



Tower Limited

2018
half year
report



Tower Limited **report**

For the **half year** ended
31 March 2018

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Tower Management **Review**

Half year to 31 March 2018

Features of half year 2018

- Transformation of core business well underway, with the core New Zealand book achieving strong annual Gross Written Premium (GWP) growth of 15.6% and almost doubling policy growth with 9,634 policies added in the first half¹
- Business as Usual (BAU) claims costs controlled, and expenses contained against a backdrop of severe and unprecedented weather
- Continued positive progress closing Canterbury earthquake claims, with a 46% reduction in open claims in the 12 months since 31 March 2017, and 253 open claims remaining
- Reported half year loss after tax of \$11.6 million impacted by:
 - \$16.2 million after-tax resolution of Peak Re dispute
 - Slight adjustment of \$2.3 million in after-tax provisions for Canterbury
- Severe and unprecedented weather events which reduced underlying profit after-tax by \$5 million to \$7.3 million
- Decision made to invest in a new IT platform to accelerate transformation and momentum and deliver improved results

Half year summary

Tower has strong underlying New Zealand and Pacific businesses with its transformation driving solid business results.

The potential of the Tower business is now visible, with strong growth in GWP and customer numbers, controlled BAU claims costs, and contained expenses, all achieved against the backdrop of an unprecedented number of large and severe weather events which have affected the underlying result.

Tower reported a loss after tax of \$11.6 million for the six months ended 31 March 2018 (HY18), compared to a loss of \$8.2 million for the six months ended 31 March 2017 (HY17). Tower's HY18 result was impacted by the settlement of the Peak Re dispute and severe and unprecedented weather.

Tower delivered an underlying profit after tax of \$7.3 million for HY18, a slight decline from \$8.1 million in HY17.

The growth and positive momentum in the underlying business shows Tower's transformation is well underway. Thanks to the implementation of risk based pricing and improvements in digital, Tower added 9,634 policies to its core New Zealand portfolio, seeing GWP for the half grow 15.6% to \$111.3 million.

Tower's claims costs were controlled at \$74.4 million despite experiencing one of the worst years for weather events in the past 25 years. A continued focus on non-personnel costs saw the management expense ratio maintained, while still allowing further investment in the business.

Tower's Pacific premium remains stable and in line with the same period in the prior year, however, underlying profit of \$0.2 million has been impacted by large commercial claims and Cyclone Gita.

1. Core refers to the NZ business, excluding the ANZ legacy portfolio.

Tower continues to make solid progress settling claims in Canterbury, reducing open claims by 70. In September 2017, Tower had 323 property claims remaining. In the intervening 6 months, the number of open Canterbury earthquake claims was reduced by 159. However, 66 new claims from the Earthquake Commission (EQC) were received and 23 closed claims were reopened.

Financial performance

The strong growth and positive trends seen in HY18 have been offset by the resolution of the Peak Re dispute and a number of severe and unprecedented weather events.

Tower's reported loss of \$11.6 million reflects a \$16.2 million impact from the Peak Re settlement and a further \$2.3 million after-tax impact due to movements in Canterbury provisions.

Severe and unprecedented storm activity resulted in a \$5 million after tax impact to Tower's underlying profit, seeing it decline slightly to \$7.3 million, from \$8.1 million in the same period last year.

Despite this, a focus on improving the underlying business enabled Tower to deliver an underlying result where GWP increased to \$161 million, a \$15.2 million improvement compared to HY17. Management and sales expenses were maintained at \$52.1 million and total claims costs were contained at \$74.4 million, despite the storm events experienced in the half.

Group profit summary

NZ\$m	HY 18	HY 17
Gross written premium	161.0	145.8
Gross earned premium	159.6	150.5
Reinsurance costs	(25.5)	23.8
Net earned premium	134.1	126.8
Net claims expense	(67.9)	(59.6)
Large events	(6.5)	(5.1)
Management and sales expenses	(52.1)	(51.8)
Underwriting profit	7.6	10.4
Investment revenue and other revenue	3.8	2.4
Financing costs	(0.4)	(0.2)
Underlying profit before tax	11.0	12.6
Income tax expense	(3.7)	(4.5)
Underlying profit after tax¹	7.3	8.1
PeakRe settlement	(16.2)	0.0
Christchurch impact	(2.3)	(9.8)
Kaikoura impact	0.5	(7.2)
Corporate transaction costs	(0.2)	(1.0)
Revaluation of PacificRe	(0.7)	0.0
Business in runoff	0.0	1.7
Reported loss after tax	(11.6)	(8.2)
Key ratios		
Loss ratio	55.5%	51.0%
Expense ratio	38.9%	40.8%
Combined ratio	94.3%	91.8%

1. 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.

Solvency position

Tower holds significant capital over and above the minimum regulatory requirement.

As at 31 March 2018, following the Peak Re settlement and the weather events earlier this year, Tower Insurance Limited held approximately \$75 million of solvency margin, \$25 million above RBNZ requirements, with an additional \$39 million cash held in Tower Limited. As at 31 March, the combination of Tower Insurance Limited's solvency margin and corporate cash were \$64 million above RBNZ requirements and \$114 million above Tower Insurance Limited's minimum solvency capital (MSC) requirements, equivalent to 294% of MSC.

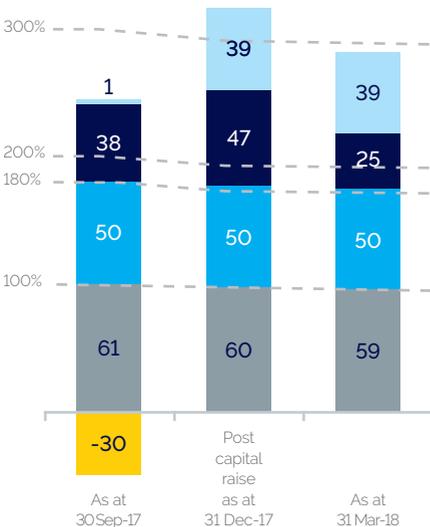
Tower's Board and management team remain strongly committed to paying dividends and the Board intends to recommence dividends at the 2018 Full Year, subject to financial performance.

Transformation is accelerating momentum

Tower holds a unique position in the New Zealand insurance market, with a solid existing customer base, yet plenty of room to grow. With a clear strategic plan to continue transforming and growing the business, the achievements seen to date show that there is a powerful platform for future growth.

Tower has seen solid improvements in crucial areas:

- Focus on customers has delivered strong policy and GWP growth
- Tight management of claims processes and supplier networks resulted in contained claims costs, despite experiencing one of the worst years for weather in 25 years
- Management expenses ratio has reduced, while continuing to invest



Solvency position plus corporate cash

Tower Insurance Limited NZ \$ Millions

- Net cash held in corporate
- TIL's solvency margin above RBNZ minimum
- TIL's RBNZ minimum solvency margin
- TIL's MSC
- BNZ facility (drawn May 2017, repaid December 2017)

Focus on customers delivers growth

Achievements

- Strong GWP growth of 15.6% in core book, due to a combination of pricing (10.0%) and volume growth (5.6%)
- Policy growth almost doubled on HY17 in core New Zealand book
- 39% of new business sales online in March 2018, compared to 24% in March 2017
- New approach to pricing combined with simple and easy products driving impressive customer growth and improved mix
- Tower Direct retention levels remain steady

Tower's focus on customers has seen continued growth in its core New Zealand portfolio in HY18, with 9,634 policies added to the core book and GWP increasing 15.6%.

With Tower's new product suite fully available online, and continued refinement and optimisation of the digital sales channels, more customers are quoting and buying 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 seen retention rates solidify at high levels.

This positive result is being achieved through a combination of:

- building and refining Tower's digital offering and online sales process
- 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

- Implemented risk based pricing
- Numerous product updates, pricing reviews and targeted rate changes across all New Zealand portfolios
- Supply chain and preferred supplier initiatives minimising expenses
- Introduced a new data store, enabling more accurate monitoring of portfolios

Tower introduced risk-based pricing for earthquakes in April 2018, which will provide significant competitive opportunity in lower risk areas, and deliver fairer, more equitable pricing across all of New Zealand.

Along with this, 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 weather events.

Recent storms have resulted in large event claims increasing from \$2.4 million in the second half of 2017 to \$6.5 million in HY18, after releases from large events in the prior year. Storms have offset all positive impacts claims initiatives are having, with claims costs contained at \$74.4 million.

Claims costs are being closely managed through:

- 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

Severe and unprecedented storm events

Weather events

- FY17 was the worst year for weather impacts in 25 years
- Seven months into the full 2018 financial year, weather and storm impacts are already higher than the full prior year
- Initial estimates of losses for April 2018 events is \$9.0 million, with the after reinsurance impact expected to be around \$3.8 million before tax

- Tower expects its non-catastrophe aggregate reinsurance programme to be fully utilised this financial year
- Tower has been pricing further aggregate reinsurance cover for the remaining 4 months of the year, to manage further volatility driven by multiple weather events

While Tower's aggregate reinsurance cover is helping to absorb some of the costs of the recent storm volatility, the financial impact of the four weather events in HY18 is \$7 million before tax.

Tower's initial estimates indicate that the cost of the April storms will be \$9 million, with the before tax, and after reinsurance impact, estimated to be around \$3.8 million.

The impact of all storms in 2018 already exceeds those of the prior full year, with the total cost estimated to be \$24 million, with reinsurance absorbing \$13.2 million.

The unprecedented number and severity of weather events will have implications for insurance premiums. Increased claims will see reinsurance costs rise, and as a result, will mean premium increases for customers. Tower is putting in considerable effort and taking all appropriate steps to preserve capital and reduce any volatility from these short-term weather abnormalities.

Focus on costs

Achievements

- Maintained focus on efficiency and productivity
- Investment made to deliver ongoing and sustainable cost management
- Continued review of existing supplier contracts and close management of all contract negotiations

Tower has maintained its focus on non-personnel related costs, reducing the management expense ratio to 38.9% in HY18, compared to 40.8% HY17.

Tower's efforts have 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 stabilise as simplification programme initiatives are embedded.

Opportunity to drive growth and quality in the Pacific

The underlying Pacific business remains strong and Tower continues to believe that there is unrealised potential here.

Pacific GWP for HY18 was \$278 million, reflecting a slight drop on HY17. This slight decrease is partly due to strengthening of the NZ dollar relative to Pacific currencies.

In core Pacific markets of Fiji, Vanuatu, Samoa and American Samoa, solid growth has been seen. However, this growth has been offset with GWP in PNG reducing significantly over the past two years, reflecting a very soft commercial lines market and a desire to reduce Tower's risk profile appropriately in the country.

Underlying Net Profit After Tax (NPAT) of \$0.2 million for the first half reflects the impact of Cyclone Gita, a number of large claims and investment in a new Pacific hub.

Tower's plan for the Pacific is to leverage the underwriting excellence, data and pricing capability of the New Zealand business and combine it with the local knowledge and expertise of the teams in the region.

The Pacific hub will deliver quality and consistency across all Pacific teams with local underwriting and claims management expertise ensuring that the right controls are in place when pricing and writing risk, and accepting claims. This will ultimately enable better quality growth across the region by allowing local branches to do what they do best, service and sell to their customers.

IT simplification

The key to accelerating Tower's transformation is a new IT platform that enables the simplification of products and processes. This will remove complexity for frontline teams and enable the delivery of a unique and revolutionary customer experience.

Combined with Tower's push to move 50% of all transactions online, removing complexity from the business will deliver significant cost savings and productivity gains.

With Tower's Board having approved investment in a new IT platform, work is now underway to deliver on a programme of work that will accelerate momentum and enable Tower to rapidly respond in today's constantly changing digital landscape.

Tower will be able to combine existing data with that of partners to increase market share by actively targeting niche customer segments with compelling and appropriately priced propositions.

Other key benefits to be seen from Tower's new IT platform include the ability to:

- create and deliver a unique customer experience
- quickly deliver simple, customer focussed products
- target specific, profitable customer segments through granular, and automated pricing and underwriting
- charge fairer and more accurate premiums through improved access to, and use of, internal and external data

- easily experiment with products and pricing
- rationalise products and reduce claims costs by improving the customer claims journey and overall claims management
- significantly reduce our cost base and realise large productivity gains by moving low value transactions online
- add value through improved employee engagement

Tower's approach to implementing this new IT platform is designed to deliver on a dual purpose – accelerate transformation and protect and realise shareholder value.

A significant amount of work has already been completed to ensure that this programme of work will deliver benefits, create no future legacy issues and avoid the pitfalls that many other organisations face when replacing their core IT platform.

A robust governance approach and clear roadmap forward will enable Tower to commence selling new business on the new platform in the first half of the 2019 calendar year. Once new business is live, migration of the existing 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 2018.

Tower continues to make solid progress settling claims in Canterbury, reducing open claims by 70. In September 2017, Tower had 323 property claims remaining. In the intervening 6 months, the number of open Canterbury earthquake claims was reduced by 159. However, 66 new claims from the EQC were received and 23 closed claims were reopened.

Tower's outstanding case estimates have almost halved since September 2016. This demonstrates that solid progress is being made. In addition, the amount of IBNR/IBNER¹ and risk margin has increased from 60% to 89% of case estimates.

While Tower is making significant progress closing claims, the need for a permanent fix grows ever more pressing and Tower welcomes the recent government announcement of an enquiry into EQC as an important first step.

EQC Act reform will assist in ensuring past experience is not repeated and that the pitfalls and problems associated with the EQC set up and the 2010 model can be avoided. Tower strongly believes that the Kaikoura model is successful and that any reform of the EQC must include these changes.

Reserving update

NZ\$m	% of case estimates ²		% of case estimates ²		% of case estimates ²		% of case estimates ²	
	Mar-18	Sep-17	Mar-17	Sep-16	Mar-17	Sep-16	Mar-17	Sep-16
Case estimates	48.0	58.9	73.9	93.2				
IBNR/IBNER ¹	22.0	34.4	47.4	44.0				
Risk margin	10.8	13.9	18.2	11.9				
Additional risk margin	10.0	10.0	-	-				
Combined IBNR/IBNER/risk margin	42.8	89%	58.3	99%	65.6	89%	55.9	60%
Gross outstanding claims	90.8	117.2	139.5	149.1				

1. IBNR/IBNER includes claims handling expenses.

2. Ratio of IBNR/IBNER plus risk margin to case estimates.

EQC receivables

As previously advised, Tower has commenced recovery action against EQC and remains confident in its position.

It is important to note the differences between the Peak Re outcome and EQC receivables. The Peak Re dispute was subject to a single issue meaning that, if it had gone to arbitration, there would either be a 100% recovery or nothing.

The EQC receivables have multiple dimensions, each with alternative courses of action. Tower estimates total potential recoveries to be significantly higher than the \$66.9 million recorded in its financial statements. The recorded number reflects the discounted actuarial reviewed value.

While Tower has commenced recovery action in regards to one subset of the land dispute with EQC, resolution of the entire receivable is expected to occur in stages, over a number of years.

In respect to the building component, Tower has commenced discussions with EQC through an alternative dispute resolution process and continues to apply significant resources to the EQC recovery programme. Based on legal advice to date, Tower remains confident in its position.

Outlook

Tower is transforming, and the continued improvements seen in the underlying business will deliver long-term shareholder value. With investment in a new IT platform being made, momentum will now accelerate.

Tower remains focussed on progressing initiatives that will drive results:

- Delivering what customers want and constantly refining the customer experience offering to ensure growth continues
- Risk based pricing will enable targeting of profitable customers in low-risk regions
- Continued use of data and customer feedback to improve conversion rates through our digital channels
- A continued focus on the efficient management of claims and improved business processes will see the stabilisation of BAU claims costs and management expenses.

This focus will support the achievement of Tower's medium term targets:

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

Tower is being transformed and the work underway will deliver significant long-term value.

Tower Limited **Interim Financial Statements** and Independent Review Report

For the **half year** ended
31 March 2018

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Consolidated **Income** StatementFor the **half year** ended 31 March 2018

FOR THE HALF YEAR ENDED

	NOTE	31 MARCH 2018 UNAUDITED \$000	31 MARCH 2017 UNAUDITED \$000
Revenue			
Premium revenue	4	159,615	150,540
Less: Outwards reinsurance expense		(25,476)	(23,763)
Net premium revenue		134,139	126,777
Investment revenue	5	2,939	3,553
Fee and other revenue		1,418	1,441
Net operating revenue		138,496	131,771
Expenses			
Claims expense		129,248	133,558
Less: Reinsurance recoveries revenue		(40,353)	(36,092)
Net claims expense	6, 7	88,895	97,466
Management and sales expenses		41,389	44,098
Acquisition proposal expenses		302	721
Impairment of reinsurance receivables	2	22,508	-
Financing expenses		440	164
Total expenses		153,534	142,449
Loss attributed to shareholders before tax		(15,038)	(10,678)
Tax benefit attributed to shareholders' profits		3,418	2,496
Loss for the half year		(11,620)	(8,182)
(Loss) profit attributed to:			
Shareholders		(11,535)	(8,447)
Non-controlling interest		(85)	265
		(11,620)	(8,182)
Basic and diluted (loss) per share (cents)	12	(4.14)	(4.11)

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

Tower Limited

Consolidated Statement of **Comprehensive Income**

For the **half year** ended 31 March 2018

	FOR THE HALF YEAR ENDED	
	31 MARCH 2018 UNAUDITED \$000	31 MARCH 2017 UNAUDITED \$000
	NOTE	
Loss for the half year	(11,620)	(8,182)
Other comprehensive (loss) income		
Currency translation differences	(1,491)	769
Other comprehensive (loss) income net of tax	(1,491)	769
Total comprehensive loss for the half year	(13,111)	(7,413)
Total comprehensive (loss) income attributed to:		
Shareholders	(12,996)	(7,742)
Non-controlling interest	(115)	329
	(13,111)	(7,413)

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

Consolidated Balance Sheet

For the **half year** ended 31 March 2018

AS AT

	NOTE	31 MARCH 2018 UNAUDITED \$000	30 SEPTEMBER 2017 AUDITED \$000
Assets			
Cash and cash equivalents		142,628	102,876
Receivables	9	251,207	279,075
Investments	15	157,253	167,702
Derivative financial assets	15	78	231
Deferred acquisition costs		21,186	20,961
Current tax assets		13,921	13,462
Property, plant and equipment		7,951	8,780
Intangible assets		31,570	31,334
Deferred tax assets		37,111	32,745
Total assets		662,905	657,166
Liabilities			
Payables		69,575	68,824
Current tax liabilities		121	560
Provisions		4,507	5,773
Insurance liabilities	7, 10	320,164	336,004
Borrowings	11	-	29,921
Deferred tax liabilities		533	340
Total liabilities		394,900	441,422
Net assets		268,005	215,744
Equity			
Contributed equity	12	447,547	382,172
Accumulated losses		(62,837)	(51,299)
Reserves		(117,915)	(116,454)
Total equity attributed to shareholders		266,795	214,419
Non-controlling interest		1,210	1,325
Total equity		268,005	215,744

The interim financial statements were approved for issue by the Board on 29 May 2018.



Michael P Stiasny
Chairman



Graham R Stuart
Director

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

Consolidated Statement of Changes in Equity

For the **half year** ended 31 March 2018

ATTRIBUTED TO SHAREHOLDERS
UNAUDITED

NOTE	CONTRIBUTED EQUITY \$000	ACCUMULATED LOSS \$000	RESERVES \$000	TOTAL \$000	NON- CONTROLLING INTEREST \$000	TOTAL EQUITY \$000
Half year ended 31 March 2018						
At the beginning of the half year	382,172	(51,299)	(116,454)	214,419	1,325	215,744
Comprehensive income						
(Loss) for the half year	-	(11,535)	-	(11,535)	(85)	(11,620)
Currency translation differences	-	-	(1,461)	(1,461)	(30)	(1,491)
Total comprehensive loss	-	(11,535)	(1,461)	(12,996)	(115)	(13,111)
Transactions with shareholders						
Net proceeds of capital raise	12 65,375	-	-	65,375	-	65,375
Other	-	(3)	-	(3)	-	(3)
Total transactions with shareholders	65,375	(3)	-	65,372	-	65,372
At the end of the half year	447,547	(62,837)	(117,915)	266,795	1,210	268,005
Half year ended 31 March 2017						
At the beginning of the half year	382,172	(42,822)	(116,772)	222,578	1,374	223,952
Comprehensive income						
(Loss) Profit for the half year	-	(8,447)	-	(8,447)	265	(8,182)
Currency translation differences	-	-	705	705	64	769
Total comprehensive loss	-	(8,447)	705	(7,742)	329	(7,413)
Transactions with shareholders						
Dividends paid	-	-	-	-	(142)	(142)
Other	-	(3)	-	(3)	-	(3)
Total transactions with shareholders	-	(3)	-	(3)	(142)	(145)
At the end of the half year	382,172	(51,272)	(116,067)	214,833	1,561	216,394

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

Consolidated Statement of Cash Flows

For the **half year** ended 31 March 2018

FOR THE HALF YEAR ENDED

	NOTE	31 MARCH 2018 UNAUDITED \$000	31 MARCH 2017 UNAUDITED \$000
Cash flows from operating activities			
Premiums received		152,879	153,152
Interest received		3,723	3,771
Net realised investment gains (losses)		321	(2,247)
Fee and other income received		1,418	1,439
Reinsurance received		40,903	24,819
Reinsurance paid		(28,527)	(24,099)
Claims paid		(124,782)	(135,367)
Payments to suppliers and employees		(44,129)	(42,114)
Income tax paid		(1,688)	(2,698)
Net cash inflow (outflow) from operating activities	14	118	(23,344)
Cash flows from investing activities			
Net proceeds from financial assets		8,010	6,986
Purchase of property, plant and equipment and intangible assets		(2,954)	(5,107)
Net cash inflow (outflow) from investing activities		5,056	1,879
Cash flows from financing activities			
Share issue net of costs	12	65,775	-
Financing expenses		(609)	(287)
Repayment of borrowings		(30,000)	-
Payment of non-controlling interest dividends		-	(142)
Net cash inflow (outflow) from financing activities		35,166	(429)
Net increase (decrease) in cash and cash equivalents		40,340	(21,894)
Foreign exchange movement in cash		(588)	(233)
Cash and cash equivalents at the beginning of the half year		102,876	92,228
Cash and cash equivalents at the end of the half year		142,628	70,101

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

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2018

1. Summary of general accounting policies

Entities reporting

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

Statutory base

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

Basis of preparation

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

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

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2017, which have been prepared in accordance with International Financial Reporting Standards and New Zealand Equivalents to International Financial Reporting Standards.

The interim financial statements for the six months ended 31 March 2018 are unaudited.

Accounting policies

The principal accounting policies adopted in the preparation of the interim financial statements are consistent with those of the audited annual financial statements for the year ended 30 September 2017.

Cash flows

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

Comparatives – Change in presentation of receivables and payables

Comparative information for receivables and payables has been reclassified to achieve consistency with the current year presentation. Changes relate to balance sheet reclassifications only. There is no change to net assets or the 2017 income statement.

In 2017 amounts payable to reinsurers on receipt of the amount receivable from EQC for recoveries related to the Canterbury earthquakes of \$17.7 million were netted off reinsurance receivables. To achieve consistent presentation the 2017 comparative has been adjusted as below.

On the Balance sheet, 2017 receivables increased \$17.7 million to \$279.1 million and 2017 payables increased \$17.7 million to \$68.8 million. Total assets and total liabilities have increased accordingly. There is no change to net assets.

Within Note 8 Segment reporting, the 2017 total assets for New Zealand has increased \$17.7 million to \$499.2 million and the 2017 total liabilities for New Zealand has increased \$17.7 million to \$353.3 million.

Within Note 9 Receivables, the 2017 balance for reinsurance recovery receivables has increased \$17.7 million to \$81.6 million.

Impact of amendments to NZ IFRS

The application of new or amended accounting standards as of 1 October 2017 has not had a material impact on the financial statements.

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2018

2. Impairment of reinsurance receivables

On 28 February 2018, Tower Limited announced it had entered into a settlement agreement with Peak Re regarding an adverse development cover policy entered into in 2015. Under the settlement agreement Tower received \$22.0 million of the \$43.75 million claimed under the reinsurance contract and all sums claimed in the arbitration proceeding. This has resulted in a write off of the residual amount of \$21.75 million. This amount along with associated professional fees of \$0.76 million have been recorded in the Consolidated Income Statement as Impairment of reinsurance receivables.

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

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

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

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

EQC recoveries

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

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

Deferred taxation

Recognition of deferred tax assets is an area of significant judgement and estimation. Deferred tax assets of \$31.3 million (30 September 2017: \$27.0 million) have been recognised for unused tax losses on the basis it is probable that future taxable profits will be available against which the losses can be utilised and there will be 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. If future profits do not occur as expected, or there is a significant change in ownership, Tower may not be able to utilise all of these tax losses.

Capitalised IT development costs

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

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2018**4. Premium revenue**

	FOR THE HALF YEAR ENDED	
	31 MARCH 2018 UNAUDITED \$000	31 MARCH 2017 UNAUDITED \$000
Gross written premiums	160,980	145,825
Less: Gross unearned premiums	(1,365)	4,715
Premium revenue	159,615	150,540

5. Investment revenue

	FOR THE HALF YEAR ENDED	
	31 MARCH 2018 UNAUDITED \$000	31 MARCH 2017 UNAUDITED \$000
	NOTE	
Fixed interest securities		
Interest income	3,723	3,771
Net realised (loss)	(160)	(325)
Net unrealised (loss) gain	(187)	1,213
Total fixed interest securities	3,376	4,659
Equity securities		
Net unrealised (loss)	15 (745)	-
Total equity securities	(745)	-
Other		
Net realised gain (loss)	481	(1,922)
Net unrealised (loss) gain	(173)	816
Total other	308	(1,106)
Total interest and dividend income	3,723	3,771
Total net realised gain (loss)	321	(2,247)
Total net unrealised (loss) gain	(1,105)	2,029
Total investment revenue	2,939	3,553

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2018**6. Net claims expense**

FOR THE HALF YEAR ENDED			
		31 MARCH 2018 UNAUDITED \$000	31 MARCH 2017 UNAUDITED \$000
	NOTE		
Canterbury earthquake claims (4 key events)	7	3,200	13,600
Kaikoura earthquake claims		(759)	10,000
Other claims		86,454	73,866
Total net claims expense		88,895	97,466

7. Canterbury earthquakes

Tower has received 16,132 individual claims from customers as a result of earthquakes impacting the Canterbury region during 2010 and 2011 (30 September 2017: 16,106 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 15,879 claims at 31 March 2018 (30 September 2017: 15,783 claims), representing a 98% settlement rate by number of claims and 95% by value (30 September 2017: 98% by number and 93% by value). To date, Tower has paid out more than \$850 million to customers (30 September 2017: \$825 million) in respect of the four main earthquakes that occurred on 4 September 2010; 22 February 2011; 13 June 2011 and 23 December 2011.

As at 31 March 2018, Tower has estimated gross ultimate incurred claims of \$897.6 million in respect of the four main Canterbury earthquake events (30 September 2017: \$897.4 million).

Outstanding claims comprises case estimates, claims incurred but not reported (IBNR) and risk margins. In the half year ended 31 March 2018, case estimates have reduced as claims have been settled and paid. There have been increased costs on remaining open claims; new over-cap claims being received from EQC; and new litigated claims.

The financial cost to Tower of the Canterbury earthquakes is reduced through reinsurance and is reflected within net outstanding claims. Tower continues to work closely with its catastrophe reinsurance partners as it works through its Canterbury claims settlement programme. Catastrophe reinsurance partners are required to have a financial strength rating of at least A- issued by a recognised international rating agency.

The table on the following page presents a financial representation of Tower's net outstanding claims provision at 31 March 2018 in relation to the four main earthquake events.

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2018**7. Canterbury earthquakes** (continued)

Canterbury earthquake provisions

	31 MARCH 2018 UNAUDITED \$000	30 SEPTEMBER 2017 AUDITED \$000
Insurance liabilities		
Gross outstanding claims	(80,800)	(107,200)
Additional risk margin	(10,000)	(10,000)
	(90,800)	(117,200)
Receivables		
Reinsurance recovery receivables	10,600	13,600
EQC related to open claims	4,200	5,800
Less: EQC payable to reinsurers	(1,300)	(1,700)
	13,500	17,700
Net outstanding claims	(77,300)	(99,500)

Tower has one significant receivable amount related to closed Canterbury earthquake claims, being \$66.9 million from EQC (30 September 2017: \$65.1 million). \$18.5 million of this EQC amount is payable to reinsurers which has been allowed for in payables (30 September 2017: \$17.7 million). A risk margin of \$10.1 million has been allowed for on the receivable from EQC (30 September 2017: \$10.7 million).

During the year ended 30 September 2017, the Board 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 provision will remain at \$10.0 million (30 September 2017: \$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.

	NOTE	31 MARCH 2018 UNAUDITED \$000	30 SEPTEMBER 2017 AUDITED \$000	31 MARCH 2017 UNAUDITED \$000
Cumulative expenses associated with Canterbury earthquakes:				
Earthquake claims estimate		(897,640)	(897,440)	(892,660)
Reinsurance recoveries		721,873	746,623	744,133
Claim expense net of reinsurance recoveries		(175,767)	(150,817)	(148,527)
Reinsurance expense		(25,045)	(25,045)	(25,045)
Additional risk margin		(10,000)	(10,000)	-
Cumulative impact of Canterbury earthquakes before tax		(210,812)	(185,862)	(173,572)
Income tax benefit		59,696	52,710	49,288
Cumulative impact of Canterbury earthquakes after tax		(151,116)	(133,152)	(124,284)
Recognised in current period (net of tax)				
Net claims expense	6	(2,304)	(11,460)	(9,792)
Additional risk margin	6	-	(7,200)	-
Impairment of receivables	2	(15,660)	-	-
		(17,964)	(18,660)	(9,792)

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2018

7. Canterbury earthquakes (continued)

The Board are actively engaged in monitoring Canterbury earthquake developments. Board process relies on the Appointed Actuary's determination of earthquake ultimate incurred claims estimates and the derivation of estimated outcomes. Tower has 253 open claims at 31 March 2018 (30 September 2017: 323 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 half year ended 31 March 2018 identified the following as key contributors to the increase in expected earthquake claims costs:

- Greater than anticipated new over-cap claims received from EQC;
- Continued growth in the level of litigation claims received;
- Continued development of claim costs as they progress through the claims life cycle; and
- Increase in the level of claims handling expenses;

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 being received 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 31 March 2018. Any further changes to estimates will be recorded in the accounting period when they become known.

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

	CATASTROPHE REINSURANCE COVER REMAINING	
	31 MARCH 2018 UNAUDITED \$000	30 SEPTEMBER 2017 AUDITED \$000
Date of event		
June 2011	256,600	254,200
December 2011	486,900	486,500

Tower has exceeded its catastrophe reinsurance limit in relation to the September 2010 and February 2011 events.

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2018

7. Canterbury earthquakes (continued)

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.

	CHANGE VARIABLE	SPLIT BETWEEN EVENTS				FOUR MAIN EARTHQUAKES	
		SEP 2010 UNAUDITED \$M	FEB 2011 UNAUDITED \$M	JUN 2011 UNAUDITED \$M	DEC 2011 UNAUDITED \$M	31 MAR 2018 UNAUDITED \$M	30 SEP 2017 AUDITED \$M
Outstanding claims:							
(i) Change to costs and quantity of expected claim estimates including building costs and other impacts.	+ 5%	(1.0)	(2.4)	-	-	(3.4)	(4.3)
	- 5%	1.0	2.4	-	-	3.4	4.3
(ii) Change in apportionment of claim costs to / from February 2011 event.	+ 1%	6.4	(9.0)	-	-	(2.6)	(4.1)
	- 1%	(7.0)	9.0	-	-	2.0	2.0
Receivables:							
<i>Reinsurance recovery receivables</i>							
(iii) Adverse development cover	- 50%	-	-	-	-	-	(21.9)
	- 100%	-	-	-	-	-	(38.8)
(iv) Recoveries from EQC in respect of land damage	+ 10%	0.1	0.7	-	-	0.8	0.8
	- 10%	(0.1)	(0.7)	-	-	(0.8)	(0.8)
(v) Recoveries from EQC in respect of building costs	+ 10%	3.3	1.0	-	-	4.3	4.1
	- 10%	(3.3)	(1.0)	-	-	(4.3)	(4.1)

(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.

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2018**8. Segmental reporting**

	NEW ZEALAND \$000	PACIFIC ISLANDS \$000	OTHER (HOLDING COMPANIES & ELIMINATIONS) \$000	TOTAL \$000
Half year ended 31 March 2018 (Unaudited)				
Revenue				
Revenue – external	117,013	21,069	414	138,496
Total revenue	117,013	21,069	414	138,496
Profit (Loss) before income tax				
Income tax credit (expense)	4,235	(1,010)	193	3,418
Profit (Loss) for the half year	(10,624)	(502)	(494)	(11,620)
Half year ended 31 March 2017 (Unaudited)				
Revenue				
Revenue – external	109,452	22,115	204	131,771
Total revenue	109,452	22,115	204	131,771
Profit (Loss) before income tax				
Income tax credit (expense)	4,401	(2,283)	378	2,496
Profit (Loss) for the half year	(12,376)	4,413	(219)	(8,182)
Total assets 31 March 2018 (Unaudited)				
Total assets 30 September 2017 (Audited)	468,878	83,985	110,042	662,905
Total liabilities 31 March 2018 (Unaudited)				
Total liabilities 30 September 2017 (Audited)	333,551	57,821	3,528	394,900
Total liabilities 31 March 2018 (Unaudited)	353,302	54,483	33,637	441,422

Description of segments and other segment information

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

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

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

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

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2018**9. Receivables**

	31 MARCH 2018 UNAUDITED \$000	30 SEPTEMBER 2017 AUDITED \$000
Reinsurance recovery receivables	38,269	81,647
Outstanding premiums and trade receivables	133,798	127,319
Other	79,140	70,109
Total receivables	251,207	279,075

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 31 March 2018, the amount due from EQC for reimbursement of claims handling expenses and claims paid in relation to the Kaikoura event is \$2.2 million (30 September 2017: \$1.3 million).

Canterbury Earthquakes

Other receivables include an amount of \$66.9 million due from EQC for land damage and building costs relating to the Canterbury earthquake provisions as disclosed in Note 7 (30 September 2017: \$65.1 million).

Tower estimates the gross amount receivable due from EQC is significantly higher than the \$66.9 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 \$18.5 million (30 September 2017: \$17.7 million) will be payable to reinsurers on receipt from EQC of these balances and is included within payables in the balance sheet. 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 7.

10. Insurance liabilities

	31 MARCH 2018 UNAUDITED \$000	30 SEPTEMBER 2017 AUDITED \$000
Unearned premiums	153,970	154,848
Outstanding claims	156,194	171,156
Additional risk margin	10,000	10,000
Total insurance liabilities	320,164	336,004

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2018**11. Borrowings**

	CURRENCY	INTEREST RATE	ROLLOVER DATE (DRAWN) / MATURITY DATE (UNDRAWN)	FACE VALUE \$000	UNAMORTISED COSTS \$000	CARRYING VALUE \$000	FAIR VALUE \$000
As at 31 March 2018 (Unaudited)							
Bank facility (undrawn)	NZD	Variable	9-Sep-19	50,000	-	-	-
Total borrowings					-	-	-
As at 30 September 2017 (Audited)							
Bank facility (drawn)	NZD	4.51%	13-Nov-17	30,000	(79)	29,921	29,921
Bank facility (undrawn)	NZD	Variable	9-Sep-19	20,000	-	-	-
Total borrowings					(79)	29,921	29,921

Standby credit facility

In May 2017, the company utilised the cash advance facility agreement. An amount of \$30 million was drawn (from the available \$50 million). Funds were used for new share capital within Tower Insurance Limited.

In December 2017, the company repaid the drawn cash advance facility using funds obtained from the capital raise.

Covenants

All borrowings are unsecured and are subject to various financial covenants. The Company has fully complied with all covenants during the half year ended 31 March 2018.

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2018**12. Contributed equity**

	31 MARCH 2018 UNAUDITED \$000	30 SEPTEMBER 2017 AUDITED \$000
Opening balance	382,172	382,172
Issue of share capital	70,838	–
Costs of capital raise	(5,463)	–
Total contributed equity	447,547	382,172

On 14 November 2017 the Company invited its eligible shareholders to subscribe to a rights issue of 1 new share for every 1 existing share held at the record date on 22 November 2017 at a price of NZD0.42 (or AUD0.39) for each new share. The issue was fully subscribed on 20 December 2017.

Represented by:

	31 MARCH 2018 UNAUDITED NUMBER OF SHARES	30 SEPTEMBER 2017 AUDITED NUMBER OF SHARES
Opening balance	168,662,150	168,662,150
Issued shares	168,662,150	–
Total shares on issue	337,324,300	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.

As a result of the rights issue, the weighted average number of ordinary shares have been adjusted retrospectively for the bonus element of the rights issue. The basic and diluted (loss) per share for 31 March 2017 has been restated to reflect the change.

13. Net assets per share

	31 MARCH 2018 UNAUDITED \$0	30 SEPTEMBER 2017 AUDITED \$0
Net assets per share	0.79	1.28
Net tangible assets per share	0.59	0.90

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. Net assets per share and net tangible assets per share for 30 September 2017 have not been restated to reflect the bonus element of the rights issue.

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2018**14. Reconciliation of loss for the half year to net cash flows from operating activities**

FOR THE HALF YEAR ENDED

	31 MARCH 2018 UNAUDITED \$000	31 MARCH 2017 UNAUDITED \$000
Loss for the half year	(11,620)	(8,182)
Adjusted for non-cash items		
Depreciation of property, plant and equipment	761	1,187
Amortisation of software	2,579	3,120
Impairment of reinsurance receivables	21,750	-
Unrealised loss (gain) on financial assets	1,104	(2,029)
Gain on disposal of property, plant and equipment	(19)	(51)
Change in deferred tax	(4,187)	(4,592)
	21,988	(2,365)
Adjusted for movements in working capital (excluding the effects of exchange differences on consolidation)		
Change in receivables	6,370	(16,010)
Change in payables	(16,310)	3,529
Change in taxation	(919)	(603)
	(10,859)	(13,084)
Adjusted for other items classified as investing / financing activities		
Financing expenses	609	287
	609	287
Net cash inflows (outflows) from operating activities	118	(23,344)

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2018

15. Fair value of financial assets and liabilities

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

(i) Cash and cash equivalents

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

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

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

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. At 31 March 2018, the Level 3 category includes investment in equity securities of \$560,000 (30 September 2017: \$1,412,000). This investment is in unlisted shares of a company which provides reinsurance to Tower. The fair value is calculated based on the net assets of the company from the most recently available financial information, adjusted for market conditions.

(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 2017: nil).

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2018**15. Fair value of financial assets and liabilities** (continued)

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

	TOTAL \$'000	LEVEL 1 \$'000	LEVEL 2 \$'000	LEVEL 3 \$'000
As at 31 March 2018 (Unaudited)				
Assets				
Investment in equity securities	560	-	-	560
Investments in fixed Interest securities	156,659	-	156,659	-
Investments in property securities	34	-	34	-
Investments	157,253	-	156,693	560
Derivative financial assets	78	-	78	-
Total financial assets	157,331	-	156,771	560
As at 30 September 2017 (Audited)				
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	-

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2018**15. Fair value of financial assets and liabilities** (continued)

The following table represents the changes in Level 3 instruments:

	INVESTMENT IN EQUITY SECURITIES	
	AS AT 31 MARCH 2018 UNAUDITED \$000	AS AT 30 SEPTEMBER 2017 AUDITED \$000
Opening balance	1,412	1,406
Total gains and losses recognised in profit and loss	(745)	(3)
Foreign currency movement	(85)	9
Disposals	(22)	-
Closing balance	560	1,412

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

	CARRYING AMOUNT \$000	FAVOURABLE CHANGES OF 10% \$000	UNFAVOURABLE CHANGES OF 10% \$000
As at 31 March 2018			
Investment in equity securities (Unaudited)	560	56	(56)
As at 30 September 2017			
Investment in equity securities (Audited)	1,412	141	(141)

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2018

16. Solvency requirements

The minimum solvency capital required to be retained by Tower Insurance Limited Group to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 is shown below. Actual solvency capital exceeds the minimum solvency capital requirement for the Tower Insurance Limited Group by \$81.8 million (30 September 2017: \$96.3 million) and \$75.2 million for Tower Insurance Limited (30 September 2017: \$87.9 million).

	TOWER INSURANCE LIMITED		TOWER INSURANCE LIMITED GROUP	
	31 MARCH 2018 UNAUDITED \$000	30 SEPTEMBER 2017 UNAUDITED \$000	31 MARCH 2018 UNAUDITED \$000	30 SEPTEMBER 2017 AUDITED \$000
Actual solvency capital	134,186	149,317	150,043	166,823
Minimum solvency capital	58,971	61,387	68,212	70,545
Solvency margin	75,215	87,930	81,831	96,278
Solvency ratio	228%	243%	220%	236%

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

The methodology and bases for determining the solvency margin are in accordance with the requirements of the Solvency Standard for Non-life Insurance Business published by the Reserve Bank of New Zealand.

17. 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 Financial Holdings Limited (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.

18. Subsequent events

Weather events

Auckland and other areas of the North Island were impacted by large storms in April 2018. The initial estimate of the ultimate incurred losses from these storms, including a risk margin, is \$9.0 million. At this level, Tower's non-catastrophe aggregate loss reinsurance program would cover approximately \$5.2m of these losses, with a net impact to Tower's profit before tax of \$3.8 million. Taken in combination with storm events earlier in the year, Tower's non-catastrophe aggregate loss reinsurance program is now fully utilised. Changes to these estimates, or any further such events, would have a direct impact on Tower's profit.

There were no other subsequent events after balance date.





Independent review report

to the shareholders of Tower Limited

Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Tower Limited (the “Group”) on pages 12 to 32 which comprise the consolidated balance sheet as at 31 March 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and selected explanatory notes.

Directors’ responsibility for the interim financial statements

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

Our responsibility

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

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

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

Conclusion

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

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
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Who we report to

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
29 May 2018

Auckland

Tower **Directory**

Board of Directors

Michael Stiasny (Chairman)
Warren Lee
Steve Smith
Graham Stuart
Wendy Thorpe

Chief Executive Officer

Richard Harding

Company Secretary

David Callanan

Executive leadership team

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

Registered Office

New Zealand

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Australia

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Nominees (N.S.W) Pty Ltd
PricewaterhouseCoopers
One International Towers Sydney
Watermans Quay
Barangaroo
Sydney NSW 2000
Australia

Auditor

PricewaterhouseCoopers

Banker

Westpac New Zealand Limited

Enquiries

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

For investor enquiries:

Telephone: +64 9 369 2000

Email: investor.relations@tower.co.nz

Website: tower.co.nz

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

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Auckland 1142

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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 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: **tower.co.nz**

Registrar

Computershare Investor Services Limited

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