Market Information
NZX Limited
Level 1, NZX Centre
11 Cable Street
Wellington
New Zealand

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ASX Limited
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Level 6, 20 Bridge Street
Sydney NSW
2000 Australia

28 November 2018

Tower Limited
FY18 Full Year Results for Announcement to Market

In accordance with NZSX Listing Rule 10.3.1, I enclose the following for release to the market in relation to Tower Limited's (NZE/ASX: TWR) FY18 Full Year Results:

1	Media Release
2	Management Review
3	NZX Appendix 1
4	Financial Statements (including Independent Auditor's Report)
5	Results Announcement Presentation
6	Results Announcement Call Script

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

Tower's Board confirms for the purposes of ASX Listing Rule 1.15.3 that Tower continues to comply with the NZX Main Board Listing Rules.

ENDS

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

For further information, please contact:
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TOWER Limited,
Level 14, 45 Queen Street,
Auckland 1142, New Zealand
ARBN 088 481 234
Incorporated in New Zealand

28 November 2018

Strong growth narrows Tower's loss

Tower Limited (NZX/ASX:TWR) has today announced continued strong growth and improvement of sales through digital channels, a declining expense ratio, and positive progress through a major technology upgrade, demonstrating that the transformation of the company is well underway.

While more customers are choosing to insure with Tower, the removal of the Peak Re legacy issue, impacts of severe weather and short-term claims challenges have resulted in Tower reporting a full year loss of $6.7 million, a $1.3 million improvement on the prior year.

Features of Tower's 2018 full year result:

- Key metrics :
  - **Strong growth achieved**
    - Gross written premium in core book increased 11.9% over prior year
    - Growth of 18,192 risks in core book
    - 45% of new business sales online in September 2018, up from less than 10% during FY16
  - **Increases to claims costs**
    - Severe weather in the Pacific contributed to claims cost increases as well as development of prior year claims and other cost impacts in New Zealand
    - Each of these is well understood with pricing and underwriting responses either already implemented or in train to improve performance through the coming year
  - **Management expense ratio decreased**
    - Management expense ratio decreased to 39% compared to 39.9% in prior year
  - **Major technology upgrade progressing well**
    - Full replacement of core platform with leading technology is tracking to expectations, with costs remaining within tolerances
    - IT simplification is a critical enabler for Tower's transformation and will accelerate growth and reduce expenses, delivering a step change in results from the end of FY19
- Reported full year loss of $6.7 million impacted by
  - $16.2 million after-tax impact from Peak Re settlement
  - $11 million before-tax impact from weather and large events
  - Minor adjustment to Canterbury provisions, resulting in a $3.6 million after-tax impact
- Continued positive progress closing Canterbury earthquake claims, with open claims almost halved, down to 163, from 323 on October 1 2017

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Transformation into a challenger brand is driving growth

Tower's full year result shows that its efforts to transform into a digital challenger brand are driving improved performance.

Strong growth is a result of more customers choosing to insure with Tower thanks to a continued focus on simplifying insurance and delivering fairer pricing for all.

Tower Chief Executive Richard Harding is pleased with Tower's progress in the transformation of the business.

"The strong growth we've achieved, especially through our digital channels, is testament to the work we've done to make insurance simpler and easier, and I'm pleased customers are noticing and choosing to insure with us," said Harding.

Mr Harding said that while the reported result is disappointing, finalising the Peak Re dispute and removing this legacy issue from the business provides confidence and certainty for the future of the company.

"While it offsets our growth, the resolution of the Peak Re dispute is a positive step forward, and the short-term challenges we've seen in claims have been addressed through pricing and underwriting responses.

"We are now building on this positive momentum and expect to see strong growth continue over the coming year as we keep transforming our business.

"Combined with the successful delivery of our new IT platform in the coming year, we are well placed to continue challenging the market and offering customers a genuinely different option when it comes to insurance, said Harding.

ENDS

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

For media queries, please contact:
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Tower management review – full year to 30 September 2018

Features of half year 2018

- Transformation of core business well underway and driving strong GWP growth in the core New Zealand book of 11.9% on the prior year, and strong volume growth, with 18,192 risks added to the core New Zealand book[1].

- Claims costs increased due to severe weather in the Pacific along with some prior year development in New Zealand and other cost impacts. Each of these is well understood and pricing and underwriting responses either already implemented or in train to improve performance through the coming year.

- Major technology upgrade progressing well, with replacement of core platform with leading technology tracking well

- Reported full year loss of $6.7 million impacted by
    - $16.2 million after-tax impact from Peak Re settlement
    - $11 million before-tax impact from weather and large events
    - Minor adjustment to Canterbury provisions, resulting in a $3.6 million after-tax impact

- Continued positive progress closing Canterbury earthquake claims, with open claims almost halved, down to 163, from 323 on October 1 2017

Full year summary

Tower has strong underlying New Zealand and Pacific businesses and the 2018 Financial Year has seen the continued delivery against its strategy to transform.

With a focus clearly on simplifying and improving all aspects of our business to differentiate the company, strong growth in GWP and customer numbers, contained expenses and a major technology upgrade progressing well, demonstrates that transformation is well underway.

The implementation of risk-based pricing and continued improvements in digital channels added 18,192 new risks[2] to Tower's core New Zealand portfolio, seeing core NZ GWP for the year grow 11.9% contributing to total GWP of $336 million.

Tower reported a loss after tax of $6.7 million for the year ended 30 September 2018 (FY18), narrowing from a loss of $8 million for the year ended 30 September 2017 (FY17).

The strong growth of $23.7m in gross written premium and $13.1m in net earned premium has been offset by storm activity, higher claims costs, the resolution of the Peak Re dispute as well as an increase in ultimate incurred claims for Canterbury.

Severe storm activity in New Zealand and the Pacific resulted in an $11 million before-tax impact to underlying profit, seeing it decline to $13.6 million, from $18 million in the year prior.

1. Following the end to Tower's distribution relationship with Kiwibank on 4 April 2018, the 'core' portfolio now refers to the NZ business excluding the ANZ Bank and Kiwibank portfolios. The FY17 comparative has been restated to be consistent with this approach.
2. In prior years Tower has reported volumes using policy numbers as the relevant metric. Tower has changed to using risk numbers as the key metric in FY18 to align with internal management reporting and to better illustrate risk exposures, e.g., where one policy might cover several risks.

Claims costs increased over the 2018 financial year, with weather in the Pacific the most significant impact along with some prior year development in New Zealand and other cost impacts. Each of these is well understood and pricing and underwriting responses either already implemented or in train to improve performance through the coming year.

Severe weather across the Pacific increased claims costs significantly in FY18. Cyclone Gita impacted Tonga heavily, while Cyclones Keni and Josie impacted Fiji, resulting in a 10.4 percentage point uplift on the Pacific FY17 claims ratio. Reinsurance is being utilised to minimise impacts of weather along with ongoing refinement of products and underwriting criteria.

New Zealand claims expenses also increased over the 2018 financial year due to a number of claims challenges, however, these are being countered with pricing and underwriting responses to improve performance.

A continued focus on non-personnel costs saw the management expense ratio decrease almost 1% to 39%, while still allowing further investment in the business.

GROUP PROFIT SUMMARY (NZ$m)

$ million	FY18	FY17	Change
Gross written premium	336.1	312.4	23.7
Gross earned premium	323.1	306.1	17.0
Reinsurance expense	(53.1)	(49.2)	(3.9)
Net earned premium	**270.0**	**256.9**	**13.1**
Net claims expense	(141.2)	(124.2)	(17.1)
Large events claims expense	(11.0)	(7.4)	(3.6)
Management and sales expenses	(105.4)	(102.4)	(3.0)
Underwriting profit	**12.4**	**22.9**	**(10.5)**
Investment and other revenue	7.2	6.1	1.1
Financing costs	(0.6)	(0.8)	0.3
Underlying profit before tax	**19.1**	**28.2**	**(9.2)**
Income tax expense	(5.5)	(10.2)	4.7
Underlying profit after tax	**13.6**	**18.0**	**(4.5)**
Peak Re settlement	(16.2)	0.0	(16.2)
Christchurch impact	(3.6)	(18.6)	15.1
Kaikoura impact	0.3	(4.1)	4.5
Corporate transaction costs	(0.2)	(3.1)	2.9
Foreign tax credit write-offs	(1.2)	(1.9)	0.7
Business in runoff	0.0	1.7	(1.7)
Other non-underlying items	0.6	0.0	0.6
Reported loss after tax	**(6.7)**	**(8.0)**	**1.3**

Tower's Pacific premium remains stable and in line with the same period in the prior year, however, underlying profit of $2.2 million has been impacted by Cyclones Gita, Josie and Keni and a small number of commercial fires.

Tower continues to make solid progress settling claims in Canterbury, reducing open claims by 160. On October 1 2017, Tower had 323 open claims remaining. In the intervening 12 months, the number of open Canterbury Earthquake claims was reduced to 163, with 318 claims were closed, however, 115 new claims from the EQC were received and 43 claims were reopened.

Transformation momentum is accelerating

Tower holds a unique position in the New Zealand insurance market, with a solid existing customer base, yet plenty of room to grow. A clear strategic plan to continue transforming and growing the business by delivering a compelling, challenger proposition to the market will see Tower turn industry norms upside down and revolutionise the way customers interact with the company.

The achievements seen to date show that there is a powerful platform for future growth with progress seen in crucial areas:

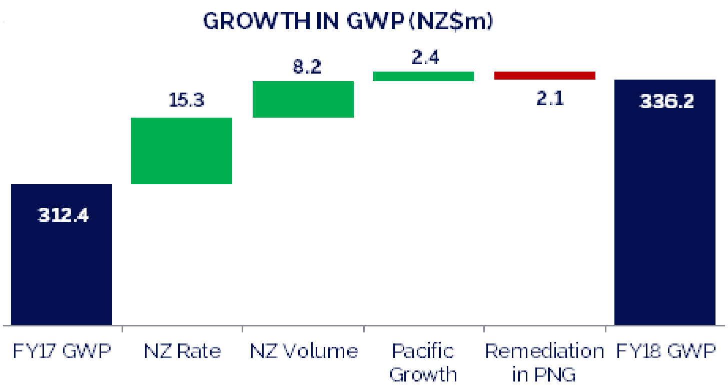
- Focus on customers has delivered strong growth
- Management expenses ratio has reduced, while continuing to invest
- Major technology upgrade progressing well
- Increases to claim costs well understood with action taken to offset inflation

Focus on customers driving growth

<u>Overview</u>

- Strong GWP growth of 11.9% in core book with total GWP growing strongly at 7.6%
- Growth in risks in core New Zealand book increased significantly by 18,192
- 45% of new business sales online in September 2018, up from less than 10% during FY16
- New approach to pricing combined with simple and easy products driving impressive customer growth and improved mix

Tower's focus on customers has seen continued growth in its core New Zealand portfolio in FY18, with 18,192 risks added to the core book and GWP increasing 11.9%.



With Tower's new product suite fully available online, and continued refinement and optimisation of the digital sales channels, more customers are choosing Tower, delivering a significant uplift in new business sales, with 45% of new business sales online in September 2018, up from less than 10% in FY16.

In the Pacific, Samoa, American Samoa and the Solomon and Cook Islands have returned to growth thanks to additional underwriting, pricing and marketing support for local teams. However, this growth has been offset by the continued remediation of the Papua New Guinea portfolio to reduce risk and exposure which will lead to improved profitability.

This positive result across Tower's businesses is being achieved through a combination of:

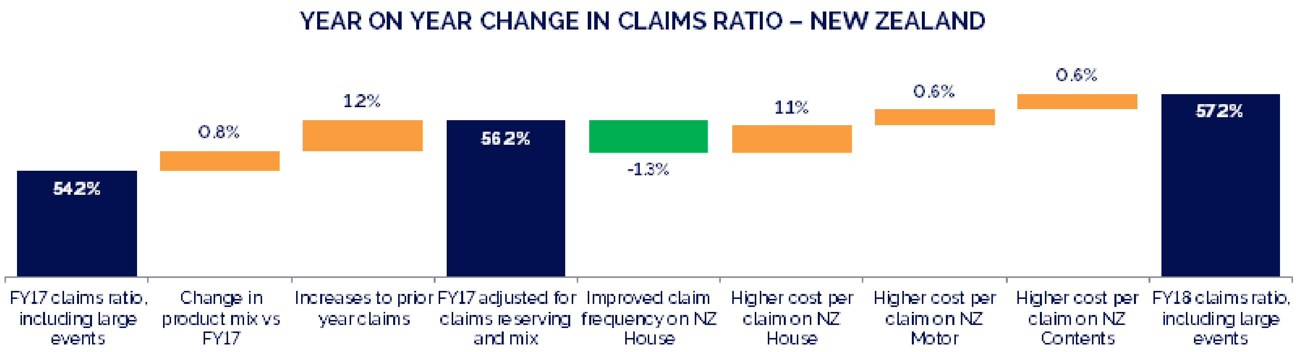
- Ongoing pricing improvements in New Zealand motor, house and contents portfolios to offset increased claims costs
- Constant refinement of underwriting criteria enabling more granular assessment to improve profitability of portfolio
- Attracting new, profitable customers with improved and targeted offerings;
- Building and refining Tower's digital offering and online sales process
- The creation of the Pacific operations centre, centralising back office functions, ensuring that the pricing and underwriting approach is consistent and minimises claims leakage

New Zealand and Pacific claims expenses

Overview

- Claims costs increased across New Zealand and Pacific
- Inflation is well understood and has been addressed through pricing and underwriting responses already implemented or in train to improve performance through the coming year
- Strengthened underwriting and risk selection in the Pacific to improve profitability

New Zealand claims expenses increased in FY18 due to a number of claims challenges, however, these challenges are well understood and swift action has been taken to address each of them.



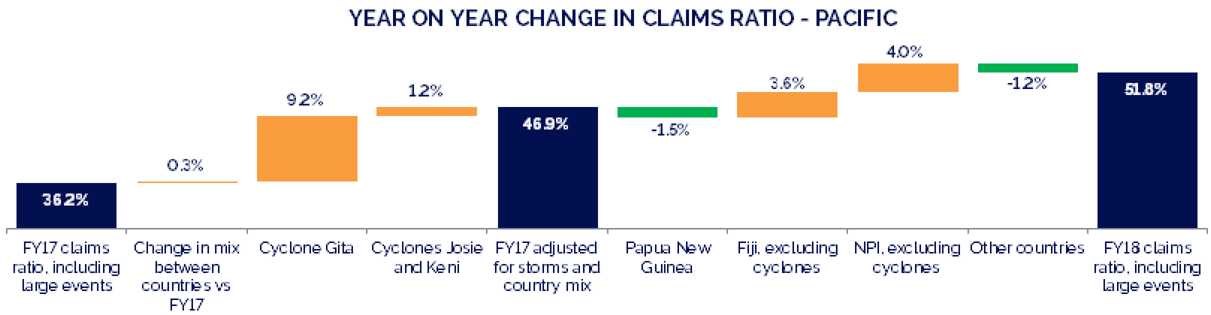
Throughout the year an increase in the development of open FY17 claims was experienced. The reserving model used didn't respond well during the claims backlog experienced due to storms, understating expected development of claims in FY17. This resulted in a 1.2 percentage point increase in the claims ratio and the reserving methodology has now been updated accordingly.

Tower's new, simpler products have resulted in a decrease in NZ House claim frequency, however, this positive result has been offset by an increase in severity, driven by a number of large house fires and the increased costs relating to increasing Health & Safety costs and asbestos testing requirements which is an industry-wide issue driven by regulatory change. In response to these issues Tower has strengthened pricing and improved its underwriting criteria and expects to see improved outcomes in the coming year.

Supply chain constraints and inflation continues to impact the industry with increasingly advanced technology in cars seeing the cost of repair rise. Tower is addressing motor claims inflation through pricing and more granular underwriting.

A higher cost per claim in Tower's NZ Contents book is also linked to the increase in house fires and work has been completed to actively address this through improved pricing and underwriting.

In the Pacific, severe weather increased claims costs significantly in FY18. Cyclone Gita impacted Tonga heavily, while Cyclones Keni and Josie impacted Fiji, resulting in a 10.4 percentage point uplift on Tower's FY17 Pacific claims ratio.



In Fiji, an increase in claims expenses mostly relates to motor claims inflation and in Tower's National Pacific Insurance business, a small number of large commercial fires have driven the claims ratio higher.

Reinsurance is being utilised to minimise impacts of weather and constant refinement of Tower's pricing, product offering and underwriting criteria in response to weather events and claims inflation means that Tower expects to see its claims ratio excluding large events to revert to prior year levels.

Severe weather events and reducing volatility

Overview

- Severe and unprecedented weather drove increased claims expenses in both FY17 and FY18
- Losses for these two years are significantly above long-term trends
- Gross impact of weather events in FY18, before reinsurance $20.1 million
- Reinsurance structure will reduce volatility from exposure to large events with FY19 reinsurance secured on favourable terms

The past two years have seen a number of unprecedented and severe weather events that have impacted communities and the business beyond expectations. Impacts to Tower in FY17 totalled $15.5 million before reinsurance, and this year reached a gross amount of $20.1 million, well above both Tower's 10 year average of $7.6 million, and its five year average of $11.3 million.

This is not unique to Tower, with industry wide losses in New Zealand from weather in the 2018 calendar year totalling over $200 million so far.

In response to these increased impacts Tower has adjusted pricing and strengthened its reinsurance programme to increase cover and reduce volatility from large events in FY19.

Tower has:

- Doubled its aggregate cover from $10 million to $20 million and increased the excess from $7 million to $10 million
- Increased cover for single large events from $5 million to $7.5 million, once its excess of $10 million is used
- Purchased drop-down cover to bridge the gap between aggregate and catastrophe cover
- Secured FY19 reinsurance on favourable terms

Tower is putting in considerable effort and taking all appropriate steps to preserve capital and reduce any volatility from these short-term weather abnormalities.

Building capability while controlling costs

Achievements

- Management expense ratio continues to improve
- Investment made to build capability and deliver growth

Tower has maintained its focus on non-personnel related costs, reducing the management expense ratio to 39% in FY18, compared to 39.9% FY17.

Tower has achieved a significant capability lift with a lower expense ratio thanks to close management of costs. Tower has increased capability in the pricing and underwriting, technology and digital, data lake, data science, claims management, procurement and customer insights areas.

In addition, the management expense ratio of 39.0%, includes incremental investment of:

- $1.0m to reduce cyber security risks
- $1.2m on acquisition, including partnerships and marketing
- $0.7m on ancillary IT system refresh

Tower expects expenses will continue to stabilise as simplification programme initiatives are embedded, with a step change in productivity gains to be realised after the implementation of its new IT platform.

Major technology upgrade underway

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 - 70% of all transactions online, removing complexity from the business will deliver significant cost savings and productivity gains.

Tower is now approaching the half way mark of this programme and progress to date is in line with expections. This programme is complex and includes legacy replacement, digital enhancement and product rationalisation. The programme remains on track to deliver in the first half of the 2019 calendar year.

At the half way point costs are within tolerances, however like all projects of this nature there remains risk and complexity in the delivery. Tower's robust governance controls include a focus on managing delivery risk and cost trade-off.

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 trial new 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.

Tower's 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

Tower continues to make solid progress settling claims in Canterbury, reducing open claims by 160. On October 1 2017, Tower had 323 open claims remaining. In the intervening 12 months, the number of open Canterbury Earthquake claims was reduced by 318. However, 115 new claims from the EQC were received and 43 claims were reopened.

Tower's gross outstanding claims have more than halved since September 2016. This demonstrates that solid progress is being made. In addition, the amount of IBNR / IBNER and risk margin has increased from 60% to 95% of case estimates.

$ million	Sep-18	Mar-18	Sep-17	Mar-17	Sep-16
Case estimates	37.5	48.0	58.9	73.9	93.2
IBNR/IBNER[1]	21.4	22.0	34.4	47.4	44.0
Risk margin	9.0	10.8	13.9	18.2	11.9
Additional risk margin	5.0	10.0	10.0	-	-
Actuarial provisions	35.4	42.8	58.3	65.6	55.9
Gross outstanding claims	**72.9**	**90.8**	**117.2**	**139.5**	**149.1**
Ratio of provisions to case estimates[2]	95%	89%	99%	89%	60%

Notes:

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

Tower also welcomes the recent government announcement of an enquiry into EQC as an important step toward ensuring that mistakes of the past are learnt from and not repeated in future.

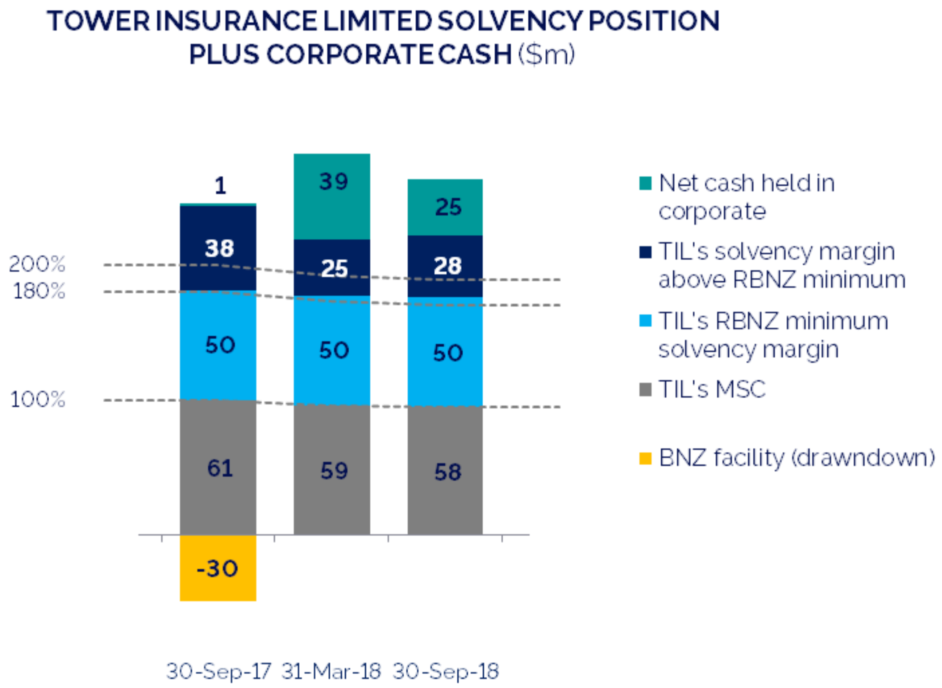
EQC Act reform will assist in ensuring past experience is not repeated and that the pitfalls and problems associated with the EQC set up and the 2010 model can be avoided. Tower strongly believes that the Kaikoura model is successful and that any reform of the EQC must include these changes.

Solvency position

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

As at 30 September 2018, following the Peak re settlement and the weather events earlier this year, Tower Insurance Limited held approximately $78 million of solvency margin, $28 million above RBNZ requirements and equivalent to 234% of minimum solvency capital. An additional $25 million in corporate cash is also held by Tower Limited.

Tower retains access to undrawn debt facilities and has a preference to fund remaining IT investment from debt.



Outlook

Tower is transforming, and is focussed on progressing initiatives that will continue accelerating momentum and deliver long-term shareholder value.

Tower has provided a one-off guidance for FY19 to demonstrate its confidence in the strategy and performance of its underlying business. Tower's guidance for underlying NPAT in FY19 is in excess of $22m.

This includes the following assumptions:

- Continued momentum in revenue growth and sales through improved digital channels
- Underwriting and pricing changes will be implemented, continuing to drive improvement in mix of risk, as well as addressing inflation
- Pacific contribution will return to normal levels
- The management expenses ratio will be maintained at a steady level
- The Aggregate excess will be fully utilised for weather events

Accordingly, Tower's Board has determined that in FY19, Tower will pay a dividend of 50% to 70% of reported NPAT where prudent to do so.

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

TOWER LIMITED	
Results for announcement to the market	
Reporting Period	12 months to 30 September 2018
Previous Reporting Period	12 months to 30 September 2017

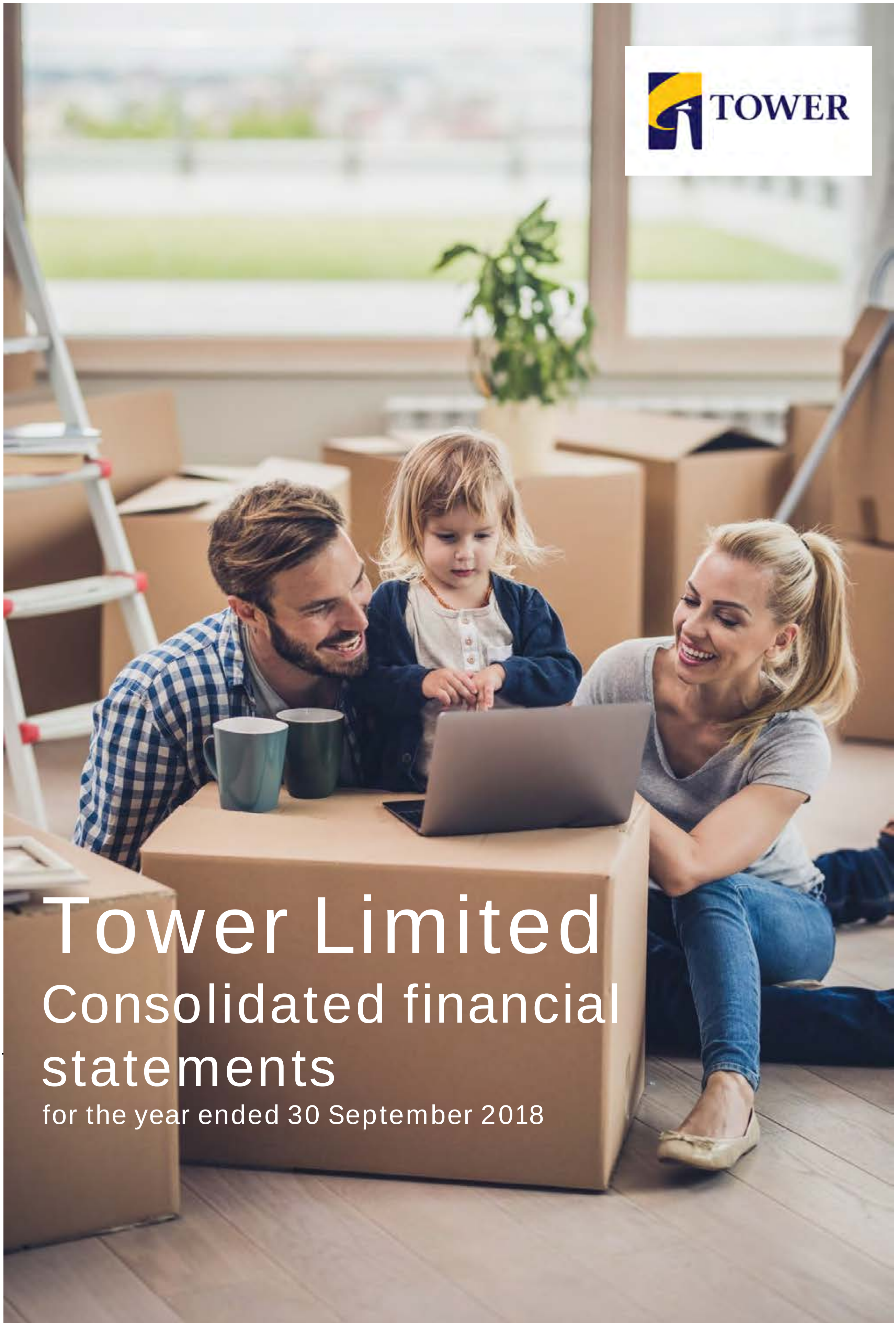
	Amount (000s)	Percentage change
Revenue from ordinary activities	$NZ 335,973	6%
Profit (loss) from ordinary activities after tax attributable to security holder	$NZ (6,726)	(16)%
Net profit (loss) attributable to security holders	$NZ (6,726)	(16)%

Interim/Final Dividend	Amount per security	Imputed amount per security
	Nil	Nil

Record Date	Not Applicable
Dividend Payment Date	Not Applicable

Comments:	For the year ended 30 September 2018 Tower Limited reported a 6% increase in revenue as a result of policy and premium growth. Tower Limited reported a net loss attributable to security holders of $(6.7)m due to an impairment charge related to the settlement of a reinsurance claim and an increase in claims expense over the prior year.

Refer attached 30 September 2018 audited Financial Statements for Tower Limited and Presentation for more detailed analysis and explanation.



Tower Limited

Consolidated financial statements

for the year ended 30 September 2018

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CONSOLIDATED INCOME STATEMENT

$ thousands For the Year Ended 30 September	Note	2018	2017
Revenue			
Premium revenue	B1	**323,093**	306,079
Less: Outwards reinsurance expense		**(54,251)**	(49,164)
Net premium revenue		**268,842**	256,915
Investment revenue	C1	**7,125**	7,643
Fee and other revenue		**5,755**	3,040
Net operating revenue		**281,722**	267,598
Expenses			
Claims expense		**200,467**	225,384
Less: Reinsurance and other recoveries revenue		**(23,835)**	(37,833)
Net claims expense	B2	**176,632**	187,551
Management and sales expenses	D1	**89,728**	81,744
Impairment of reinsurance receivables	D2	**22,511**	-
Acquisition proposal expenses	D3	**302**	3,467
Financing expenses		**570**	835
Total expenses		**289,743**	273,597
Profit (Loss) attributed to shareholders before tax		**(8,021)**	(5,999)
Tax (expense) benefit attributed to shareholders' profits	D6	**1,295**	(2,001)
Profit (Loss) for the year		**(6,726)**	(8,000)
Profit (Loss) attributed to:			
Shareholders		**(6,773)**	(8,461)
Non-controlling interest		**47**	461
		(6,726)	(8,000)
Basic and diluted profit (loss) per share (cents)	F5	**(2.20)**	(4.12)

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$ thousands For the Year Ended 30 September	Note	2018	2017
Loss for the year		**(6,726)**	(8,000)
Other comprehensive income			
Currency translation differences		**42**	105
Gain on asset revaluation	E3	**434**	247
Deferred income tax relating to asset revaluation	D6	**(81)**	(29)
Other comprehensive income net of tax		**395**	323
Total comprehensive loss for the year		**(6,331)**	(7,677)
Total comprehensive (loss) income attributed to:			
Shareholders		**(6,474)**	(8,143)
Non-controlling interest		**143**	466
		(6,331)	(7,677)

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

CONSOLIDATED BALANCE SHEET

$ thousands As at 30 September	Note	2018	2017
Assets			
Cash and cash equivalents	C2	**102,001**	83,876
Receivables	E1	**259,607**	286,569
Investments	C3	**198,000**	186,702
Derivative financial assets	C5	**271**	231
Deferred acquisition costs	D4	**22,595**	20,961
Property, plant and equipment	E3	**8,510**	8,780
Intangible assets	E2	**45,042**	31,334
Current tax assets	D6	**13,831**	13,462
Deferred tax assets	D6	**36,376**	32,745
Total assets		**686,233**	664,660
Liabilities			
Payables	E5	**80,375**	68,824
Provisions	E6	**5,789**	5,773
Insurance liabilities	B4	**324,527**	343,498
Borrowings	C4	**-**	29,921
Current tax liabilities	D6	**174**	560
Deferred tax liabilities	D6	**589**	340
Total liabilities		**411,454**	448,916
Net assets		**274,779**	215,744
Equity			
Contributed equity	F1	**447,543**	382,172
Accumulated (losses) profit		**(58,077)**	(51,299)
Reserves	F2	**(116,155)**	(116,454)
Total equity attributed to shareholders		**273,311**	214,419
Non-controlling interest		**1,468**	1,325
Total equity		**274,779**	215,744

The consolidated financial statements were approved for issue by the Board on 28 November 2018.

Michael P Stiassny
Chairman

Graham R Stuart
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributed to shareholders					
$ thousands	Note	Contributed equity	Accumulated (losses) profit	Reserves	Total	Non-controlling interest	Total Equity
Year Ended 30 September 2018							
At the beginning of the year		**382,172**	**(51,299)**	**(116,454)**	**214,419**	**1,325**	**215,744**
Total comprehensive income (loss)		**-**	**(6,773)**	**299**	**(6,474)**	**143**	**(6,331)**
Transactions with shareholders							
Net proceeds of capital raise	F1	**65,371**	**-**	**-**	**65,371**	**-**	**65,371**
Other		**-**	**(5)**	**-**	**(5)**	**-**	**(5)**
Total transactions with shareholders		**65,371**	**(5)**	**-**	**65,366**	**-**	**65,366**
At the end of the year		**447,543**	**(58,077)**	**(116,155)**	**273,311**	**1,468**	**274,779**
Year Ended 30 September 2017							
At the beginning of the year		382,172	(42,822)	(116,772)	222,578	1,374	223,952
Total comprehensive income (loss)		-	(8,461)	318	(8,143)	466	(7,677)
Transactions with shareholders							
Dividends paid	F1	-	-	-	-	(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

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

$ thousands For the Year Ended 30 September	Note	2018	2017
Cash flows from operating activities			
Premiums received		**319,329**	309,147
Interest received		**8,010**	7,734
Net realised investment gain (loss)		**(605)**	(1,928)
Fee and other income received		**5,285**	3,040
Reinsurance received		**45,780**	28,962
Reinsurance paid		**(52,327)**	(50,228)
Claims paid		**(231,843)**	(248,183)
Payments to suppliers and employees		**(80,614)**	(76,408)
Income tax paid		**(2,831)**	(4,908)
Net cash inflow (outflow) from operating activities	C6	**10,184**	(32,772)
Cash flows from investing activities			
Net proceeds from financial assets		**(6,815)**	2,852
Purchase of property, plant and equipment and intangible assets		**(19,802)**	(6,883)
Disposal of property, plant and equipment and intangible assets		**73**	136
Net cash inflow (outflow) from investing activities		**(26,544)**	(3,895)
Cash flows from financing activities			
Net proceeds of share issue		**65,371**	-
Facility fees and interest paid		**(734)**	(778)
Repayment of borrowings		**(30,000)**	-
Proceeds of borrowings		**-**	30,000
Payment of non-controlling interest dividends		**-**	(515)
Net cash inflow (outflow) from financing activities		**34,637**	28,707
Net increase (decrease) in cash and cash equivalents		**18,277**	(7,960)
Foreign exchange movement in cash		**(152)**	(392)
Cash and cash equivalents at the beginning of year		**83,876**	92,228
Cash and cash equivalents at the end of year	C2	**102,001**	83,876

Accounting policy

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.

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

NOTES TO THE FINANCIAL STATEMENTS

PART A - INTRODUCTION

This section provides introductory information that is helpful to an overall understanding of the financial statements, including an explanation of Tower's group structure and the areas of critical accounting judgements and estimates included in the financial statements. It also includes a summary of Tower's financial performance by operating segment.

A1 REPORTING ENTITY AND BASIS OF PREPARATION

Entities reporting

The 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. The address of the Company's registered office is 45 Queen Street, Auckland, New Zealand.

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 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.

Changes in comparatives

Refer to Note G5 for details of change in comparatives. Changes relate to income statement reclassification, balance sheet reclassification and presentation of notes. There is no change to net assets or the 2017 income statement.

A2 CONSOLIDATION

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. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively. 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.

A2 CONSOLIDATION (continued)

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 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 statement.

Subsidiaries

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

Name of company	Country Incorporated in	Holdings 2018	Holdings 2017	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

NOTES TO THE FINANCIAL STATEMENTS

A3 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.

Canterbury earthquake 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; 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 B3 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 B3 and Note E1 for further detail on EQC recoveries for Canterbury earthquakes.

Tax provisions

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 taxation

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.

This assessment is completed on the basis of the approved strategic plans of Tower Insurance Limited and subsidiaries. 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, and previous Board impairment decisions.

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 E2 for further details of key assumptions used.

A4 SEGMENTAL REPORTING

$ thousands	New Zealand General Insurance	Pacific Islands General Insurance	Other (Holding companies & eliminations)	Total
Year Ended 30 September 2018				
Revenue				
Net operating revenue	**235,335**	**43,174**	**3,213**	**281,722**
Total revenue	**235,335**	**43,174**	**3,213**	**281,722**
Earnings before interest, tax, depreciation and amortisation	**(10,590)**	**3,964**	**5,870**	**(756)**
Interest expense	**-**	**-**	**(570)**	**(570)**
Depreciation and amortisation	**(1,027)**	**(482)**	**(5,186)**	**(6,695)**
Profit (Loss) before income tax	**(11,617)**	**3,482**	**114**	**(8,021)**
Income tax credit (expense)	**2,751**	**(2,016)**	**560**	**1,295**
Profit (Loss) for the year	**(8,866)**	**1,466**	**674**	**(6,726)**
Total assets 30 September 2018	**480,664**	**95,072**	**110,497**	**686,233**
Total liabilities 30 September 2018	**345,406**	**63,224**	**2,824**	**411,454**
Acquisition of property, plant and equipment and intangibles	**173**	**603**	**19,026**	**19,802**
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	501,299	88,091	75,270	664,660
Total liabilities 30 September 2017	355,369	59,910	33,637	448,916
Acquisition of property plant and equipment and intangibles	819	295	12,059	13,173

Accounting policy

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.

A4 SEGMENTAL REPORTING (continued)

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

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

PART B - REVENUE AND CLAIMS

This section provides information about Tower's insurance related financial performance. Tower operates as a general insurance company and its insurance operations drive its performance and financial position.

Tower collects premiums from customers in exchange for providing insurance coverage over their assets and activities. These premiums are recognised as revenue when they are earned by Tower, with a liability for unearned premiums recognised on the balance sheet.

When customers suffer a loss that is covered by their policy, Tower will make payments to customers or suppliers, which it recognises as claims expenses. To ensure that Tower's obligations to customers are properly recorded within the financial statements, Tower recognises provisions for outstanding claims.

To manage Tower's risk and optimise its returns, Tower reinsures some of its exposure with reinsurance companies. The premiums paid to reinsurers are recognised as an expense, while recoveries from reinsurers are recognised as revenue.

B1 PREMIUM REVENUE

$ thousands	Note	2018	2017
Gross written premiums		**336,109**	312,396
Less: Gross unearned premiums		**(13,016)**	(6,317)
Premium revenue		**323,093**	306,079

Accounting policy

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 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.

B2 NET CLAIMS EXPENSE

$ thousands	Note	2018	2017
Canterbury earthquake claims (4 key events)	B3	**10,100**	15,916
Additional risk margin	B3	**(5,000)**	10,000
Kaikoura earthquake claims		**(579)**	5,739
Other claims		**172,111**	155,896
Total net claims expense		**176,632**	187,551

Accounting policy

Claims expense is recognised when claims are notified. Provision is made for the estimated cost of claims incurred but not settled at balance date, including the cost of claims incurred but not yet reported (IBNR) 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 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 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 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 net of any reinsurance recoveries. Gross provisions are estimated by adding the expected reinsurance recovery to the net provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note B5.

Reinsurance and other recoveries on claims expense are recognised as revenue. Recoveries are measured as the present value of expected future receipts.

B3 CANTERBURY EARTHQUAKES

As at 30 September 2018 Tower has 163 claims remaining to settle (2017: 323 claims) out of a total number of 16,152 claims received as a result of earthquakes impacting the Canterbury region during 2010 and 2011 (2017: 16,106 claims). To date, Tower has paid out more than $869 million to customers (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.

Outstanding claims comprises case estimates, claims incurred but not reported (IBNR) and risk margins. In the year ended 30 September 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 litigation on claims.

As at 30 September 2018, Tower has estimated gross ultimate incurred claims of $905.8 million in respect of the four main Canterbury earthquake events (2017: $897.4 million).

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

The table below presents a financial representation of Tower's net outstanding claims provision at 30 September 2018 in relation to the four main earthquake events.

Canterbury earthquake provisions

$ thousands	2018	2017
Insurance liabilities		
Gross outstanding claims	**(67,900)**	(107,200)
Additional risk margin	**(5,000)**	(10,000)
	(72,900)	(117,200)
Receivables		
Reinsurance recovery receivables	**7,800**	13,600
EQC related to open claims	**4,500**	5,800
Less: EQC payable to reinsurers	**(1,000)**	(1,700)
	11,300	17,700
Net outstanding claims	**(61,600)**	(99,500)

NOTES TO THE FINANCIAL STATEMENTS

B3 CANTERBURY EARTHQUAKES (continued)

EQC recovery receivables

Tower has one significant receivable amount related to closed Canterbury earthquake claims, being $68.4 million from EQC (2017: $65.1 million). $16.4 million of this EQC amount is payable to reinsurers which has been allowed for in payables (2017: $17.7 million). The amount payable to reinsurers may vary depending on the balance collected from EQC. A risk margin of $10.1 million has been allowed for on the receivable from EQC (2017: $10.7 million).

Tower estimates the gross amount receivable due from EQC is significantly higher than the $68.4 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.

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.

Additional risk margin

At 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 has been reviewed by the Board and has been reduced to $5.0 million as at 30 September 2018. The Board will continue to review this additional risk margin each half year and the remaining $5.0 million is expected to be released once the 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.

$ thousands	Note	2018	2017
Cumulative expenses associated with Canterbury earthquakes:			
Earthquake claims estimate		**(905,840)**	(897,440)
Reinsurance recoveries		**723,173**	746,623
Claim expense net of reinsurance recoveries		**(182,667)**	(150,817)
Reinsurance expense		**(25,045)**	(25,045)
Additional risk margin		**(5,000)**	(10,000)
Cumulative impact of Canterbury earthquakes before tax		**(212,712)**	(185,862)
Income tax		**60,228**	52,710
Cumulative impact of Canterbury earthquakes after tax		**(152,484)**	(133,152)
Recognised in current period (net of tax)			
Net claims expense	B2	**(7,272)**	(11,460)
Additional risk margin	B2	**3,600**	(7,200)
Impairment of receivables	D2	**(15,660)**	-
		(19,332)	(18,660)

NOTES TO THE FINANCIAL STATEMENTS

B3 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. 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 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 litigated 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 claims subject to litigation 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

- 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 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.

Date of event	**Catastrophe reinsurance cover remaining**	
$ thousands	**2018**	2017
June 2011	**255,700**	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.

B3 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	Split between events				Four main earthquakes	
$ millions	variable	Sep 2010	Feb 2011	Jun 2011	Dec 2011	30-Sep-18	30-Sep-17
Outstanding claims:							
(i) Change to costs and quantity of expected claim estimates including building costs and other impacts.	+ 5%	(0.9)	(1.9)	-	-	(2.8)	(4.3)
	- 5%	0.9	1.9	-	-	2.8	4.3
(ii) Change in apportionment of claim costs to / from February 2011 event.	+ 1%	6.4	(8.8)	-	-	(2.4)	(4.1)
	- 1%	(6.9)	8.8	-	-	1.9	2.0
Receivables:							
Reinsurance recovery receivables							
(iii) 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)
(iv) Recoveries from EQC in respect of building costs	+ 10%	3.4	1.0	-	-	4.4	4.1
	- 10%	(3.4)	(1.0)	-	-	(4.4)	(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.

NOTES TO THE FINANCIAL STATEMENTS

B4 INSURANCE LIABILITIES

$ thousands	Note	2018	2017
Unearned premiums		**175,551**	162,342
Outstanding claims		**143,976**	171,156
Additional risk margin		**5,000**	10,000
Total insurance liabilities		**324,527**	343,498
Analysed as			
Current		**291,711**	300,064
Non current		**32,816**	43,434
Total insurance liabilities		**324,527**	343,498

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

Opening balance		**162,342**	157,620
Premiums written		**336,109**	296,855
Premiums earned		**(323,093)**	(291,472)
Foreign exchange movements		**193**	(661)
Closing balance		**175,551**	162,342

Accounting policy

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 B3 for further details on the additional risk margin.

B5 OTHER INSURANCE DISCLOSURES

B5.1 NET CLAIMS EXPENSE

	2018			2017		
$ thousands	Risks borne in current year	Risks borne in prior years	Total	Risks borne in current year	Risks borne in prior years	Total
Gross claims expense						
Direct claims - undiscounted	**188,452**	**12,035**	**200,487**	175,078	50,235	225,313
Movement in discount	**(60)**	**40**	**(20)**	43	28	71
Total gross claims expense	**188,392**	**12,075**	**200,467**	175,121	50,263	225,384
Reinsurance and other recoveries						
Reinsurance and other recoveries - undiscounted	**(20,073)**	**(3,762)**	**(23,835)**	(20,559)	(17,272)	(37,831)
Movement in discount	**-**	**-**	**-**	(1)	(1)	(2)
Total reinsurance recoveries	**(20,073)**	**(3,762)**	**(23,835)**	(20,560)	(17,273)	(37,833)
Net claims expense	**168,319**	**8,313**	**176,632**	154,561	32,990	187,551

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 B2 and B3.

B5.2 OUTSTANDING CLAIMS

(a) Assumptions adopted in calculation of insurance liabilities

The estimation of outstanding claims as at 30 September 2018 has been carried out by the following Actuaries:

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

John Feyter, B.Sc., 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:

	2018	2017
Inflation rates varied from	0.0%	0.0% - 3.8%
Inflation rates for succeeding year	0.0%	0.0% - 3.8%
Inflation rates for following years	0.0%	0.0% - 3.8%
Discount rates varied from	0.0% - 2.5%	0.0% - 6.3%
Discount rates for succeeding year	0.0% - 2.5%	0.0% - 6.3%
Discount rates for following years	0.0% - 2.5%	0.0% - 6.3%
Claims handling expense ratio	3.5% - 32.3%	3.1% - 39.1%
Risk margin	6.5% - 31.5%	4.9% - 23.1%

In addition to the risk margin range shown above, the total risk margin also includes $14,000,000, gross of reinsurance (2017: $23,900,000) associated with the Canterbury earthquakes.

B5 OTHER INSURANCE DISCLOSURES (continued)

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

	2018	2017
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	1.0 to 1.8 years

Inflation and discount rate

Insurance costs are subject to inflationary pressures. The valuation implicitly assumes that future inflation will be similar to that experienced in recent years. For the Pacific countries it is assumed that additional superimposed inflation is offset by the discount effect and 0% has, therefore, been assumed for both the inflation rate and discount rate.

For New Zealand business all liabilities are short-tail. Nil additional inflation has been assumed. Outstanding claim liabilities are discounted to present value using a short-term discount rate.

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.

B5 OTHER INSURANCE DISCLOSURES (continued)

The following analysis is in respect of the insurance liabilities:

$ thousands	Note	2018	2017
Central estimate of expected present value of future payments for claims incurred		**95,425**	110,398
Risk margin		**17,936**	27,885
Claims handling costs		**6,901**	9,714
		120,262	147,997
Discount		**(271)**	(270)
Net outstanding claims		**119,991**	147,727

Reconciliation of movements in discounted outstanding claim liabilities

	2018			2017		
$ thousands	**Gross**	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Balance brought forward	**181,156**	**(33,429)**	**147,727**	210,202	(83,205)	126,997
Effect of change in foreign exchange rates	**71**	**(99)**	**(28)**	(553)	98	(455)
Incurred claims recognised in the income statement	**200,467**	**(23,835)**	**176,632**	225,384	(37,833)	187,551
Claims paid and reinsurance recoveries raised	**(232,718)**	**28,378**	**(204,340)**	(253,877)	87,511	(166,366)
Total outstanding claims	**148,976**	**(28,985)**	**119,991**	181,156	(33,429)	147,727

Reconciliation of movements in undiscounted claims to outstanding claim liabilities

	2018			2017		
$ thousands	**Gross**	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Outstanding claims undiscounted	**3,461**	**(80)**	**3,381**	1,968	(367)	1,601
Discount	**-**	**-**	**-**	60	-	60
Outstanding claims	**3,461**	**(80)**	**3,381**	2,028	(367)	1,661
Short tail outstanding claims			**116,610**			146,066
Total outstanding claims			**119,991**			147,727

(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.

B5 OTHER INSURANCE DISCLOSURES (continued)

(c) Future net cash out flows

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

$ thousands	Note	2018	2017
Expected claim payments			
Within 3 months		**50,771**	45,205
3 to 6 months		**25,762**	28,699
6 to 12 months		**17,955**	38,456
After 12 months		**25,503**	35,367
Total outstanding claim liabilities		**119,991**	147,727

B5.3 DEVELOPMENT OF CLAIMS

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

	$ thousands						
Ultimate claims cost estimate	Prior	2014	2015	2016	2017	2018	Total
At end of incident year		116,297	125,054	133,776	138,647	149,260	
One year later		114,810	126,231	132,388	141,378		
Two years later		117,108	126,067	134,640			
Three years later		117,629	127,552				
Four years later		116,131					
Current estimate of ultimate claims cost		116,131	127,552	134,640	141,378	149,260	
Cumulative payments		(115,833)	(127,092)	(131,941)	(136,344)	(109,517)	
Undiscounted central estimate	47,192	298	460	2,699	5,034	39,743	95,426
Discount to present value							(271)
Discounted central estimate							95,155
Claims handling expense							6,901
Risk margin							17,936
Net outstanding claim liabilities							119,991
Reinsurance recoveries on outstanding claim liabilities and other recoveries							28,985
Gross outstanding claim liabilities							148,976

B5 OTHER INSURANCE DISCLOSURES (continued)

B5.4 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 2018 were sufficient (2017: sufficient).

%	**2018**	2017
Central estimate claim % of premium	**44.9%**	41.2%
Risk margin	**11.3%**	12.0%

B5.5 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 9 March 2018.

B5.6 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.

B5.7 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.

NOTES TO THE FINANCIAL STATEMENTS

PART C - FINANCIAL INSTRUMENTS AND LIQUIDITY

Funds provided by shareholders and collected as premiums are invested by Tower, providing a financial return and also ensuring that Tower's obligations to pay claims and expenses can be met.

This section provides information about Tower's financial instruments, including information about the cash and investments that Tower holds, its approach to managing risk for these financial instruments, and its cash flows.

C1 INVESTMENT REVENUE

$ thousands	Note	2018	2017
Fixed interest securities			
Interest income		**8,010**	7,734
Net realised gain (loss)		**146**	(631)
Net unrealised gain (loss)		**596**	913
Total fixed interest securities		**8,752**	8,016
Equity securities			
Net unrealised gain (loss)		**(745)**	(3)
Total equity securities		**(745)**	(3)
Other			
Net realised gain (loss)		**(751)**	(1,297)
Net unrealised gain (loss)		**(131)**	927
Total other		**(882)**	(370)
Total investment revenue		**8,010**	7,734
Total net realised gain (loss)		**(605)**	(1,928)
Total net unrealised gain (loss)		**(280)**	1,837
Total investment revenue		**7,125**	7,643

Accounting policy

Investment revenue is recognised as follows:

(i) Interest income on fixed interest securities

Interest income is recognised using the effective interest method.

(ii) 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

C2 CASH AND CASH EQUIVALENTS

$ thousands	2018	2017
Cash at bank and in hand	**45,986**	21,981
Deposits at call	**55,561**	57,689
Restricted cash	**454**	4,206
Total cash and cash equivalents	**102,001**	83,876

Accounting policy

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 2018 for deposits at call is 2.25% (2017: 2.60%). There was no offsetting within cash and cash equivalents (2017: nil).

Restricted cash

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 $0.5 million (2017: $4.2 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 $0.2 million (2017: $1.6 million) recorded within Insurance liabilities for Tower's portion of multi-unit outstanding claims; and $0.3 million (2017: $2.6 million) recorded within Payables as held on behalf of other insurers in respect of SPP claims.

C3 INVESTMENT ASSETS

$ thousands	Note	2018	2017
Fixed interest securities		**197,367**	185,256
Equity securities		**599**	1,412
Property securities		**34**	34
Total Investments		**198,000**	186,702

NOTES TO THE FINANCIAL STATEMENTS

C4 BORROWINGS

$ thousands	Currency	Interest Rate	Rollover Date (drawn) / Maturity Date (undrawn)	Face Value	Unamortised Costs	Carrying Value	Fair Value
As at 30 September 2018							
Bank facilities (undrawn)	NZD	Variable	9-Sep-19	50,000	-	-	-
Total borrowings					-	-	-
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

$ thousands	Note	2018	2017
Analysed as			
Current		-	29,921
Non current		-	-
Total borrowings		-	29,921

Accounting policy

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.

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.

The following table represents the change in borrowings:

$ thousands	Note	2018	2017
Opening balance		**30,000**	-
Drawdown of credit facility		-	30,000
Repayment of credit facility		**(30,000)**	-
Closing balance		-	30,000

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.

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

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 2018.

C5 FINANCIAL INSTRUMENTS

C5.1 FINANCIAL INSTRUMENT CATEGORIES

Accounting policy

Financial assets and liabilities are classified 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 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 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 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.

(iv) 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.

(v) 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.

(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.

(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.

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

C5 FINANCIAL INSTRUMENTS (continued)

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

			At amortised cost		**At fair value through profit or loss**	
$ thousands	Note	**Total**	**Loans and receivables**	**Financial liabilities**	**Designated**	**Held for trading**
As at 30 September 2018						
Assets						
Cash and cash equivalents		**102,001**	**102,001**	-	-	-
Trade and other receivables		**255,779**	**255,779**	-	-	-
Investments		**198,000**	-	-	**198,000**	-
Derivative financial assets		**271**	-	-	-	**271**
Total financial assets		**556,051**	**357,780**	-	**198,000**	**271**
Liabilities						
Trade and other payables		**50,590**	-	**50,590**	-	-
Total financial liabilities		**50,590**	-	**50,590**	-	-

			At amortised cost		At fair value through profit or loss	
$ thousands	Note	Total	Loans and receivables	Financial liabilities	Designated	Held for trading
As at 30 September 2017						
Assets						
Cash and cash equivalents		83,876	83,876	-	-	-
Trade and other receivables		283,158	283,158	-	-	-
Investments		186,702	-	-	186,702	-
Derivative financial assets		231	-	-	-	231
Total financial assets		553,967	367,034	-	186,702	231
Liabilities						
Trade and other payables		43,514	-	43,514	-	-
Borrowings		29,921	-	29,921	-	-
Total financial liabilities		73,435	-	73,435	-	-

NOTES TO THE FINANCIAL STATEMENTS

C5 FINANCIAL INSTRUMENTS (continued)

C5.2 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 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

C5 FINANCIAL INSTRUMENTS (continued)

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

$ thousands	Note	Total	Level 1	Level 2	Level 3
As at 30 September 2018					
Assets					
Investment in equity securities		**599**	**-**	**-**	**599**
Investments in fixed interest securities		**197,367**	**-**	**197,367**	**-**
Investments in property securities		**34**	**-**	**34**	**-**
Investments		**198,000**	**-**	**197,401**	**599**
Derivative financial assets		**271**	**-**	**271**	**-**
Total financial assets		**198,271**	**-**	**197,672**	**599**
As at 30 September 2017					
Assets					
Investment in equity securities		1,412	-	-	1,412
Investments in fixed interest securities		185,256	-	185,256	-
Investments in property securities		34	-	34	-
Investments		186,702	-	185,290	1,412
Derivative financial assets		231	-	231	-
Total financial assets		186,933	-	185,521	1,412
Liabilities					
Borrowings		29,921	-	29,921	-
Total financial liabilities		29,921	-	29,921	-

The Level 3 category includes investment in equity securities of $599,000 (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. The following table represents the changes in Level 3 instruments:

	Investment in equity securities	
$ thousands	**2018**	2017
Opening balance	**1,412**	1,406
Total gains and losses recognised in profit or loss	**(745)**	(3)
Foreign currency movement	**(46)**	9
Disposals	**(22)**	-
Closing balance	**599**	1,412

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

$ thousands	Carrying Amount	Favourable changes of 10%	Unfavourable changes of 10%
As at 30 September 2018			
Investment in equity securities	**599**	**60**	**(60)**
As at 30 September 2017			
Investment in equity securities	1,412	141	(141)

C5 FINANCIAL INSTRUMENTS (continued)

C5.3 IMPAIRMENT OF FINANCIAL ASSETS

Accounting policy

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 for credit losses and impairment.

C6 RECONCILIATION OF LOSS FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

$ thousands	**2018**	2017
Loss for the year	**(6,726)**	(8,000)
Adjusted for non-cash items		
Depreciation of property, plant and equipment	**1,499**	2,032
Amortisation of software	**5,195**	6,395
Impairment of reinsurance receivables	**21,750**	-
Unrealised (gain) loss on financial assets	**280**	(1,837)
Movement on disposal of property, plant and equipment	**(50)**	(42)
Change in deferred tax	**(3,404)**	(3,024)
	25,270	3,524
Adjusted for movements in working capital (excluding the effects of exchange differences on consolidation)		
Change in receivables	**4,907**	(7,653)
Change in payables	**(13,279)**	(21,537)
Change in taxation	**(722)**	116
	(9,094)	(29,074)
Adjusted for other items classified as investing / financing activities		
Facility fees and interest paid	**734**	778
	734	778
Net cash inflows (outflows) from operating activities	**10,184**	(32,772)

NOTES TO THE FINANCIAL STATEMENTS

PART D - MANAGEMENT EXPENSES AND TAXATION

To grow and operate its business, Tower incurs management expenses, including payments to employees, suppliers and commission payments to third parties.

This section includes information about Tower's management expenses and taxation.

D1 MANAGEMENT AND SALES EXPENSES

$ thousands	Note	2018	2017
Employee benefits expense [1]		**59,610**	56,581
Net change in deferred acquisition costs		**(1,634)**	(988)
Bad debts written off		**232**	176
Change in provision for doubtful debts		**(159)**	(945)
Amortisation of software		**5,195**	6,395
Depreciation		**1,499**	2,032
Directors' fees		**515**	509
(Gain) on disposal of property, plant and equipment		**(50)**	(42)
Claims related management expenses reclassified to claims expense [2]		**(23,151)**	(28,979)
Auditors fees		**603**	576
Commission expense		**19,488**	18,927
Lease expenses		**3,393**	3,256
Other expenses		**24,187**	24,246
Total management and sales expenses		**89,728**	81,744

(1) Personnel costs are net of capitalised labour costs in relation to internally generated software assets

(2) Claims handling expenses do not include costs in relation to Kaikoura earthquake or Canterbury earthquake related claims, as these are charged to provisions created in previous years.

D2 IMPAIRMENT OF REINSURANCE RECEIVABLE

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.

D3 ACQUISITION PROPOSAL EXPENSES

The Company has worked with various legal, financial and Board advisers to assist with the acquisition proposals from Suncorp Group Limited/Vero Insurance New Zealand Limited and Fairfax Financial Holdings Limited. At 30 September 2018, Tower has provided for all costs incurred to date in respect of the acquisition activity. These have been recorded in the Consolidated Income Statement as a separate line item (Acquisition proposal expenses).

NOTES TO THE FINANCIAL STATEMENTS

D4 DEFERRED ACQUISITION COSTS

$ thousands	Note	2018	2017
Balance at the beginning of year		**20,961**	19,973
Acquisition costs during the year		**39,555**	38,385
Current period amortisation		**(37,921)**	(37,397)
Total deferred acquisition costs		**22,595**	20,961
Analysed as:			
Current		**22,595**	20,961
Non-current		**-**	-
Total deferred acquisition costs		**22,595**	20,961

Accounting Policy

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.

D5 OPERATING LEASES

$ thousands	2018	2017
As lessee		
Rent payable to the end of the lease terms are:		
Not later than one year	**3,286**	2,806
Later than one year and not later than five years	**7,701**	7,444
Later than five years	**-**	2,010
	10,987	12,260

Accounting policy

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 one to three years.

D6 TAX

Accounting Policy

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).

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.

Deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Income tax expense

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

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.

Tax consolidation

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

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.

Imputation credit account

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.

D6 TAX (continued)

D6.1 TAX EXPENSE

$ thousands	Note	2018	2017
Current tax		**2,714**	4,468
Deferred tax		**(3,463)**	(3,064)
Under (over) provided in prior years		**(546)**	597
Total tax (benefit) expense		**(1,295)**	2,001

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

Loss before tax from continuing operations		**(8,021)**	(5,999)
Income tax at the current rate of 28%		**(2,246)**	(1,680)
Tax effect of:			
Prior period adjustments		**(546)**	597
Non-deductible expenditure/non-assessable income		**120**	967
Foreign tax credits written off		**1,372**	1,874
Other		**5**	243
Total tax (benefit) expense		**(1,295)**	2,001

D6.2 CURRENT TAX ASSETS

$ thousands	Note	2018	2017
Current		**1,575**	1,206
Non-current		**12,256**	12,256
Total current tax assets		**13,831**	13,462

A non-current tax asset of $12,256,000 is recognised in the financial statements of the Group as at 30 September 2018 in relation to excess tax payments made in previous years (2017: $12,256,000). Non-current tax assets are expected to be recovered from 2022, as determined by the Board approved operational plan for financial years 2019 to 2022. A current tax asset of $1,575,000 is recognised in relation to excess tax payments made in the Pacific Islands over and above the estimated tax liabilities for the year (2017: $1,206,000).

D6.3 CURRENT TAX LIABILITIES

Current tax liabilities of $174,000 relate to taxes payable to off shore tax authorities in the Pacific Islands (2017: $560,000).

D6.4 IMPUTATION CREDITS

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

$ thousands	2018	2017
Imputation credits available for use in subsequent reporting periods	**489**	489

D6 TAX (continued)

D6.5 DEFERRED TAX ASSETS AND LIABILITIES

$ thousands	Opening balance at 1 October	(Charged) credited to income statement	(Charged) credited to comprehensive income	Closing balance at 30 September
For the Year Ended 30 September 2018				
Movement in deferred tax assets				
Provisions and accruals	**2,265**	**576**	**-**	**2,841**
Property, plant and equipment	**7,781**	**45**	**-**	**7,826**
Tax losses	**26,958**	**3,727**	**-**	**30,685**
Other	**778**	**(15)**	**-**	**763**
Total deferred tax assets	**37,782**	**4,333**	**-**	**42,115**
Set-off of deferred tax liabilities pursuant to NZ IAS 12				**(5,739)**
Net deferred tax assets				**36,376**
Movement in deferred tax liabilities				
Deferred acquisition costs	**(5,078)**	**(661)**	**-**	**(5,739)**
Other	**(299)**	**(209)**	**(81)**	**(589)**
Total deferred tax liabilities	**(5,377)**	**(870)**	**(81)**	**(6,328)**
Set-off of deferred tax liabilities pursuant to NZ IAS 12				**5,739**
Net deferred tax liabilities				**(589)**
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)

Recognition of deferred tax assets is a key area of judgement. Management expects to utilise the tax losses against future profits over the next four years. Management had expected to utilise the tax losses against future profits over the following four years as at 30 September 2017.

Deferred tax liabilities of nil have not been recognised in respect of temporary differences associated with investments in subsidiaries (2017: liabilities of $946,000).

PART E - OTHER BALANCE SHEET ITEMS

This section includes information about assets and liabilities not included elsewhere, including receivables, non-current assets, payables and provisions.

E1 RECEIVABLES

$ thousands	2018	2017
Premium receivables	**141,578**	124,030
Reinsurance recovery receivables	**32,600**	81,647
Claim recoveries and unearned reinsurance premiums	**11,616**	10,783
Trade receivables	**185,794**	216,460
EQC receivables	**69,272**	66,437
Other	**4,541**	3,672
Total receivables	**259,607**	286,569

Premium receivables represent net amounts owed to Tower (including GST) by policyholders. The majority of the amounts outstanding are not due.

Accounting policy

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Premium receivables and other trade receivables are presented net of allowance for credit losses and impairment.

The table below shows the reconciliation of the allowance for credit losses and impairment at the reporting date.

$ thousands	2018	2017
Opening balance	**(805)**	(1,750)
Provisions added during the year	**(208)**	(41)
Provisions released during the year	**362**	978
Foreign exchange movements	**5**	8
Closing balance	**(646)**	(805)

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.

$ thousands	2018	2017
Analysed as		
Current	**185,133**	199,960
Non current	**74,474**	87,005
Total receivables	**259,607**	286,569

NOTES TO THE FINANCIAL STATEMENTS

E1 RECEIVABLES (continued)

Collectability of trade receivables

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.

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

At 30 September 2018, the amount due from EQC for reimbursement of claims handling expenses and claims paid in relation to the Kaikoura event is $0.9 million (2017: $1.3 million).

Canterbury Earthquakes

Other receivables include an amount of $68.4 million due from EQC for land damage and building costs relating to the Canterbury earthquake provisions as disclosed in Note B3 (2017: $65.1 million).

E2 INTANGIBLE ASSETS

		Software			
$ thousands	Goodwill	Acquired	Internally developed	Under development	Total
Year Ended 30 September 2018					
Cost:					
Opening balance	**17,744**	**5,097**	**37,045**	**4,484**	**64,370**
Additions	**-**	**-**	**-**	**19,026**	**19,026**
Disposals	**-**	**-**	**-**	**(74)**	**(74)**
Transfers	**-**	**285**	**600**	**(885)**	**-**
Transfers to Property, plant and equipment	**-**	**-**	**-**	**(49)**	**(49)**
Closing balance	**17,744**	**5,382**	**37,645**	**22,502**	**83,273**
Accumulated amortisation:					
Opening balance	**-**	**(4,501)**	**(28,535)**	**-**	**(33,036)**
Amortisation charge	**-**	**(197)**	**(4,998)**	**-**	**(5,195)**
Closing balance	**-**	**(4,698)**	**(33,533)**	**-**	**(38,231)**
Net book value					
At cost	**17,744**	**5,382**	**37,645**	**22,502**	**83,273**
Accumulated amortisation	**-**	**(4,698)**	**(33,533)**	**-**	**(38,231)**
Closing net book value	**17,744**	**684**	**4,112**	**22,502**	**45,042**
Year Ended 30 September 2017					
Cost:					
Opening balance	17,744	5,020	31,305	4,554	58,623
Additions	-	-	-	6,237	6,237
Disposals	-	(6)	-	(17)	(23)
Transfers	-	82	5,740	(5,822)	-
Transfers to Property, plant and equipment	-	-	-	(468)	(468)
Foreign exchange movements	-	1	-	-	1
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

E2 INTANGIBLE ASSETS (continued)

SOFTWARE

Accounting policy

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

IMPAIRMENT TESTING FOR SOFTWARE UNDER DEVELOPMENT

Software under development includes expenditure relating to the development of a new core IT platform, digital enhancements, communications technology and work to extend the useful life of other IT assets. Software under development is subject to impairment testing and no impairment loss has been recognised in 2018 (2017: Nil). In assessing the recoverable amount for software under development, Management has based its assumptions on the five year projections covered by Tower's 2019-2023 operating plans, including an assessment of additional revenue and expense savings expected to be generated by each asset. These assumptions are determined from a variety of sources, including Management's past experience, comparison of key metrics to industry baselines, sensitivity of revenues to changes in drivers and analysis of current expenditure that can be reduced. Management has not put any value on projected cash flows beyond a five year period. A discount rate of 12% has been used in the valuation (2017: 12%).

GOODWILL

Accounting policy

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.

IMPAIRMENT TESTING FOR GOODWILL

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

$ thousands	**2018**	2017
Carrying amount of goodwill	**17,744**	17,744

Goodwill is subject to impairment testing at the cash-generating unit level and no impairment loss has been recognised in 2018 as a result of the impairment review (2017: Nil). 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 13% was used in the calculation (2017: 14%). Other assumptions used are consistent with the actuarial assumptions in Note B5 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% (2017: 2%). 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.

NOTES TO THE FINANCIAL STATEMENTS

E3 PROPERTY, PLANT AND EQUIPMENT

$ thousands	Land and buildings	Office equipment and furniture	Motor vehicles	Computer equipment	Total
For the Year Ended 30 September 2018					
Cost					
Opening balance	**2,959**	**7,715**	**1,122**	**14,764**	**26,560**
Additions	**-**	**513**	**65**	**198**	**776**
Revaluations	**434**	**-**	**-**	**-**	**434**
Disposals	**-**	**(14)**	**(165)**	**(9)**	**(188)**
Foreign exchange movements	**22**	**7**	**(3)**	**17**	**43**
Closing balance	**3,415**	**8,221**	**1,019**	**14,970**	**27,625**
Accumulated depreciation					
Opening balance	**-**	**(2,880)**	**(837)**	**(14,063)**	**(17,780)**
Depreciation	**-**	**(958)**	**(38)**	**(503)**	**(1,499)**
Disposals	**-**	**15**	**176**	**2**	**193**
Foreign exchange movements	**-**	**35**	**(84)**	**20**	**(29)**
Closing balance	**-**	**(3,788)**	**(783)**	**(14,544)**	**(19,115)**
Closing balance					
Cost / revaluation	**3,415**	**8,221**	**1,019**	**14,970**	**27,625**
Accumulated depreciation	**-**	**(3,788)**	**(783)**	**(14,544)**	**(19,115)**
Net book value	**3,415**	**4,433**	**236**	**426**	**8,510**
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

E3 PROPERTY, PLANT AND EQUIPMENT (continued)

Accounting policy

Measurement of 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.

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

Measurement of 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.

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 14 September 2018 by Rolle Associates, registered valuers in Fiji. There has been no material movement in the valuation between 14 September 2018 and 30 September 2018. 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 between 7.5% and 9.5% (2017: 7.0%).

Had land and buildings been recognised under the cost model the carrying amount would have been $1,145,000 (2017: $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.

E4 CAPITAL COMMITMENTS

As at the 30 September 2018, the Group has capital commitments of $13.9 million dollars in relation to the implementation and delivery of a new insurance policy management system (2017: nil).

E5 PAYABLES

$ thousands	Note	2018	2017
Trade payables		**16,028**	16,479
Reinsurance payables		**23,388**	21,763
Payable to other insurers		**268**	2,590
Investment settlement balances		**5,099**	-
GST payable		**16,272**	12,991
Other payables		**19,320**	15,001
Total payables		**80,375**	68,824
Analysed as:			
Current		**63,975**	51,124
Non current		**16,400**	17,700
Total payables		**80,375**	68,824

Accounting policy

Payables 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.

Payable to other insurers

At 30 September 2018 there was $0.3 million (2017: $2.6 million) recorded within Payables as funds held on behalf of other insurers in respect of SPP claims. Refer to Note C2 for further details on cash held in respect of multi-unit claims as lead insurer.

E6 PROVISIONS

$ thousands	Note	2018	2017
Employee benefits		**5,789**	5,773
Total provisions		**5,789**	5,773
Analysed as:			
Current		**5,402**	5,592
Non current		**387**	181
Total provisions		**5,789**	5,773

Accounting policy

Provisions are 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.

PART F - CAPITAL AND RISK MANAGEMENT

This section provides information about Tower's capital structure and its approaches to managing risk.

F1 CONTRIBUTED EQUITY

$ thousands	2018	2017
Opening balance	**382,172**	382,172
Issue of share capital	**70,838**	-
Costs of capital raise	**(5,467)**	-
Total contributed equity	**447,543**	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:

Number of shares	2018	2017
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.

There were no Tower Limited dividend payments during the year ended 30 September 2018 (2017: nil).

F2 RESERVES

$ thousands	Note	2018	2017
Foreign currency translation reserve (FCTR)			
Opening balance		**(4,343)**	(4,443)
Currency translation differences arising during the year		**(54)**	100
Closing balance		**(4,397)**	(4,343)
Separation Reserve			
Opening balance		**(113,000)**	(113,000)
Closing balance		**(113,000)**	(113,000)
Asset revaluation reserve			
Opening balance		**889**	671
Gain on revaluation, net of deferred tax		**353**	218
Closing balance		**1,242**	889
Total reserves		**(116,155)**	(116,454)

Accounting policy

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

NOTES TO THE FINANCIAL STATEMENTS

F2 RESERVES (continued)

Separation reserve
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.

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

F3 CAPITAL RISK MANAGEMENT & SOLVENCY

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 $82.4 million (2017: $96.3 million) and Tower Insurance parent by $78.2 million (2017: $87.9 million).

	Tower Insurance Limited		Tower Insurance Limited Group	
	Unaudited	Unaudited	**Audited**	Audited
$ thousands	**2018**	2017	**2018**	2017
Actual solvency capital	**136,476**	149,317	**156,765**	166,823
Minimum solvency capital	**58,298**	61,387	**74,344**	70,545
Solvency margin	**78,178**	87,930	**82,421**	96,278
Solvency ratio	**234%**	243%	**211%**	236%

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. The actual solvency capital as determined under the solvency standards is required to exceed the minimum solvency capital level by at least this amount.

Capital risk management

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

$ thousands	Note	2018	2017
Tower shareholder equity		**273,311**	214,419
Standby credit facility (undrawn)	C4	**50,000**	20,000
Total capital and liquidity resources		**323,311**	234,419

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. During the year ended 30 September 2018 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.

NOTES TO THE FINANCIAL STATEMENTS

F4 NET ASSETS PER SHARE

$ dollars	**2018**	2017
Net assets per share	**0.81**	1.28
Net tangible assets per share	**0.57**	0.90

Accounting Policy

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.

Reconciliation to net tangible assets is provided below:

$ thousands	**2018**	2017
Net assets	**274,779**	215,744
Less: deferred tax	**(35,787)**	(32,405)
Less: intangible assets	**(45,042)**	(31,334)
Net tangible assets	**193,950**	152,005

F5 EARNINGS PER SHARE

$ thousands	**2018**	2017
Loss attributable to shareholders	**(6,773)**	(8,461)

Number of shares	**2018**	2017
Weighted average number of ordinary shares for basic and diluted earnings per share	**308,077,348**	205,532,480

Cents	**2018**	2017
Basic and diluted (loss) earnings per share	**(2.20)**	(4.12)

Accounting Policy

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.

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 30 September 2017 has been restated to reflect the change.

There was no dilutive impact on basic earnings per share for 2018 (2017: nil).

F6 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.

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

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

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

The Board has responsibility for:

- reviewing investment policies for Tower Limited funds;
- reviewing the Treasury Policy which includes our strategy for investment management and the use of derivatives;
- 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.

F6.1 INSURANCE RISK

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. Notes on the policies and procedures employed in managing these risks 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 controls 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.

F6 RISK MANAGEMENT (continued)

(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

F6.2 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.

(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.

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

The Group also has foreign exchange risk on payments to suppliers that are denominated in other currencies. Tower may hedge future payments, where appropriate, and provided that the timing and amount of those transactions can be estimated with a reasonable degree of certainty.

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 strategic asset allocation and approved investment management guidelines that have 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.

F6 RISK MANAGEMENT (continued)

F6.3 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, reinsurance receivables from reinsurers, as well as credit exposure to 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-'. Overall exposure to credit risk is monitored on a Group basis in accordance with limits set by the Board. The Group has no significant exposure to credit risk.

(i) Credit risk concentration

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

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

	Carrying value	
$ thousands	**2018**	2017
New Zealand government	**919**	8,184
Other government agencies	**39,352**	18,412
Banks	**227,180**	229,526
Financial institutions	**32,186**	13,241
Other non-investment related receivables	**255,782**	283,158
Total financial assets with credit exposure	**555,419**	552,521

(ii) Maximum exposure to credit risk

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

	Carrying value	
$ thousands	**2018**	2017
Cash and cash equivalents	**102,001**	83,876
Loans and receivables	**255,780**	283,158
Financial assets at fair value through profit or loss	**197,367**	185,256
Derivative financial assets	**271**	231
Total credit risk	**555,419**	552,521

NOTES TO THE FINANCIAL STATEMENTS

F6 RISK MANAGEMENT (continued)

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

$ thousands	Carrying value 2018	Carrying value 2017
Credit exposure by credit rating		
AAA	**85,321**	67,201
AA	**183,095**	184,233
A	**16,484**	527
BBB	**-**	-
Below BBB	**13,020**	15,706
Total counterparties with external credit ratings	**297,920**	267,667
Group 1	**245,702**	230,795
Group 2	**-**	-
Group 3	**1,717**	1,696
Total counterparties with no external credit rating	**247,419**	232,491
Total financial assets neither past due nor impaired with credit exposure	**545,339**	500,158

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 (2017: nil).

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

$ thousands	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
As at 30 September 2018					
Reinsurance recoveries receivable	**-**	**27**	**-**	**-**	**27**
Outstanding premiums and trade receivables	**5,526**	**1,422**	**2,641**	**464**	**10,053**
Total	**5,526**	**1,449**	**2,641**	**464**	**10,080**

F6 RISK MANAGEMENT (continued)

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

$ thousands	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
As at 30 September 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

(vi) Financial assets that are individually impaired

	Carrying value	
$ thousands	**2018**	2017
Outstanding premiums and trade receivables	**-**	-
Total	**-**	-

F6.4 FINANCING AND LIQUIDITY RISK

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

Financial liabilities and guarantees by contractual maturity

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

$ thousands	**Carrying value**	**Total contractual cash flows**	**Less than one year**	**Greater than one year**
As at 30 September 2018				
Financial liabilities				
Trade payables	**16,296**	**16,296**	**16,296**	**-**
Reinsurance payables	**23,388**	**23,388**	**6,988**	**16,400**
Other payables	**10,906**	**10,906**	**10,906**	**-**
Total	**50,590**	**50,590**	**34,190**	**16,400**
As at 30 September 2017				
Financial liabilities				
Trade payables	19,069	19,069	19,069	-
Reinsurance payables	21,763	21,763	4,063	17,700
Other payables	2,682	2,682	2,682	-
Borrowings	29,921	29,921	29,921	-
Total	73,435	73,435	55,735	17,700

F6 RISK MANAGEMENT (continued)

F6.5 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 include interest rate swaps, foreign exchange forward contracts and foreign exchange options. 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, fair values and remaining terms of derivatives outstanding as at the reporting date:

	Average contracted fixed interest		Notional principal amount		Fair value	
	2018	2017	**2018**	2017	**2018**	2017
	%		$ thousands		$ thousands	
Less than 1 year	**0%**	0%	**23,555**	25,249	**271**	166
1 to 2 years	**0%**	0%	**-**	-	**-**	-
2 to 5 years	**0%**	2%	**-**	20,580	**-**	65
Over 5 years	**0%**	0%	**-**	-	**-**	-
			23,555	45,829	**271**	231

F6.6 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.

	2018		2017	
	Impact on:		Impact on:	
$ thousands	**Profit after tax**	**Equity**	Profit after tax	Equity
Change in variables				
+ 50 basis points	**(696)**	**(696)**	(546)	(546)
- 50 basis points	**768**	**768**	474	474

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.

F6 RISK MANAGEMENT (continued)

(ii) Foreign currency

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

	2018		2017	
	Impact on:		Impact on:	
$ thousands	**Profit after tax**	**Equity**	Profit after tax	Equity
Change in variables				
10% appreciation of New Zealand dollar	**129**	**(2,641)**	292	(2,380)
10% depreciation of New Zealand dollar	**(158)**	**2,905**	(357)	2,909

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) 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.

	2018		2017	
	Impact on:		Impact on:	
$ thousands	**Profit after tax**	**Equity**	Profit after tax	Equity
Change in variables				
+ 10% property funds and other unit trusts	**2**	**2**	2	2
- 10% property funds and other unit trusts	**(2)**	**(2)**	(2)	(2)

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

NOTES TO THE FINANCIAL STATEMENTS

PART G - OTHER DISCLOSURES

This section includes additional disclosures which are required by financial reporting standards.

G1 AUDITORS' REMUNERATION

$ thousands	Note	2018	2017
Fees paid to Group's auditors:			
Audit of financial statements [(1)]		**554**	495
Other assurance related services [(2)]		**30**	30
Non-assurance advisory related services [(3)]		**5**	6
Total fees paid to Group's auditors		**589**	531
Fees paid to subsidiaries' auditors different to Group auditors:			
Audit of financial statements [(1)]		**14**	45
Total fees paid to auditors		**603**	576

(1) Audit of financial statements includes fees for both the audit of annual financial statements and the review of interim financial statements. In 2018 the Group's auditors were further engaged to perform the audit of National Pacific Insurance Limited (2017: BDO). The audit of Tower Insurance (Vanuatu) Limited was performed by Law Partners (2017: Law Partners).

(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.

G2 TRANSACTIONS WITH RELATED PARTIES

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

$ thousands	Note	2018	2017
Salaries and other short term employee benefits paid		**3,981**	4,244
Independent director fees		**515**	509
		4,496	4,753

Accounting policy

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Tower considers key management personnel to consist of the Board of Directors, Chief Executive Officer and executive leadership team. Information regarding individual director and executive compensation is provided in the Corporate Governance section of the annual report.

There have been no loans made to directors of the Company and other key management personnel of the Group, including their personally related parties (2017: nil).

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

G3 CONTINGENT LIABILITIES

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

The Group has no other contingent liabilities.

G4 SUBSEQUENT EVENTS

There were no subsequent events after balance date.

G5 CHANGE IN COMPARATIVES

Comparative information has been reclassified to achieve consistency with the current year presentation. Changes relate to income statement reclassification, balance sheet reclassification and presentation of notes. There is no change to net assets or the 2017 profit.

Income Statement - Gross up of premium revenue and outwards reinsurance expense

Premium revenue and outwards reinsurance expense in the Income Statement have been changed to recognise unearned reinsurance expense as opposed to being netted off against premium revenue. The 2017 amount for premium revenue has decreased from $306.8 million to $306.1 million and outwards reinsurance expense has decreased from $49.8 million to $49.2 million. There is no change to net premium revenue.

Changes for internal consistency have also been made to Note B1 Premium revenue.

Income Statement - Gross up of claims expense and reinsurance recoveries revenue

Claims expense and reinsurance and other recoveries revenue in the Income Statement have been changed to recognise non-reinsurance recoveries revenue as opposed to being netted off against the claims expense. The 2017 amount for claims expense has increased from $217.5 million to $225.4 million and reinsurance and other recoveries revenue has increased from $30.0 million to $37.8 million. There is no change to net claims expense.

Balance Sheet - Gross up of reinsurance receivables and reinsurance payables

In 2017 amounts payable to reinsurers on receipt of the amount receivable from EQC for recoveries related to the Canterbury earthquakes were netted off reinsurance receivables. On the Balance sheet, 2017 receivables increased $17.7 million and 2017 payables increased $17.7 million. Total assets and total liabilities have increased accordingly. There is no change to net assets.

Changes for internal consistency have also been made to Note A4 Segment reporting, B4 Other insurance business disclosures, C5 Financial instruments, E1 Receivables, E5 Payables, and F6 Risk management.

Balance Sheet - Gross up of other trade receivables and unearned premium liabilities

In 2017 a portion of unearned reinsurance assets were netted off against unearned premium liabilities. On the Balance sheet, 2017 receivables increased $7.5 million and 2017 insurance liabilities increased $7.5 million. Total assets and total liabilities have increased accordingly. There is no change to net assets.

Changes for internal consistency have also been made to Note A4 Segment reporting, B4 Insurance liabilities, C5 Financial instruments, E1 Receivables, and F6 Risk management.

Balance Sheet - Reclassification between cash and cash equivalents and investments

Within the balance sheet $19.0 million of term deposits with maturity dates greater than 3 months but less than 12 months has been reclassified from cash and cash equivalents to investments.

Changes for internal consistency have also been made to the cash flow statement, Note C2 Cash and cash equivalents, Note C3 Investments, Note C5 Financial Instruments, and F6 Risk management.

Note Disclosure - Reclassification of management expenses

Within Note D1 management and sales expenses, there has been a reclassification between employee benefits expense and claims related to management expenses reclassified to claims expense. In 2017, internal assessor personnel costs had been netted off against personnel costs. To achieve consistent presentation with 2018, the employee benefits expense has increased by $3.0 million to $56.6 million and the claims related management expenses reclassified to claims expense has decreased by $3.0 million to $29.0 million.

G5 CHANGE IN COMPARATIVES (continued)

Note Disclosure - Change in presentation of deferred acquisition costs

Within Note D4 deferred acquisition costs the movements ("acquisition costs during the year" and "current period amortisation") have been changed to reflect the gross movement during the year. The 2017 balance for acquisition costs during the year has increased from $21.0 million to $38.4 million. The 2017 balance for current period amortisation has decreased from $20.0 million to $37.4 million. The overall movement has not changed.

Note Disclosure - Change in presentation of claims handling expense and central estimate of expected present value of future payments for claims incurred

Within Note B5 other insurance business disclosures the claims handling expenses for the Canterbury earthquake have been reclassified from IBNR into the general provision for claims handling expense. The 2017 balance for claims handling costs has therefore increased from $3.9 million to $9.7 million, offset by a movement in the 2017 balance for central estimate of expected present value of future payments for claims incurred.

G6 IMPACT OF AMENDMENTS TO NZ IFRS

G6.1 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 2018 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 9 Financial instruments** is effective for periods beginning on or after 1 January 2018. Tower will apply the standard for the year ending 30 September 2019. The standard replaces the existing accounting standards that relate to the classification and measurement of financial instruments. Tower's investments are currently designated as at fair value through profit or loss on initial recognition and are subsequently re-measured to fair value at each reporting date, and Tower does not designate any financial instruments in hedging relationships. Consequently, NZ IFRS 9 is not expected to have a material impact on Tower's financial statements.
- **NZ IFRS 15 Revenue from Contracts with Customers** is effective for periods beginning on or after 1 January 2018. Tower will apply the standard for the year ending 30 September 2019. The standard will provide a single source of requirements for accounting for all contracts with customers and will replace all current accounting pronouncements on revenue. New revenue disclosures are also introduced. NZ IFRS 15 does not apply to insurance contracts and financial instruments and consequently, as the majority of Tower's revenue comes from such items, is not expected to have a material impact on Tower's financial statements.
- **NZ IFRS 16 Leases** is effective for periods beginning on or after 1 January 2019. Tower will apply the standard for the year ending 30 September 2020. The standard replaces the current guidance in NZ IAS 17 Leases. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease, which is recognised on balance sheet, and an operating lease, which is not recognised on the 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 most lease contracts. Following adoption of NZ IFRS 17, the treatment of leases for Tower's office buildings, motor vehicles, and other equipment will change. The expected impact of the changes on Tower's financial statements is an increase to assets of approximately $11.0 m, an increase to liabilities of approximately $9.1 m and a decrease to retained earnings of approximately $1.9 m. There will also be some impact on the pattern of expense recognition for leases, which is not expected to be material. This is based on lease commitments and discount rates at 30 September 2018.
- **NZ IFRS 17 Insurance Contracts** is effective for periods beginning on or after 1 January 2021. Tower will apply the standard for the year ending 30 September 2022. The standard replaces the current guidance in NZ IFRS 4, and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. Tower has commenced work to assess the impact of adopting NZ IFRS 17. Due to the complexity of the requirements within the standard the final impact may not be determined until global interpretations and regulatory responses to the new standard are developed.

Independent auditor's report

To the shareholders of Tower Limited

The financial statements comprise:

- the consolidated balance sheet as at 30 September 2018;
- 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 2018, 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.

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Our audit approach

Overview

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

Overall group materiality: $3,241,000, 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:

- Valuation of outstanding claims
- Valuation of EQC recovery receivables
- 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 approximately 83% 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) Valuation of outstanding claims (2018 $148,976,000, 2017 $181,156,000) We considered the valuation of outstanding claims a key audit matter because of the complexity involved in the estimation process and the significant judgements that management make in determining the balance. The valuation of outstanding claims relies on the quality of underlying data and involves significant judgements and assumptions given the inherent uncertainty in estimating the expected present value of future payments for claims incurred. 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, as there is generally less information available in relation to these claims, and claims that have been reported but there is uncertainty over the amount which will be settled. 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. *Relevant references in the financial statements* Refer to notes B2, B3, B4 and B5 to the financial statements, which also describes the elements that make up the balance.	Our audit procedures included obtaining an understanding of key controls, including key data reconciliations and management review of the estimates. Historical claims data is a key input to the actuarial estimates. Accordingly, we: o Evaluated the design effectiveness and tested controls over claims processing; o Re-performed claims data reconciliations; o Assessed a sample of claim case estimates at the year end to check that they were supported by appropriate documentation; and o Inspected a sample of claims paid during the year to confirm that they were supported by appropriate documentation and approved within delegated authority limits. Together with PwC actuarial experts we: o Evaluated the actuarial models and methodologies used by comparing with generally accepted models and methodologies applied in the sector and with the prior year; o Assessed key actuarial judgements and assumptions and challenged them by comparing with our expectations based on the Group's experience, our own sector knowledge and independently observable industry trends; o Considered the work and findings of the external independent actuaries engaged by the Group; and o Assessed 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.

(2) Valuation of Earthquake Commission (EQC) recovery receivables (2018 68,400,000, 2017 $65,100,000)

We considered EQC recovery receivables a key audit matter because 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.

The expected recoveries from EQC are related to the Canterbury earthquakes which requires 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.

Relevant references in the financial statements

Refer to notes B3 and E1 to the financial statements.

We assessed management's approach to estimate the EQC recovery receivables. We reviewed correspondence with EQC and held discussions with management, lawyers, external advisors 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 obtained evidence for any significant variances.

We considered the range from which the amount recognised has been determined and assessed whether the current circumstances could support a different recovery receivable amount.

We have no matters to report from the procedures performed.

(3) Recoverability of the deferred tax asset on tax losses (2018 36,376,000, 2017 37,782,000)

The Group has a deferred tax asset balance of $36,376,000, of which $30,685,000 relates to deferred tax assets arising from past tax losses.

We considered recoverability of the deferred tax asset a key audit matter because it 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.

Relevant reference in the financial statements

Refer to note D6 to the financial statements.

We evaluated management's assessment of the recoverability of the deferred tax asset, including understanding 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 other expense reduction and income initiatives.

We assessed the operational plan used in the deferred tax asset recoverability assessment by comparing previous operational 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, except that not all other information was available to us at the date of our signing.

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 Auckland
28 November 2018

2018 annual results

28 November 2018
Tower Limited

Michael Stiassny
Chairman

Richard Harding
Chief Executive Officer

Jeff Wright
Chief Financial Officer

Chairman's update

Transformation of iconic NZ brand is driving growth

- Strategic focus on customers is delivering strong growth
- Implementation of leading technology will accelerate growth
- Reported result reflects impacts of Peak Re settlement, severe weather and Canterbury Earthquake provisions

Consumer trust and confidence has never been more important

- Australian banking Royal Commission has shone a spotlight on financial services conduct
- Tower's high customer trust is driven by an ethical and transparent approach to change
- Tower is a New Zealand listed company with strong ethical business practices and independent from any Australian owner

2018 financial year achievements

Richard Harding
Chief Executive Officer

2018 performance

Strong growth achieved

- ☑ Significant NZ growth
- ☑ Strong digital sales continue
- ☑ Pacific remediation has positioned us for future growth
- ☑ Moved to risk-based pricing for all New Zealanders

Increases to claims costs

- ☐ Pacific claims ratio significantly impacted by severe weather
- ☐ FY18 loss ratio impacted by development of prior year claims
- ☐ NZ claims ratio impacted by industry wide inflation
- ☑ Reinsurance secured on favourable terms to reduce impacts

Other achievements

- ☑ Management expense ratio reduced
- ☑ Major technology upgrade on track
- ☑ Continued resolution of Canterbury Earthquake claims

Key metrics	FY18	FY17
Gross written premium (GWP)	$336m	$312m
Growth in GWP	7.6%	3.0%
Growth in GWP in core[1] NZ portfolio	11.9%	6.0%
Increase in risks[2] in core NZ portfolio	18,192	11,410
Claims expenses	$152m	$132m
Claims expense ratio	56.4%	51.2%
Open Canterbury earthquake claims	163	323
Management expense ratio	39.0%	39.9%
Underlying profit after tax	$13.6m	$18.0m
Reported loss after tax	$6.7m	$8.0m

1. Following the end to Tower's distribution relationship with Kiwibank on 4 April 2018, the 'core' portfolio now refers to the NZ business excluding the ANZ Bank and Kiwibank portfolios. The FY17 comparative has been restated to be consistent with this approach.
2. In prior years Tower has reported volumes using policy numbers as the relevant metric. Tower has changed to using risk numbers as the key metric in FY18 to align with internal management reporting and to better illustrate risk exposures, e.g., where one policy might cover several risks.

More customers choosing Tower

- **11.9% GWP growth in core NZ book**
- **Total GWP has grown 7.6% through higher volumes and improved rating**

✓ GWP growth is across all NZ products:

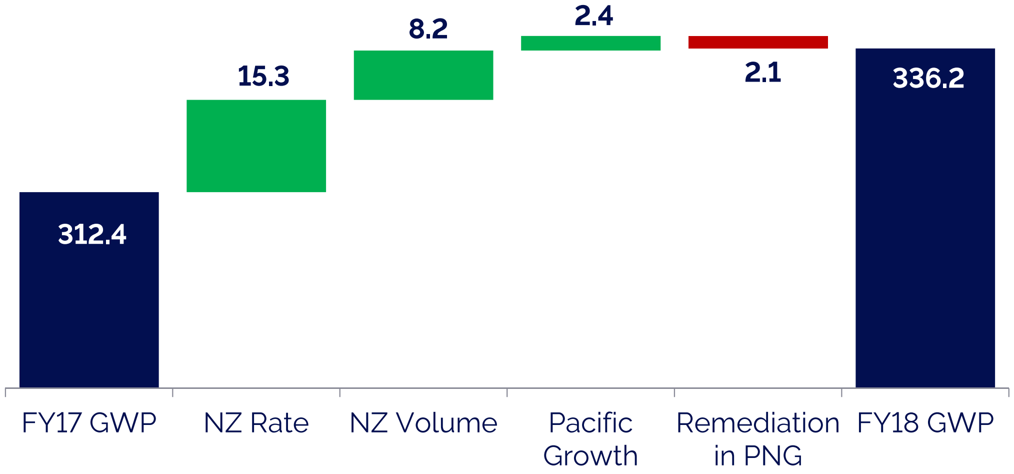
- NZ House has grown 14% in FY18
- NZ Contents is up 2% in FY18
- NZ Motor has grown 12% in FY18

✓ Growth driven through a combination of volume and rating changes as well as changing mix of business

✓ Reduced GWP in Papua New Guinea reflects deliberate strategy to reduce risk

Improved targeting and pricing is attracting more profitable customers

GROWTH IN GWP (NZ$m)



Change in risk counts	FY16	FY17	FY18
Core NZ	(14)	11,410	18,192
Non-core NZ (ANZ + Kiwibank)	(8,848)	(8,031)	(9,018)
Total NZ	(8,862)	3,379	9,174

Digital leads the way

- **GWP from digital channels has grown at CAGR of 133% over past 3 years**
- **Digital channels now contribute 45% of new business**

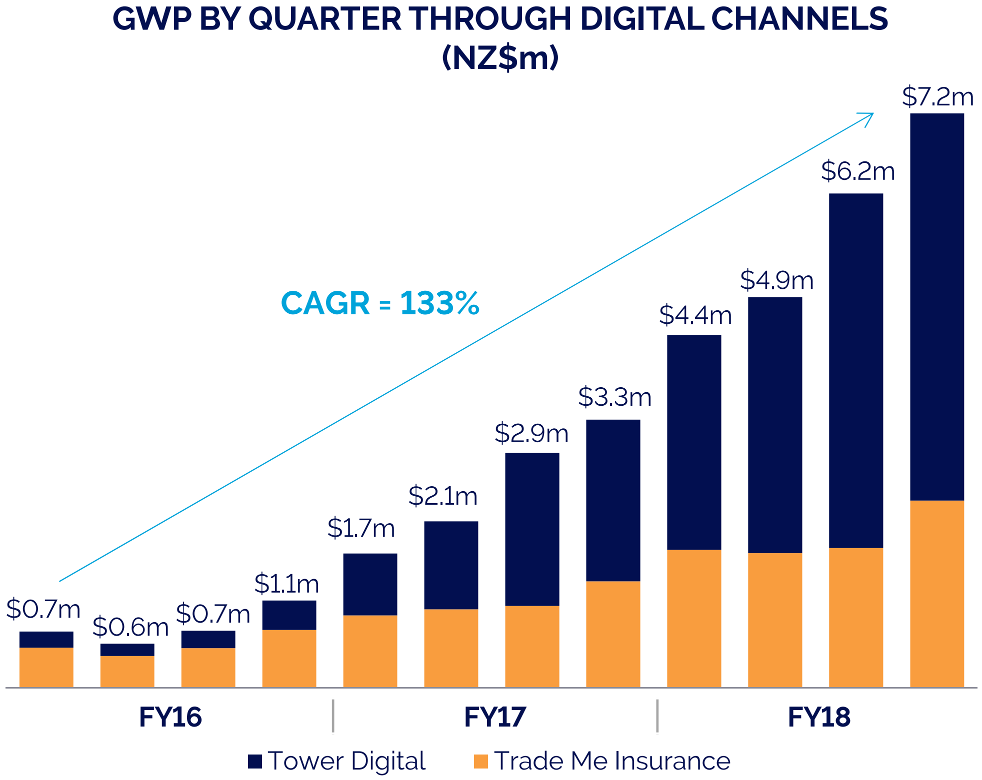
✓ Digital sales increased to 45% of new business in September 2018, up from less than 10% during FY16

✓ Online conversion rates 26% better in FY18, relative to prior year

✓ New website launched with continued improvement in organic search rankings

✓ Continued investment in digital capability by shifting to agile operating model to enable rapid ongoing optimisation of channel

The digital offering is attracting more customers with a lower cost to acquire, and we continue to target an industry leading goal of 50 - 70% of all transactions online



Pacific set for growth

- **Pacific remediation continuing to position us for future growth**
- **Growing the Pacific business profitably is a key component of Tower's strategy**

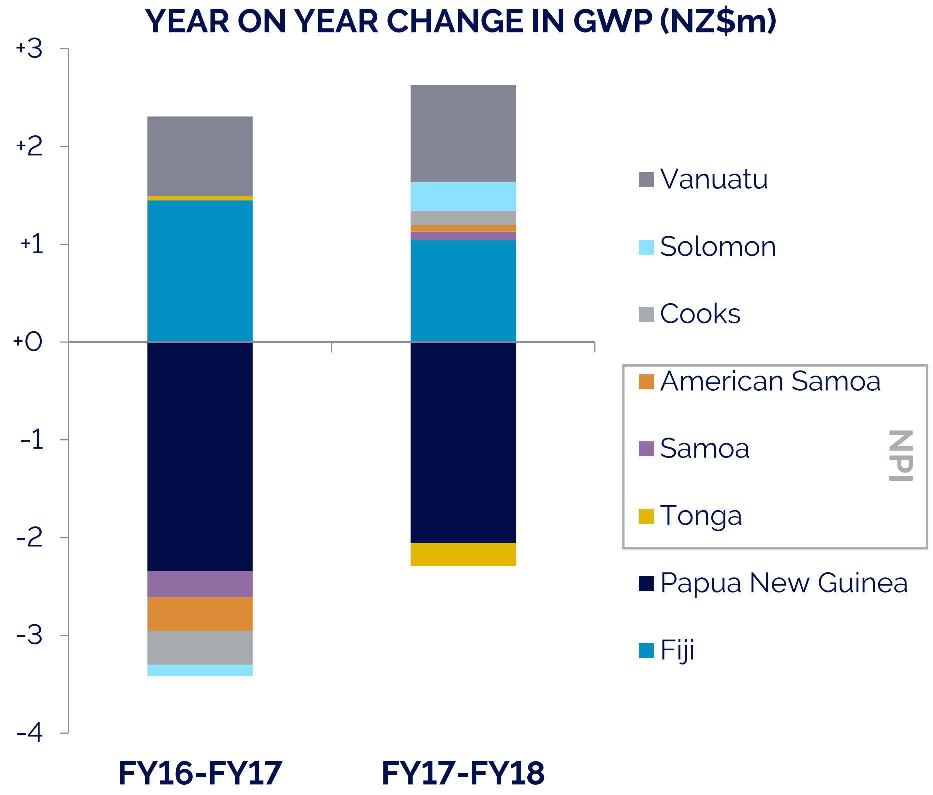
- Until FY18, the Pacific had been a significant contributor to Tower's performance

✓ Samoa, American Samoa and the Solomon and Cook Islands have returned to revenue growth in FY18, with Tonga heavily impacted by Cyclone Gita

✓ Over the past year, we have been remediating Papua New Guinea portfolio to:
  - Reduce risk
  - Improve customer outcomes
  - Increase profitability

✓ Created new Pacific operations centre to:
  - Centralise back office functions, improving cost and risk management
  - Co-ordinate approach to local-market product development

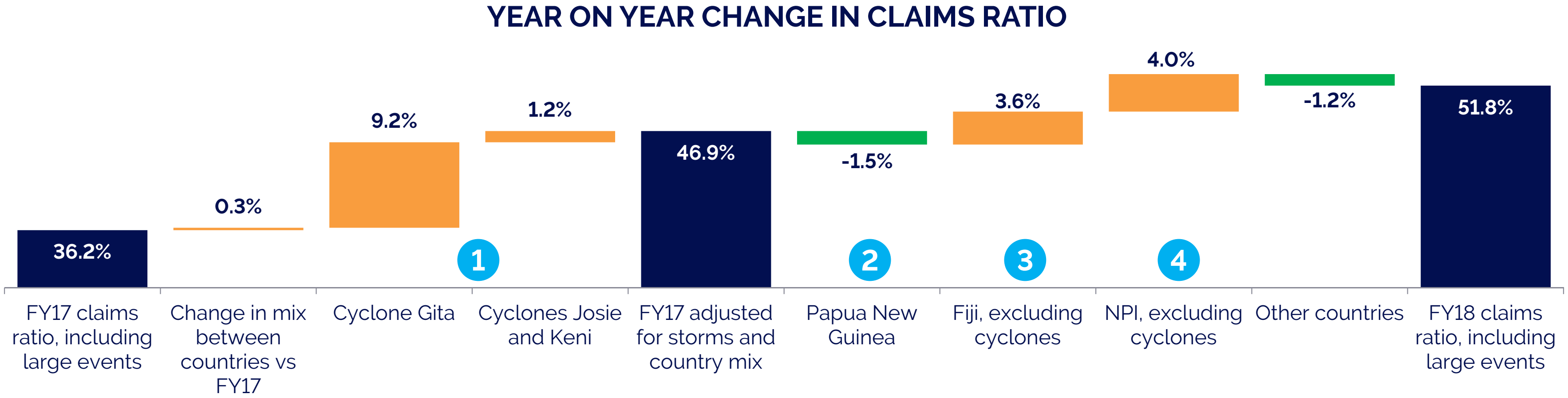
We are confident that Pacific will make a significant contribution in the future



Note: National Pacific Insurance (NPI) is a subsidiary of Tower and operates across Samoa, American Samoa and Tonga

Pacific claims expenses

- **Cyclones Gita, Josie and Keni drove significant increases**
- **Action taken to address claims escalation**



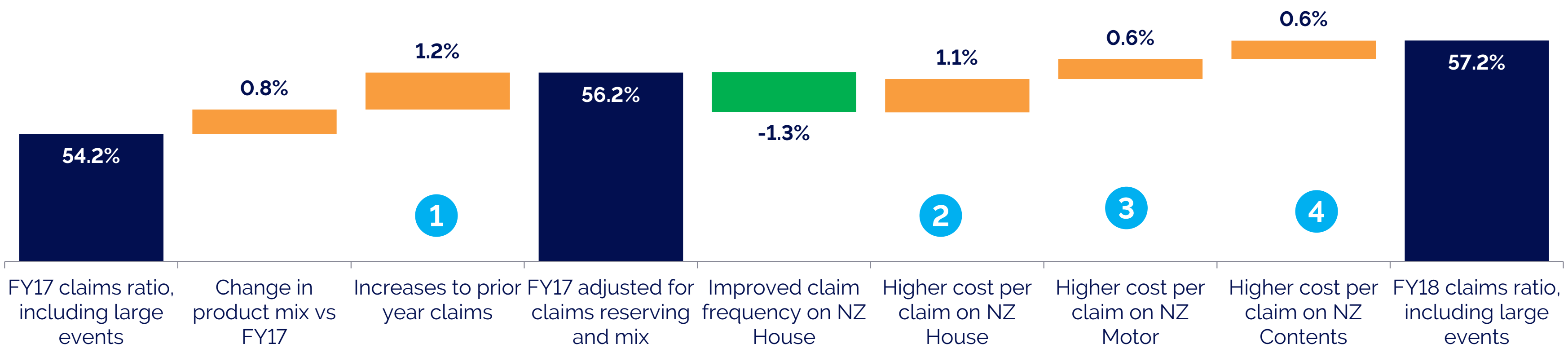
1. Cyclone Gita impacted National Pacific Insurance (NPI) and Josie and Keni impacted Fiji which has contributed significantly to increases in Pacific claims costs. We are utilising reinsurance, continually refining our product offering and pricing in response to weather impacts as well as working with the Cyclone Testing Agency to improve building standards in the Pacific.
2. Remediation of PNG book is delivering improved claims outcomes, supporting sustainable future growth
3. Growth in Fiji claims expenses mostly driven by motor claims inflation which has been addressed through pricing and underwriting criteria
4. NPI claims increases relate to 3 large commercial fires. This number of fires is higher than average, however is a normal part of the volatility in a small portfolio and is being managed through improved underwriting criteria

Note: Pricing changes include increases for Fiji Motor, and moving under-priced PNG Commercial Fire to standard rates. Underwriting improvements include the establishment of a centralised Pacific Underwriting team and refined underwriting guidelines for new business and renewals.

New Zealand claims expenses

- **Claims challenges are being well managed**
- **Some claims inflation continued into 2018**

YEAR ON YEAR CHANGE IN CLAIMS RATIO



1. Reserving model used in FY17 didn't respond well during the claims backlog we experienced due to storms, understating expected development of claims in FY17. We have updated reserving methodology accordingly
2. Higher cost per claim in NZ House driven by large house fires and increased industry wide Health & Safety requirements that are being addressed through pricing and product changes, and underwriting
3. Higher cost per claim in NZ Motor portfolio has been addressed through pricing changes
4. Inflationary impacts in NZ Contents portfolio are being addressed through pricing and underwriting changes

Note: Pricing changes include increases for higher risk homes, asbestos, higher risk drivers, as well as more granular rating for vehicle categories. Ongoing underwriting improvements include refinements to risk selection criteria and meth contamination policy limits.

Severe weather events

- **Severe and unprecedented weather drove increased claims expense in both FY17 and FY18**
- **Losses in past two years significantly above long term trends**

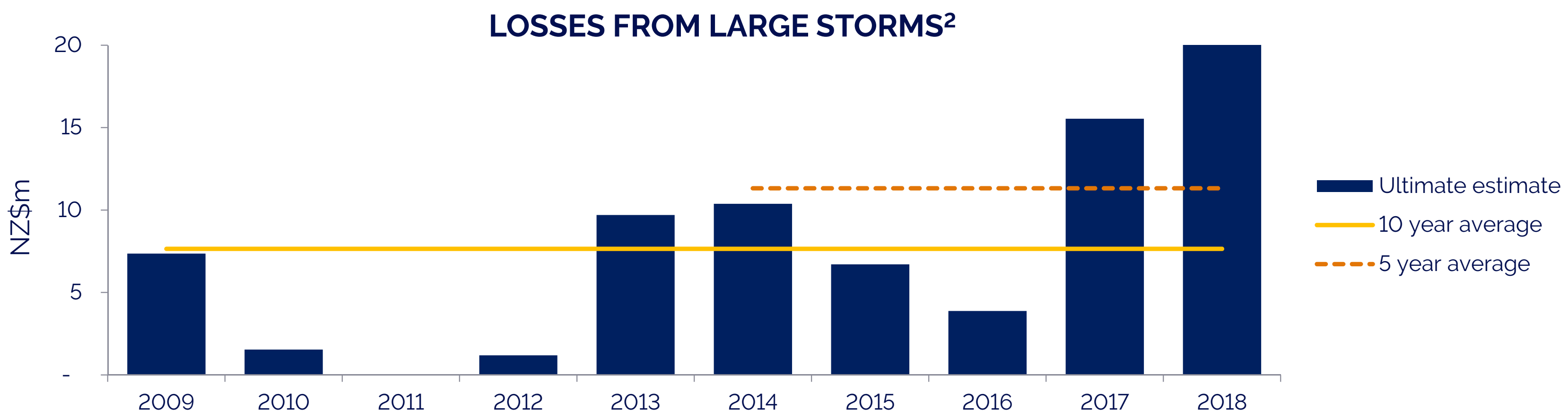
✓ Severe weather event impacts in FY17 totalled $15.5 million before reinsurance. Impacts in FY18 reached a gross amount of $20.1 million, well above both the 10 year average of $7.6 million, and the five year average of $11.3 million

✓ Experts[1] are reporting that recent weather has been extraordinary and that weather patterns are likely to revert closer to longer term trends

✓ Reinsurance programme changed to reduce volatility from large events in FY19

✓ Pricing changes and improvements to supply-chain process will help to offset claims cost inflation

✓ Specialist team dedicated to fast and fair settlements to set things right for customers



Number of events:	2	1	0	1	3	3	2	1	5	7

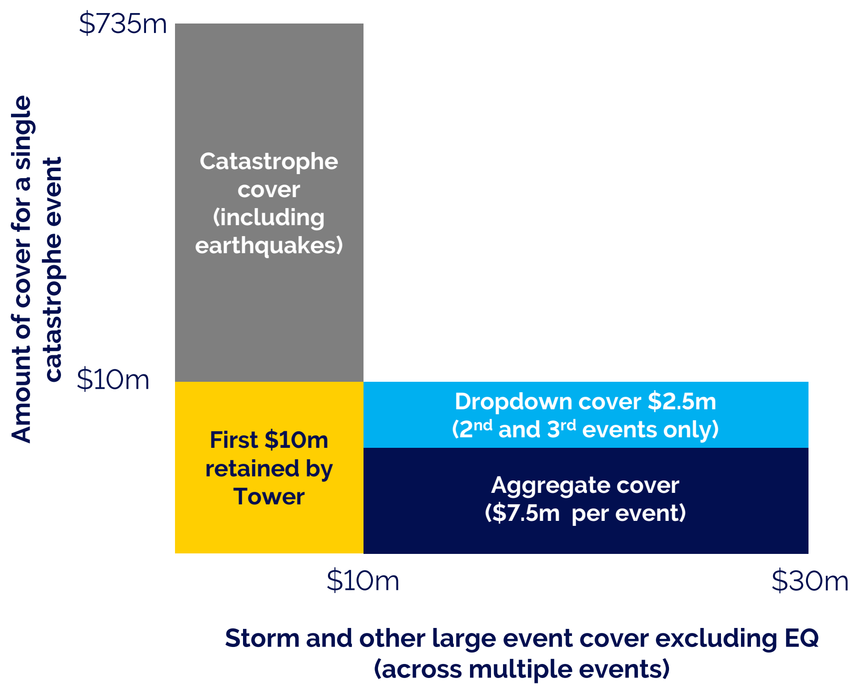
1. Source: NIWA Special Climate Statement - record warmth in the Tasman Sea, New Zealand and Tasmania
2. Includes only those events which individually have a >$1m impact to Tower, and is stated before reinsurance recoveries.

Reducing claims volatility

- **Reinsurance structure will reduce volatility from exposure to large events**
- **FY19 reinsurance secured on favourable terms**

- Increased aggregate cover to $20m, from $10m, with excess increased to $10m from $7m
- Increased cover for single large event to $7.5m, from $5m, once excess of $10m used
- $2.5m drop-down cover to help bridge gap between aggregate cover and catastrophe cover
- Reinsurance expense ratio expected to improve in FY19

HIGH-LEVEL REINSURANCE STRUCTURE OVERVIEW



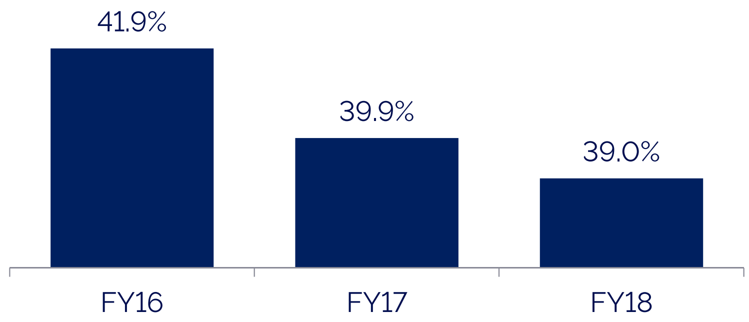
Note: Detailed reinsurance structure overview available on page 34

Building capability while controlling costs

- **Management expense ratio continues to improve**
- **Additional spend directed towards growth, building capability and reducing risk**

- Tower has achieved a significant capability lift with a lower expense ratio thanks to close management of costs
- Increased capability in the following areas:
  - Pricing and underwriting
  - Technology and digital
  - Data lake and data scientists
  - Claims management
  - Procurement
  - Customer insights
- In addition, the management expense ratio of 39.0%, includes incremental investment of:
  - $1.0m to reduce cyber security risks
  - $1.2m on acquisition, including partnerships and marketing
  - $0.7m on ancillary IT system refresh

GROUP MANAGEMENT EXPENSE RATIO[1]



1. For management reporting Tower includes claims handling expenses in Management Expense Ratio

Continued focus on expenses will enable achievement of long term MER target of <35%

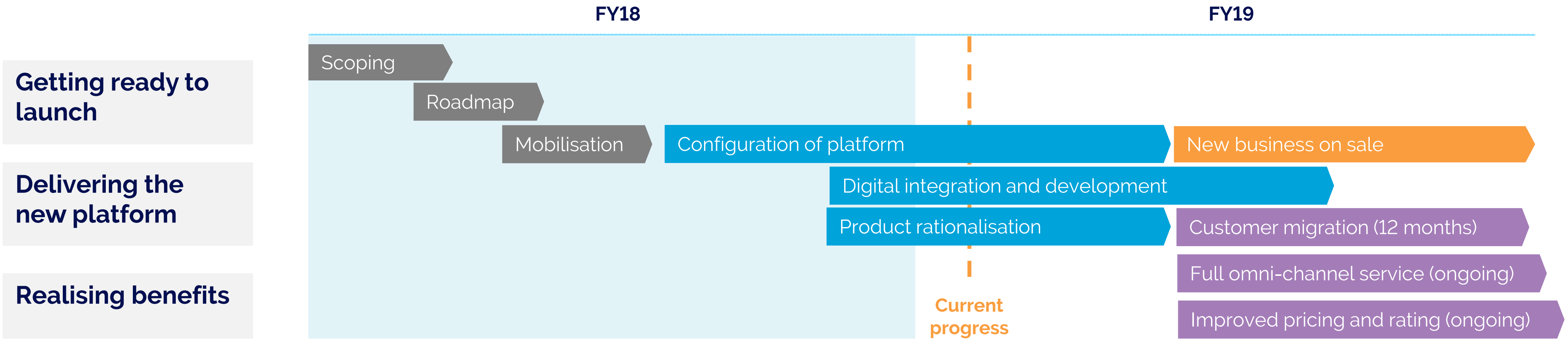
Major tech upgrade progressing well

Programme delivery on track

- Full replacement of our core platform with investment in leading technology announced in May 2018
- Progress to date is in line with expectations, with new business to be on sale on new platform from mid 2019
- Halfway through programme and now approaching most complex part, however due to strong methodology and governance we are confident delivery will be achieved within expected timeframes
- End-to-end digital integration and transformation will drive growth and reduce cost

Further significant foundational technology achievements

- Replacement of ancillary legacy system server delivered, resulting in annual savings of $1.3m going forward
- Creation of data lake and implementation of new data platform complete
- We are also upgrading other IT infrastructure and processes to 'fit-for-purpose' digital and technology systems



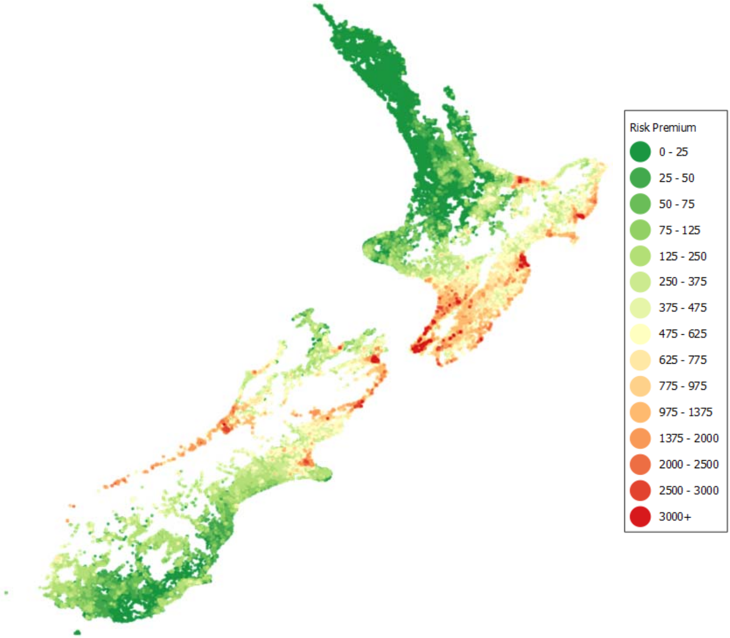
Experience with new platform confirms assumptions and is enabling transformation

Enhanced risk pricing

- **17% reduction in extreme risk house policies**
- **Earthquake risk-based pricing already delivering shareholder value**

- Address specific data means customers now fairly pay the true cost of the earthquake risk they face
- We believe risk-based pricing is the right thing to do for New Zealand
- Portfolio being built for long-term growth and profitability
- Our approach to pricing and underwriting Wellington earthquake has already reduced the amount of reinsurance required by $35m due to reductions in exposure.
- We have seen an annualised 17% reduction in extreme risk house policies and 4% growth in larger low risk areas like Auckland
- Risk based pricing will result in lower risk profile for Tower, resulting in even lower earthquake exposure, long term profitability and ultimately lower reinsurance costs

Work has begun on risk-based pricing for flood, wind and storm, which will deliver long-term benefits



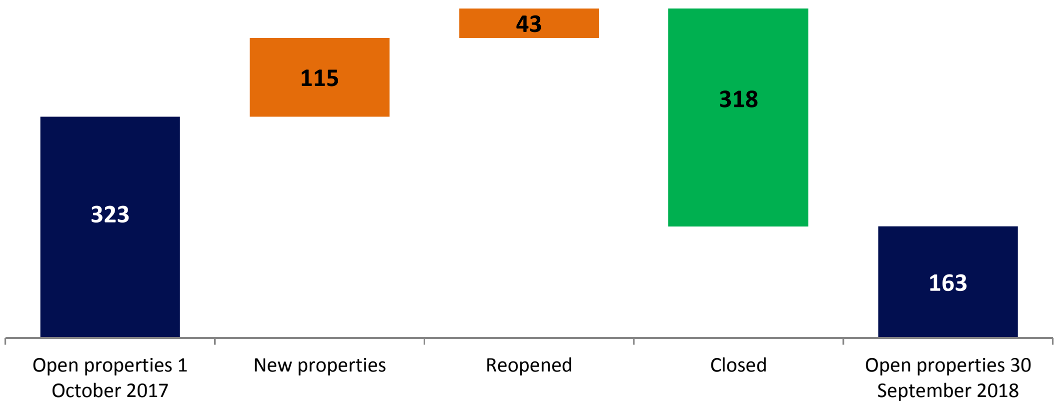
Earthquake risk premiums for a rebuild value of $500k

Canterbury earthquakes

- **Continued progress with 318 claims closed in FY18**
- **Uncertainty continues to reduce**

- Settlement of **Peak Re** dispute achieved in first half
- Tower is actively engaging with **EQC** in relation to recoveries and remain confident of our position.
- Canterbury Earthquake claims continue to reduce at a solid pace, with over 300 closed for the year, bringing the total remaining to 163
- New overcaps have reduced in the second half with additional data provided by EQC providing greater foresight
- There continues to be challenges with some of the more complex outstanding claims, but these are being closely managed
- We expect the majority of non-litigated claims to be closed out in FY19

MOVEMENT IN PROPERTIES



Financial performance

Jeff Wright
Chief Financial Officer

Financial performance
Consolidated Group

GROUP PROFIT SUMMARY (NZ$m)

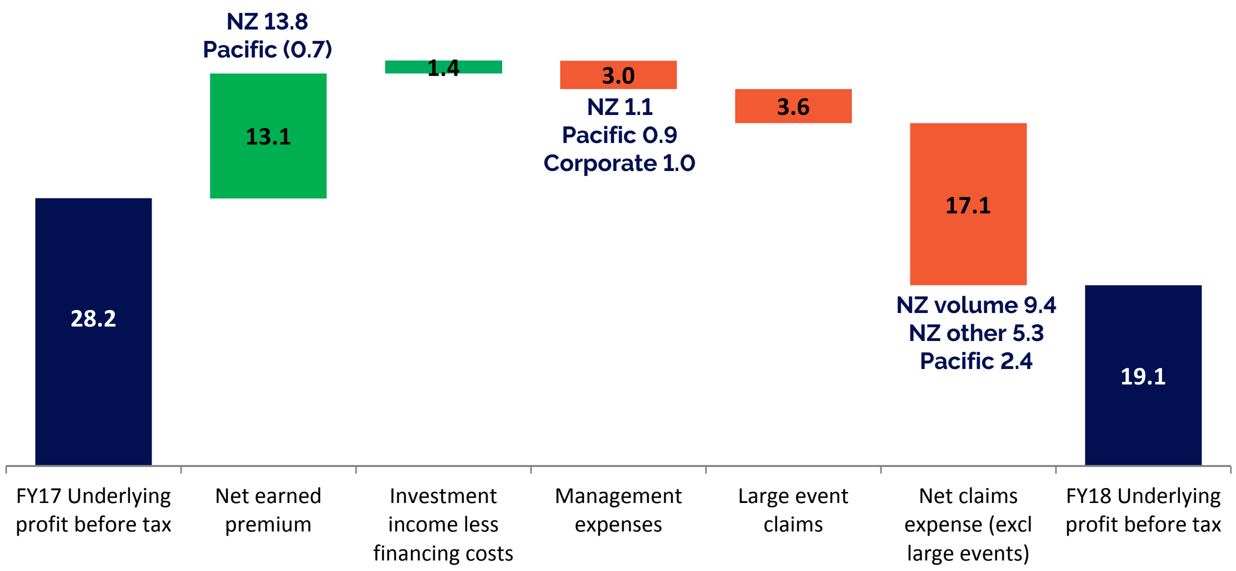
$ million	FY18	FY17	Change
Gross written premium (GWP)	336.1	312.4	23.7
Gross earned premium (GEP)	323.1	306.1	17.0
Reinsurance expense	(53.1)	(49.2)	(3.9)
Net earned premium	**270.0**	**256.9**	**13.1**
Net claims expense	(141.2)	(124.2)	(17.1)
Large events claims expense	(11.0)	(7.4)	(3.6)
Management and sales expenses	(105.4)	(102.4)	(3.0)
Underwriting profit	**12.4**	**22.9**	**(10.5)**
Investment and other revenue	7.2	6.1	1.1
Financing costs	(0.6)	(0.8)	0.3
Underlying profit before tax	**19.1**	**28.2**	**(9.2)**
Income tax expense	(5.5)	(10.2)	4.7
Underlying profit after tax	**13.6**	**18.0**	**(4.5)**
Peak Re settlement	(16.2)	0.0	(16.2)
Christchurch impact	(3.6)	(18.6)	15.1
Kaikoura impact	0.3	(4.1)	4.5
Corporate transaction costs	(0.2)	(3.1)	2.9
Foreign tax credit write-offs	(1.2)	(1.9)	0.7
Business in runoff	0.0	1.7	(1.7)
Other non-underlying items	0.6	0.0	0.6
Reported loss after tax	**(6.7)**	**(8.0)**	**1.3**

- Significant growth in GWP of $23.7m and GEP of $17m reflects ongoing successful turnaround in New Zealand business
- Management and sales expenses controlled, with almost 1% improvement in expense ratio
- Underlying profit of $13.6m after tax affected by severe and unprecedented storm activity and short-term claims challenges
- Resolution of Peak Re dispute resulted in P&L impact of $16.2m
- Full year Canterbury P&L impact of $3.6m

Key ratios	FY18	FY17	Change
Reinsurance / gross earned premiums	16.4%	16.1%	(0.3%)
Claims ratio excluding large events	52.3%	48.3%	(4.0%)
Claims ratio	56.4%	51.2%	(5.2%)
Expense ratio	39.0%	39.9%	0.9%
Combined ratio	95.4%	91.1%	(4.3%)

Movement in
Underlying profit before tax

MOVEMENT IN UNDERLYING PROFIT BEFORE TAX (NZ$m)



- Net earned premium higher due to growth in core book and new approach to pricing
- Improved investment income primarily a result of increased investment assets
- Management expenses continue to be contained with investment in core business capability continuing
- Increase in claims costs reflective of severe weather, a number of large house fires in New Zealand and the Pacific, short term severity issues and regulatory changes that are all being actively managed

Financial performance
New Zealand

NEW ZEALAND PROFIT SUMMARY (NZ$m)

$ million	FY18	FY17	Change
Gross written premium	277.7	254.2	23.5
Gross earned premium	266.8	248.8	18.1
Reinsurance expense	(38.2)	(34.0)	(4.3)
Net earned premium	**228.6**	**214.8**	**13.8**
Net claims expense	(123.6)	(108.9)	(14.7)
Large events claims expense	(7.2)	(7.4)	0.2
Management and sales expenses	(86.4)	(85.2)	(1.1)
Underwriting profit	**11.4**	**13.2**	**(1.8)**
Investment and other revenue	5.4	4.6	0.8
Underlying profit before tax	**16.9**	**17.8**	**(0.9)**
Income tax expense	(4.0)	(5.7)	1.7
Underlying profit after tax	**12.8**	**12.1**	**0.7**

Key ratios	FY18	FY17	Change
Claims ratio excluding large events	54.1%	50.7%	(3.4%)
Claims ratio	57.2%	54.2%	(3.0%)
Expense ratio	37.8%	39.7%	1.9%
Combined ratio	95.0%	93.9%	(1.1%)

- Underlying profit increased by $0.7m on prior year
- 9.2% increase in GWP was the result of a new pricing approach, customer growth and stable retention, leading to a 6.4% growth in net earned premium
- Growth in the New Zealand business offset by increased claims expenses
- Increased claims costs due to business growth, 2017 development, unusually large number of weather events and industry wide inflation which is being addressed
- Management expenses contained, resulting in an almost 2% decrease in expense ratio on prior year

Financial performance
Pacific

PACIFIC PROFIT SUMMARY (NZ$m)

$ million	FY18	FY17	Change
Gross written premium	58.4	58.2	0.2
Gross earned premium	56.3	57.3	(1.0)
Reinsurance costs	(14.8)	(15.2)	0.3
Net earned premium	**41.4**	**42.1**	**(0.7)**
Net claims expense	(17.6)	(15.3)	(2.4)
Large events claims expense	(3.8)	0.0	(3.8)
Management and sales expenses	(16.4)	(15.6)	(0.9)
Underwriting profit	**3.5**	**11.3**	**(7.8)**
Investment revenue and other revenue	0.7	0.9	(0.2)
Underlying profit before tax	**4.2**	**12.2**	**(7.9)**
Income tax expense	(2.0)	(5.0)	2.9
Underlying profit after tax	**2.2**	**7.2**	**(5.0)**

Key ratios	FY18	FY17	Change
Claims ratio excluding large events	42.6%	36.2%	(6.4%)
Claims ratio	51.8%	36.2%	(15.6%)
Expense ratio	39.7%	37.0%	(2.7%)
Combined ratio	91.5%	73.2%	(18.3%)

- Lower underlying profit after tax of $2.2m largely due to adverse weather impacts
- 3% growth in GWP in local currency terms was offset by exchange rate movements
- Revenue growth was strongest in Fiji and Vanuatu, while Papua New Guinea saw a decrease due to more stringent risk selection and remediation
- Net claims expense increased due to weather impacts and several large commercial fires, partly offset by improvements in Papua New Guinea following remediation activity
- Large events claims expense reflects the impact of Cyclone Gita

Canterbury earthquakes
Reducing balance sheet risk

- The second half saw strengthening in a number of non litigated claims as we moved closer toward finalisation, as well as increases in litigated claims
- Outstanding claims almost halved from 323 to 163
- Risk continues to reduce as the portfolio finalises, and accordingly $5m of additional risk margin has been released
- While risks remain, provisioning is considered adequate, with the ratio of IBNR/IBNER and risk margins increasing from March 2018, to 95%
- Increase in ultimate incurred claim estimates in 2018 was $10m, net of allocation to reinsurers, which was offset by release of $5m additional risk margin, resulting in a $3.6m impact on NPAT

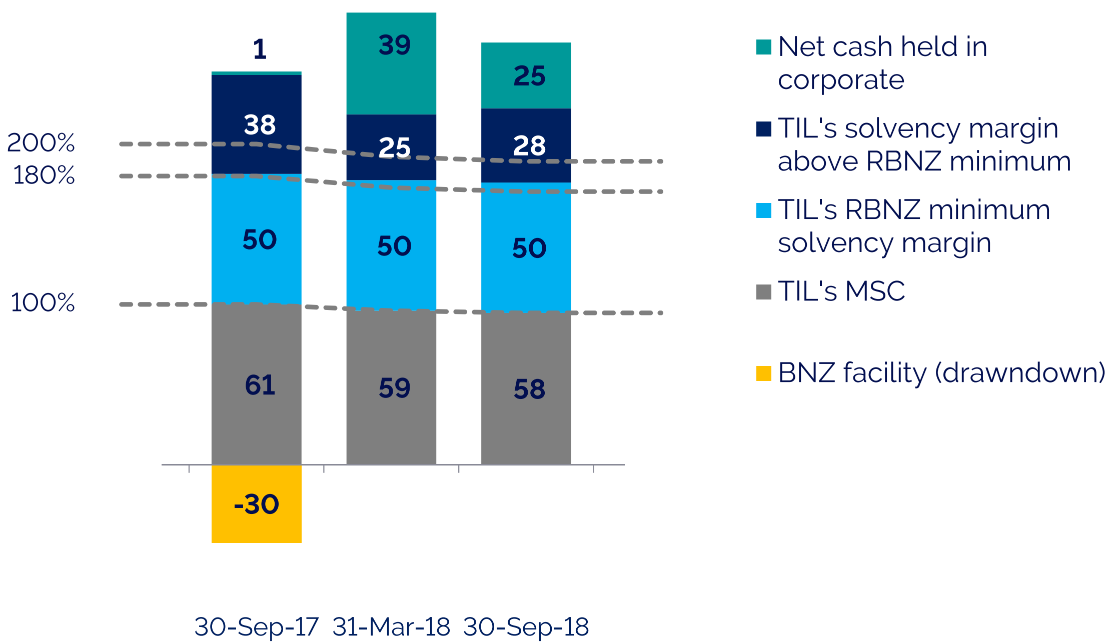
$ million	Sep-18	Mar-18	Sep-17	Mar-17	Sep-16
Case estimates	37.5	48.0	58.9	73.9	93.2
IBNR/IBNER[1]	21.4	22.0	34.4	47.4	44.0
Risk margin	9.0	10.8	13.9	18.2	11.9
Additional risk margin	5.0	10.0	10.0	-	-
Actuarial provisions	35.4	42.8	58.3	65.6	55.9
Gross outstanding claims	**72.9**	**90.8**	**117.2**	**139.5**	**149.1**
Ratio of provisions to case estimates[2]	95%	89%	99%	89%	60%

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

A robust solvency position

- **Strong capital position has been maintained**
- **Funding in place to support continuing investment**

TOWER INSURANCE LIMITED SOLVENCY POSITION PLUS CORPORATE CASH ($m)



- ✓ Capital raise successfully completed with over 88% of shareholders taking up rights
- ✓ At 30 September, $78m of solvency margin was held in Tower Insurance Limited (TIL); $28m above RBNZ requirements and equivalent to 234% of minimum solvency capital
- ✓ An additional $25m in corporate cash is also held by Tower Limited
- ✓ Tower's strong capital base supports growth while providing a buffer against legacy risks
- ✓ Debt facilities remain in place and undrawn, although our preference is to fund remaining IT investment from debt

Future outlook

Richard Harding
Chief Executive Officer

Continued delivery of strategy

- Digital challenger positioning enables achievement of medium-term targets

Medium-term operating targets:

- **GWP growth of 8-10%**
- **Combined Operating Ratio < 85%**
- **Return on equity of 14 – 16%**

FY19 priorities

Keep improving core business while building digital challenger reputation and capability

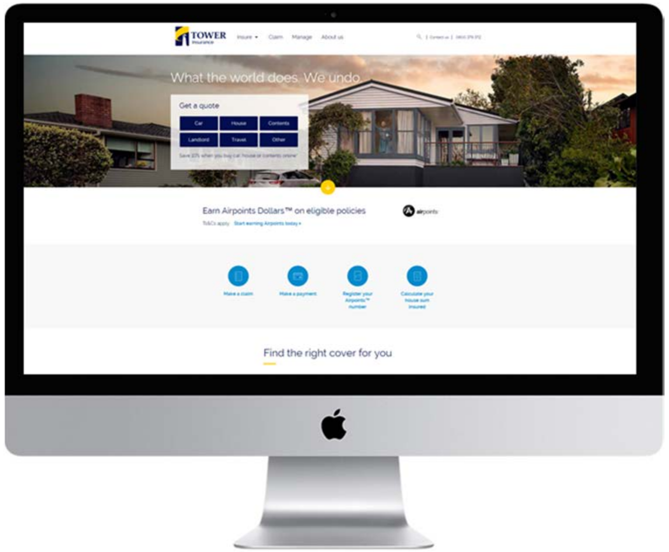
1. IT and digital transformation completed
2. Continue driving strong growth in NZ and Pacific businesses
3. Deliver underwriting and pricing improvements to improve claims costs and drive profitability
4. Continue to control expenses and invest in growth

1. Complete digital transformation

- **Enables accelerated growth**
- **Will deliver cost savings**

Completion of simplification in 2019 will provide the platform for growth

- Increased digital capability will enable accelerated growth
- Improved product offering building on Tower's award-winning, plain English product set
- Reduction in number of products in NZ book from over 400 to 12 core products
- Improved time to answer customer calls
- Enables a unique digital, self-service offering which will improve retention
- Better, faster claims outcomes and reduce claims turn-around time



Delivers a step change in expenses from FY20

- Efficiencies through IT will enable us to reduce complexity and cost
- Immediate and real time data enables instantaneous pricing adjustment

Reduction of business risk

- Simplified, cloud-based technology reduces complexity and risk

Will enable achievement of medium term Gross Written Premium growth target of 8 – 10%

2. Keep driving growth

- **Deliver challenger value proposition**
- **Increase use of data and analytics**

Challenger value proposition is differentiating Tower and will continue attracting more customers

- Stunningly simple products
- Great value for money
- Amazing claims experiences

Improved data capability enables growth

- Increased ability to target profitable customers with attractive offers
- Simplified quote and buy process will reduce customer effort

Pacific operations centre focussed on enabling local growth

- Leverage centralised product and innovation capability
- Continue driving strong risk and underwriting practices

Will enable achievement of medium term Gross Written Premium growth target of 8 – 10%

3. Improve profitability

- **Ongoing pricing review and refinement**
- **Improved underwriting and new products**

Continued implementation of fairer pricing

- Deliver risk-based pricing for other natural perils including, flood, wind and storm
- Ongoing portfolio review to offset claims inflation
- Ongoing reduction in catastrophe exposure in high-risk locations will reduce reinsurance expense

Development of even simpler products

- Award winning products will be further refined and simplified
- New products will keep reducing complexity, improving customer experience and reducing leakage
- Increase use of data to enable improved underwriting

Migration of all customers to new, simpler policies

- Tower customers to be migrated on renewal to new core system, following implementation
- All Tower customers will benefit from simpler policies and improved experience

Will enable achievement of medium term Combined Operating Ratio target of <85%

4. Continue controlling expenses

- **Continue investing in core business**
- **Reduce expenses through removal of complexity**

Increase automation to enable focus on customers

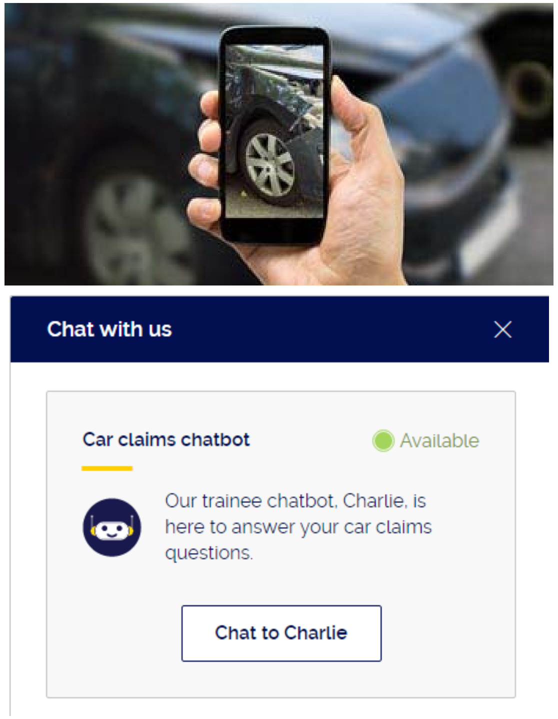
- Automation of all repeatable processes and tasks
- Ongoing removal of complex systems and processes to improve efficiency

Continue investing to ensure long-term sustainability

- Ongoing upgrade of IT infrastructure and processes to industry best practice
- Review and improvement of frameworks to keep improving on strong ethical business practices

Continue to increase capability and engagement

- New Executive team members to drive industry leading practice
- Delivery of employee experience to position Tower as an employer of choice



Will enable achievement of medium term Combined Operating Ratio target of <85%

FY19 financial outlook

- **Strong growth expected to continue**
- **Claims ratio expected to improve**

Tower has provided a one-off guidance for FY19 to demonstrate its confidence in the strategy and performance of its underlying business

- Tower's guidance for underlying NPAT in FY19 is in excess of $22m
- Assumptions include:
  - Continued momentum in revenue growth and sales through improved digital channels
  - Underwriting and pricing changes will be implemented, continuing to drive improvement in mix of risk, as well as addressing inflation
  - Pacific contribution will return to normal levels
  - Maintaining a steady management expenses ratio
  - Aggregate excess fully utilised for weather events
- Tower's Board has determined that in FY19, Tower will pay a dividend of 50% to 70% of reported NPAT where prudent to do so

Appendices

Reconciliation between **underlying profit after tax** and **reported loss after tax**

$ million	FY18 underlying profit	Non-underlying items (1)	Claims handling expenses (2)	Other items (3)	FY18 reported profit
Gross written premium	336.1				336.1
Gross earned premium	323.1				323.1
Reinsurance expense	(53.1)	(1.2)			(54.3)
Net earned premium	**270.0**	**(1.2)**	**0.0**	**0.0**	**268.8**
Net claims expense	(152.3)	(4.5)	(19.9)		(176.6)
Management and sales expenses	(105.4)	(0.3)	19.9	(4.3)	(90.0)
Impairment of reinsurance receivables	0.0	(22.5)			(22.5)
Underwriting profit	**12.4**	**(28.5)**	**0.0**	**(4.3)**	**(20.4)**
Investment revenue and other revenue	7.2	1.4		4.3	12.9
Financing costs	(0.6)				(0.6)
Underlying profit before tax	19.1	(27.1)	0.0	0.0	(8.0)
Income tax expense	(5.5)	6.8			1.3
Underlying profit after tax	**13.6**	**(20.3)**	**0.0**	**0.0**	
PeakRe settlement	(16.2)	16.2			
Christchurch impact	(3.6)	3.6			
Kaikoura impact	0.3	(0.3)			
Corporate transaction costs	(0.2)	0.2			
Foreign tax credit write-offs	(1.2)	1.2			
Other non-underlying items	0.6	(0.6)			
Reported loss after tax	**(6.7)**	**0.0**	**0.0**	**0.0**	**(6.7)**

- "Underlying profit" does not have a standardised meaning under Generally Accepted Accounting Practice (GAAP). Consequently it may not be comparable to similar measures presented by other reporting entities and 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 Tower's underlying performance, and is useful to investors as it makes it easier to compare the underlying financial performance of Tower between periods.
- Tower has applied a consistent approach to measuring underlying profit in the current and comparative 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 2018.

Notes on reconciling items:

1. Non-underlying items are shown separately in Tower's management reporting, yet included within other lines (depending on the nature of the item) in the statutory financial statements.
2. In Tower's management reporting, indirect claims handling expenses are reported within 'management and sales expenses'. In the financial statements, indirect claims handling expenses are reclassified to 'net claims expense'.
3. Certain items of revenue are netted off 'management and sales expenses' in Tower's management reporting, and are reclassified to 'other revenue' in the financial statements. This primarily relates to commission received by Tower.

Balance sheet
Tower Group

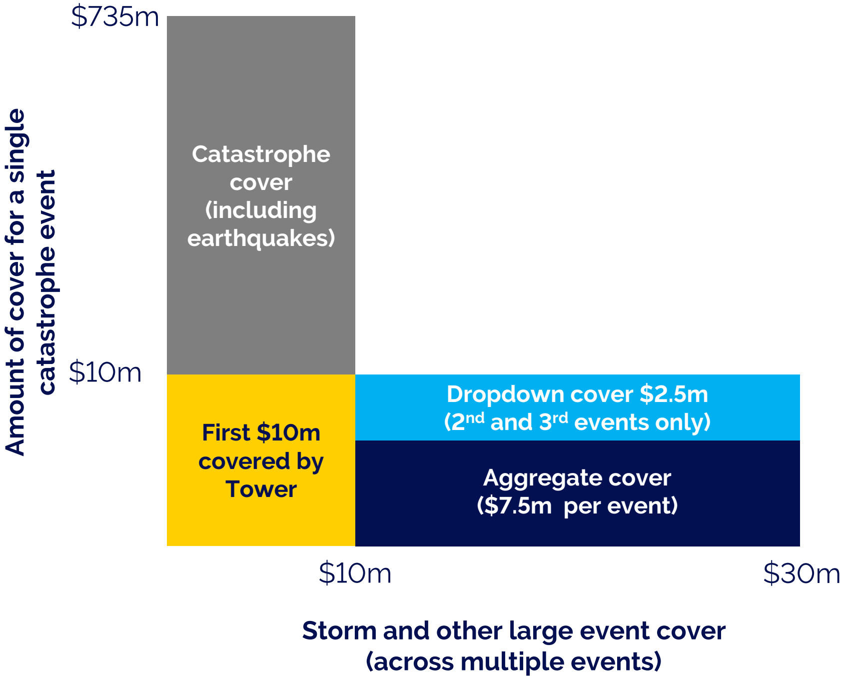
$ million	30 September 2018	30 September 2017	Movement $	Movement %
Cash & call deposits	102.0	83.9	18.1	21.6%
Investment assets	198.2	186.9	11.3	6.0%
Deferred acquisition costs	22.6	21.0	1.6	7.8%
Intangible assets	45.0	31.3	13.7	43.7%
Other operational assets	318.3	341.5	(23.2)	(6.8%)
Total assets	**686.2**	**664.6**	**21.6**	**3.3%**
Policy liabilities & insurance provisions	324.5	343.5	(19.0)	(5.5%)
External debt	0.0	29.9	(29.9)	100.0%
Other operational liabilities	86.9	75.5	11.4	15.1%
Total liabilities	**411.4**	**448.9**	**(37.5)**	**(8.4%)**
Total equity	**274.8**	**215.7**	**59.1**	**27.4%**

Reinsurance structure overview

TOWER

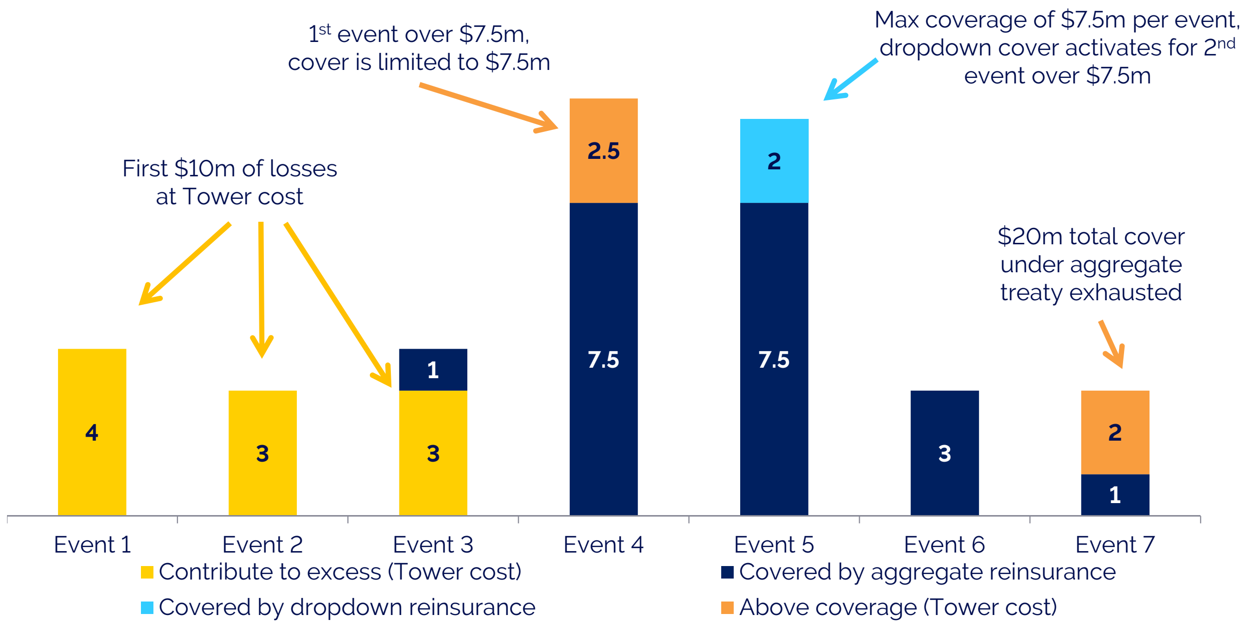
Changes to our reinsurance structure will reduce volatility from large events, with reinsurance expense ratio expected to improve in FY19

High-level reinsurance structure overview



Aggregate cover overview for FY19

- Minimum event size of $1m to qualify, max of $7.5m per event
- $20m cover once $10m excess filled
- No coverage for earthquake in New Zealand
- Drop-down cover for 2nd and 3rd event over $7.5m to bridge gap between aggregate cover and catastrophe cover (including earthquake)



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Tower FY18 results call script

MICHAEL STIASSNY

SLIDE 2: CHAIRMAN'S UPDATE

Thank you for making the time to join us today.

With me in Auckland is our Chief Executive Officer, Richard Harding and our Chief Financial Officer, Jeff Wright who will take you through the full year results and answer questions

For almost 150 years Tower has been insuring New Zealanders, and over the course of those years, has transformed and changed considerably.

Just over two years ago, Tower embarked on its latest – and arguably most difficult – transformation to reposition itself as a contemporary, challenger brand underpinned by a customer-focused, digital-first strategy to successfully compete in the 21st century insurance market place.

Richard and his team have created and are now driving an ambitious plan to have New Zealanders and Pacific Islanders see Tower in a new light, and set the bar for how insurance "should" be.

In the past few years, we have talked a lot about how the implementation of new technology will accelerate growth. Today, the significant uplift in customers using our digital channels to engage with and purchase Tower products is proof that our confidence in user-friendly technology is well placed.

However, just as important – perhaps even more so – is the trust customers place in Tower. Our customers tell us this is driven by our ethical and transparent approach: They like our plain English policies which they can understand, and they appreciated our honesty when launching our new risk-based pricing.

Interestingly, recent research we conducted shows that 70% of people think risk-based pricing is fairer.

We led the way on risk-based pricing because we believe it IS fairer. But we also realised that it was going to be really tough for a handful of customers, so we did the right thing – we communicated openly and spent time and effort explaining our rationale. In the process, we also ignited a much needed national conversation around risk management.

In a nutshell, we treated people how we would like to be treated and it resonates, not because we feel good but because it makes good business sense. Genuine customer focus engenders trust and loyalty which makes a strong foundation for any business.

And, at a time when trust and confidence in financial services and banking institutions is at an all-time low in the wake of the Australian banking Royal Commission and a seemingly constant stream of debatable business practice revelations, our customers' trust is gold. Tower's job – day in and day out – is to continue to earn and keep that trust.

So, while it is disappointing to be reporting a loss of $6.7 million, due to the impacts of the well signalled Peak Re settlement, severe weather and Canterbury earthquake provisions, the fundamentals of the underlying business are solid.

It is gratifying to see Tower's approach really resonating with our customers and as a result, FY18 has delivered substantial growth.

[PAUSE]

In closing, on behalf of the Board I'd like to thank Richard and the management team. Their focus continues to be on driving the business forward.

I'll now hand over to Richard and Jeff, who will take you through the results and outlook before we take questions.

RICHARD HARDING

SLIDE 3: 2018 FINANCIAL YEAR ACHIEVEMENTS TITLE SLIDE

Thank you Michael and good morning everyone.

SLIDE 4: 2018 PERFORMANCE

The 2018 Financial Year has seen us continue to deliver against our strategy to transform Tower. Our focus has been clearly on simplifying and improving all aspects of our business to differentiate ourselves, drive growth and reduce costs.

It is pleasing to see that our efforts are being noticed by customers, with more people choosing to insure with us.

Our continued focus on customers grew GWP in the core New Zealand portfolio by 11.9%, seeing total GWP reach $336 million across New Zealand and the Pacific.

Throughout the year we invested in our business, building capability to enable growth. We achieved this while reducing our expense ratio almost 1%, to 39%.

I will talk through claims cost increases in detail shortly as it is clear that claims have been the largest impact on our underlying results. Weather in the Pacific has been the most significant impact along with some prior year development in New Zealand and other costs. Each of these is well understood and pricing and underwriting responses either already implemented or in train to improve performance through the coming year.

We are well progressed on our technology upgrade recently moving through the half way point. At the half way point costs are within tolerances, however like all projects of this nature there remains risk and complexity in the delivery. We are managing this with robust governance controls at all levels.

These distinctly positive signals show that our business has turned the corner and this positive momentum should not be overshadowed by short-term increases to claims costs.

We continue to make solid progress through the complex tail of Canterbury claims, reducing open claims by 160, with only 163 claims remaining.

Our reported loss was narrowed to $6.7 million and was a result of our efforts to mitigate the risks facing our balance sheet following the Canterbury earthquakes.

Achieving settlement with Peak Re marked an important step towards finalising this legacy issue and has resulted in a $16.2 million after-tax impact on profit.

These results show that we are removing legacy risks and at the same time, realising the potential in the underlying business.

If you look back over the past two years, it is clear that we have built solid foundations, and we are now creating an exciting customer proposition that is delivering growth.

SLIDE 5: MORE CUSTOMERS CHOOSING TOWER

We are driving strong growth in our core book thanks to our focus on customers. The growth we have achieved is significant, adding over 18,000 risks to our core New Zealand portfolio, a huge improvement from two years ago where we were losing customers.

This positive momentum has driven continued GWP growth with GWP in the core portfolio growing 11.9%, compared to 6% in 2017.

This growth is above industry averages, with:

- The majority of growth in our NZ motor book being attributable to volume
- The majority of growth in our NZ house book being attributable to rating, and
- Growth in our NZ contents book an equal mix of rating and volume

This growth is being achieved through a combination of factors, including:

- ongoing pricing improvements in our motor, house and contents portfolios to offset increased claims costs
- constant refinement of underwriting criteria enabling more granular assessment to improve profitability of portfolio, and
- attracting new, profitable customers with improved and targeted offerings.

The growth we have achieved is demonstration that our focus on customers and improving our business is delivering results and we are realising the potential that exists in the Tower brand.

As you can see, we have delivered good growth in the Pacific, however, this has been offset by a reduction in GWP in Papua New Guinea. This reduction is a direct result of deliberate activity to remediate this portfolio and reduce our exposure to risk.

Over the coming twelve months we see a positive growth and pricing environment which will lead to improved profitability.

SLIDE 6: DIGITAL LEADS THE WAY

Two years ago we started on our digital transformation journey and since then I have consistently said that digital is essential to the future growth of Tower.

We have continued to place significant effort into attracting new customers and improving this channel's performance.

This effort in becoming a digital insurer has paid off, with 45% of our new business coming through our digital channels in September. This compares to less than 10% during 2016.

In the last twelve months we have increased conversion by 26% and delivered the significant growth demonstrated on this slide thanks to a new website, improved search rankings and the launch of innovations like our claims chatbot, Charlie.

Delivering a unique customer experience through our digital channels will be possible with our new IT platform. It enables full omni-channel, digital self-service, policy management and online claims lodgement.

It will significantly improve our ability to grow and leverage digital partnerships. We will be able to attract new partners at low cost using the new digital solution and with them, offer more targeted propositions.

Digital remains one of the most crucial, foundational parts of our business moving forward. It enables differentiation, agility, innovation and accelerated growth.

SLIDE 7: PACIFIC SET FOR GROWTH

Our Pacific business remains strong and we continue to believe that there is unrealised potential here.

Until this year, the Pacific has been a strong contributor to Tower's financial performance. While Pacific GWP of $58.4 million this year, was in line with the $58.2 million achieved in the prior year, weather impacts, and a small number of commercial fires did impact profitability.

We have returned Samoa, American Samoa and the Solomon and Cook Islands to growth thanks to additional underwriting, pricing and marketing support for our local teams.

However, this growth has been offset by the continued remediation of the Papua New Guinea portfolio to reduce risk and exposure which will ultimately lead to improved profitability.

However, one of the most significant activities we undertook in the Pacific was the creation of our Pacific operations centre.

The Pacific operations centre has allowed us to centralise back office functions that had previously been duplicated across the islands and will reduce cost while improving risk management.

Centralised underwriting brings greater discipline and consistency across the region ensuring we grow within our risk appetite. Similarly managing complex claims centrally reduces leakage and brings a focus on costs, while enabling us to build capability for managing large events when they occur.

We remain confident that there is strong growth potential in our Pacific markets and that it will make a significant contribution in the coming year.

SLIDE 8: PACIFIC CLAIMS EXPENSES

Unfortunately, severe weather across the Pacific increased claims costs significantly in FY18.

Cyclone Gita impacted Tonga heavily, while Cyclones Keni and Josie impacted Fiji, resulting in a 10.4 percentage point uplift on the FY17 claims ratio.

Reinsurance is being utilised to minimise impacts of weather and we are constantly refining our product offering and underwriting criteria in response to weather events like these.

In Fiji we have also seen an increase in claims expenses mostly related to motor claims inflation. In Fiji, a recent influx of hybrid vehicles has seen a rise in the cost of motor claims due to the higher cost of repair for these vehicles. We are addressing this with pricing and underwriting responses.

And in our National Pacific Insurance business, 3 large commercial fires have also driven the claims ratio higher. These fires are a normal part of the volatility of a small book and are not symbolic of any systemic underwriting issues.

The introduction of our Pacific operations centre will help ensure that our pricing and underwriting approach is consistent, minimises claims leakage and enables the Pacific to return to making a significant contribution in the coming year.

SLIDE 9: NEW ZEALAND CLAIMS EXPENSES

New Zealand claims expenses also increased over the 2018 financial year due to a number of claims challenges, however, these challenges are well understood and we have taken swift action to address each of them.

Throughout the year we experienced an increase in the development of open FY17 claims. The reserving model used didn't respond well during the claims backlog we experienced due to storms, understating expected development of claims in FY17. This resulted in a 1.2 percentage point increase in the claims ratio and we have now updated reserving methodology accordingly.

Our new, simpler products have contributed to a decrease in our NZ House claim frequency. This has been offset by an increase in severity, driven by large house fires and the increased costs relating to increasing Health & Safety and asbestos testing requirements. This is an industry-wide issue driven by regulatory change.

In response to these issues we have strengthened pricing and improved our underwriting criteria and expect to see improvements in the coming year.

In our motor portfolio, supply chain constraints and inflation continues to impact the industry with increasingly advanced technology in cars seeing the cost of repair rise. We are addressing motor claims inflation through pricing and more granular underwriting.

A higher cost per claim in our NZ Contents book is also linked to the increase in house fires and we are actively addressing this through improved pricing and underwriting.

Through the action we have taken over the course of the year, we expect our claims ratio excluding large events to revert to prior year levels

SLIDE 10: SEVERE WEATHER EVENTS

Historically, costs relating to severe weather events for Tower have been well below the level we've seen in the past two years.

The past two years have seen a number of unprecedented and severe weather events that have impacted communities and our business beyond expectations. Impacts in FY17 totalled $15.5 million before reinsurance, and this year reached a gross amount of $20.1 million, well above both our 10 year average of $7.6 million, and our five year average of $11.3 million.

This is not unique to Tower. Industry wide losses in New Zealand from weather in the 2018 calendar year are some of the worst on record and already total over $200 million.

Industry experts are reporting that the recent weather looks to be a short-term abnormality and have said that the temperature of the Tasman sea, although higher than long-term averages, have already returned to be in line with prior trends.

However, it is clear from looking around the world that weather trends are intensifying. In response to these increased impacts we have adjusted pricing and strengthened our reinsurance programme to increase cover and reduce volatility from large events in FY19.

SLIDE 11: REDUCING CLAIMS VOLATILITY

Our aggregate reinsurance cover has absorbed some of the costs of storm volatility and we have increased cover for FY19 to ensure that our exposure to large events is reduced.

We have:

- Increased the excess on our aggregate cover from $7 million to $10 million
- Doubled our aggregate cover from $10 million to $20 million
- Increased cover for single large events from $5 million to $7.5 million, once our excess of $10 million is used
- Purchased drop-down cover to bridge the gap between aggregate and catastrophe cover

Savings from the improved efficiency of our Catastrophe cover programme have been used to fund increased aggregate reinsurance, and we expect an improvement in the FY19 reinsurance ratio.

We are taking all appropriate steps to preserve capital by reducing volatility from these short-term weather abnormalities.

SLIDE 12: BUILDING CAPABILITY WHILE CONTROLLING COSTS

I’m pleased to report that we have continued to reduce our expense ratio, while investing significantly in improvements in the business.

One of the most significant investments we have made is increasing the capability of our team. We have built a team of experts who are driving the transformation of Tower and delivering the continued strong growth. As well as increasing capability, we have employed new, skilled people to enable our digital transformation and the increased use and understanding of data.

In addition to this capability lift, we have also invested in the ongoing uplift of our IT systems to mitigate risk and our exposure to cyber security threats.

As I have said a number of times before, we continue to:

- Increase efficiency and productivity and drive high performance;
- Identify and reduce expenditure through in-sourcing services and reducing reliance on external business support; and
- Consistently review our procurement processes and closely manage contract negotiations

We expect further expense improvements to be delivered with a step change in productivity gains after the implementation of our new IT platform from the end of FY19.

SLIDE 13: MAJOR TECH UPGRADE PROGRESSING WELL

Our plan is driving change and transforming the business, we are now accelerating this momentum and creating long-term shareholder value by investing in a new technology platform that will deliver a step change in results.

As we approach the half way mark of this programme I am pleased to let you know that progress to date is as we expected and our experience with the new platform confirms our assumptions.

This programme is complex and includes legacy replacement, digital enhancement and product rationalisation.

The programme remains on track to deliver in the first half of the 2019 calendar year. At the half way point costs are within tolerances, however like all projects of this nature there remains risk and complexity in the delivery. Our robust governance controls include a focus on managing delivery risk and cost trade-off.

Earlier this week we launched the first piece of the simplification programme, providing a new telephony and workforce system that will streamline the customer experience and improve collaboration across the business.

New business will be on sale on the new platform in the first half of the 2019 calendar year, with migration of customers to the new system and rationalisation to the new product set over the following 12 months.

The benefits of our new core platform will be maximised with a number of supporting systems that drive customer satisfaction and improve business operations.

Combined with our push to move 50 – 70% of all transactions online, our ability to rapidly respond in today's constantly changing digital landscape will set us apart from our competitors.

SLIDE 14: PRICING RISK CORRECTLY

In April we announced that we were starting to price insurance more fairly and moving to risk-based pricing for earthquake.

Risk based pricing has resulted in the growth of our portfolio in Auckland while also reducing our exposure in extreme risk areas by an annualised figure of 17%.

This reduction of extreme risk policies, combined with already completed changes in our Wellington portfolio has reduced the amount of reinsurance cover required by $35 million.

Our fairer approach to pricing has also allowed us to grow our exposure 4% in the larger, low risk areas like Auckland and Taranaki.

It is clear that our strategy is working and will continue delivering benefits as well as improving reinsurance efficiency in future.

Through this process we have worked closely with our impacted customers to support them through the change and we have received positive feedback about our open and transparent approach.

Risk based pricing helps to educate communities, governments and other authorities about risk and encourages them to take action to mitigate or prepare for what might happen in the future.

We continue to strongly believe that moving to risk-based pricing was the right decision to make and work has begun on risk-based pricing for flood, wind and storm.

SLIDE 15: CANTERBURY EARTHQUAKES

You can see that we are making good progress closing Canterbury Earthquake claims. In the past twelve months we have closed 318, while receiving 115 completely new over-cap claims from the EQC, and 43 reopening.

Of the claims that remain open, many are well progressed towards settlement and we are now into the serious end of the tail.

We have continued this good progress this year, and at the end of October had less than 100 non-litigated claims remaining, bringing us very close to the end of Canterbury earthquake programme.

By March, we expect the number of open claims to be significantly less and are hopeful we can move these claims into BAU activity.

As we have previously advised, we are actively engaging with EQC in relation to recoveries and remain confident of our position.

This demonstrates that we are making solid progress and stepping ever closer to finalising the Canterbury legacy.

Tower also welcomes the recent government announcement of an enquiry into EQC as an important step toward ensuring that mistakes of the past are learnt from and not repeated in future.

EQC Act reform will assist in ensuring past experience is not repeated and that we can all avoid the pitfalls and problems associated with the EQC set up and the 2010 model.

Tower strongly believes that the Kaikoura model is successful and that any reform of the EQC must include these changes.

I will now hand over to Jeff who will take you through our financial results in more detail.

JEFF WRIGHT

SLIDE 16: FINANCIAL PERFORMANCE TITLE SLIDE

Thank you Richard and good morning everyone

SLIDE 17: FINANCIAL PERFORMANCE CONSOLIDATED GROUP

Looking at the consolidated results, we can see the strong growth this year of $23.7m in gross written premium and $13.1m in net earned premium has been offset by storm activity, higher claims costs , the resolution of the Peak Re dispute as well as some increase in ultimate incurred claims for Canterbury.

In particular, achieving settlement with Peak Re has resulted in a $16.2 million after-tax impact on profit, while severe and unprecedented storm activity resulted in an $11 million before-tax impact to our underlying profit, $3.6m higher than 2017.

Overall, this has resulted in a reported loss of $6.7 million, a slight improvement on the prior year. The reported loss has also resulted in the writing off of $1.2m in foreign tax credits from the Pacific.

In addition to the strong growth results, the management expense ratio continues to decline, falling for the third straight year to 39%.

SLIDE 18: MOVEMENT IN UNDERLYING PROFIT

Slide 18 details the key drivers of the decrease in underlying profit before tax from 2017 to 2018.

The strong growth is reflected in the $13.1m increase in net earned premiums.

Of the increase in claims costs of $20.7m, $9.4m is as a result of the increase in volume in both new and retained risks.

$3.6m is as a result of increased storm activity, and $7.7m is as a result of a number of drivers of claims costs that Richard mentioned earlier.

While this $7.7m increase in claims cost before tax is disappointing, we clearly understand the underlying causes, which include $2.8m related to 2017 development, and have taken swift action to rectify. We expect these actions will be reflected in the 2019 result.

SLIDE 19: FINANCIAL PERFORMANCE NEW ZEALAND

The majority of growth in Tower's gross written premium, due to both rate and volume, occurred in our NZ markets, with $23.5m growth in gross written premium and $13.8m growth in net earned premium.

Our continued focus on management expenditure saw the expense ratio for NZ decrease from 39.7% to 37.8% - a significant result given the level of ongoing investment in capability in NZ to drive and support future growth.

Increases in claims costs over and above the rate of increase of net earned premium negated some of these strong results, resulting in a modest increase in underlying profit after tax of $0.7 million on the prior year, to $12.8 million.

SLIDE 20: FINANCIAL PERFORMANCE PACIFIC

Growth in Pacific was mixed, with good growth in our core markets of Fiji, Vanuatu, Samoa and American Samoa being offset by the continued deliberate shedding of higher risk commercial lines in Papua New Guinea.

Overall, Pacific gross written premium was almost flat at $58.4 million.

The Pacific business bore the significant weight of increased storm activity, with a $3.8m impact on underlying profit before tax, primarily from Cyclone Gita, which impacted Samoa, American Samoa and Tonga.

Other drivers of the outcome were $2.4m increase in claims cost, largely as a result of volatility in large claims in several locations, and $0.9m increase in management expenses, primarily due to the investment in the Pacific operations centre.

While the overall result for the Pacific was a reduction in underlying profit after tax of $5m, management are confident that the Pacific business is strong and will quickly return to longer term contribution to group profit, especially given:

- Remediation of Papua New Guinea approaching conclusion;
- The growth trends in other core markets, and;
- The benefits that will flow through from the establishment of the Pacific operations centre.

SLIDE 21: CANTERBURY EQ REDUCING BALANCE SHEET RISKS

As Richard mentioned earlier, we are making good progress through the remaining Canterbury earthquake claims.

Outstanding claims have reduced by almost 50%, from 323 to 163, and central estimates by $34.4 million, from $93.3 million to $58.9 million, a decrease of 37%.

We have seen strengthening in some of the more complex non-litigated claims, as well as a spike in litigated claims earlier in the year. This has resulted in an increase in ultimate incurred claims of $10 million after taking into account reinsurance offsets, which is reflected in the current central estimates of outstanding claims.

Due to the significant progress in finalisation of existing claims and associated reduction in the central estimate, the Board has released $5m of the additional risk margin of $10m created in September 2017. This leaves the ratio of IBNR/IBNER and risk margins to case estimates as a robust 95%.

Of the claims that remain open, many are well progressed towards settlement and by March, we expect the number of open claims to be significantly less and are hopeful we can move these claims into BAU activity.

SLIDE 22: A ROBUST SOLVENCY POSITION

In 2017, Tower's Board determined that additional capital of $70.8 million was required to address the inherent uncertainty faced by the business, to repay the BNZ facility, and enable ongoing reinvestment in Tower. We also committed to addressing legacy risks arising from the Canterbury earthquakes.

Since then, in addition to the continued strong rate of finalisation of outstanding claims, Tower settled the Peak Re dispute, receiving $22 million of the $43.75 million claimed, resulting in a write-off of the residual amount plus associated costs of $16.2 million after-tax.

Despite the impact on capital of this write-off, Tower Insurance remains in a strong capital position.

As at September 2018, Tower Insurance Limited held $136 million of actual solvency capital - $78 million above, or 234% of, RBNZ minimum solvency capital, and $28m above RBNZ minimum solvency capital and $50m licence condition.

As at 30 September 2018, Tower Limited held an additional $25 million in cash.

We also retain access to undrawn debt facilities and have a preference for their short to medium-term utilisation for the completion of major technology upgrade.

I will now hand over to Richard who will provide an update on our strategic plan.

RICHARD HARDING

SLIDE 23: FUTURE OUTLOOK TITLE SLIDE

SLIDE 24: CONTINUED DELIVERY OF STRATEGY

Over the past two years I've spoken about the significant opportunity that exists in the Tower business. I'm pleased that our clear strategic plan is seeing us realise this potential and that we are now in a position to accelerate our transformation into a digital challenger brand.

Tower holds a unique position in the New Zealand insurance market. We have a solid existing customer base, yet plenty of room to continue growing and acquiring market share from the two large incumbents.

Our desire to step outside the confines of a traditional insurer and our dynamic size means that we can make decisions faster and capitalise on opportunities quicker and more efficiently than our competitors.

As I've said before, there are many similarities between the New Zealand and Australian insurance industries where two large multi-nationals hold a high percentage of the market. In Australia, challenger brands entered and achieved significant growth thanks to their ability to quickly deliver something unique and targeted to customers.

Over the past 18 months, research has shown us that customers are dissatisfied with insurers. Our goal is to challenge industry norms to change this because we believe this customer apathy provides us with opportunity.

We believe that delivering unique customer value through amazing claims experiences will be our key differentiator and will build strength and long-term value in our business.

Further increasing our focus on customers and creating products, systems and processes that enable amazing claims experiences, combined with continued refinement of our underwriting, ensuring we operate excellently and replacing our core IT platform will enable us to reach our challenger brand aspiration faster.

With this work already delivering benefits and we now want to accelerate our progress and deliver a step change in results and long-term shareholder value.

Delivering against our challenger strategy will enable us to achieve our uplifted, medium-term operating targets of:

- GWP growth of 8-10%
- Combined Operating Ratio < 85%
- Return on equity of 14 – 16%

SLIDE 25: FY19 PRIORITIES

Our plan is driving change and transforming the business and we are now accelerating this momentum and creating long-term shareholder value.

Our key priorities for the coming year build on this positive momentum and will see us:

- Complete our IT simplification and digital transformation, launching new business in the first half of the calendar year
- Continue to attract more customers and grow our New Zealand and Pacific businesses
- Keep improving underwriting and pricing to improve profitability and reduce claims costs, and
- Continue to invest in our business while controlling expenses

Successful delivery against these priorities will build on the already strong growth seen in the underlying business.

SLIDE 26: COMPLETE DIGITAL TRANSFORMATION

The key to accelerating our transformation is a new IT platform that enables the simplification of our products and processes.

Completion of our simplification programme and our digital transformation will accelerate our growth opportunities and combined with our push to move 50 - 70% of all transactions online, will deliver significant cost savings and productivity gains.

We will drive growth through our new platform by combining our existing data with that of our partners to get a full understanding of our customers and actively targeting niche customer segments with compelling and appropriately priced propositions.

We will improve the customer experience with simpler, improved products, reduced wait times and fully digital self-service capability.

Cost savings and productivity gains will be realised from the end of FY19 and will be achieved thanks to the removal of a significant amount of complexity.

The reduction in number of products from over 400, to just 12 core products, along with automation and moving low value transactions online will drive improved efficiency.

IT simplification is a critical enabler for our transformation. It is a core component of our strategy and will deliver a step change in results.

SLIDE 27: KEEP DRIVING GROWTH

Tower's core NZ business has experienced solid growth for the past five consecutive halves and we will continue to build on this momentum through further differentiation.

We believe that customers deserve better and we have refined our customer proposition to start offering customers a truly different choice for insurance.

We are removing jargon filled policies and making our award winning policies even simpler. Not only does this benefit our customers, it reduces the complexity and leakage that comes from having over 400 different products.

We will continue with our push for fairer pricing which will allow us to grow in the large low risk areas, like Auckland and Taranaki, that had previously been subsidising those in high-risk areas.

And our key differentiator will see us deliver amazing claims experiences. Our new platform, combined with a number of other ancillary systems will increase automation. This will improve the customer experience, reduce claim turn-around-times and reduce leakage, resulting in improved efficiency and profitability.

In the Pacific, our new operations centre will support local teams through improved product, pricing and underwriting capability to ensure we grow within our risk appetite, along with complex claims management which will reduce leakage.

This will reduce process duplication and provide a significant increase in time spent helping customers and enable the Pacific to return to making a significant contribution in the coming year.

What we're building will be unique and will continue to attract more customers to Tower and drive strong growth.

SLIDE 28: IMPROVE PROFITABILITY

Tower is an insurance company and managing risk is at the very heart of what we do. How we manage that risk, through pricing and underwriting, is an important measure of the performance of our business and links directly through to profitability.

This coming year we will accelerate the activity already underway, specifically increasing the use of data and the continued implementation of risk-based pricing.

The implementation of our new platform will deliver significant underwriting capability. Utilising new and existing data we are building an incredibly granular and sophisticated underwriting engine, a vast improvement on the 50 or so legacy algorithms currently used in the business.

One of the most important things we will do this coming year is to start the 12 month migration of customers from our existing platforms onto our new, single core platform.

Customers will benefit from simpler policies and improved claims experiences and this will lead to improved profitability.

As I have said earlier, the benefits from reducing the complexity of having over 400 products down to a core of just 12 cannot be underestimated.

We will also continue to implement risk based pricing for flood, wind and storm which will allow growth in low risk areas, and improve efficiency of our reinsurance programme.

These actions will enable us to improve profitability and meet our Combined Operating Ratio target of less than 85%.

SLIDE 29: CONTINUE CONTROLLING EXPENSES

Investment in our business has driven strong growth and we will continue investing in initiatives that improve performance.

TOWER

Increased automation and innovation is a natural part of becoming a digital challenger. Along with our push to move 50 – 70% of all transactions online, a grassroots approach to innovation is improving efficiency by removing duplication and repetitious tasks.

This focus on automation will deliver significant operational benefits and allow our teams to focus on value add tasks to keep improving efficiency. We will also continue to invest in the upgrade of ancillary IT applications to ensure that we realise the full benefits of our new core platform.

I am very pleased to welcome our new CIO, Peter Muggleston and General Manager of People & Culture, Michelle McBride to my executive team, with both starting in the coming week.

Peter has extensive experience leading significant digital and technology transformation programmes at some of New Zealand's best known companies. His stewardship as we replace our core system will help drive improvement and efficiency across all areas of our business.

Michelle brings significant International experience leading cultural change across a range of organisations and has played a key role in enabling companies to deliver on their strategy through improved performance.

Pleasingly, our employee engagement results have consistently improved over the past two years and Michelle comes in to Tower with a large agenda to keep driving this cultural change.

With Peter and Michelle on the team we will continue to lead a business that is undergoing significant change and transformation.
The results of the work we are doing are already delivering benefits and we expect this to continue with pace moving forward.

SLIDE 30: OUTLOOK

As you can see, the work we are doing sets us up well for the future and the investment in a new IT platform will accelerate our transformation.

Our focus is on progressing initiatives that will continue accelerating our momentum and deliver long-term shareholder value.

Tower is confident in the strength of its strategy and the performance of its underlying business and is providing a one-off guidance for underlying NPAT in excess of $22 million in FY19.

This includes the following assumptions:

- Continued momentum in revenue growth and sales through improved digital channels
- Underwriting and pricing changes will be implemented, continuing to drive improvement in mix of risk, as well as addressing inflation
- Pacific contribution will return to normal levels
- Maintaining a steady management expenses ratio, and
- Aggregate excess will be fully utilised for weather events

Accordingly, Tower’s Board has determined that in FY19, Tower will pay a dividend of 50% to 70% of reported NPAT where prudent to do so.

You can be confident that we are transforming Tower and that the work we are doing will deliver you significant long-term value.

[PAUSE]

Before I ask for questions, I want to thank the Tower Board for their continued support and the Tower team for the effort they have put in and the continuous improvement we have seen as a result.

ENDS