	0.8	0.7
	- 10%	(0.1)	(0.7)	–	–	(0.8)	(0.8)
(v) Recoveries from EQC in respect of building costs	+ 10%	3.2	0.9	–	–	4.1	0.1
	- 10%	(3.2)	(0.9)	–	–	(4.1)	(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 over-cap 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.

9. Management and Sales Expenses

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

	2017 $000	2016 $000
Amortisation of deferred acquisition costs	19,973	20,277
Bad debts written off	176	162
Change in provision for doubtful debts	(945)	(307)
Amortisation of software	6,395	3,950
Depreciation	2,032	2,438
Office equipment and furniture	928	840
Motor vehicles	93	170
Computer equipment	1,011	1,428
Directors' fees	509	565
Employee benefits expense	53,600	54,396
(Gain) on disposal of property, plant and equipment	(42)	(43)
Claims related management expenses reclassified to claims expense	(25,998)	(22,846)
Auditors remuneration		
Fees paid to Group's auditors:		
Audit of financial statements [(1)]	495	364
Other assurance related services [(2)]	30	30
Non-assurance advisory related services [(3)]	6	149
Total fees paid to Group's auditors	**531**	**543**
Fees paid to subsidiaries' auditors different to Group auditors:		
Audit of financial statements [(4)]	45	51
Total fees paid to auditors	**576**	**594**

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

(2) Other assurance related services includes annual solvency return assurance and Pacific Island regulatory return audits.

(3) Non-assurance advisory related services related to Annual Shareholders' Meeting procedures and IT Platform review (in 2016).

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

10. Tax

The Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant management judgement is required in determining the worldwide provision for income taxes. There are some transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on its understanding of tax law in each relevant jurisdiction. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Deferred tax assets are recognised for all unused tax losses to the extent it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likely timing and quantum of future taxable profits.

10A. Tax expense

	2017 $000	2016 $000
Analysis of tax expense		
Current tax	4,468	6,026
Deferred tax	(3,064)	(10,615)
Under (over) provided in prior years	597	(322)
Total tax expense (benefit)	**2,001**	**(4,911)**
The tax benefit can be reconciled to the accounting profit as follows:		
Loss before tax from continuing operations	**(5,999)**	**(26,426)**
Income tax at the current rate of 28%	(1,680)	(7,399)
Tax effect of:		
Prior period adjustments	597	(322)
Non-deductible expenditure/non-assessable income	967	216
Foreign tax credits written off	1,874	2,226
Non-taxable dividend from subsidiaries	–	–
Other	243	368
Total tax expense (benefit)	**2,001**	**(4,911)**

(i) Current tax

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

(ii) Tax consolidation

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

(iii) Income tax expense

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

Notes to the **Financial Statements**

For the **year** ended 30 September 2017

10. Tax (continued)

(iv) GST

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

(v) Tax cash flows

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

10B. Current tax assets

	2017 $000	2016 $000
Analysis of current tax assets		
Current	1,206	912
Non-current	12,256	12,256
Total current tax assets	**13,462**	**13,168**

A non-current tax asset of $12,256,000 is recognised in the financial statements of the Group as at 30 September 2017 in relation to excess tax payments made in previous years (2016: $12,256,000). Non-current tax assets are expected to be recovered from 2021, as determined by the Board approved operational plan for financial years 2018 to 2021. A current tax asset of $1,206,000 is recognised in relation to excess tax payments made in the Pacific Islands over and above the estimated tax liabilities for the year (2016: $595,000).

10C. Current tax liabilities

Current tax liabilities of $560,000 relate to taxes payable to off shore tax authorities in the Pacific Islands (2016: $123,000).

10D. Deferred tax assets and liabilities

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

	Opening balance at 1 October $000	(Charged) credited to income statement $000	(Charged) credited to comprehensive income $000	Closing balance at 30 September $000
For the Year Ended 30 September 2017				
Movement in deferred tax assets				
Provisions and accruals	3,141	(876)	–	2,265
Property, plant and equipment	3,288	4,493	–	7,781
Tax losses	29,086	(2,128)	–	26,958
Other	–	778	–	778
Total deferred tax assets	**35,515**	**2,267**	**–**	**37,782**
Set-off of deferred tax liabilities pursuant to NZ IAS 12				(5,037)
Net deferred tax assets				**32,745**
Movement in deferred tax liabilities				
Deferred acquisition costs	(4,851)	(227)	–	(5,078)
Other	(1,294)	1,024	(29)	(299)
Total deferred tax liabilities	**(6,145)**	**797**	**(29)**	**(5,377)**
Set-off of deferred tax liabilities pursuant to NZ IAS 12				5,037
Net deferred tax liabilities				**(340)**

	OPENING BALANCE AT 1 OCTOBER	(CHARGED) CREDITED TO INCOME STATEMENT	(CHARGED) CREDITED TO COMPREHENSIVE INCOME	CLOSING BALANCE AT 30 SEPTEMBER
	$000	$000	$000	$000
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)**

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

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

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

Recognition of deferred tax assets is a key area of judgement. Management expects to utilise the tax losses against future profits over the next 4 years.

Deferred tax liabilities of $946,000 have not been recognised in respect of temporary differences associated with investments in subsidiaries (2016: liabilities of $166,000).

10E. Imputation credits

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

	2017 $000	2016 $000
Imputation credits available for use in subsequent reporting periods	489	489

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

11. Segmental Reporting

	NEW ZEALAND	PACIFIC ISLANDS	OTHER (HOLDING COMPANIES & ELIMINATIONS)	TOTAL
	$000	$000	$000	$000
Year Ended 30 September 2017				
Revenue				
Net operating revenue	222,117	44,816	665	267,598
Total revenue	**222,117**	**44,816**	**665**	**267,598**
Earnings before interest, tax, depreciation and amortisation	(15,648)	12,688	6,223	3,263
Interest expense	–	–	(835)	(835)
Depreciation and amortisation	(1,529)	(521)	(6,377)	(8,427)
Profit (Loss) before income tax	**(17,177)**	**12,167**	**(989)**	**(5,999)**
Income tax credit (expense)	2,470	(4,958)	487	(2,001)
Profit (Loss) for the year	**(14,707)**	**7,209**	**(502)**	**(8,000)**
Total assets 30 September 2017	481,532	82,664	75,270	639,466
Total liabilities 30 September 2017	335,602	54,483	33,637	423,722
Acquisition of property plant and equipment and intangibles	819	295	12,059	13,173

11. Segmental Reporting (continued)

	NEW ZEALAND	PACIFIC ISLANDS	OTHER (HOLDING COMPANIES & ELIMINA-TIONS)	TOTAL
	$000	$000	$000	$000
Year Ended 30 September 2016				
Revenue				
Net operating revenue	218,992	45,765	1,488	266,245
Total revenue	**218,992**	**45,765**	**1,488**	**266,245**
Earnings before interest, tax, depreciation and amortisation	(12,577)	9,617	(17,078)	(20,038)
Depreciation and amortisation	(2,076)	(379)	(3,933)	(6,388)
Profit (Loss) before income tax	(14,653)	9,238	(21,011)	(26,426)
Income tax credit (expense)	2,760	(3,729)	5,880	4,911
Profit (Loss) for the year	**(11,893)**	**5,509**	**(15,131)**	**(21,515)**
Total assets 30 September 2016	479,420	79,104	81,757	640,281
Total liabilities 30 September 2016	360,613	51,981	3,735	416,329
Acquisition of property plant and equipment and intangibles	481	1,523	7,553	9,557

Description of segments and other segment information

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance. The chief operating decision-maker has been identified as the Company's Board of Directors.

Tower Group operates predominantly in two geographical segments, New Zealand and the Pacific region.

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

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

12. Cash and Cash Equivalents

	2017 $000	2016 $000
Cash at bank and in hand	21,981	25,792
Deposits at call	76,689	60,932
Restricted cash	4,206	5,504
Total cash and cash equivalents	**102,876**	**92,228**

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

The effective interest rate at 30 September 2017 for deposits at call is 2.60% (2016: 2.60%). There was no offsetting within cash and cash equivalents (2016: nil).

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

At 30 September, Tower was holding $4.2 million (2016: $5.5 million) cash in respect of multi-unit claims as lead insurer on Canterbury claims. This is recognised within Cash and cash equivalents on the balance sheet. Related to this are corresponding amounts being $1.6 million (2016: $2.7 million) recorded within Insurance liabilities for Tower's portion of multi-unit outstanding claims; and $2.6 million (2016: $2.8 million) recorded within Payables as held on behalf of other insurers in respect of SPP claims.

13. Reconciliation of Loss for the Period to Net Cash Flows from Operating Activities

	2017 $000	2016 $000
Loss for the year	**(8,000)**	**(21,515)**
Add (less) non-cash items		
Depreciation of property, plant and equipment	2,032	2,438
Amortisation of software	6,395	3,950
Impairment of software	–	19,649
Unrealised (gain) loss on financial assets	(1,837)	4,350
Movement on disposal of property, plant and equipment	(42)	(43)
Change in deferred tax	(3,024)	(10,560)
	3,524	**19,784**
Add (less) movements in working capital (excluding the effects of exchange differences on consolidation)		
Change in receivables	(7,653)	1,984
Change in payables	(21,537)	(11,614)
Change in taxation	116	1,051
	(29,074)	**(8,579)**
Add (less) other items classified as investing / financing activities		
Financing costs	778	–
	778	**–**
Net cash inflows (outflows) from operating activities	**(32,772)**	**(10,310)**

14. Receivables

	2017 $000	2016 $000
Reinsurance recovery receivables	63,947	68,406
Outstanding premiums and trade receivables	127,319	125,855
Other	70,109	60,424
Total receivables	**261,375**	**254,685**
Analysed as		
Current	192,466	173,613
Non current	68,909	81,072
Total receivables	**261,375**	**254,685**

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

	2017 $000	2016 $000
Outstanding premiums and trade receivables	128,124	127,605
Allowance for credit losses and impairment	(805)	(1,750)
	127,319	**125,855**
Opening balance	(1,750)	(2,057)
Provisions added during the year	(41)	(45)
Provisions released during the year	978	224
Foreign exchange movements	8	128
Closing balance	**(805)**	**(1,750)**

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

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

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

Assets arising from reinsurance contracts

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

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 act as agents for the Crown agency in relation to the Kaikoura region earthquake. Under the agreement, Tower directly lodges, assesses and settles 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. At 30 September 2017, the amount due from EQC for reimbursement of claims handling expenses and claims paid in relation to the Kaikoura event is $1.3 million (2016: nil).

Canterbury earthquakes

Other receivables include an amount of $65.1 million due from EQC for land damage and building costs relating to the Canterbury earthquake provisions as disclosed in Note 8.

Tower estimates the gross amount receivable due from EQC is significantly higher than the $65.1 million, but has adopted this amount, which is the actuarial valuation of the Appointed Actuary. The method by which the actuarial valuation is completed recognises the inherent risk and uncertainty with recovery of the full gross amount. An amount of $17.7 million (2016: $20.7 million) will be payable to reinsurers on receipt from EQC of these balances. The amount payable to reinsurers may vary depending on the balance collected from EQC.

Tower acknowledges that the EQC recoveries relating to Canterbury earthquakes are an area of significant accounting estimation and judgement, including earthquake event allocation, litigation risk factors and other actuarial assumptions discussed in Note 8.

Reinsurance contract in dispute

Tower is party to an arbitration process with Peak Re regarding an Adverse Development Cover (ADC) policy entered into in 2015 with the recovery valued at $43.75 million. Currently Tower anticipates the arbitration will take place in March 2018 with a decision by mid-2018. Tower remains confident that it will be successful but both the process and the hearing hold risk and collection of the owed amount is not certain. An adverse outcome could lead to a nil recovery due to the binary nature of the process.

The ADC provides for recovery of claims cost on the February 2011 earthquake. The maximum value of the ADC recovery is $43.75 million which has been fully recognised in the calculation of Tower's net claims expense in respect of the Canterbury earthquakes (refer to Note 8).

15. Intangible Assets

	GOODWILL	SOFTWARE ACQUIRED	SOFTWARE INTERNALLY DEVELOPED	SOFTWARE UNDER DEVELOPMENT	TOTAL
	$000	$000	$000	$000	$000
Year Ended 30 September 2017					
Cost:					
Opening balance	17,744	5,020	31,305	4,554	58,623
Additions	–	82	5,740	6,237	12,059
Disposals	–	(6)	–	(17)	(23)
Transfers	–	–	–	(5,822)	(5,822)
Foreign exchange movements	–	1	–	–	1
Transfers to Property, plant and equipment	–	–	–	(468)	(468)
Closing balance	**17,744**	**5,097**	**37,045**	**4,484**	**64,370**
Accumulated amortisation:					
Opening balance	–	(4,265)	(22,376)	–	(26,641)
Amortisation charge	–	(235)	(6,160)	–	(6,395)
Foreign exchange movements	–	(1)	1	–	–
Closing balance	**–**	**(4,501)**	**(28,535)**	**–**	**(33,036)**
Net book value					
At cost	17,744	5,097	37,045	4,484	64,370
Accumulated amortisation	–	(4,501)	(28,535)	–	(33,036)
Closing net book value	**17,744**	**596**	**8,510**	**4,484**	**31,334**
Year Ended 30 September 2016					
Cost:					
Opening balance	17,744	4,223	34,861	14,279	71,107
Additions	–	846	339	7,070	8,255
Disposals	–	(39)	–	–	(39)
Transfers	–	–	–	(339)	(339)
Transfers to Property, plant and equipment	–	–	–	(702)	(702)
Foreign exchange movements	–	(10)	–	–	(10)
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**

Software

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

Internally generated intangible assets are recorded at cost which includes all the directly attributable costs necessary to create, produce and prepare the asset capable of operating in the manner intended by management. Amortisation of internally generated intangible assets begins when the asset is available for use and is amortised on a straight line basis over the estimated useful life.

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

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

Impairment of software

The Group has reviewed the carrying value of software intangible assets (both internally developed and under development) for indicators of impairment as at 30 September 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.

The review was undertaken in light of expectations for future technology platforms required to support growth in the New Zealand and Pacific insurance businesses. The Directors concluded that no impairment of software intangible assets was required as at 30 September 2017.

An impairment charge of $19.65 million was recorded at 31 March 2016, and was recognised in the 30 September 2016 financial statements relating to Internally developed software and Software under development categories.

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the entity acquired, at the date of acquisition. Following initial recognition, goodwill on acquisition of a business combination is not amortised but is tested for impairment bi-annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

Any impairment is recognised immediately in the income statement.

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

Impairment testing for goodwill

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

	2017 $000	2016 $000
Carrying amount of goodwill	17,744	17,744

Impairment of goodwill is a key area of judgement.

Goodwill is subject to impairment testing at the cash-generating unit level every six months. No impairment loss has been recognised in 2017 as a result of the impairment review (2016: Nil).

Impairment review method

The recoverable amount of the general insurance business has been assessed with reference to its appraisal value to determine its value in use. A base discount rate of 14% was used in the calculation (2016: 14%). Other assumptions used are consistent with the actuarial assumptions in Note 27 in respect of Tower Insurance. The cash flows were projected over the expected life of the policies. The projected cash flows are determined based on past performance and management's expectations for market developments with a terminal growth rate of 2% (2016: 2%).

Sensitivity to changes in assumptions

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

16. Deferred Acquisition Costs

	2017 $000	2016 $000
Balance at the beginning of year	19,973	20,277
Acquisition costs during the year	20,961	19,973
Current period amortisation	(19,973)	(20,277)
Total deferred acquisition costs	**20,961**	**19,973**
Analysed as:		
Current	20,961	19,973
Non-current	–	–
Total deferred acquisition costs	**20,961**	**19,973**

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

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

17. Property, Plant and Equipment

	LAND AND BUILDINGS $000	OFFICE EQUIPMENT & FURNITURE $000	MOTOR VEHICLES $000	COMPUTER EQUIPMENT $000	TOTAL $000
For the Year Ended 30 September 2017					
Cost					
Opening balance	2,710	7,481	1,277	14,038	25,506
Additions	–	291	69	754	1,114
Revaluations	247	–	–	–	247
Disposals	(27)	(74)	(231)	(19)	(351)
Foreign exchange movements	29	17	7	(9)	44
Closing balance	**2,959**	**7,715**	**1,122**	**14,764**	**26,560**
Accumulated depreciation					
Opening balance	–	(2,004)	(930)	(13,061)	(15,995)
Depreciation	–	(928)	(93)	(1,011)	(2,032)
Disposals	–	57	188	16	261
Foreign exchange movements	–	(5)	(2)	(7)	(14)
Closing balance	**–**	**(2,880)**	**(837)**	**(14,063)**	**(17,780)**
Closing balance					
Cost / revaluation	2,959	7,715	1,122	14,764	26,560
Accumulated depreciation	–	(2,880)	(837)	(14,063)	(17,780)
Net book value	**2,959**	**4,835**	**285**	**701**	**8,780**
For the Year Ended 30 September 2016					
Cost					
Opening balance	2,754	6,749	1,396	13,597	24,496
Additions	–	1,182	203	619	2,004
Revaluations	181	–	–	–	181
Disposals	–	(85)	(122)	(33)	(240)
Foreign exchange movements	(225)	(365)	(200)	(145)	(935)
Closing balance	**2,710**	**7,481**	**1,277**	**14,038**	**25,506**
Accumulated depreciation					
Opening balance	–	(1,513)	(1,022)	(11,740)	(14,275)
Depreciation	–	(840)	(170)	(1,428)	(2,438)
Disposals	–	82	124	7	213
Foreign exchange movements	–	267	138	100	505
Closing balance	**–**	**(2,004)**	**(930)**	**(13,061)**	**(15,995)**
Closing balance					
Cost / revaluation	2,710	7,481	1,277	14,038	25,506
Accumulated depreciation	–	(2,004)	(930)	(13,061)	(15,995)
Net book value	**2,710**	**5,477**	**347**	**977**	**9,511**

17. Property, Plant and Equipment (continued)

Property, plant and equipment

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

Land and buildings

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

Depreciation

Depreciation is calculated using the straight line method to allocate the assets' cost or revalued amounts, net of any residual amounts, over their useful lives. The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount.

Computer equipment	3 – 5 years
Furniture & fittings	5 – 9 years
Motor Vehicles	5 years
Buildings	50 – 100 years
Leasehold property improvements	3 – 12 years

Land and buildings are located in Fiji and are stated at fair value. Fair value is determined using an income approach whereby future rental streams are capitalised at a rate appropriate for the type of property and lease arrangement. This value is then adjusted to take into account recent market activity. Valuation was performed as at 30 August 2017 by Rolle Associates, registered valuers in Fiji. There has been no material movement in the valuation between 30 August 2017 and 30 September 2017. Inputs to the valuation of the Fiji property are considered to be based on non-observable market data, thus classified as level 3 in the fair value hierarchy. Inputs include gross rentals per square meter of similar property in the Suva area, recent comparable sales of commercial property in Suva and a capitalisation rate of 7.0% (2016: 7.0%).

Had land and buildings been recognised under the cost model the carrying amount would have been $1,145,000 (2016: $1,145,000). The revaluation surplus for the period is recorded in other comprehensive income and has no restrictions on the distribution of the balance to shareholders.

18. Payables

	2017 $000	2016 $000
Trade payables	16,479	16,125
Reinsurance payables	4,063	4,445
Payable to other insurers	2,590	2,798
Other payables	27,992	26,132
Total payables	**51,124**	**49,500**
Analysed as:		
Current	51,124	49,500
Non current	–	–
	51,124	**49,500**

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

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

At 30 September 2017 there was $2.6 million (2016: $2.8 million) recorded within Payables as funds held on behalf of other insurers in respect of SPP claims. Refer also to Note 12 for further details on cash held in respect of multi-unit claims as lead insurer.

19. Provisions

	2017 $000	2016 $000
Employee benefits	5,773	4,177
Total provisions	**5,773**	**4,177**
Analysed as:		
Current	5,592	4,037
Non current	181	140
Total provisions	**5,773**	**4,177**

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

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

20. Insurance Liabilities

	2017 $000	2016 $000
Unearned premiums	154,848	150,807
Outstanding claims	171,156	210,202
Additional risk margin	10,000	–
Total insurance liabilities	**336,004**	**361,009**
Analysed as		
Current	297,190	291,845
Non current	38,814	69,164
Total insurance liabilities	**336,004**	**361,009**

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

	2017 $000	2016 $000
Opening balance	150,807	155,677
Premiums written	296,855	288,537
Premiums earned	(292,153)	(293,911)
Foreign exchange movements	(661)	504
Closing balance	**154,848**	**150,807**

Outstanding claims are measured at the central estimate of the present value of expected future payments after allowing for inflation and discounted at the risk free rate. In addition a risk margin is added to the claims provision to recognise the inherent uncertainty of the central estimate and to ensure provision is at least at 75% probability of sufficiency.

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

Provision has been made for the estimate of claim recoveries from third parties.

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

Refer to Note 8 for further details on the additional risk margin.

21. Distributions to Shareholders

Dividend payments

There were no Tower Limited dividend payments during the year ended 30 September 2017.

The final dividend for the 2015 financial year of 7.5 cents per share 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 Dividend Reinvestment Plan was not offered.

The interim dividend for the 2016 financial year of 8.5 cents per share was paid on 30 June 2016. The total amount paid was $14,336,340. There were no imputation credits attached to the dividend and the Dividend Reinvestment Plan was not offered.

Return of capital

There was no return of capital during the year ended 30 September 2017.

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 year ended 30 September 2017.

In 2015 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.

22. Borrowings

	CURRENCY	INTEREST RATE	ROLLOVER DATE (DRAWN) / MATURITY DATE (UNDRAWN)	FACE VALUE	UNAMORTISED COSTS	CARRYING VALUE	FAIR VALUE
				$000	$000	$000	$000
As at 30 September 2017							
Bank facilities (drawn)	NZD	4.505%	13-Nov-17	30,000	(79)	29,921	29,921
Bank facilities (undrawn)	NZD	Variable	9-Sep-19	20,000	–	–	–
Total borrowings					**(79)**	**29,921**	**29,921**
As at 30 September 2016							
Bank facilities (undrawn)	NZD	Variable	9-Sep-19	50,000	–	–	–
Total borrowings					**–**	**–**	**–**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

22. Borrowings (continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. The fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

	2017 $000	2016 $000
Analysed as		
Current	29,921	–
Non current	–	–
Total borrowings	**29,921**	**–**

Standby credit facility

The Company entered into a cash advance facility with Bank of New Zealand on 7 September 2016. The facility provides for an amount of up to $50.0 million that can be drawn for general corporate purposes over a three year term and is subject to normal terms and conditions for a facility of this nature, including financial covenants.

In May 2017, the Company utilised the cash advance facility agreement. An amount of $30.0 million was drawn (from the available $50.0 million). Funds were used for new share capital within Tower Insurance Limited.

Covenants

All borrowings are unsecured and are subject to various financial covenants. The Company has fully complied with all covenants during the year ended 30 September 2017.

23. Contributed Equity

	2017 $000	2016 $000
Ordinary share capital (fully paid)	382,172	382,172
Total contributed equity	**382,172**	**382,172**

Represented by:	2017 NUMBER OF SHARES	2016 NUMBER OF SHARES
Ordinary shares (issued and fully paid)	168,662,150	168,662,150
Movement in ordinary shares:		
Opening balance	168,662,150	169,983,470
Buyback of share capital	–	(1,321,320)
Closing balance	**168,662,150**	**168,662,150**

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

24. Reserves

	2017 $000	2016 $000
Foreign currency translation reserve (FCTR)		
Opening balance	(4,443)	791
Currency translation differences arising during the year	100	(5,234)
Closing balance	**(4,343)**	**(4,443)**
Separation Reserve		
Opening balance	(113,000)	(113,000)
Closing balance	**(113,000)**	**(113,000)**
Asset revaluation reserve		
Opening balance	671	513
Gain on revaluation, net of deferred tax	218	158
Closing balance	**889**	**671**
Total reserves	**(116,454)**	**(116,772)**

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

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

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

25. Net Assets per Share

	2017 $	2016 $
Net assets per share	1.28	1.33
Net tangible assets per share	0.90	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.

Reconciliation to net tangible assets is provided below:

	2017 $000	2016 $000
Net assets	**215,744**	**223,952**
Less: deferred tax	(32,405)	(29,370)
Less: intangible assets	(31,334)	(31,982)
Net tangible assets	**152,005**	**162,600**

26. Earnings per Share

Basic earnings per share is calculated by dividing the net profit attributed to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributed to shareholders of the Company by the weighted average number of ordinary shares on issue during the year adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

There was no dilutive impact on basic earnings per share for 2017 (2016: nil).

	2017 $000	2016 $000
Loss attributable to shareholders	(8,461)	(22,328)

	2017 NUMBER OF SHARES	2016 NUMBER OF SHARES
Weighted average number of ordinary shares for basic and diluted earnings per share	168,662,150	169,069,382

	2017 CENTS	2016 CENTS
Basic and diluted (loss) earnings per share	(5.02)	(13.21)

27. Insurance Business Disclosure

27A Net claims expense

	2017		
	RISKS BORNE IN CURRENT YEAR $000	RISKS BORNE IN PRIOR YEARS $000	TOTAL $000
Gross claims expense			
Direct claims – undiscounted	171,160	46,316	217,476
Movement in discount	43	28	71
Total gross claims expense	**171,203**	**46,344**	**217,547**
Reinsurance and other recoveries			
Reinsurance and other recoveries – undiscounted	(16,640)	(13,354)	(29,994)
Movement in discount	(1)	(1)	(2)
Total reinsurance recoveries	**(16,641)**	**(13,355)**	**(29,996)**
Net claims expense	**154,562**	**32,989**	**187,551**

	2016		
	RISKS BORNE IN CURRENT YEAR $000	RISKS BORNE IN PRIOR YEARS $000	TOTAL $000
Gross claims expense			
Direct claims – undiscounted	148,710	91,358	240,068
Movement in discount	53	17	70
Total gross claims expense	**148,763**	**91,375**	**240,138**
Reinsurance and other recoveries			
Reinsurance and other recoveries – undiscounted	(12,094)	(42,428)	(54,522)
Movement in discount	(3)	(1)	(4)
Total reinsurance recoveries	**(12,097)**	**(42,429)**	**(54,526)**
Net claims expense	**136,666**	**48,946**	**185,612**

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years including those arising due to the Canterbury earthquakes. Refer to Notes 7 and 8.

27B Outstanding claims

(a) Assumptions adopted in calculation of insurance liabilities

The estimation of outstanding claims as at 30 September 2017 has been carried out by the following Actuaries:

Rick Shaw, B.Sc. (Hons), FIAA, Appointed Actuary; and
Peter Davies, B.Bus.Sc, FIA, FNZSA.

The New Zealand actuarial assessments are undertaken in accordance with the standards of the New Zealand Society of Actuaries, in particular Professional Standard No. 30 "Valuations of General Insurance Claims". The Actuaries were satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The outstanding claims liability is set by the Actuaries at a level that is appropriate and sustainable to cover the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

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

	2017	2016
Inflation rates varied from	0.0% – 3.8%	0.0% – 3.8%
Inflation rates for succeeding year	0.0% – 3.8%	0.0% – 3.8%
Inflation rates for following years	0.0% – 3.8%	0.0% – 3.8%
Discount rates varied from	0.0% – 6.3%	0.0% – 6.3%
Discount rates for succeeding year	0.0% – 6.3%	0.0% – 6.3%
Discount rates for following years	0.0% – 6.3%	0.0% – 6.3%
Claims handling expense ratio	3.1% – 39.1%	0.0% – 56.4%
Risk margin	4.9% – 23.1%	6.3% – 21.8%

In addition to the risk margin range shown above, the total risk margin also includes $23,900,000, gross of reinsurance (2016: $17,700,000) associated with the Canterbury earthquakes.

Notes to the **Financial Statements**

For the **year** ended 30 September 2017

27. Insurance Business Disclosure (continued)

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

	2017	2016
Short tail claims within 1 year	within 1 year	within 1 year
Long tail claims in the Pacific Islands	1.0 to 1.8 years	0.9 to 1.8 years
Inwards reinsurance	greater than 10 years	greater than 10 years

Inflation rate

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

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

Discount rate

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

EQC recoveries

For each claim to which additional EQC recoveries relate, Tower has allocated recoverable amounts according to the quality of information and evidence available. Claims with primary evidence (e.g. independent expert documentation) have been assessed as having a strong position for recovery. Claims with non-primary evidence (e.g. general documentation like post code analysis or adjacent locations) will have a lower likelihood of recovery.

Apportionment

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

Claims handling expense

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

Risk margin

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

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

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

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

The risk margins applied to future claims payments are determined with the objective of achieving 75% probability of sufficiency for both the outstanding claims liability and the unexpired risk liability.

The following analysis is in respect of the insurance liabilities:

	2017 $000	2016 $000
Central estimate of expected present value of future payments for claims incurred	133,898	129,058
Risk margin	27,885	14,663
Claims handling costs	3,914	4,177
	165,697	**147,898**
Discount	(270)	(201)
Net outstanding claims	**165,427**	**147,697**

Reconciliation of movements in discounted outstanding claim liabilities

2017	GROSS $000	RE-INSURANCE $000	NET $000
Balance brought forward	210,202	(62,505)	147,697
Effect of change in foreign exchange rates	(553)	98	(455)
Incurred claims recognised in the income statement	217,547	(29,996)	187,551
Claim (payment) recoveries during the year	(246,040)	76,674	(169,366)
Total outstanding claims	**181,156**	**(15,729)**	**165,427**

2016	GROSS $000	RE-INSURANCE $000	NET $000
Balance brought forward	220,200	(65,914)	154,286
Effect of change in foreign exchange rates	699	3	702
Incurred claims recognised in the income statement	240,138	(54,526)	185,612
Claim (payment) recoveries during the year	(250,835)	57,932	(192,903)
Total outstanding claims	**210,202**	**(62,505)**	**147,697**

Reconciliation of movements in undiscounted claims to outstanding claim liabilities

	2017		
	GROSS $000	RE-INSURANCE $000	NET $000
Outstanding claims undiscounted	1,968	(367)	1,601
Discount	60	–	60
Outstanding claims	2,028	(367)	1,661
Short tail outstanding claims			163,766
Total outstanding claims			**165,427**

	2016		
	GROSS $000	RE-INSURANCE $000	NET $000
Outstanding claims undiscounted	1,731	(90)	1,641
Discount	(13)	2	(11)
Outstanding claims	1,718	(88)	1,630
Short tail outstanding claims			146,067
Total outstanding claims			**147,697**

(b) Sensitivity analysis

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

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

(c) Future net cash out flows

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

	2017 $000	2016 $000
Expected claim payments		
Within 3 months	50,622	39,580
3 to 6 months	32,137	22,255
6 to 12 months	43,064	19,234
After 12 months	39,604	66,628
Total outstanding claim liabilities	**165,427**	**147,697**

27C Risk management policies and procedures

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

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

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

The key policies in place to mitigate risks arising from writing insurance contracts include:

— comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;

— monitoring natural disasters such as earthquakes, floods, storms and other catastrophes using models; and

— the use of reinsurance to limit the Group's exposure to individual catastrophic risks.

(b) Concentration of insurance risk

RISK	SOURCE OF CONCENTRATION	RISK MANAGEMENT MEASURES
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection

27. Insurance Business Disclosure (continued)

(c) Development of claims

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

	ULTIMATE CLAIMS COST ESTIMATE						
	PRIOR $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	TOTAL $000
At end of incident year		113,839	123,816	138,878	137,220	154,562	
One year later		117,277	124,667	138,720	145,970		
Two years later		116,819	125,502	138,851			
Three years later		117,862	125,408				
Four years later		142,015					
Current estimate of ultimate claims cost		142,015	125,408	138,851	145,970	154,562	
Cumulative payments		(141,740)	(125,125)	(138,094)	(139,064)	(119,644)	
Undiscounted central estimate	90,759	275	283	757	6,906	34,918	133,898
Discount to present value	(3)	(3)	(11)	(8)	(19)	(226)	(270)
Discounted central estimate	90,756	272	272	749	6,887	34,692	133,628
Claims handling expense							3,914
Risk margin							27,885
Net outstanding claim liabilities							165,427
Reinsurance recoveries on outstanding claim liabilities and other recoveries							15,729
Gross outstanding claim liabilities							**181,156**

27D Liability adequacy test

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

If the unearned premium liability less related deferred acquisition costs exceeds the present value of expected future cash flows plus additional risk margin then the unearned premium liability is deemed to be adequate. The risk margins applied to future claims were determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability using the methodology described above. The unearned premium liabilities as at 30 September 2017 were sufficient (2016: sufficient).

	2017 %	2016 %
Central estimate claim % of premium	41.2%	45.3%
Risk margin	12.0%	9.3%

27E Insurer financial strength rating

Tower Insurance Limited has an insurer financial strength rating of 'A-' (Excellent) issued by international rating agency AM Best Company Inc. with an effective date of 16 August 2017.

27F Reinsurance programme

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

27G Solvency requirements

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.

The minimum solvency capital required to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 is shown below. Actual solvency capital exceeds the minimum solvency capital requirement for Tower Insurance Group by $96.3 million (2016: $73.8 million) and Tower Insurance parent by $87.9 million (2016: $64.3 million).

	TOWER INSURANCE LIMITED		TOWER INSURANCE LIMITED GROUP	
	UNAUDITED 2017 $000	UNAUDITED 2016 $000	AUDITED 2017 $000	AUDITED 2016 $000
Actual solvency capital	149,317	120,684	166,823	140,827
Minimum solvency capital	61,387	56,350	70,545	67,047
Solvency margin	**87,930**	**64,334**	**96,278**	**73,780**
Solvency ratio	**243%**	**214%**	**236%**	**210%**

The Reserve Bank of New Zealand imposed a condition of license requirement for Tower Insurance Limited to maintain a minimum solvency margin of $50.0 million. This minimum solvency requirement continues to be a requirement for Tower Insurance Limited.

27H Assets backing insurance business

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

Assets backing insurance liabilities are managed in accordance with approved investment mandate agreements on a fair value basis and are reported to the Board on this basis.

28. Financial Instruments

28A Financial instrument categories

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

(i) Loans and receivables

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

(ii) Financial liabilities at amortised cost

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

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

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

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the income statements. The net gain or loss recognised in the income statements includes any dividend or interest earned on the financial assets.

Derivatives are categorised as held for trading unless they are designated as hedges. All derivatives entered into by the Group are classified as held for trading.

(iv) Fair value

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

(v) Offsetting financial instruments

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

The Group does not hold financial assets and financial liabilities subject to offsetting arrangements other than cash and cash equivalents. Refer to Note 12.

(vi) Derecognition

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

28. Financial Instruments (continued)

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

	TOTAL $000	AT AMORTISED COST LOANS AND RECEIVABLES $000	AT AMORTISED COST FINANCIAL LIABILITIES $000	AT FAIR VALUE THROUGH PROFIT OR LOSS DESIGNATED $000	AT FAIR VALUE THROUGH PROFIT OR LOSS HELD FOR TRADING $000
As at 30 September 2017					
Assets					
Cash and cash equivalents	102,876	102,876	–	–	–
Trade and other receivables	257,964	257,964	–	–	–
Investments	167,702	–	–	167,702	–
Derivative assets	231	–	–	231	–
Total financial assets	**528,773**	**360,840**	**–**	**167,933**	**–**
Liabilities					
Trade and other payables	25,814	–	25,814	–	–
Borrowings	29,921	–	29,921	–	–
Total financial liabilities	**55,735**	**–**	**55,735**	**–**	**–**
As at 30 September 2016					
Assets					
Cash and cash equivalents	92,228	92,228	–	–	–
Trade and other receivables	253,115	253,115	–	–	–
Investments	188,522	–	–	188,522	–
Derivative assets	57	–	–	57	–
Total financial assets	**533,922**	**345,343**	**–**	**188,579**	**–**
Liabilities					
Trade and other payables	26,532	–	26,532	–	–
Derivative financial liabilities	735	–	–	735	–
Total financial liabilities	**27,267**	**–**	**26,532**	**735**	**–**

28B Fair value of financial assets and liabilities

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

(i) Cash and cash equivalents

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

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

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The following fair value measurements are used:

- The fair value of fixed interest securities is based on the maturity profile and price/yield.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. At 30 September 2017, the Level 3 category included an investment in equity securities of $1,412,000 (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 valued by a third party independent valuer. The valuation has been calculated using the Income Capitalisation Approach and a sensitivity analysis has been performed later in this note.

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

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

(iv) Derivative financial liabilities and assets

The fair value of derivative financial liabilities and assets is determined by reference to market accepted valuation techniques using observable market inputs. There have been no transfers between levels of the fair value hierarchy during the current financial period (30 September 2016: nil).

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

	TOTAL $000	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000
As at 30 September 2017				
Assets				
Investment in equity securities	1,412	–	–	1,412
Investments in fixed interest securities	166,256	–	166,256	–
Investments in property securities	34	–	34	–
Investments	167,702	–	166,290	1,412
Derivative financial assets	231	–	231	–
Total financial assets	**167,933**	**–**	**166,521**	**1,412**
Liabilities				
Borrowings	29,921	–	29,921	–
Total financial liabilities	**29,921**	**–**	**29,921**	**–**
As at 30 September 2016				
Assets				
Investment in equity securities	1,406	–	–	1,406
Investments in fixed interest securities	187,082	–	187,082	–
Investments in property securities	34	–	34	–
Investments	188,522	–	187,116	1,406
Derivative financial assets	57	–	57	–
Total financial assets	**188,579**	**–**	**187,173**	**1,406**
Liabilities				
Derivative financial liabilities	735	–	735	–
Total financial liabilities	**735**	**–**	**735**	**–**

The following table represents the changes in Level 3 instruments:

	INVESTMENT IN EQUITY SECURITIES 2017 $000	2016 $000
Opening balance	1,406	1,972
Total gains and losses recognised in profit or loss	(3)	(163)
Foreign currency movement	9	(403)
Closing balance	**1,412**	**1,406**

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

	CARRYING AMOUNT $000	FAVOURABLE CHANGES OF 10% $000	UNFAVOURABLE CHANGES OF 10% $000
As at 30 September 2017			
Investment in equity securities	1,412	141	(141)
As at 30 September 2016			
Investment in equity securities	1,406	141	(141)

28C Impairment of financial assets

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

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

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

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

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

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

29. Risk Management

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

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

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

29 Risk Management (continued)

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

The Board has responsibility for:

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

29A Market risk

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

The impact of reasonably possible changes in market risk on the Group shareholders' profit and equity is included in Note 29F.

(i) Currency risk

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

Tower Limited's principal transactions are carried out in New Zealand dollars and its exposure to foreign exchange risk arises primarily with respect to the Pacific Island insurance business.

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

The Board sets limits for the management of currency risk arising from its investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to. In accordance with this policy, Tower Insurance does not hedge the currency risk arising from translation of the financial statements of foreign operations other than through net investment in foreign operations.

(ii) Interest rate risk

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

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

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

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The exposure is not considered to be material. Refer to Note 29F.

29B Credit risk

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

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

(i) Credit risk concentration

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

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

	CARRYING VALUE	
	2017 $000	2016 $000
New Zealand government	8,184	3,744
Other government agencies	18,412	12,390
Banks	229,526	237,842
Financial institutions	13,241	25,770
Other non-investment related receivables	257,964	252,736
Total financial assets with credit exposure	**527,327**	**532,482**

(ii) Maximum exposure to credit risk

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

	CARRYING VALUE	
	2017 $000	2016 $000
Cash and cash equivalents	102,876	92,228
Loans and receivables	257,964	253,115
Financial assets at fair value through profit or loss	166,256	187,082
Derivative financial assets	231	57
Total credit risk	**527,327**	**532,482**

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

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

	CARRYING VALUE	
	2017 $000	2016 $000
Credit exposure by credit rating		
AAA	67,201	81,795
AA	184,233	180,515
A	527	412
BBB	–	–
Below BBB	15,706	12,437
Total counterparties with external credit ratings	**267,667**	**275,159**
Group 1	205,601	234,274
Group 2	–	–
Group 3	1,696	6,026
Total counterparties with no external credit rating	**207,297**	**240,300**
Total financial assets neither past due nor impaired with credit exposure	**474,964**	**515,459**

Group 1 – trade debtors outstanding for less than 6 months

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

Group 3 – unrated investments

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

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

No financial assets have been renegotiated in the past year (2016: nil).

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

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

	LESS THAN 30 DAYS $000	31 TO 60 DAYS $000	61 TO 90 DAYS $000	OVER 90 DAYS $000	TOTAL $000
As at 30 September 2017					
Reinsurance recoveries receivable	3,735	2,680	1,999	35,491	43,905
Outstanding premiums and trade receivables	5,026	1,754	1,268	410	8,458
Total	**8,761**	**4,434**	**3,267**	**35,901**	**52,363**

	LESS THAN 30 DAYS $000	31 TO 60 DAYS $000	61 TO 90 DAYS $000	OVER 90 DAYS $000	TOTAL $000
As at 30 September 2016					
Reinsurance recoveries receivable	1,875	2,442	45	3	4,365
Outstanding premiums and trade receivables	3,150	7,978	1,244	285	12,657
Total	**5,025**	**10,420**	**1,289**	**288**	**17,022**

(vi) Financial assets that are individually impaired

	CARRYING VALUE	
	2017 $000	2016 $000
Outstanding premiums and trade receivables	–	–
Total	**–**	**–**

29C Financing and liquidity risk

Financing and liquidity risk is the risk that the Group will not be able to meet its cash outflows or refinance debt obligations, as they fall due, because of lack of liquid assets or access to funding on acceptable terms. To mitigate financing and liquidity risk the Group maintains sufficient liquid assets to ensure that the Group can meet its debt obligations and other cash outflows on a timely basis.

Financial liabilities and guarantees by contractual maturity

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

	CARRYING VALUE	TOTAL CONTRACTUAL CASH FLOWS	LESS THAN ONE YEAR	ONE TO TWO YEARS	TWO TO THREE YEARS	THREE TO FIVE YEARS
	$000	$000	$000	$000	$000	$000
As at 30 September 2017						
Financial liabilities						
Trade payables	19,069	19,069	19,069	–	–	–
Reinsurance payables	4,063	4,063	4,063	–	–	–
Other payables	2,682	2,682	2,682	–	–	–
Derivative financial liabilities	–	–	–	–	–	–
Borrowings	29,921	29,921	29,921	–	–	–
Total	**55,735**	**55,735**	**55,735**	**–**	**–**	**–**
As at 30 September 2016						
Financial liabilities						
Trade payables	18,923	18,923	18,923	–	–	–
Reinsurance payables	4,445	4,445	4,445	–	–	–
Other payables	3,164	3,164	3,164	–	–	–
Derivative financial liabilities	735	735	735	–	–	–
Total	**27,267**	**27,267**	**27,267**	**–**	**–**	**–**

Notes to the **Financial Statements**

For the **year** ended 30 September 2017

29 Risk Management (continued)

29D Fair value of financial assets and liabilities

Refer to Note 28B, which discusses the fair value of financial assets and liabilities.

29E Derivative financial instruments

The Group utilises derivative financial instruments to reduce investment risk. Specifically, derivatives are used to achieve cost effective short-term re-weightings of asset class, sector and security exposures and to hedge portfolios, as an economic hedge, when a market is subject to significant short-term risk.

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

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

	AVERAGE CONTRACTED FIXED INTEREST		NOTIONAL PRINCIPAL AMOUNT		FAIR VALUE	
	2017 %	2016 %	2017 $000	2016 $000	2017 $000	2016 $000
Less than 1 year	0%	0%	25,249	29,419	166	(735)
1 to 2 years	0%	0%	–	–	–	–
2 to 5 years	2%	2%	20,580	12,000	65	57
Over 5 years	0%	0%	–	–	–	–
			45,829	**41,419**	**231**	**(678)**

29F Sensitivity analysis

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

(i) Interest rate

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

	2017 IMPACT ON:		2016 IMPACT ON:	
	PROFIT AFTER TAX $000	EQUITY $000	PROFIT AFTER TAX $000	EQUITY $000
Change in variables				
+ 50 basis points	(511)	(511)	(515)	(515)
- 50 basis points	409	409	469	469

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

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

(ii) Foreign currency

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

	2017 IMPACT ON:		2016 IMPACT ON:	
	PROFIT AFTER TAX $000	EQUITY $000	PROFIT AFTER TAX $000	EQUITY $000
Change in variables				
10% appreciation of New Zealand dollar	292	(2,380)	86	(2,284)
10% depreciation of New Zealand dollar	(357)	2,909	(105)	2,791

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

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

(iii) Equity price

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The Group does not hold any listed equities at fair value through profit or loss (2016: nil).

(iv) Other price

Other price sensitivity includes sensitivity to unit price fluctuations. Unit price risk is the risk that the fair value of investments in property fund units and international equities held in unit trusts will decrease as a result of changes in the value of these units.

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

	2017 IMPACT ON:		2016 IMPACT ON:	
	PROFIT AFTER TAX $000	EQUITY $000	PROFIT AFTER TAX $000	EQUITY $000
Change in variables				
+ 10% property funds and other unit trusts	2	2	2	2
- 10% property funds and other unit trusts	(2)	(2)	(2)	(2)

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

30. Capital Risk Management

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

The Group's capital resources include shareholders' equity.

	NOTE	2017 $000	2016 $000
Tower shareholder equity		214,419	222,578
Standby credit facility (undrawn)	22	20,000	50,000
Total capital resources		**234,419**	**272,578**

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

The Group is required by RBNZ to maintain a minimum solvency margin of no less than $50.0 million (2016: $50.0 million) in Tower Insurance Limited. The actual solvency capital as determined under the solvency standards is required to exceed the minimum solvency capital level by at least this amount.

During the year ended 30 September 2017 the Group complied with all externally imposed capital requirements.

The Group holds assets in excess of the levels specified by the various solvency requirements to ensure that it continues to meet the minimum requirements under a reasonable range of adverse scenarios. The Group's capital management strategy forms part of the Group's broader strategic planning process overseen by the Audit and Risk Committee of the Board.

31. Operating Leases

	2017 $000	2016 $000
As lessee		
Rent payable to the end of the lease terms are:		
Not later than one year	2,806	3,044
Later than one year and not later than five years	7,444	7,763
Later than five years	2,010	3,733
	12,260	**14,540**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the services are received over the period of the lease. Operating lease payments represent future rentals payable for office space under current leases. Initial leases were for an average of four years with rental rates reviewed every two to six years.

32. Subsidiaries

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

NAME OF COMPANY	COUNTRY INCORPORATED IN	HOLDINGS 2017	HOLDINGS 2016	NATURE OF BUSINESS
Incorporated in New Zealand				
Tower Financial Services Group Limited	NZ	100%	100%	Holding company
Tower Insurance Limited	NZ	100%	100%	General insurance
Tower New Zealand Limited	NZ	100%	100%	Management services
Incorporated Overseas				
Tower Insurance (Cook Islands) Limited	Cook Islands	100%	100%	General insurance
Tower Insurance (Fiji) Limited	Fiji	100%	100%	General insurance
Tower Insurance (PNG) Limited	PNG	100%	100%	General insurance
National Pacific Insurance Limited	Samoa	71%	71%	General insurance
Tower Insurance (Vanuatu) Limited	Vanuatu	100%	100%	General insurance

33. Transactions with Related Parties

33A Key management personnel compensation

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

	2017 $000	2016 $000
Salaries and other short term employee benefits paid	4,244	4,219
Independent director fees	509	565
	4,753	**4,784**

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

33B Loans to key management personnel

There have been no loans made to directors of the Company and other key management personnel of the Group, including their personally related parties (2016: nil).

33C Other transactions with key management personnel

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

Notes to the **Financial Statements**

For the **year** ended 30 September 2017

34. Contingent Liabilities

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

Under the Fairfax mutual termination agreement, a break fee of $1.57 million is payable to Fairfax if another party completes an acquisition of Tower by 31 August 2018.

The Group has no other contingent liabilities (2016: nil).

35. Capital Commitments

The Group has no capital commitments at reporting date (2016: nil).

36. Subsequent Events

Capital raise process

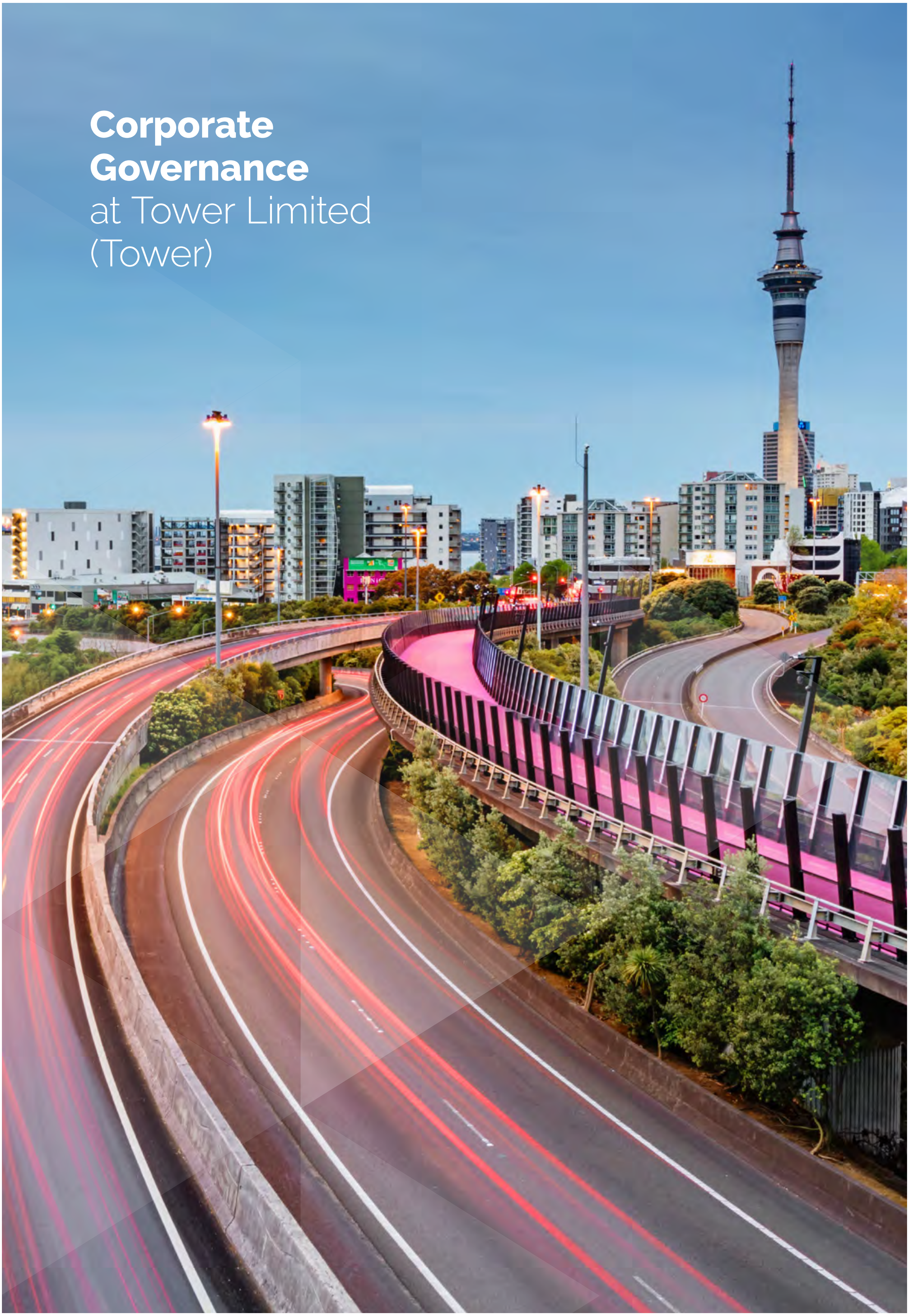
The Tower Board has announced it will undertake a capital raising process commencing 14 November 2017. The capital raise will be by way of a fully underwritten, renounceable rights issue. An amount of approximately $70.8 million gross of fees will be raised, with rights offered at a ratio of 1 for every 1 ordinary shares held on the record date of 22 November 2017. It is expected new shares will be allotted and quoted on NZX and ASX in December 2017. Capital will be utilised to repay the BNZ banking facility partially drawn in May 2017 and to allow accelerated growth in Tower's strategy.

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

On 7 November 2017, Tower advised that the SIA with Suncorp had passed its end date and had been terminated. Suncorp subsequently announced that as a result, it would no longer be proceeding with its appeal of the Commerce Commission's decision to decline its application to acquire Tower.

Following Suncorp's announcement, the Tower Board withdrew its cross appeal against the Commerce Commission's decision.

Corporate Governance at Tower Limited (Tower)



This section of the Annual Report provides an overview of the corporate governance principles, policies and processes adopted and followed by Tower's Board.

The Board is committed to achieving the highest standards of corporate governance, ethical behaviour, and accountability, and has implemented corporate governance practices that are consistent with best practice. Where developments arise in corporate governance, the Board reviews Tower's practices and incorporates changes where appropriate.

Governance Framework

Tower Limited is a company incorporated in New Zealand under the Companies Act 1993 (NZ) ('Companies Act'), whose fully paid ordinary shares ('Shares') are listed on the NZX Main Board and Australian stock exchange ('NZX' and 'ASX'). Tower changed its ASX admission category to 'ASX Foreign Exempt Listing' on 18 May 2016. As an ASX Foreign Exempt Listing, Tower is primarily regulated by the listing rules of its home exchange (being the NZX Main Board (NZX)) and is exempt from complying with most of ASX's Listing Rules.

Compliance

In addition to compliance with the NZX listing rules, Tower's corporate governance framework also requires compliance with the NZX Corporate Governance Best Practice Code (NZX Code) and the Financial Markets Authority's 'Corporate Governance in New Zealand: Principles and Guidelines' handbook (FMA Handbook).

Tower Insurance Limited, a subsidiary of Tower Limited, is licensed to undertake general insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010 (IPSA). Tower Insurance Limited must comply with the requirements of IPSA, and is regulated by the Reserve Bank of New Zealand. Further information on Tower Insurance Limited's governance structure is contained in its annual report which is registered each year with the Companies Office.

For the reporting period to 30 September 2017, the Board considers that Tower's corporate governance practices have materially adhered to the NZX Code and the FMA Handbook, other than as outlined in this corporate governance section.

In May 2017, NZX published a new Corporate Governance Code (new Code), which will replace the existing NZX Code from 31 December 2017.

While Tower's Board has opted not to voluntarily report early against the new Code, Tower fully supports the new Code and is undertaking a review of its governance practices to ensure alignment with the new Code. Tower has amended the structure of this year's Corporate Governance section to better align with the new Code, and the content of reporting will comply with the new Code upon release of the FY18 annual report.

This statement is current as at 14 November 2017 and has been approved by Tower's Board.

More information

Tower's principal governance policies and practices can be found on Tower's website at https://www.tower.co.nz/investor-centre/corporate-governance.

Ethical behaviour

Code of Ethics

Tower is committed to acting responsibly and ethically, and meeting its legal and other obligations to shareholders, customers, employees and the wider community. Maintaining Tower's reputation for honesty and fairness is crucial to its success as a financial services business. To help achieve these goals, Tower has a Code of Ethics which sets out minimum standards of ethical behaviour. The Code of Ethics applies to Tower's directors, executives, employees and contractors.

The Code of Ethics is available to Tower's people on its staff intranet and website, and training is provided on the Code through the orientation process. The behavioural expectations set out in the Code of Ethics include:

- Acting honestly, with personal integrity, and in the best interests of Tower, its shareholders and stakeholders
- Avoiding situations in which personal interests interfere or appear to interfere with the interests of Tower, and advising of any such conflicts
- Proper receipt and use of Tower's corporate information, assets and property
- Taking appropriate action when giving and receiving gifts
- Adhering to whistleblowing procedures

The Code of Ethics requires any person who becomes aware of a breach or suspected breach of the Code to report it immediately to the Head of Risk and Controls or the People and Culture Team. Failure to comply with the Code of Ethics may lead to disciplinary action and, in serious cases, dismissal. All persons who disclose a breach will be protected in accordance with Tower's Whistleblower Policy.

Insider Trading and Market Manipulation Policy

Tower has an Insider Trading and Market Manipulation Policy which governs dealing in financial products. The policy applies to directors, employees, consultants and contractors and helps provide transparency around Tower's requirements in relation to financial dealing, in particular protecting Tower's people from the risk of breaching Insider Trading laws. The policy prohibits these people from trading and dealing in Tower shares while they are in possession of information that has not been released to the public and that is likely to have a material effect on the price of Tower securities. The policy also requires directors and designated employees to obtain prior consent to trade, and specifies blackout periods where all trading is prohibited.

The policy is available on Tower's staff intranet and website, and is circulated to all staff at the beginning of each blackout period.

Board composition and performance

Board charter

Tower's Board operates in accordance with a written charter which sets out the roles and responsibilities of the Board.

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

The Board reserves certain functions to itself. These include:

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

The Charter provides that the day-to-day leadership and management of the company is undertaken by the Chief Executive Officer and senior management. The Chief Executive Officer is solely accountable to the Board for management performance. The Chief Executive Officer has also formally delegated decision making to senior management within their areas of responsibility and subject to quantitative limits to ensure consistent and efficient decision making across the company. Senior management has no power to do anything which the Chief Executive Officer cannot do pursuant to his delegations. Within this formal delegation framework those executives who report directly to the Chief Executive Officer have authority to sub-delegate certain authorities to their direct reports.

The Board meets regularly with management to provide strategic guidance for Tower and effective oversight of management.

Nomination and Appointment of Directors to the Board

Tower's procedure for the nomination and appointment of directors to the Board is set out in Tower's Remuneration and Appointments Committee Terms of Reference. The Remuneration and Appointments Committee will identify and recommend to the Board suitable candidates for appointment as directors. The Committee will consider, among other matters, a candidate's:

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

To ensure that the Board appoints directors and officers who have appropriate skills, knowledge, experience and integrity to perform their duties and to fulfil their roles, Tower has developed a Fit and Proper Policy benchmarked to the requirements of the Insurance (Prudential Supervision) Act 2010 and the Fit and Proper Standard for Licensed Insurers, along with the Fit and Proper Policy Guidelines for Licensed Insurers issued by the Reserve Bank of New Zealand. All newly appointed directors and relevant officers are subject to Fit and Proper assessments prior to appointment. The Fit and Proper assessment considers a candidate's character, experience, education, criminal record, and credit history.

In the case of a candidate standing for election as a director for the first time, Tower will provide information to shareholders about the candidate to enable them to make an informed decision on whether or not to elect the candidate, including:

- Material adverse information revealed by any Fit and Proper checks
- Details of any interest, position, association or relationship that might influence, or reasonably be perceived to influence in a material respect the candidate's capacity to exercise judgement on board matters or to act in the best interests of Tower and its shareholders
- The Board's view on whether the candidate will be considered to be an independent director; and
- A recommendation by the Board in respect of the candidate's election.

Written agreements with directors

All Tower directors have entered into written agreements establishing the terms of their appointment. These written agreements include information relating to:

- Tower's expectations of the director in his or her role
- The director's expected time commitment to Tower (including other duties)
- Remuneration entitlements (including any superannuation included); and
- Indemnity and insurance arrangements.

Director profiles and independence

Profiles of Tower's directors are available at pages 18 and 19 of this report. Directors' independence is assessed in accordance with the requirements for independence set out in Tower's Board and Director Protocols. Those independence requirements are benchmarked against the Reserve Bank of New Zealand and NZX independence requirements.

At 30 September 2017, the Board comprised of five non-executive directors, four of whom are independent. In accordance with Tower's Board and Director Protocols, David Hancock is not independent as he has held an executive position at Tower within the last three years. Tower's constitution currently requires a minimum of five directors and provides for a maximum of eight.

Diversity policy

Tower has a written diversity policy which embodies Tower's commitment to pursuing an inclusive and flexible workplace. The Board is responsible for overseeing the implementation of Tower's Diversity Policy. The Remuneration and Appointments Committee are delegated responsibility to annually review and report on policy effectiveness and diversity within Tower.

Tower's business operations are spread across 11 sites in 9 different countries and Tower recognises the value of its diverse employee population as an essential driver of performance culture, brand and shareholder returns. An inclusive environment improves the quality of decision making, incentivises productivity, and creates innovation through collaboration. Tower's Board is committed to further developing an inclusive culture that encourages Tower's people to perform to their highest potential.

During FY17, Tower celebrated the diversity of its people through a number of initiatives, including International Women's Day, Harmony Day, Matariki, Eid Mubarak, Te Wiki O Te Reo Maori and Tongan Language Week.

Tower is also committed to attracting and retaining quality, passionate people who are dedicated to helping transform Tower's business. Throughout FY17, Tower's Executive Leadership Team, Senior Leadership Team and People Leaders participated in a leadership development programme focussed on developing key leadership skills and enhancing engagement. The leadership programme continues in FY18.

While the Board considers that Tower has addressed the requirements of its Diversity Policy, the Policy does not currently require the Board to set measurable objectives for achieving diversity. Tower's diversity programme remains under review and will be finalised in FY18 in accordance with the new Code.

The following table shows gender representation across Tower as at 30 September 2017. Tower acknowledges the lack of gender diversity on its Board and continues to actively recruit for new directors.

	2016-2017		2015-2016	
GROUP	% BY GROUP	NUMBER	% BY GROUP	NUMBER
Board of Directors				
Male	100%	5	100%	5
Female	0%	0	0%	0
Executive leadership team[1]				
Male	63%	5	63%	5
Female	37%	3	37%	3
Senior leadership team[2]				
Male	66%	21	50%	16
Female	34%	11	50%	16
Employees				
Male	42%	256	45%	231
Female	58%	352	55%	285
Total company[3]				
Male	44%	282	45%	252
Female	56%	366	55%	304

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

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

3. 'Total Company' figures do not include the Board of Directors. The 2016-2017 figures include Tower's Pacific Island subsidiaries, which were not included in the 2015-2016 figures.

Director training

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

Directors have unrestricted access to management and any additional information they consider necessary for informed decision making. Senior management also attend Board meetings in order to provide presentations to the Board and answer any queries directors may have.

Director, Board and Committee performance

The Board recognises that the performance of its directors and Board Committees is crucial to Tower's success and to the interests of its shareholders. The Board regularly reviews its own composition and performance and that of the Board Committees in accordance with the terms of the Board Charter. A performance evaluation of the Board and Board Committees was carried out by an external party in early 2017, in accordance with the Board Charter.

Independence of Chair and CEO

Tower's Chair is responsible for leading the board, facilitating the effective contribution of all directors and promoting constructive and respectful relations between the Board and management. The Chair of the Board is elected by the directors.

The Board supports the separation of the roles of Chair and Chief Executive Officer, and these roles are separate at Tower. Michael Stiassny was appointed Chair of Tower on 21 March 2013 and is independent.

Board committees

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

The Committees are governed by written terms of reference, which detail their specific functions and responsibilities. The terms of reference for each Committee are reviewed periodically.

The Committees make recommendations to the Board. They have no decision making ability except where expressly provided by the Board. The Board is required to annually confirm the membership and Chair of each of the Committees. The experience and skills of individual Committee members are set out in the directors' profiles on pages 18 and 19. Member attendance at each Committee meeting is set out on page 67.

Audit and Risk Committee

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

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

- independently and objectively review the financial information presented by management to the Board, the external auditors and the public and keep the Board informed about these matters
- review draft half year and annual financial statements and the external auditor's report, and make recommendations to the Board as to their adoption
- recommend the appointment and removal of, and oversee the performance of, the external auditor and be satisfied as to the auditor's independence
- review the effectiveness and efficiency of management processes, risk management and internal financial controls and control systems
- monitor and review compliance with regulatory and statutory requirements and obligations
- monitor the internal audit function and receive regular reports from the internal auditors on risks, exposures and compliance; and
- maintain unrestricted and direct lines of communication with the external and internal auditors.

The Committee meets with the external auditors at least twice per year and has regular contact with the internal audit function.

The Terms of Reference require that the Committee has a minimum of three non-executive directors, the majority of whom are independent. At least one must have a financial or accounting background. The Board appoints the Chair of the Committee, who cannot also be Chair of the Board, and who is an independent director.

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

Employee attendance at Committee meetings

Tower's employees may attend Audit and Risk Committee meetings only at the invitation of Chair of the Committee.

Remuneration and Appointments Committee

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

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

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

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

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

Management may attend Audit and Risk Committee meetings only at the invitation of Chair of the Committee.

The Company's remuneration policies for directors and senior executives are set out on page 69.

Nominations Committee

Tower's Remuneration and Appointments Committee carries out the functions of a nominations committee. The Committee's authority, duties, responsibilities and relationship with the Board are set out in the Remuneration and Appointments Committee's Terms of Reference. Tower's Board considers that due to its size and the nature of Tower's business, it is appropriate for its remuneration and nomination committees to be combined.

Other Committees

Tower's Board has the ability to establish additional subcommittees from time to time. During FY17, the Board established a Due Diligence Committee to consider the merits of undertaking a Capital Raise.

The Due Diligence Committee consisted of Michael Stiassny, Graham Stuart and Warren Lee. The Committee met 4 times up to 14 November 2017. The Committee made recommendations to the Board in relation to the Capital Raise and recommended on 14 November 2017 that the Tower Limited Board undertake to raise capital. The Capital Raise process completed on 20 December 2017.

Acquisition proposals

Tower was subject to two acquisition proposals during FY17. On 9 February 2017, Tower Limited announced it had entered into a Scheme Implementation Agreement (SIA) with Fairfax Financial Holdings Limited. Under this Agreement, Fairfax agreed to acquire 100% of Tower's shares at $1.17 per share for an aggregate purchase price of $197 million (the Fairfax proposal).

On 27 June 2017, Tower Limited announced it had entered into an SIA with Suncorp. Under this agreement, Suncorp agreed to acquire 100% of Tower's shares at $1.40 per share for an aggregate purchase price of $236 million (the Suncorp proposal).

The Fairfax SIA was mutually terminated on 29 June 2017 following announcement of the Suncorp proposal.

On 26 July 2017, the New Zealand Commerce Commission announced that it had declined Suncorp's application to purchase 100% of Tower shares. On 23 August 2017, Suncorp advised that they would appeal the Commerce Commission decision. On 5 September 2017 the Tower Limited Board lodged its own cross appeal against the Commerce Commission's decision.

On 7 November 2017, Tower advised that the SIA with Suncorp had passed its end date and had been terminated. Suncorp subsequently announced that as a result, it would no longer be proceeding with the appeal of the Commerce Commission's decision to decline its application to acquire Tower.

The Tower Board has withdrawn its cross appeal against the Commerce Commission's decision.

Throughout acquisition discussions, Tower's Board obtained advice from Chapman Tripp about the appropriate protocols to follow. The Board met on a regular basis to discuss developments in relation to the acquisition proposals.

A communication protocol was developed between information insiders and the proposed purchasers. The Board considers that all processes in relation to the acquisition proposals were robust.

Board and Committee meeting attendance

The following numbers of Board and Committee meetings were held during the year from 1 October 2016 to 30 September 2017:

- Board meetings – 33
- Audit and Risk Committee meetings – 5
- Remuneration and Appointments Committee – 1
- Capital Raise Due Diligence Committee – 2

The number of Board meetings held in FY17 was greater than usual due to the continued consideration of corporate activity throughout the year.

The Chief Executive Officer, Chief Financial Officer and Chief Risk Officer attend all Board and Audit and Risk Committee meetings. All meetings are attended by an appropriately qualified person who is responsible for taking accurate minutes of each meeting and ensuring that Board procedures are observed.

Director attendance at these meetings is set out below.

2016/2017 Tower Limited directors' attendance record

	TOWER LIMITED BOARD	AUDIT AND RISK COMMITTEE	REMUNERATION AND APPOINTMENTS COMMITTEE	CAPTIAL RAISE DUE DILIGENCE COMMITTEE
Meetings held (to 30 September 2017)	**33**	**5**	**1**	**2**
Michael Stiassny	33	5	1	2
Steve Smith	28	5	1	-
Graham Stuart	30	5	1	2
Warren Lee	33	5	1	2
David Hancock	25	4	-	-

Reporting and disclosure

Continuous disclosure policy

Tower recognises that public confidence in the integrity of Tower is based on continuous, full and open disclosure of information about its activities to the market and relevant stakeholders. Tower's Corporate Disclosure Policy provides for a planned, proactive communication programme with shareholders and the wider investment community to encourage their participation and interaction with Tower. Tower believes this communication programme assists in creating a fully informed market and enhances shareholder value. The Policy explains the respective roles of directors, officers and employees in relation to:

- Complying with Tower's continuous disclosure obligations
- Safeguarding the confidentiality of corporate information to avoid premature disclosure
- External communications, including analyst briefings
- Responding to or avoiding the emergence of a false market

The policy provides that only authorised spokespersons can communicate on behalf of Tower with the investment community, shareholders and the media.

Announcements

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

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

Key governance documents

Tower's website provides information to shareholders and investors about Tower. The website includes copies of past annual reports, results announcements, media releases (including NZX and ASX announcements) and general Tower information.

The following key governance documents are also available on Tower's Investor Centre website, https://www.tower.co.nz/investor-centre/corporate-governance/policies.

- Tower Limited constitution
- Board Charter
- Board Protocols
- Audit and Risk Committee Terms of Reference
- Remuneration and Appointments Committee Terms of Reference
- Insider Trading and Market Manipulation Policy
- Corporate Disclosure Policy
- External Audit Independence Policy
- Internal Audit Policy
- Code of Ethics
- Diversity Policy

Financial reporting

The Financial information contained in this annual report has been audited by Tower's external auditors, PwC, and complies with relevant financial reporting requirements under the Companies Act 1993, Financial Markets Conduct Act 2013, and the NZX Listing Rules.

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

Non-financial reporting

Tower recognises the importance of environmental, social and governance (ESG) practices for the long-term sustainability of its business. While Tower has not chosen to report against a formal ESG reporting framework, a number of initiatives have been undertaken in FY17 to promote sustainable processes and minimise waste. These include introducing a new recycling and composting initiative in Tower's offices; switching to the use of more sustainable stationery products across all New Zealand offices (21% of products used in Tower's offices now have environmental accreditation); and reducing paper usage by optimising digital platforms (with a 24% reduction in paper usage across Tower's Auckland office in FY17).

Tower is passionate about setting things right for our customers and their communities. All of Tower's people have the ability to take one volunteer day per year to give back to the community. Tower teams have volunteered their time and resources to clearing scrub and planting trees in Auckland, holding a family day at a home for orphaned children in Fiji, and donating water tanks for fresh, clean water to schools in the Solomon Islands.

Tower intends to develop an ESG framework in FY18, and continues to work on improving recording and reporting of sustainability measures.

Remuneration

Director remuneration

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

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

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

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

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

2016/2017 directors' remuneration and benefits of Tower and its subsidiaries

Amounts in the table below reflect fees paid and accrued for the year ended 30 September 2017.

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

DIRECTORS' REMUNERATION AND BENEFITS OF TOWER LIMITED	
FOR THE YEAR TO 30 SEPTEMBER 2017	FEES (NZ$)
Michael Stiassny	139,000
Graham Stuart	93,570
Steve Smith	87,570
Warren Lee	87,570
David Hancock	87,570

DIRECTORS' REMUNERATION AND BENEFITS OF TOWER LIMITED SUBSIDIARIES	
FOR THE YEAR TO 30 SEPTEMBER 2017	FEES
Alden Godinet[1]	$7,250
Rodney Reid[1]	$7,250
Isikeli Tikoduadua[2]	$9,000

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

Remuneration policy

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

Tower's Remuneration Policy will be updated in FY18, in accordance with the new Code and as appropriate for Tower's business.

CEO and senior executive remuneration

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

In September 2017, the Board renegotiated Richard Harding's contract, extending it for two years to December 2019. The new annual base salary is $772,500 plus a performance based short-term incentive of up to $500,000 per annum. As part of the renegotiation a retention payment of $750,000 was paid in September 2017, incorporating the 2017 short-term incentive and in lieu of future long-term incentive benefits which have been forgone under the new contract.

Employee remuneration

Set out in the following table are the number of employees or former employees of Tower, not being directors or former directors, who received remuneration and other benefits valued at or exceeding $100,000 for the year ended 30 September 2017. Remuneration includes redundancy payments and termination payments made during the year to employees whose remuneration would not otherwise have been included in the table. The remuneration bands are expressed in New Zealand Dollars.

FROM	TO	2016-2017	2015-2016
100,000	109,999	13	19
110,000	119,999	19	21
120,000	129,999	13	7
130,000	139,999	10	10
140,000	149,999	9	11
150,000	159,999	6	4
160,000	169,999	6	5
170,000	179,999	3	3
180,000	189,999	4	6
190,000	199,999	1	3
200,000	209,999	3	2
210,000	219,999	2	2
220,000	229,999	2	1
230,000	239,999	1	-
240,000	249,999	2	1
250,000	259,999	5	-
260,000	269,999	1	-
270,000	279,999	2	2
280,000	289,999	-	1
300,000	309,999	1	-
310,000	319,999	2	-
320,000	329,999	2	-
350,000	359,999	1	-
360,000	369,999	1	-
380,000	389,999	1	-
400,000	409,999	-	1
410,000	419,999	-	1
430,000	439,999	-	1
440,000	449,999	1	-
490,000	499,999	-	1
590,000	599,999	-	1
750,000	759,000	-	1
760,000+		1	–
Total		112	104

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

Risk management

Risk Management Framework

Tower has established a framework to identify, assess, monitor and manage exposure to risk. The framework applies to Tower and all of its subsidiaries and related companies, and all staff and contractors employed by Tower and any of its subsidiaries. At the forefront of this are the internal audit and compliance processes, and the risk management process for each operating company. Tower faces a range of risks that are inherent to the business activities undertaken. Executive and senior management and staff must be able to demonstrate that reasonable steps have been taken to effectively manage Tower's risks.

Tower maintains a risk register which records the likelihood and impact of relevant risks on Tower's business. Tower's Risk and Compliance team actively monitors the risk register, identifies key risks and notes steps taken to mitigate the risks. A Risk and Compliance report is provided at each Audit and Risk Committee meeting so that the Committee is aware of relevant risks and how they are being managed.

The Audit and Risk Committee regularly reviews its risk management procedures and framework to ensure that it complies with its legal obligations. Tower's Board has adopted a Risk Appetite Statement, which articulates the amount and type of risk that Tower is willing to take in order to meet its strategic objectives and provides direction to management on how to manage risks.

The Audit and Risk Committee is responsible for reviewing whether Tower has any material exposure to any economic, environmental and social sustainability risks, and if so, to develop strategies to manage such risks, and present such strategies to the Board. For the reporting period to 30 September 2017, no material exposure to these risks was identified.

Health and Safety risks

Health, safety and wellbeing of Tower's people is a key Board priority. Tower employs a Health and Safety Advisor to assist with the implementation and socialisation of policies and processes relating to health and safety. In addition, Tower has designated health and safety representatives at each of its sites in New Zealand and the Pacific. All of Tower's people are required to complete a health and safety e-learning module when they begin with Tower, and extensive information about health, safety and wellbeing is available on Tower's staff intranet. Additional health and safety training is undertaken by all Tower people in the field, including site assessors. Tower has robust health and safety standards in place for contractors and third party providers.

Monthly campaigns are run to raise awareness of health and safety matters. In FY17, health and safety campaigns included:

- Stress management awareness
- Cholesterol and diabetes screening
- World smokefree day
- Women's and men's health awareness
- Flu vaccines
- Heart health awareness

Tower's Board receives monthly Health and Safety reports which are considered and discussed at Board meetings. In FY17, Tower's management, health and safety representatives and assessors held a Health and Safety 'walk through' for the Board, during which the Board had an opportunity to query and clarify health and safety processes for assessors, contractors and third party providers.

The directors undertake periodic site visits to assess health and safety matters at Tower's various sites.

Auditors

External audit framework

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

PwC was re-appointed as auditor by shareholders at the Annual Shareholders' Meeting in March 2017 to audit the financial statements for Tower and its subsidiaries.

A formal engagement letter with PwC sets out the respective obligations and responsibilities of PwC and Tower in relation to the preparation and audit of financial statements.

The Board also has a formal External Audit Independence Policy that includes the provision of non-audit services by the external auditor.

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

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

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

The Policy is overseen by the Audit and Risk Committee. The external auditor generally attends all Audit and Risk Committee meetings.

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

Attendance at annual meeting

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

Internal audit functions

Tower has an internal audit function. The structure of that function, and the roles it performs, are set out in Tower's Internal Audit Policy.

The purpose of the internal audit function is to provide independent and objective assurance of the adequacy and effectiveness of the controls set up by management. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The scope of work of the internal audit function includes determining whether the organisation's network of risk management, compliance, control and governance processes, as designed and represented by management, is adequate. The internal audit function will complete reviews identified and agreed in the annual Internal Audit Plan.

The internal audit function is managed within the Risk & Controls function under the Chief Risk Officer and receives strategic support from the Audit and Risk Committee. The internal audit function has direct access to the Chief Executive Officer and the Chair of the Committee whenever required.

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

Shareholder rights and relations

Investor Centre website

Tower's website, www.tower.co.nz, provides information to shareholders and investors about Tower. The website includes copies of past annual reports, results announcements, media releases (including NZX and ASX announcements) and general Tower information.

Investor Communication

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

Tower shareholders can also contact Tower at investor.relations@tower.co.nz

Shareholder voting

Tower confirms its compliance with Listing Rule specifications in respect of obtaining shareholder approval. Where appropriate, Tower will conduct voting by polls at shareholder meetings.

Annual shareholder meeting

Tower is aware of the new Code requirements to provide notice of annual shareholder meetings 28 days prior to the meeting. Tower's next shareholder meeting will be held in March 2018 and a notice of meeting will be provided to shareholders in due course.

Statutory disclosures

Some information in this section is provided as at 14 November 2017, being less than 6 weeks before publication of this report. Note that following completion of the Capital Raise in December 2017, shareholder names and holdings will change.

Substantial product holders (as at 14 November 2017)

The names and holdings of Tower's substantial product holders based on notices filed with Tower under the Financial Markets Conduct Act 2013 as at 14 November 2017 were:

NAME	TOTAL ORDINARY SHARES[1]
Vero Insurance New Zealand Limited	33,732,429
Salt Funds Management Limited	16,965,182
Accident Compensation Corporation	12,285,273
Westpac Banking Corporation	9,173,589

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

Principal shareholders (as at 14 November 2017)

The names and holdings of the 20 largest registered Tower shareholders as at 14 November 2017 were:

NAME	TOTAL ORDINARY SHARES	%
Vero Insurance New Zealand Limited	33,732,429	19.99
HSBC Nominees (New Zealand) Limited	12,874,190	7.63
Accident Compensation Corporation	12,185,273	7.22
JBWere (NZ) Nominees Limited <NZ Resident A/C>	6,705,564	3.98
FNZ Custodians Limited	6,296,949	3.73
HSBC Nominees (New Zealand) Limited A/C State Street	6,204,944	3.68
BNP Paribas Nominees (NZ) Limited	4,929,513	2.92
Citibank Nominees (New Zealand) Limited	4,881,128	2.89
JP Morgan Chase Bank NZ Branch – Segregated Clients Acct	4,799,680	2.85
National Nominees New Zealand Limited	3,369,898	2.00
Citicorp Nominees Pty Limited	2,713,750	1.61
National Nominees Limited	1,669,461	0.99
Leveraged Equities Finance Limited	1,324,902	0.79
FNZ Custodians Limited <DTA Non Resident A/C>	677,331	0.40
Sheng-Fei Wang	650,000	0.39
Forsyth Barr Custodians Limited	563,939	0.33
Ronald James Woodrow	412,000	0.24
Hugh Green Foundation	403,846	0.24
Boris Pogos and Margot Pogos	400,000	0.24
Velkov Funds Management Limited	389,386	0.23

Directors' shareholdings

At 30 September 2017, Tower Limited directors held the following interests in Tower Limited shares:

	ORDINARY SHARES
DIRECTOR	BENEFICIAL
David Hancock	–
Steve Smith	9,230
Michael Stiassny	82,732
Graham Stuart	6,154
Warren Lee	2,000

Directors' trading in Tower securities

No directors disclosed acquisitions or disposals of relevant interests in Tower securities during the financial year pursuant to section 148 of the Companies Act 1993.

Shareholder analysis

Tower's shares are quoted on both the NZSX and ASX. As at 14 November 2017, 20,086 Tower shareholders held less than A$500 of Tower shares (i.e. less than a marketable parcel as defined in the ASX Listing Rules), holding a total of 8,202,616 Tower shares.

Total voting securities

As at 14 November 2017, Tower had 168,662,150 ordinary shares held by 26,901 holders. Tower's ordinary shares each carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney.

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

Tower Limited Shareholder Statistics (as at 14 November 2017)

HOLDING RANGE	HOLDER COUNT	HOLDER COUNT %	HOLDING QUANTITY (ORDINARY SHARES)	HOLDING QUANTITY %
1 to 1,000	20,245	75.26	8,361,328	4.96
1,001 to 5,000	4,732	17.59	9,749,140	5.78
5,001 to 10,000	838	3.12	6,203,877	3.68
10,001 to 100,000	1,002	3.72	27,032,718	16.03
100,001 and over	84	0.31	117,315,087	69.56
Total	26,901	100	168,662,150	100

Credit rating

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

Tower Insurance Limited
Financial Strength Rating A- (Excellent)
Issuer Credit Rating a-
Effective 17 August 2017

Tower Limited
Issuer Credit Rating bbb- (Good)
Effective 17 August 2017

Waivers

There were no applications to NZX or ASX for any waivers in the financial year ending 30 September 2017.

Interests register

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

General disclosures of interest

During the financial year, Tower Limited's directors disclosed interests, or a cessation of interests (indicated by an asterisk (*)), in the following entities pursuant to section 140 of the Companies Act 1993.

Any cessation of interest that occurred after 30 September 2017 is indicated by two asterisks (**).

David Hancock	
Afterpay Pty Limited	Director
Finarch Pty Limited	Director
Finclear Pty Limited	Director
Freedom Insurance Pty Limited	Chair
Warren Lee	
MyState Limited and subsidiary companies	Director
Steve Smith	
Fulton Hogan Limited and subsidiary companies	Director
Hellaby Holdings Limited	Chair*
Kinrich Trust	Trustee
Kinrich Holdings Limited	Director
Summerlee Investments Limited	Director
Unison Securities Limited	Director
Unison Capital Advisors Limited	Director
Pascaro Investments Limited	Chair
Trebol Investments Limited and subsidiary companies	Director
Rimu SA (Chile) and subsidiary companies	Director
The National Foundation for the Deaf Incorporated	Board Member
Good Soundz Limited	Board Member
Michael Stiassny	
Atapo Corporation Limited	Director
Bengadol Corporation Limited	Director
Frequency Media Group Limited	Director
Emerald Group Limited	Director
Gadol Corporation Limited	Director
Geffen Holdings Limited	Director
Glenogle Trust Limited	Director
Knotser Properties Limited	Director
Kordamentha Limited and subsidiary companies	Director**
Michael Spencer Limited	Director
Ngati Whatua Orakei Housing Trustee Limited	Director
Ngati Whatua Orakei Whai Rawa Limited	Chair
Plan B Limited	Director
Poukawa Estate Limited	Director
Queenstown Airport Corporation Limited	Director
Sasha Properties Limited	Director
SB Entertainment Holdings and subsidiary companies	Director
Stride Property Limited and related companies	Director
Ted Kingsway Limited	Director
Vector Limited and subsidiary companies	Chair
WEST24 Limited	Director
Whai Rawa GP Limited	Director
Whai Rawa Kainga Development Limited	Director
Institute of Directors in New Zealand	President*
Graham Stuart	
Leroy Holdings Limited	Director

Specific disclosures of interest

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

Donations

During the financial year ended 30 September 2017, donations made by Tower Limited and its subsidiaries totalled $11,950.

Tower subsidiary company director disclosures

The following persons held office as directors of subsidiary companies at 30 September 2017. Those who were appointed during the financial year are footnoted.

TOWER SUBSIDIARY COMPANY DIRECTOR DISCLOSURES	
Tower Insurance Limited	David Hancock, Warren Lee, Steve Smith, Michael Stiassny, Graham Stuart
Tower Financial Services Group Limited	David Hancock, Warren Lee, Steve Smith, Michael Stiassny, Graham Stuart
The National Insurance Company of New Zealand Limited	Richard Harding, David Callanan
Tower New Zealand Limited	Richard Harding, David Callanan
National Insurance Company (Holdings) Limited	Richard Harding, Sarah-Jane Wild, Christopher Sutherland, David Callanan, Isikeli Tikoduadua[1]
Southern Pacific Insurance Company (Fiji) Limited	Richard Harding, Sarah-Jane Wild, Christopher Sutherland, David Callanan, Isikeli Tikoduadua[1]
Tower Insurance (Fiji) Limited	Richard Harding, Sarah-Jane Wild, Christopher Sutherland, David Callanan, Isikeli Tikoduadua[1]
Tower Insurance (Cook Islands) Limited	Richard Harding, Christopher Sutherland, David Callanan
Tower Insurance (PNG) Limited	Richard Harding, Christopher Sutherland, David Callanan, Stefan Hansen
Southern Cross Marine Limited[2]	Richard Harding, Christopher Sutherland, David Callanan, Stefan Hansen
National Pacific Insurance Limited	Alden Godinet, Richard Harding, Rodney Reid, Christopher Sutherland, David Callanan
National Pacific Insurance (Tonga) Limited	Alden Godinet, Richard Harding, Rodney Reid, Christopher Sutherland, David Callanan
Tower Insurance (Vanuatu) Limited	Richard Harding, Mike Petrie, Christopher Sutherland, David Callanan

1. Isikeli Tikoduadua was appointed as director of these companies on 14 December 2016
2. Southern Cross Marine was amalgamated into Tower Insurance (PNG) Limited in March 2017.

No employee appointed as a director of a subsidiary receives any remuneration in their role as a director. The number of employees who receive remuneration of more than $100,000 is included in the remuneration table on page 70. Auditor fees paid on behalf of Tower and its subsidiaries are disclosed in the financial statements.

Other matters

Indemnity and insurance

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

Limits on acquisition of securities under New Zealand law

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

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

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

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

Corporations Act 2001 (Australia)

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

The Annual Report is signed on behalf of the Board by

Michael Stiassny
Chair

Graham Stuart
Director

Notes

Tower Directory

Enquiries

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

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

Board of Directors

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

Chief Executive Officer

Richard Harding

Company Secretary

David Callanan

Executive Leadership Team

Richard Harding
Tony Antonucci
David Callanan
Michelle James
Faye Luxton
Chris Sutherland
Glenys Talivai
Glenn Vade
Jeff Wright

Registered Office

New Zealand

Level 14
Tower Centre
45 Queen Street
PO Box 90347
Auckland

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

Australia

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

Auditor

PricewaterhouseCoopers

Banker

Westpac New Zealand Limited

Company numbers

Tower Limited
(Incorporated in New Zealand)

NZ Incorporation 979635
NZBN 9429 0374 84576
ARBN 088 481 234

Stock exchanges

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

Registrar

New Zealand

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

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

Australia

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

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

Website: investorcentre.com/nz

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

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

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

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

Tower Limited Investor Relations

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

Registrar

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

TOWER