

Market Information
NZX Limited
Level 2, NZX Centre
11 Cable Street
Wellington
New Zealand

Company Announcements Office
Australian Securities Exchange Limited
Exchange Centre
Level 6, 20 Bridge Street
Sydney NSW 2000
Australia



24 November 2015

TOWER Limited FY15 Full Year Results for Announcement to Market

In accordance with NZSX Listing Rule 10.3.1 and ASX Listing Rule 4.3A, I enclose the following for release to the market in relation to TOWER Limited's (NZE/ASX: TWR) FY15 Full Year Results:

| | |
|----|---|
| 1. | Media release |
| 2. | ASX Appendix 4E |
| 3. | NZX Appendix 1 |
| 4. | NZX Appendix 7 |
| 5. | Management Review |
| 6. | Financial Statements (including Independent Auditor's Report) |

TOWER's Chairman Michael Stiasny, Chief Executive Officer Richard Harding, and Chief Financial Officer Brett Wilson, will discuss the full year results at 10:00am New Zealand time today.

ENDS

Brett Wilson
Chief Financial Officer
TOWER Limited
ARBN 088 481 234
Incorporated in New Zealand

For further information, please contact:
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Chief Financial Officer
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Email: brett.wilson@tower.co.nz



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TOWER REPORTS STRONG UNDERLYING PROFIT IN FULL YEAR RESULT

TOWER Limited (NZX/ASX: TWR) has reported a net loss after tax (NPAT) of \$6.6 million. Underlying profit after tax was up 29.6 percent to \$28.2 million for the year ended 30 September 2015.

TOWER maintains a strong balance sheet and is well capitalised, holding capital above target solvency levels of \$73 million.

Features of FY2015 include:

- Gross Written Premium \$305.6 million, up 2.7 percent
- Underlying profit after tax of \$28.2 million supported by premium growth, and the absence of large claim events in the first half
- Full year dividend 16.0 cps (unimputed), up 10.3 percent and on-market share buyback of up to \$34 million to continue
- Pacific NPAT increased 17.4 percent to \$9.6 million, assisted by policy and premium growth and reduced claims
- Expanded distribution alliances in New Zealand and the Pacific including the launch of Trade Me Insurance, providing access to new markets and a new way of operating
- Canterbury rebuild achieved 95.6 percent of claims by volume, 88% by value, closed; 703 claims remaining
- Good progress on Canterbury claims, improved actuarial process and greater confidence in cost estimates; benefits from reinsurance
- Increase in Canterbury event provisions: the second half increase relating to the February 2011 event was \$53.2 million pretax, resulting in a \$13.6 million after tax profit impact, reduced by reinsurance and tax benefits; the full year impact was \$36.2 million after tax.

TOWER has delivered a strong underlying performance, benefiting from a benign weather environment and strong growth in policies and earnings in the Pacific.

TOWER Chairman, Michael Stiassny said that during the year, TOWER made solid progress to deliver on its strategic objectives to grow the business, manage risks and enhance shareholder returns.



“TOWER has gone through a process of significant transformation over the past few years, with 2015 marking our first year as a pure General Insurer.

“Despite the increased provisions for Canterbury claims cost, our underlying results were very good and reflect the potential of the General Insurance business.

“In line with TOWER’s 90-100 percent NPAT payout policy, the Board announced a final dividend of 7.5 cents per share unimputed. This brings the full year dividend to 16.0 cents per share, an increase of 10.3 percent.

“We hold considerable capital and will be continuing with our on-market buyback and current dividend policy,” he said.

The total impact of the increase in Canterbury claims provisions was \$36.2 million after tax. The detailed analysis undertaken by the actuaries to understand these claims, their significantly smaller number, and the pace of TOWER’s claims resolution progress provides the Company with increasing confidence regarding the balance of the claims expense provisions.

The Pacific business continues to deliver strong GWP and earnings growth assisted by 4.6% policy growth. Growth is supported by a number of new alliances in the region targeting the high growth motor segment.

TOWER has made a number of important investments to assist with future growth, including the recent launch of Trade Me Insurance, which provides access to new markets and a new way of operating. The Company has also implemented a brand refresh, and upgraded processes and systems to improve customer interaction and satisfaction levels, and increase operational efficiency.

Chief Executive Officer, Richard Harding said that with these foundations in place, it was time to focus on operational excellence and developing a high performance customer service culture.

“We can achieve growth by unleashing the power of the TOWER brand and further developing a diverse range of alliances. There are also gains to be had by creating operational excellence through simplifying and reducing complexity in the business, and improving customer retention rates,” he said.

TOWER strategic priorities for the medium term are:

- Establish a high performance customer service culture and improve processes to enhance the customer experience;
- Leverage the Trade Me Insurance offering to target its 1.4 million customers and to use this experience to grow TOWER’s direct business and pursue further new alliance opportunities;
- Increase focus on core operational areas including improved claims management, enhanced risk management, simplification of processes, and underwriting and pricing to improve customer outcomes and create efficiencies; and
- Maintain a strong solvency position while managing capital efficiently.



The final dividend will be paid on 3 February 2016 to shareholders on the register as at 20 January 2016.

ENDS

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

For media inquiries, please contact:

Kim Palsenbarg
(021) 520 340

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|---|
| TOWER LIMITED PRELIMINARY FINAL REPORT |
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|--|
| Current Reporting Period 12 Months ended 30 September 2015 |
|--|

| |
|---|
| Previous Reporting Period 12 Months ended 30 September 2014 |
|---|

| |
|---|
| RESULTS FOR ANNOUNCEMENT TO THE MARKET |
|---|

| | Year Ended 30 September 2015 | Movement (+/-) from Year Ended 30 September 2014 |
|---|---|---|
| | 000's | |
| Total revenue from ordinary activities | NZ\$ 322,448 | +6.4% |
| Net profit from ordinary activities after tax attributable to shareholders | NZ\$ (8,032) | -137.1% |
| Net profit attributable to shareholders | NZ\$ (6,982) | -130.1% |

FINAL DIVIDEND

A final dividend of NZ 7.5 cents per share has been declared. The Record Date is 20 January 2016. The dividend will have no imputation credits attached and will be paid net of withholding tax (where applicable) on 3 February 2016. No franking credits apply. Participation in TOWER's dividend reinvestment plan will not apply for the final dividend.

ADDITIONAL COMMENTS

FY15 Revenue from ordinary activities has increased due to growth in both premiums and investment revenue.

Net profit from ordinary activities after tax and Net profit attributable to shareholders are lower than the prior period due to increased outstanding claims provisions in respect of Canterbury earthquakes and lower reinsurance recoveries on the February 2011 earthquake event.

Net loss for FY15 was NZ\$6.6 million, including minority interest profit of NZ\$0.3 million (FY14: \$23.6 million profit including minority interest profit of \$0.4 million).

FY14 Net profit from ordinary activities included results from discontinued activities (comprising 11 months profits from TOWER's remaining life business; residual costs from Australian branch insurance liability transfer; net gains on sale from remaining life business; and final settlement of non-participating life business).

Additional Appendix 4E disclosure requirements can be found in the attached 2015 audited Financial Statements for TOWER Limited and its subsidiaries and Presentation.

FULL YEAR PRELIMINARY ANNOUNCEMENTS AND FULL YEAR RESULTS

RESULTS FOR ANNOUNCEMENT TO THE MARKET

| TOWER LIMITED | |
|----------------------------------|---------------------------------------|
| Reporting Period | 12 months to 30 September 2015 |
| Previous Reporting Period | 12 months to 30 September 2014 |

| | Amounts (000s) | Percentage change |
|--|---------------------|------------------------|
| Revenue from ordinary activities | NZ\$ 322,448 | 6.4% increase |
| Net profit (loss) from ordinary activities after tax attributable to shareholders | (NZ\$ 8,032) | 137.1% decrease |
| Net profit (loss) attributable to shareholders | (NZ\$ 6,982) | 130.1% decrease |

| Final Dividend | Amount per security | Imputed amount per security |
|------------------------------|----------------------------|------------------------------------|
| | NZ 7.5 cents | Nil |
| Record Date | 20 January 2016 | |
| Dividend Payment Date | 3 February 2016 | |

| | |
|-----------------|---|
| Comments | <p>FY15 Revenue from ordinary activities has increased due to growth in both premiums and investment revenue.</p> <p>Net profit from ordinary activities after tax and Net profit attributable to shareholders are lower than the prior period due to increased outstanding claims provisions in respect of Canterbury earthquakes and lower reinsurance recoveries on the February 2011 earthquake event.</p> <p>Net loss for FY15 was NZ\$6.6 million, including minority interest profit of NZ\$0.3 million (FY14: \$23.6 million profit including minority interest profit of \$0.4 million).</p> <p>FY14 Net profit from ordinary activities included results from discontinued activities (comprising 11 months profits from TOWER's remaining life business; residual costs from Australian branch insurance liability transfer; net gains on sale from remaining life business; and final settlement of non-participating life business).</p> |
|-----------------|---|

| | |
|-------------------------------|---|
| Additional Information | TOWER's DRP will not apply for the final dividend. |
|-------------------------------|---|

Refer attached 2015 audited Financial Statements for TOWER Limited and its subsidiaries and Presentation for more detailed analysis and explanation.

Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one
(Please provide any other relevant
details on additional pages)

Full name of issuer **TOWER Limited**

Name of officer authorised to
make this notice

Brett Wilson

Authority for event,
e.g. Directors' resolution

Directors' resolution

Contact phone
number

09 369 2172

Contact fax
number

09 369 2160

Date

24 / 11 / 2015

Nature of event
Tick as appropriate

Bonus
Issue

☐

If ticked,
state whether:

Taxable ☐

/ Non Taxable ☐

Conversion ☐

Interest ☐

Rights Issue
Renounceable

☐

Rights Issue
non-renounceable

☐

Capital
change

☐

Call ☐

Dividend ☒

If ticked, state
whether:

Interim ☐

Full
Year ☒

Special ☐

DRP Applies ☐

EXISTING securities affected by this

If more than one security is affected by the event, use a separate form.

Description of the
class of securities

Ordinary shares

ISIN

NZTWRE0011S2

If unknown, contact NZX

Details of securities issued pursuant to this event

If more than one class of security is to be issued, use a separate form for each class.

Description of the
class of securities

ISIN

If unknown, contact NZX

Number of Securities to
be issued following event

Minimum
Entitlement

Ratio, e.g.
① for ②

☐

for

Conversion, Maturity, Call
Payable or Exercise Date

Enter N/A if not
applicable

Treatment of Fractions

Tick if
pari passu

☐

OR

provide an
explanation
of the
ranking

Strike price per security for any issue in lieu or date
Strike Price available.

Monies Associated with Event

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents

Amount per security
(does not include any excluded income)

\$0.075

Source of
Payment

Retained profits

Excluded income per security
(only applicable to listed PIEs)

\$0.000

Currency

NZD

Supplementary
dividend
details -
NZSX Listing Rule 7.12.7

Amount per security
in dollars and cents

\$0.000000

Total monies

\$12,748,760.25

Date Payable

n/a**Taxation**

Amount per Security in Dollars and cents to six decimal places

In the case of a taxable bonus
issue state strike price

\$

Resident
Withholding Tax

\$0.024750

Imputation Credits
(Give details)

\$0.000000

Foreign
Withholding Tax

\$

FDP Credits
(Give details)

n/a**Timing**

(Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm

For calculation of entitlements -

20 January, 2016**Application Date**

Also, Call Payable, Dividend /
Interest Payable, Exercise Date,
Conversion Date. In the case
of applications this must be the
last business day of the week.

3 February, 2016**Notice Date**

Entitlement letters, call notices,
conversion notices mailed

Allotment Date

For the issue of new securities.
Must be within 5 business days
of application closing date.

OFFICE USE ONLY

Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code:



24 November 2015

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TOWER Management Review – Year to 30 September 2015

Features of FY2015:

- Reported net loss after tax (NPAT) of \$6.6 million after additional Canterbury provisions
- Underlying profit after tax from continuing businesses increased 29.6% to \$28.2 million
- Gross Written Premium increased 2.7% to \$305.6 million, influenced by stable rates in New Zealand and strong premium and policy growth in the Pacific
- Pacific net profit after tax increased 17.4% to \$9.6 million, assisted by strong policy and premium growth and a reduced loss ratio
- In the second half, higher claims in Wellington, Dunedin and Whanganui, the launch of Trade Me Insurance and other initiatives increased expenses
- Distribution alliances were expanded in New Zealand and the Pacific: Trade Me alliance live, providing access to new markets and a new way of operating
- Canterbury rebuild achieved 95.6 percent of claims by volume closed; 703 property claims outstanding
- Second half gross increase in February 2011 Canterbury event provision of \$53.2 million, full year profit impact \$36.2 million after tax, reduced by reinsurance and tax
- Good progress on Canterbury claims, improved actuarial process and greater confidence in cost estimates; benefits from reinsurance
- Strong solvency maintained with \$73 million in capital above target solvency levels
- Underlying EPS of 16.0 cents, up 41.6%, reflecting stronger underlying earnings and prudent capital management
- Dividend policy maintained: full year dividend 16.0 cps (unimputed), up 10.3% on FY2014
- On market share buyback of up to a further \$22 million to continue following results

Building shareholder value

TOWER reported a net loss after tax of \$6.6 million for the year ended 30 September 2015 due to the impact of increased provisions relating to the Canterbury earthquakes. Underlying profit after tax was \$28.2 million¹, a 29.6% increase on FY2014.

Provisions for the February 2011 Canterbury earthquake were increased by \$88.7 million in FY2015, which resulted in a net profit after tax impact of \$36.2 million, after taking into account reinsurance recoveries and tax benefits. The impact on profit was significantly reduced by the Adverse Development Cover taken out in April 2015.

The positive underlying results reflect rising GWP, fewer large claim events, particularly in the first half, and strong growth in policies and earnings in the Pacific Rim. The rate of industry premium growth is slowing compared with recent years. Reinsurance rates have stabilised also.

During the year, TOWER made solid progress on implementation of its strategy, particularly in the areas of: improving customer service, new alliance partnerships in both New Zealand and the Pacific, and entering an exciting new market through Trade Me Insurance.

Underlying earnings per share (EPS) was 16.0 cents, up 41.6%. Underlying EPS now reflects the pure general insurance operating model. In FY2015, underlying EPS increased at a higher rate than underlying net profit due to capital management.

The Board announced a final dividend of 7.5 cents per share (unimputed), compared to 8.0 cents unimputed in the previous year. This makes 16.0 cents per share for the full year, a payout ratio on underlying profit of 100%. Subject to maintaining appropriate levels of solvency, the Board remains committed to a 90 – 100% dividend payout ratio. The final dividend will be paid on 3 February 2016 to shareholders on the register at 20 January 2016.

Despite the increased provisions for Canterbury claims costs, TOWER remains well capitalised with \$73 million in capital above target solvency levels. The on market share buyback of up to \$34 million, of which \$12 million has been completed, will continue following announcement of these financial results.

¹. Underlying profit excludes divested businesses and impact of Canterbury earthquakes

Performance summary

| \$ million | FY15 | FY14 | Movement % |
|---|--------|-------|------------|
| Gross written premium | 305.6 | 297.6 | 2.7% |
| Reported (loss)/profit after tax | (6.6) | 23.6 | - |
| Canterbury earthquakes | (36.2) | (0.1) | - |
| Profit on discontinued businesses | 1.4 | 2.0 | - |
| Underlying profit after tax from continuing operations ¹ | 28.2 | 21.7 | 29.6% |
| New Zealand ² | 18.9 | 16.9 | 11.6% |
| Pacific | 9.6 | 8.2 | 17.4% |
| Underlying EPS(c) ³ | 16.0 | 11.3 | 41.6% |
| DPS(c) | 16.0 | 14.5 | 10.3% |
| Key ratios⁴ | | | |
| Claims ratio | 47.7% | 50.8% | - |
| Expense ratio | 41.9% | 40.8% | - |
| Combined ratio | 89.6% | 91.6% | - |

1. Underlying NPAT excludes Canterbury impacts and discontinued businesses.

2. New Zealand figures include General Insurance only.

3. Profit attributable to shareholders from ongoing operations only and excludes Canterbury impacts, using weighted average number of shares outstanding.

4. Based on underlying business, excludes Canterbury impacts.

Underlying profit was lower in the second half of the year compared to the first half, largely due to higher claims and operating expenses. In June, storms in Dunedin and Whanganui incurred a combined cost of \$5 million after taking into account the aggregate reinsurance cover. Claims were also higher in the second half due to the Wellington storm and seasonally higher business as usual claims.

Operating expenses were higher in the second half due to the timing of a number of our initiatives including the launch of Trade Me Insurance, the brand refresh and Insurance Faces migration. These investments have led to an increase in the management expense but are anticipated to improve returns to shareholders through revenue and efficiency benefits over the medium term.

TOWER merged the customer service and sales teams to improve service levels and operational efficiency in the first half of the year. The implementation of the strategy initially affected service levels as agents were retrained and roles expanded. TOWER took a number of measures to address service performance and improve customer satisfaction, which now exceed pre-implementation levels.

TOWER continues to build its brand as a trusted alternative to the major insurers, and a leader in customer service and product innovation. A brand refresh during the year sought to improve realisation of latent brand potential, creating a stronger connection with customers, increased brand confidence and preference.

Late in the financial year, TOWER and Trade Me launched Trade Me Insurance, with a fully online end-to-end service model. Trade Me Insurance provides access to a new customer base, particularly in the motor segment.

The Pacific business enjoyed strong GWP and earnings growth assisted by 4.6% policy growth. Growth is supported by a number of new alliances in the region targeting the high growth motor segment. TOWER operations were established in Vanuatu and launched in November 2015, a market with attractive potential.

TOWER made further progress on the Canterbury rebuild, and at 30 September 2015 had achieved 95.6% closed by volume and 88% by value, with only 703 claims outstanding from more than 15,000 lodged.

Along with other general insurers, TOWER continues to work through the tail end of claims, which are complex and challenging. TOWER's appointed actuary, Deloitte, conducted a file-by-file claim review of open and closed claims and analysis of the claims lifecycle. This information allows TOWER to better understand the ultimate claims cost.

This Deloitte review also revealed the need for TOWER to increase provisions for the key February 2011 Canterbury event by \$53.2 million in the second half. This amount was reduced by reinsurance recoveries and tax to an impact of \$13.6 million after tax on second half earnings and, following provision increases in the first half, a \$36.2 million full year after tax impact on earnings.

TOWER Insurance Limited remains a well capitalised business that is carrying \$35 million in capital above target solvency levels in the insurance entity. Further excess cash of \$38 million is held in the corporate entities².

Underlying earnings performance

| \$ million | 2015 | 2014 | Movement \$ | Movement % |
|------------------------------------|--------------|--------------|-------------|--------------|
| Gross written premium | 305.6 | 297.6 | 8.0 | 2.7% |
| Gross earned premium | 304.7 | 285.1 | 19.6 | 6.9% |
| Reinsurance costs | (51.9) | (48.0) | (3.9) | 8.1% |
| Net earned premium | 252.8 | 237.1 | 10.9 | 6.6% |
| Net incurred claims | (115.6) | (106.2) | (9.4) | 8.9% |
| Large events claims ¹ | (4.9) | (14.4) | 9.4 | (65.6%) |
| Management and sales expenses | (101.9) | (94.0) | (7.9) | 8.4% |
| Depreciation and amortisation | (4.0) | (2.7) | (1.4) | 51.9% |
| Underwriting profit | 26.3 | 19.9 | 6.4 | 32.1% |
| Investment revenue | 14.0 | 14.2 | (0.2) | (1.2%) |
| Financing costs | - | (4.1) | 4.1 | - |
| Underlying Profit before tax | 40.3 | 30.0 | 10.3 | 34.4% |
| Income tax expense | (12.2) | (8.3) | (3.9) | 46.9% |
| Underlying profit after tax | 28.2 | 21.7 | 6.4 | 29.6% |

1. Large claim events are those greater than \$1m. 2014 large claim events were due to storms in New Zealand.

² Excess cash defined as cash balance less payables

Financial performance

Gross written premium (GWP) increased 2.7% on FY2014 to \$305.6 million, influenced by slowing rate growth in New Zealand and solid policy growth in the Pacific. Gross earned premiums rose 6.9% to \$304.7 million.

Reinsurance costs increased 8.1% and net earned premiums (NEP) increased 6.6% on FY2014 to \$252.8 million. While industry reinsurance costs have reduced, TOWER has elected to take out increased cover as part of its risk management strategy. This approach saw increased cover for large claim events and the February 2011 Canterbury earthquake ADC, both of which have reduced final exposure to claims in FY2015.

The claims ratio across New Zealand and the Pacific declined to 47.7%, from 50.8% in FY2014, reflecting fewer large claim events. Total claims of \$120.5 million in FY2015 were in line with the previous corresponding period. There were no large event claims in the first half but in the second half storms in Wellington, Dunedin and Whanganui, and seasonally higher travel and motor claims, lifted business as usual claims to \$115.6 million, an increase of 8.9% for the year.

The combined ratio improved to 89.6%, down from 91.6% in the previous year. The underlying expense ratio (management expenses and sales expenses to NEP) increased to 41.9% in the year, up from 40.8% in FY2014. TOWER made considerable investments in a major brand refresh, the launch of Trade Me Insurance, customer service training and systems migration to support efficiency and growth.

The Pacific business continues to grow. It is a significant component of TOWER, accounting for 20% of GWP and 34% of underlying NPAT in FY2015. GWP grew 12.2% to \$60.5 million. Profit after tax increased 17.4% to \$9.6 million supported by benign weather across the Pacific territories as well as policy and premium growth and currency translation.

Papua New Guinea and Fiji together make up 62% of Pacific GWP, with the TOWER brand “National Pacific Insurance” operating in Samoa, American Samoa and Tonga representing a further 24%. The operations in the Cook Islands and Solomon Islands contributed 14%.

Investment revenue net of financing costs increased \$3.9 million to \$14.0 million following the bond redemption undertaken in the previous year, that left TOWER debt free.

TOWER’s underlying tax rate for FY2015 was 30%. This rate reflects the average of the New Zealand and Pacific Islands’ corporate rates after taking into account foreign tax credits arising from transactions with the Pacific subsidiaries.

TOWER holds an estimated 4.7% share of the New Zealand general insurance market, placing it in fourth position, highlighting the substantial growth opportunity available to TOWER in the New Zealand market.

The company has more than 480,000 policies and almost 265,000 customers in New Zealand and eight Pacific territories through its own direct business and alliance partnerships. New Zealand Alliance policy numbers declined 6.7% on FY2014 due to the continued runoff in the ANZ book.

Operating priorities during the year

TOWER's General Insurance strategy is focused on the strategic pillars of customer satisfaction, staff engagement and financial performance, it aims to become the leading light in the New Zealand and Pacific General Insurance market and drive shareholder value. In FY2015, TOWER's operational priorities were:

- Enhancing capability to support growth in new distribution channels through the Trade Me alliance;
- Transforming customer interactions through implementation of a new service model and process upgrades to deliver improved customer service, efficiency and revenue in the medium term;
- Further investment in branding and innovation; and
- Growth in both established and new Pacific markets.

New distribution channels for insurance products

Alliances are an important part of TOWER's growth strategy and a key source of revenue. TOWER has three types of alliance partnerships: alliances with the major banks which allow them to sell insurance on their banking product platforms; customer referral relationships with New Zealand's major networks of financial planners; and as underwriter for a number of specialist insurance agencies.

TOWER recognises the significant opportunity to improve sales, service and its cost position by using technology to engage both direct and alliance customers. The Internet and mobile apps like SmartDriver have become attractive channels for insurers like TOWER to promote and sell insurance products.

The Trade Me Insurance alliance is an example of TOWER participating in this form of industry innovation, entering new markets and establishing an online presence and skill base. TOWER is seeking to apply technology to the entire policy sales and service cycle to better meet customer needs such as convenience, cost and service.

Trade Me Insurance launched in mid-August, representing an exciting market innovation that aims to offer policy flexibility and delivery efficiency that supports the price positioning of a value proposition. The Trade Me platform offers access to 1.4 million potential insurance customers.

While it is early days, to date 80% of policies sold through the alliance are in motor insurance, where value is an important factor and where TOWER remains underrepresented compared to other segments.

TOWER's investment in Trade Me Insurance to deliver an end-to-end online customer experience provides important learning that can be applied to establishing a direct digital platform and other new alliance opportunities.

Transforming customer interactions to drive returns

TOWER has seen encouraging improvements in key indicators of customer satisfaction. TOWER views customer interactions as an opportunity to engage and build a relationship, improve customer retention and extend TOWER's service offering in order to better address customer needs.

A key element of this approach is the introduction of a new service model that reflects the full customer experience and offers both service and sales functions from a single interaction. Merging sales and service provides the opportunity to significantly improve revenue, service levels and operating efficiency.

Execution of the strategy and increased training time affected short-term call wait times in March and April 2015. This impacted service levels and the observed net promoter score (NPS), a key measure of customer service and engagement that has increased significantly over the last two years.

Measures were adopted to improve performance including expansion of the service team, increased training and process enhancements. These resulted in a strong recovery of NPS to levels above previous peaks. The recovery in customer satisfaction has been assisted by a reduction in customer “hand-offs” (when a call is transferred to another service agent) and “drop-outs” (when a customer discontinues a call).

Migration to the core insurance platform, Insurance Faces, has continued through 2015 with 100% of direct customers now on this platform. Migration is underway for alliance partners.

TOWER is planning the next phase of systems and process improvement to deliver efficiency and service improvements over the medium term. There is a significant opportunity in this area. However, this is currently constrained by systems and business complexity - simplification will be crucial.

Unlocking brand potential

The TOWER Insurance brand consistently achieves a level of recognition associated with the major market leaders. However, market shares generally do not reflect this high recognition. The realisation of this latent brand potential has been a focus. TOWER seeks to achieve effective communication of the brand story, ensuring product quality and innovation, and delivery of an attractive value proposition.

TOWER has positioned itself as a trusted New Zealand-owned alternative to the major foreign-owned insurers that dominate the New Zealand market. A new brand campaign launched in June 2015 refreshed the TOWER logo and sought to build market confidence in the company's insurance products, which included increased use of social media and billboards. The new campaign has achieved encouraging improvement in brand awareness, preference, consideration and inbound inquiries.

TOWER also enhanced its reputation as an insurer that listens to customers with the launch of its full replacement fire benefit for New Zealand homes. This new insurance product has been recognised in key brand measures.

In line with the repositioning of the brand and improving its online presence, TOWER upgraded its corporate website to be fully mobile-friendly in FY2015.

Growth in Pacific markets

The Pacific business is a balance of small to medium enterprise business insurance and personal lines, including a healthy motor insurance business.

TOWER has been operating in the Pacific region for over 140 years and in a number of our markets, we are the market leader. Customer satisfaction is high in the Pacific, with NPS in the high 40s and local staff are very engaged.

The online presence was significantly enhanced in the region with website launches in Fiji, Papua New Guinea and the Solomon Islands. New alliance partnerships have been implemented with two major Papua New Guinean finance companies and sales have been promising.

TOWER recently commenced operations in Vanuatu and we believe this will be an attractive market.

Update on Canterbury earthquake rebuild

The Canterbury situation remains unique in the global context. Along with other general insurers, TOWER continues to work through the tail end of Canterbury claims, which are challenging and complex.

TOWER has acted in the best interests of customers and shareholders by managing claims quickly and effectively, and has only 703 outstanding claims, from more than 15,000 Canterbury claims.

TOWER has used Deloitte to provide actuarial services to project claims costs from the remaining Canterbury earthquake rebuild. In preparing the 30 September accounts, the Board requested additional expertise from TOWER's actuarial adviser, Deloitte, who began a file-by-file review of claims.

Following receipt of an actuarial report in April 2015, Deloitte and the TOWER Board determined that gross provisions should be prudently increased by \$35.5 million in the first half for the February 2011 event.

At 30 September 2015, TOWER has further increased the provision for the February 2011 event by \$53.2 million, taking the total increase to \$88.7 million for the financial year. The provision adjustment also includes the cost of the ADC of \$4.8 million, which, being fully utilised, is also now fully expensed.

After reinsurance recoveries and tax benefits, the provision increases impacted net profit after tax by \$22.6 million in the first half and \$13.6 million in the second half, taking the full year 2015 net profit after tax impact to \$36.2 million.

The second half provision change was driven by increased costs for paid claims during the period, an increase in case estimates for current claims, and an increase in the "IBNR", a reflection of the unreported cost.

There were four separate events that make up the Canterbury earthquakes. Each event is considered a separate event for reinsurance and EQC purposes. The February 2011 earthquake event provision impacts our profit given it is the only of the four events to exceed the reinsurance cap.

The provision for all Canterbury claims increased by \$43.6 million in the second half. This was lower than the increase for the February 2011 provision due to recoveries in the other three Canterbury earthquake events.

The net outstanding claims provision is \$46.2 million after reinsurance and EQC recoveries. Current estimates of claims costs include an expectation of recovery from EQC based on detailed work completed by the TOWER and its advisers. There are elements of the recovery that remain to be agreed with EQC.

Detailed file-by-file review undertaken of remaining claims

Given the ongoing complexity and uncertainty surrounding the remaining Canterbury claims, the TOWER Board and Management have taken steps to ensure they are appropriately managing the outstanding risk: EY was appointed to undertake a methodical file review of apportionment in 2014 and in April 2015, an Adverse Development Cover (ADC) was purchased to protect the balance sheet from potential claims deterioration. Following the increased provision, we expect the limit of the ADC to be reached.

TOWER has appropriately sought to measure and manage Canterbury risk under advice from its actuaries. Most recently, the Board requested that Deloitte – the Appointed Actuary – provide additional expertise in catastrophe and reinsurance claims to support the September year-end valuation.

Deloitte conducted a file-by-file claim analysis of open and closed claims using the information to examine the claims lifecycle. Applying this learning to outstanding claims enables TOWER to better understand the ultimate claims cost.

TOWER believes there is greater certainty regarding the balance of the claims provision given:

1. The granular detail of this case-by-case claim cost analysis;
2. An enhanced view of claim cost (and risk) profile over time through cost development curves; and
3. The availability of detailed information from this review process that will improve claims and risk management.

This allows TOWER and Deloitte to more accurately assess the ultimate cost of claims. It also allows a more strategic approach to managing claims, for example, targeting high risk claims and gaining a better understanding of settlement opportunities.

TOWER remains focused on bringing resolution as quickly as possible to the remaining 703 customers with outstanding claims at 30 September. In the last six months 286 claims have been closed.

The complexity of remaining claims means some risk still remains. However, the detailed analysis undertaken by the actuaries to understand these claims, their significantly smaller number, and the pace of TOWER's claims resolution progress in resolving claims, provides the company with greater certainty regarding the balance of the claims expense provision.

Risk management and reinsurance

Risk management and protection of both earnings and capital remains an important element of TOWER's strategy to enhance shareholder value. This includes the use of reinsurance to lower risk at a price that adds value for our business. For this reason, as reinsurance rates have eased, TOWER has taken the opportunity to increase reinsurance cover. The aggregate and adverse developments cover for Canterbury contributed substantially to the financial performance of TOWER in 2015.

The Catastrophe Reinsurance programme has been expanded to \$768 million effective 1 October 2015, reflecting the growth in house sums insured. Protection is provided by the Catastrophe program for events over \$10 million.

TOWER purchased new reinsurance cover in October 2014 for large claim events (excluding New Zealand earthquakes). This cover has been designed to protect against significant weather events. The reinsurance provides cover for events between \$1 million and \$5 million, a limit of \$10 million is provided after a total of \$5 million of losses from large events has occurred.

TOWER purchased an Adverse Development Cover (ADC) to protect its exposure to further potential increases in cost related to the February 2011 event. The ADC covers 87.5% of the costs for this event between \$388 million and \$438 million. At the time the policy was written, the \$388 million was \$30 million above the provision levels held for the February 2011 event. The provision increases take the total estimate for February 2011 claims to \$457.5m, above the top end of the ADC.

Balance sheet and solvency

TOWER remains strongly solvent with capital above target levels at the General Insurance and corporate level. TOWER has \$35 million of solvency above target levels³ in the insurance entities and holds \$38 million of cash in the corporate entities.

TOWER has a long term policy of retaining within its licensed General Insurance entity 175% of the Minimum Solvency Capital (MSC) required under the Insurance (Prudential Supervision) Act 2010. As at 30 September 2015, TOWER's actual MSC was \$70 million and target solvency was \$122 million.

Capital management

Capital management and shareholder returns remain priorities for TOWER. In addition to paying healthy dividends, the company has returned \$189 million of capital over the past three years and remains committed to returning additional capital to shareholders where possible.

An on market share buyback of up to \$34 million is currently underway and to date has returned \$12 million to shareholders through the acquisition and cancellation of shares. This buyback will be funded out of excess cash currently in the corporate entities and will not impact insurance solvency.

The full year dividend of 16.0 cents per share represents an increase of 10.3% on the previous corresponding period. Subject to appropriate solvency, TOWER expects to retain its policy of paying out 90-100% of underlying profits as dividends.

Strategy

TOWER aims to deliver attractive shareholder returns by growing a General Insurance business that is seen as a leading light in New Zealand and the Pacific Islands.

The company has three well-established pillars supporting its General Insurance strategy: staff engagement, customer satisfaction and financial performance.

TOWER's long-term approach to building shareholder value seeks to:

- Drive growth and efficiency through staff engagement;
- Unlock significant brand potential through product innovation and customer service;
- Maintain and grow a leading position in attractive Pacific markets;
- Deliver financial performance;
- Efficiently manage risk and capital for better shareholder returns; and
- Capitalise on any opportunities presented by industry consolidation.

In support of this strategy, medium-term operational and strategic priorities are:

Growth and Retention

There is a significant opportunity to improve policy attrition and grow TOWER's direct policy numbers and premium through higher customer retention. Establishing a high performance customer service culture and improving our processes to enhance the customer experience are key elements of this strategy. Therefore, TOWER has established specialist retention teams to proactively engage with customers and lift service, build the brand, and improve retention.

³ Target of 175% of MSC

New markets and channels

Trade Me Insurance represents an exciting market innovation. The online delivery platform is now fully established and ready for a major *Trade Me Insurance* marketing effort targeting 1.4 million Trade Me customers. TOWER has gained valuable experience through this relationship which can be applied to growing its own direct business and pursuing further new alliance opportunities in New Zealand.

Operational excellence

TOWER sees significant opportunity in improving a number of core operational areas including, improved claims management, enhanced risk management framework, simplification of processes, and a deeper focus on underwriting and pricing. An increased focus on these core areas will improve the outcomes for customers and create efficiencies over the medium term.

Capital management

TOWER intends to maintain strong solvency while managing capital efficiently. The on-market buyback of up to \$34 million, of which \$12 million has been acquired, will continue following these results. Subject to appropriate solvency, TOWER expects to retain its policy of paying out 90-100% of underlying profits as dividends.

ENDS

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Chief Executive Officer
TOWER Limited
ARBN 088 481 234 Incorporated in New Zealand

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Chief Financial Officer
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TOWER LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2015

TOWER LIMITED
FINANCIAL STATEMENTS
For the year ended 30 September 2015

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TOWER LIMITED
CONSOLIDATED INCOME STATEMENT
For the year ended 30 September 2015

| | | 2015 | 2014 |
|--|-------------|----------------|----------------|
| | Note | \$000 | \$000 |
| Revenue | | | |
| Premium revenue | 3 | 304,730 | 285,113 |
| Less: Outwards reinsurance expense | | (56,765) | (48,197) |
| Net premium revenue | | 247,965 | 236,916 |
| Investment revenue | 4 | 14,734 | 14,217 |
| Fee and other revenue | | 2,984 | 3,731 |
| Net operating revenue | | 265,683 | 254,864 |
| Expenses | | | |
| Claims expense | | 252,244 | 258,855 |
| Less: Reinsurance recoveries revenue | | (64,907) | (119,742) |
| Net claims expense | 5 | 187,337 | 139,113 |
| Management and sales expenses | 7(A) | 88,276 | 81,699 |
| Net claims and operating expenses | | 275,613 | 220,812 |
| Financing costs | 7(B) | - | 4,104 |
| Total expenses | | 275,613 | 224,916 |
| (Loss) Profit before taxation | | (9,930) | 29,948 |
| Tax benefit (expense) attributed to shareholders' profits | 8(A) | 1,898 | (8,324) |
| (Loss) Profit for the year from continuing operations | | (8,032) | 21,624 |
| Profit for the year from discontinued operations | 34 | - | 4,964 |
| Profit (Loss) from disposal of subsidiaries | 34 | 1,396 | (2,977) |
| Profit for the year from discontinued operations | | 1,396 | 1,987 |
| (Loss) Profit for the year | | (6,636) | 23,611 |
| (Loss) Profit attributed to: | | | |
| Shareholders | | (6,982) | 23,194 |
| Non-controlling interest | | 346 | 417 |
| | | (6,636) | 23,611 |
| | | | |
| | | Cents | Cents |
| Basic and diluted (loss) earnings per share from continuing operations | 21 | (4.79) | 11.29 |
| Basic and diluted earnings per share from discontinued operations | 21 | 0.80 | 1.06 |

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

TOWER LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2015

| | Note | 2015 \$000 | 2014 \$000 |
|--|------|----------------|---------------|
| (Loss) Profit for the year | | (6,636) | 23,611 |
| Other comprehensive income: | | | |
| Items that may be reclassified subsequently to profit: | | | |
| Gain on asset revaluation | 12 | 129 | 58 |
| Deferred income tax relating to asset revaluation | 19 | (18) | (10) |
| Currency translation differences | | 3,518 | 2,582 |
| Other comprehensive income net of taxation | | 3,629 | 2,630 |
| Total comprehensive (loss) income for the year | | (3,007) | 26,241 |
| Total comprehensive (loss) income attributed to: | | | |
| Shareholders | | (4,095) | 25,758 |
| Non-controlling interest | | 1,088 | 483 |
| | | (3,007) | 26,241 |
| Total comprehensive (loss) income attributed to equity arises from: | | | |
| Continuing operations | | (4,403) | 24,254 |
| Discontinuing operations | | 1,396 | 1,987 |
| | | (3,007) | 26,241 |

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

TOWER LIMITED
CONSOLIDATED BALANCE SHEET
As at 30 September 2015

| | | 2015 | 2014 |
|---|-------|----------------|----------------|
| | Note | \$000 | \$000 |
| Assets | | | |
| Cash and cash equivalents | 28(A) | 125,113 | 168,062 |
| Receivables | 9 | 301,666 | 333,996 |
| Financial assets at fair value through profit or loss | 24 | 213,593 | 212,407 |
| Property, plant and equipment | 12 | 10,221 | 6,285 |
| Tax assets | 8(B) | 14,893 | 12,733 |
| Deferred acquisition costs | 11 | 20,277 | 20,028 |
| Deferred tax assets | 8(D) | 24,786 | 19,303 |
| Intangible assets | 10 | 48,373 | 35,483 |
| Total Assets | | 758,922 | 808,297 |
| Liabilities | | | |
| Payables | 13 | 48,472 | 46,157 |
| Tax liabilities | 8(C) | 568 | 371 |
| Provisions | 14 | 3,273 | 7,308 |
| Derivative financial liabilities | 24 | - | 46 |
| Insurance liabilities | 15 | 419,692 | 422,273 |
| Deferred tax liabilities | 8(D) | 6,008 | 6,133 |
| Total Liabilities | | 478,013 | 482,288 |
| Net Assets | | 280,909 | 326,009 |
| Equity | | | |
| Contributed equity | 16 | 384,585 | 396,819 |
| Accumulated profit | 18 | 6,376 | 42,174 |
| Reserves | 19 | (111,696) | (114,583) |
| Total equity attributed to shareholders | | 279,265 | 324,410 |
| Non-controlling interest | | 1,644 | 1,599 |
| Total Equity | | 280,909 | 326,009 |

The financial statements were approved for issue by the Board on 24 November 2015.




Michael P Stiasny
Chairman

Graham R Stuart
Director

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

TOWER LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2015

| | | Attributed to shareholders | | | | Non-controlling | |
|---|----|----------------------------|----------------------------|------------------|----------------|-----------------|----------------|
| | | Contributed equity | Accumulated losses/profits | Reserves | Total | Interest | Total equity |
| Note | | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Year ended 30 September 2015 | | | | | | | |
| At the beginning of the year | | 396,819 | 42,174 | (114,583) | 324,410 | 1,599 | 326,009 |
| Comprehensive (loss) income | | | | | | | |
| (Loss) Profit for the year | | - | (6,982) | - | (6,982) | 346 | (6,636) |
| Other comprehensive (loss) income | | | | | | | |
| Gain on asset revaluation | | - | - | 129 | 129 | - | 129 |
| Deferred income tax relating to asset revaluation | | - | - | (18) | (18) | - | (18) |
| Currency translation differences | | - | - | 2,776 | 2,776 | 742 | 3,518 |
| Total comprehensive (loss) income | | - | (6,982) | 2,887 | (4,095) | 1,088 | (3,007) |
| Transactions with shareholders | | | | | | | |
| Capital repayment plan | 16 | (12,234) | - | - | (12,234) | - | (12,234) |
| Dividends paid | 18 | - | (28,999) | - | (28,999) | - | (28,999) |
| Minority interest dividend paid | | - | - | - | - | (1,043) | (1,043) |
| Other | | - | 183 | - | 183 | - | 183 |
| Total transactions with shareholders | | (12,234) | (28,816) | - | (41,050) | (1,043) | (42,093) |
| At the end of the year | | 384,585 | 6,376 | (111,696) | 279,265 | 1,644 | 280,909 |
| Year ended 30 September 2014 | | | | | | | |
| At the beginning of the year | | 453,935 | 42,983 | (117,103) | 379,815 | 1,262 | 381,077 |
| Comprehensive income | | | | | | | |
| Profit for the year | | - | 23,194 | - | 23,194 | 417 | 23,611 |
| Other comprehensive income | | | | | | | |
| Gain on asset revaluation | | - | - | 58 | 58 | - | 58 |
| Deferred income tax relating to asset revaluation | | - | - | (10) | (10) | - | (10) |
| Currency translation differences | | - | - | 2,516 | 2,516 | 66 | 2,582 |
| Total comprehensive income | | - | 23,194 | 2,564 | 25,758 | 483 | 26,241 |
| Transactions with shareholders | | | | | | | |
| Capital repayment plan | 16 | (57,116) | - | - | (57,116) | - | (57,116) |
| Movement in share based payment reserve | 18 | - | 44 | (44) | - | - | - |
| Dividends paid | 18 | - | (24,011) | - | (24,011) | - | (24,011) |
| Minority interest dividend paid | | - | - | - | - | (146) | (146) |
| Other | | - | (36) | - | (36) | - | (36) |
| Total transactions with shareholders | | (57,116) | (24,003) | (44) | (81,163) | (146) | (81,309) |
| At the end of the year | | 396,819 | 42,174 | (114,583) | 324,410 | 1,599 | 326,009 |

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

TOWER LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 September 2015

| | Note | 2015 \$000 | 2014 \$000 |
|---|-------|-----------------|------------------|
| Cash flows from operating activities | | | |
| Premiums received | | 308,232 | 303,993 |
| Interest received | | 14,873 | 36,035 |
| Dividends received | | 25 | 1,377 |
| Fee and other income | | 2,984 | 3,825 |
| Reinsurance received | | 138,499 | 193,920 |
| Reinsurance paid | | (57,105) | (51,688) |
| Claims paid | | (299,642) | (383,020) |
| Net realised Investment (loss) gain | | (1,077) | 18,896 |
| Payments to suppliers and employees | | (84,912) | (81,287) |
| Interest paid | | - | (5,136) |
| Income tax paid | | (3,940) | (4,539) |
| Net cash inflow from operating activities | 28(B) | 17,937 | 32,376 |
| Cash flows from investing activities | | | |
| Net proceeds from (payments for) financial assets | | 1,141 | (63,294) |
| Purchase of property, plant and equipment and intangible assets | | (21,606) | (9,983) |
| Disposal of property, plant and equipment and intangible assets | | 1,161 | (77) |
| Cash disposed with sale of subsidiaries | | - | (12,194) |
| Proceeds from sale of subsidiaries | | - | 35,500 |
| Net cash outflow from investing activities | | (19,304) | (50,048) |
| Cash flows from financing activities | | | |
| Dividends paid | | (28,999) | (24,011) |
| Bond repayment | | - | (81,759) |
| Payment of minority interest dividends | | (1,043) | (146) |
| Capital repayment | | (12,234) | (57,116) |
| Net cash outflow from financing activities | | (42,276) | (163,032) |
| Net decrease in cash and cash equivalents | | (43,643) | (180,704) |
| Foreign exchange movement in cash | | 694 | (1,257) |
| Cash and cash equivalents at the beginning of year | | 168,062 | 341,624 |
| Cash reclassified as part of sale | | - | 8,399 |
| Cash and cash equivalents at the end of year | 28(A) | 125,113 | 168,062 |

The above statements of cash flows should be read in conjunction with the accompanying notes.

TOWER LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2015

1. SUMMARY OF GENERAL ACCOUNTING POLICIES

TOWER Limited (the Company) is a company incorporated in New Zealand under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges. The Company is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The Company and its subsidiaries together are referred to in this financial report as TOWER, or the Group, or the consolidated entity. The address of the Company's registered office is 45 Queen Street, Auckland, New Zealand.

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 profit-oriented 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, the NZX Main Board Listing Rules and the ASX Listing Rules. In accordance with the Financial Markets Conduct Act 2013, separate financial statements for the Company (being the parent entity) are no longer required.

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

The consolidated Group financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars and have been prepared on a fair value basis with any exceptions described in the accounting policies and notes.

PRINCIPLES OF CONSOLIDATION

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

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

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

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

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

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

CURRENCY

(i) Functional and presentation currencies

The individual financial statements of each Group entity presented in the currency of the primary economic environment in which the entity operates.

(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, including forward exchange contracts, 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 statement.

(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 sheet date. Income and expense items for each subsidiary are translated at a weighted average of exchange rates over the period, as a surrogate for the spot rates at transaction dates. Exchange differences are taken to the Foreign Currency Translation Reserve and recognised in the statement of comprehensive income and the statement of changes in equity.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

1. SUMMARY OF GENERAL ACCOUNTING POLICIES (CONTINUED)

COMPARATIVES

The following comparative information has been reclassified to achieve consistency with the current year's presentation.

(i) Canterbury earthquake receivables

Changes relate to balance sheet reclassifications only. There is no change to net assets or the 2014 income statement.

In 2015, a receivable has been separately disclosed for amounts recoverable from EQC. Within note 9 Receivables – Other is \$57.4 million recoverable from EQC on Canterbury earthquake claims. In 2014, the \$17.7 million comparative amount recoverable from EQC was disclosed net within outstanding claims. To achieve consistent presentation, the 2014 comparatives have been adjusted as follows:

On the Balance sheet, 2014 Receivables increased \$17.7 million to \$333.9 million and 2014 Insurance liabilities increased \$17.7 million to \$422.3 million. Total Assets and Total Liabilities balances have increased accordingly. There is no change to Net Assets.

Within Note 9 Receivables, the 2014 balance for Other receivables has increased \$17.7 million to \$24.6 million, all of which has been classified as Non-current (the 2014 non-current balance has increased to \$53.7 million). Within Note 15 Insurance liabilities, the 2014 balance for Outstanding claims has increased \$17.7 million to \$271.8 million, all of which has been classified as Non-current (the 2014 non-current balance has increased to \$56.6 million). Note 22 Segmental reporting 2014 comparative balances for Total assets and Total liabilities have increased \$17.7 million reflecting the above reclassifications.

Within Note 23 Insurance business disclosures, 2014 comparative amounts for Outstanding claims have been increased by \$17.7 million throughout the note. Note 24 Financial instruments 2014 comparative balances for Receivables have been increased by \$17.7 million. The \$17.7 million comparative amount recoverable from EQC has been allocated to 'Other government agencies' in the credit risk concentration table of Note 24 (B) (i) and to 'Loans and receivables' in the maximum exposure to credit risk table of Note 24 (B) (ii). The \$17.7 million has been included as a 'Group 1' receivable balance in the credit quality table of Note 24 (B) (iii).

Within Note 28 Cash and cash equivalents, the balances for 'Decrease in receivables' and Decrease in payables' in the reconciliation of profit to net cash flows from operating activities, have both been adjusted by \$17.7 million. The Decrease in receivables balance has reduced \$17.7 million to \$56.7 million and the Decrease in payables has increased \$17.7 million to (\$52.3) million.

(ii) Segmental reporting

Comparative information in note 22 Segmental Reporting, has been reclassified to present intangible assets (software) within New Zealand General Insurance to achieve consistency in disclosure with the current year.

2. IMPACT OF AMENDMENTS TO NZ IFRS

(A) 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 2015 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', was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The Group is yet to assess NZ IFRS 9's full impact.
- NZ IFRS 15 'Revenue from Contracts with Customers' is effective for balance dates beginning on or after 1 January 2017, thus for the year ending 30 September 2018 for the Group. The standard will provide a single source of requirements for accounting for all contracts with customers (except for some specific exceptions, such as insurance contracts, lease contracts and financial instruments) and will replace all current accounting pronouncements on revenue. New revenue disclosures are also introduced. The Group is in the process of evaluating the impact of this standard.

(B) Standards, amendments and interpretations to existing standards effective 2015 or early adopted by the Group.

The application of new or amended accounting standards as of 1 October 2014 has not had a material impact on the financial statements.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

3. PREMIUM REVENUE

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract.

The proportion of premiums not earned in the income statement at reporting date is recognised in the balance sheet as unearned premium liability.

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

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

| | 2015 | 2014 |
|-------------------------------|----------------|----------------|
| | \$000 | \$000 |
| Gross written premiums | 305,582 | 297,627 |
| Less: Gross unearned premiums | (852) | (12,514) |
| Premium revenue | 304,730 | 285,113 |

4. INVESTMENT REVENUE

Investment revenue is recognised as follows:

(i) Dividends and distributions

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

(ii) Property income

Property income is recognised on an accrual basis.

(iii) Interest income

Interest income is recognised using the effective interest method.

(iv) Fair value gains and losses

Fair value gains and losses on financial assets at fair value through profit or loss are recognised through the income statement in the period in which they arise.

Fee revenue on investment contracts and other services provided by the Group is recognised in the period the services are provided. Other revenue includes commission and administration fees reimbursed. It is recognised when the right to receive is established.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

4. INVESTMENT REVENUE (CONTINUED)

| | 2015 | 2014 |
|----------------------------------|---------------|---------------|
| | \$000 | \$000 |
| Fixed interest securities | | |
| Interest income | 14,873 | 15,637 |
| Net realised loss | (971) | (2,947) |
| Net unrealised gain | 867 | 1,563 |
| | 14,769 | 14,253 |
| Equity securities | | |
| Dividend income | 25 | 14 |
| | 25 | 14 |
| Property securities | | |
| Property income | - | 4 |
| Net realised gain | - | 412 |
| Net unrealised loss | - | (401) |
| | - | 15 |
| Other | | |
| Net realised (loss) gain | (106) | 103 |
| Net unrealised gain (loss) | 46 | (168) |
| | (60) | (65) |
| Total investment revenue | | |
| Total investment revenue | 14,898 | 15,655 |
| Total net realised gain (loss) | (1,077) | (2,432) |
| Total net unrealised (loss) gain | 913 | 994 |
| | 14,734 | 14,217 |

The income and loss from fixed interest, equity and property securities has been generated by financial assets designated on initial recognition at fair value through profit or loss.

Other investment gains and losses have been generated by derivative financial assets and financial liabilities classified as held for trading at fair value through profit or loss.

5. CLAIMS EXPENSES

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

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

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

- changes in Group processes which might accelerate or slow down the development and (or) recording of paid or incurred claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks; and
- technological developments.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

5. CLAIMS EXPENSES (CONTINUED)

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

Provisions are calculated gross of any reinsurance recoveries except risk margin which is net of reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based on the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 23.

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

6. CANTERBURY EARTHQUAKES

TOWER has received over 15,800 individual claims from customers as a result of earthquakes impacting the Canterbury region during 2010 and 2011. Of all claims received, TOWER has settled over 15,100 claims at 30 September 2015, representing a 96% settlement rate by number of claims and 88% by value. To date, TOWER has paid out more than \$654 million to customers in respect of the four main earthquakes that occurred on 4 September 2010; 22 February 2011; 13 June 2011 and 23 December 2011. TOWER enjoys the support of its reinsurance partners as it works through its Canterbury claims settlement programme.

As at 30 September 2015, TOWER has estimated gross ultimate incurred claims of \$792.0 million in respect of the four main Canterbury earthquake events (30 September 2014: \$706.9 million).

The table below presents a financial representation of TOWER's net outstanding claims provision at 30 September 2015 in relation to the four main earthquake events.

| Canterbury earthquake provisions | 2015 \$000 | 2014 \$000 |
|---|-----------------------|-----------------------|
| Insurance liabilities | | |
| Outstanding claims | (206,815) | (197,854) |
| Receivables | | |
| Reinsurance recovery receivables | 103,215 | 164,787 |
| Other receivables | 57,400 | 17,700 |
| | 160,615 | 182,487 |
| Net outstanding claims at 30 September | (46,200) | (15,367) |

The following table presents TOWER's cumulative income statement information in relation to the four main earthquake events at 30 September 2015.

| | 2015 \$000 | 2014 \$000 |
|--|-----------------------|-----------------------|
| Cumulative expenses associated with Canterbury earthquakes: | | |
| Earthquake claims estimate | (792,000) | (706,931) |
| Reinsurance recoveries | 692,183 | 652,564 |
| Claim expenses net of reinsurance recoveries | (99,817) | (54,367) |
| Reinsurance expense | (25,045) | (20,220) |
| | (124,862) | (74,587) |
| Income tax | 35,642 | 21,565 |
| Cumulative impact of Canterbury earthquakes after tax | (89,220) | (53,022) |
| Recognised in current period (net of tax) | (36,198) | (191) |

The estimated ultimate incurred claims cost of the most significant earthquake event in February 2011 ("February 2011 event") totals \$446.9 million. TOWER has reinsurance for \$368.75 million on this event (a \$325 million initial catastrophe reinsurance cover limit, plus an adverse development cover of \$50m where TOWER shares 12.5% of the \$50m). During the year-ended 30 September 2015, TOWER has recorded an expense of \$45.5 million in relation to the February 2011 event. Of this, \$31.4 million was recognised in the first half, with a further \$14.1 million expensed in the second half of 2015.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

6. IMPACT OF CANTERBURY EARTHQUAKES (CONTINUED)

TOWER's actuarial review at 30 September 2015 identified the following as key contributors to the increase in expected earthquake claims costs:

- Greater cost clarity from case-by-case claim analysis giving enhanced cost development profiles across a claim's life cycle (i.e. highlighting increases post geotechnical reviews and during construction phases);
- Enriched assessment of claim costs and risks associated with repairs, rebuilds and complex multi-unit claims;
- Re-evaluation of actuarial assumptions including risk margins and claims incurred but not reported; and
- Completion of the apportionment of claims costs between each Canterbury earthquake event.

TOWER has exceeded its catastrophe reinsurance and adverse development cover limits in relation to the February 2011 event. For the three other main earthquake events, the catastrophe reinsurance cover headroom remaining is:

| Date of event | Catastrophe reinsurance cover remaining |
|----------------------|--|
| September 2010 | \$35.7 million |
| June 2011 | \$267.4 million |
| December 2011 | \$488.1 million |

The Group's Appointed Actuary continues to be directly involved with assessment of the earthquake ultimate incurred claims estimate and the derivation of estimated outcomes.

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

- the rate of claims closure
- recoveries from EQC in respect of land damage and building costs
- apportionment of claim costs to each of the four main earthquake event
- future increases in building costs
- future claim management expenses
- closed claims reopening, and
- 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 2015. Any further changes to estimates will be recorded in the accounting period when they become known.

Sensitivity analysis - impact of changes in key variables

Net outstanding claims is comprised of several key elements, as set out earlier in this note. Sensitivity of net outstanding claims is therefore driven by changes to the assumptions underpinning each of these elements.

The impact of changes in significant assumptions on the net outstanding claims liabilities are shown in the table below for the Group. Each change has been calculated in isolation to other changes. Where TOWER is reinsured, the impact of a change to claims cost is borne by reinsurance, so the net impact is nil on the basis that there is no default on the part of the reinsurers. This is the situation for three of the four main earthquakes other than February 2011 event which has exceeded reinsurance cover.

The changes in the table below therefore relate to February 2011 event to the extent that claim costs change. If cumulative costs were to reduce by more than \$8.5 million, then the impact on TOWER is muted by adverse development reinsurance at the rate of 87.5%.

| Sensitivity | Change Variable | Impact on February 2011 event provision | |
|--|------------------------|--|--------------|
| | | 2015 | 2014 |
| | | \$000 | \$000 |
| <u>Outstanding Claims:</u> | | | |
| Change to costs and quantity of expected claim estimates | +5% | 6,500 | 5,000 |
| including building costs and other impacts | -5% | (6,500) | (5,000) |
| Change in apportionment of claim costs to/from February 2011 event | +1% | (6,800) | (6,600) |
| | -1% | 6,800 | 6,600 |
| <u>Other receivables:</u> | | | |
| Recoveries from EQC in respect of land damage | +10% | (850) | (550) |
| | -10% | 850 | 550 |
| Recoveries from EQC in respect of building costs | +10% | (450) | (150) |
| | -10% | 450 | 150 |

The process used to determine assumptions and key elements of judgement within claims estimation is described in note 23 (C) (a) Insurance business disclosures.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

7. OTHER EXPENSES

| | 2015 | 2014 |
|---|--------------|--------------|
| | \$000 | \$000 |
| Included in total management and sales expenses are the following: | | |
| Amortisation of deferred acquisition costs | 20,028 | 18,211 |
| Bad debts written off | 155 | 32 |
| Change in provision for doubtful debts | 104 | (160) |
| Amortisation of software | 1,660 | 931 |
| Depreciation: | | |
| Office equipment and furniture | 676 | 328 |
| Motor vehicles | 184 | 186 |
| Computer equipment | 1,514 | 1,247 |
| Directors' fees | 455 | 495 |
| Operating leases | 2,966 | 3,834 |
| Employee benefits expense | 51,038 | 49,621 |
| Loss on disposal of property, plant and equipment | 15 | 21 |
| Claims related expense reclassified to claims expense | (21,352) | (18,564) |

Auditors' remuneration

| | | |
|--|-----|-----|
| Fees paid to Company's auditors: | | |
| Audit of financial statements ⁽¹⁾ | 343 | 518 |
| Other services: | | |
| Other assurance related services ⁽²⁾ | 33 | 71 |
| Non-assurance advisory related services ⁽³⁾ | 8 | 6 |

Fees paid to subsidiaries' auditors different to Group auditors:

| | | |
|--------------------------------------|----|----|
| Audit of annual financial statements | 39 | 33 |
|--------------------------------------|----|----|

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

⁽²⁾ Other assurance related services related to the solvency return audit, share register audit and regulatory returns, plus the audit of TOWER Life (N.Z) Limited net asset statement and Australian branch licence revocation in the prior year.

⁽³⁾ Non-assurance advisory related services related to Annual Shareholders' Meeting procedures.

(B) Financing Costs

Financing costs include interest on external debt (borrowing costs), and amortisation of transaction costs recognised on the effective interest method.

| | | |
|------------------------------|----------|--------------|
| Interest expense | - | 4,104 |
| Total financing costs | - | 4,104 |

8. TAXATION

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 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).

TOWER Limited and its New Zealand wholly-owned subsidiaries with the exception of TOWER Insurance Limited comprise a New Zealand tax consolidated group of which TOWER Limited is the head entity. All members of the tax consolidated group are jointly and severally liable for the tax liabilities of the group. The consolidated group imputation credit account balance reflects the imputation credits available to all members of the group including TOWER Insurance Limited which is a member of the consolidated imputation group.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

8. TAXATION (CONTINUED)

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

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.

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.

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.

| | 2015 | 2014 |
|---|----------------|--------------|
| | \$000 | \$000 |
| (A) CURRENT TAX EXPENSE | | |
| Analysis of taxation benefit (expense) | | |
| Current taxation | 4,223 | 10,681 |
| Deferred taxation | (5,082) | (2,088) |
| Under provided in prior years | (1,039) | (269) |
| Income tax (benefit) expense for the year attributed to shareholders | (1,898) | 8,324 |

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

| | | |
|---|----------------|--------------|
| (Loss) profit before taxation from continuing operations | (9,930) | 29,948 |
| Income tax at the current rate of 28% | (2,780) | 8,385 |
| <i>Taxation effect of non deductible expenses / non-assessable revenue:</i> | | |
| Recognition of prior period current tax | (1,325) | (551) |
| Non deductible expenditure (income) | 253 | (146) |
| Foreign tax credits write-off | 2,132 | 795 |
| Other | (178) | (159) |
| Income tax (benefit) expense | (1,898) | 8,324 |

(B) TAX ASSETS

| | | |
|---------------------|---------------|---------------|
| Analysed as: | | |
| Current | 3,629 | 12,733 |
| Non-current | 11,264 | - |
| | 14,893 | 12,733 |

A tax asset of \$11,263,821 is recognised in the financial statements of the Group as at 30 September 2015 in relation to non-refundable excess tax payments made in previous years. In the prior year this balance formed part of current tax assets as it was anticipated that it would be imminently utilised. This balance has been reclassified to a non-current tax asset in the current year as it is now anticipated that it will be utilised in the 2019 financial year, although this may be impacted by changes in taxation laws or the Group's business activities in the intervening period.

(C) TAX LIABILITIES

Current tax liabilities of \$568,000 relate to taxes payable to off shore tax authorities in the Pacific Islands (2014: \$371,000).

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

8. TAXATION (CONTINUED)

(D) DEFERRED TAX ASSETS AND LIABILITIES

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

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

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

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| | Opening balance at 1 October \$000 | Charged/ (credited) to income statement \$000 | Credited to statement of comprehensive income \$000 | Discontinued Operations and Disposal Group Held for Sale \$000 | Charged/ (credited) to other Group companies \$000 | Closing balance at 30 September \$000 |
|--|---|---|---|---|--|---|
| 2015 | | | | | | |
| Movements in deferred tax assets | | | | | | |
| Provisions and accruals | 3,427 | (649) | - | (457) | - | 2,321 |
| Tax losses | 11,063 | 6,968 | - | 949 | 54 | 19,034 |
| Property, plant and equipment | 4,813 | (1,382) | - | - | - | 3,431 |
| Total deferred tax assets | 19,303 | 4,937 | - | 492 | 54 | 24,786 |
| Movements in deferred tax liabilities | | | | | | |
| Deferred acquisition costs | 4,810 | 75 | - | - | - | 4,885 |
| Other | 1,323 | (218) | 18 | - | - | 1,123 |
| Total deferred tax liabilities | 6,133 | (143) | 18 | - | - | 6,008 |
| Net deferred tax | 13,170 | 5,080 | (18) | 492 | 54 | 18,778 |
| 2014 | | | | | | |
| Movements in deferred tax assets | | | | | | |
| Provisions and accruals | 3,747 | (324) | - | 4 | - | 3,427 |
| Tax losses | 10,462 | 7,701 | - | (34) | (7,066) | 11,063 |
| Property, plant and equipment | 9,443 | (4,630) | - | - | - | 4,813 |
| Total deferred tax assets | 23,652 | 2,747 | - | (30) | (7,066) | 19,303 |
| Movements in deferred tax liabilities | | | | | | |
| Deferred acquisition costs | 4,434 | 376 | - | - | - | 4,810 |
| Other | 1,030 | 283 | 10 | - | - | 1,323 |
| Total deferred tax liabilities | 5,464 | 659 | 10 | - | - | 6,133 |
| Net deferred tax | 18,188 | 2,088 | (10) | (30) | (7,066) | 13,170 |

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

8. TAXATION (CONTINUED)

The analysis of deferred tax assets and deferred tax liabilities taking into consideration the offsetting balances within the same tax jurisdiction is as follows:

| | 2015 \$000 | 2014 \$000 |
|--|---------------|---------------|
| Deferred tax assets | | |
| Deferred tax assets to be recovered | | |
| - within 12 months | 5,584 | 4,459 |
| - after more than 12 months | 16,336 | 9,621 |
| | 21,920 | 14,080 |
| Deferred tax liabilities | | |
| Deferred tax liabilities to be settled | | |
| - within 12 months | 1,413 | 688 |
| - after more than 12 months | 1,729 | 222 |
| | 3,142 | 910 |

Deferred tax liabilities of \$156,000 have not been recognised in respect of temporary differences associated with investments in subsidiaries (2014: liabilities of \$908,000).

(E) IMPUTATION CREDITS

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

| | 2015 \$000 | 2014 \$000 |
|--|---------------|---------------|
| Imputation credits available for use in subsequent reporting periods | 489 | 477 |

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

9. RECEIVABLES

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

Assets arising from reinsurance contracts are determined using the methods discussed in note 5, regarding the provision of outstanding claims. The recoverability of these assets is assessed on a periodic basis to ensure that the balance reflects 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.

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 recoverable amounts.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

9. RECEIVABLES (CONTINUED)

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.

| | 2015 | 2014 |
|--|----------------|----------------|
| | \$000 | \$000 |
| Reinsurance recovery receivables | 113,765 | 187,590 |
| Outstanding premiums and trade receivables | 124,658 | 121,836 |
| Other | 63,243 | 24,570 |
| Total receivables | 301,666 | 333,996 |
| Analysed as: | | |
| Current | 222,578 | 280,277 |
| Non current | 79,088 | 53,719 |
| | 301,666 | 333,996 |

Outstanding premiums and trade receivables above are presented net of allowance for credit losses and impairment. Movement in the allowance for credit losses and impairment during the reporting period was as follows:

| | 2015 | 2014 |
|--|----------------|----------------|
| | \$000 | \$000 |
| Outstanding premiums and trade receivables | 126,715 | 123,789 |
| Allowance for credit losses and impairment | (2,057) | (1,953) |
| | 124,658 | 121,836 |
| Balance at 1 October | 1,953 | 2,113 |
| Impairment loss recognised during the year | 155 | 32 |
| Provisions released during the year | (51) | (192) |
| Balance at 30 September | 2,057 | 1,953 |

10. INTANGIBLE ASSETS

Goodwill

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

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

Any impairment is recognised immediately in the income statement.

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

Software

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

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

| | |
|--------------------------------|-----------|
| General use computer software | 3-5 years |
| Core operating system software | 10 years |

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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10. INTANGIBLE ASSETS (CONTINUED)

| | Software | | | | |
|--|-------------------|-------------------|----------------------------------|-------------------------------|-----------------|
| | Goodwill \$000 | Acquired \$000 | Internally developed \$000 | Under development \$000 | Total \$000 |
| Year ended 30 September 2015 | | | | | |
| Cost: | | | | | |
| At 1 October 2014 | 17,744 | 4,186 | 25,063 | 9,563 | 56,556 |
| Additions | - | 33 | 9,798 | 15,349 | 25,180 |
| Disposals | - | (1) | - | (109) | (110) |
| Transfers | - | - | - | (9,819) | (9,819) |
| Foreign exchange movements | - | 5 | - | - | 5 |
| Transfers to Property, plant and equipment | - | - | - | (705) | (705) |
| At 30 September 2015 | 17,744 | 4,223 | 34,861 | 14,279 | 71,107 |
| Accumulated amortisation: | | | | | |
| At 1 October 2014 | - | (3,745) | (17,328) | - | (21,073) |
| Amortisation charge | - | (301) | (1,359) | - | (1,660) |
| Amortisation on disposals | - | 1 | - | - | 1 |
| Foreign exchange movements | - | (2) | - | - | (2) |
| At 30 September 2015 | - | (4,047) | (18,687) | - | (22,734) |
| At 30 September 2015 | | | | | |
| At cost | 17,744 | 4,223 | 34,861 | 14,279 | 71,107 |
| Accumulated amortisation | - | (4,047) | (18,687) | - | (22,734) |
| Net book value at 30 September 2015 | 17,744 | 176 | 16,174 | 14,279 | 48,373 |
| Year ended 30 September 2014 | | | | | |
| Cost: | | | | | |
| At 1 October 2013 | 17,744 | 4,117 | 18,210 | 10,245 | 50,316 |
| Additions | - | 69 | 6,853 | 6,758 | 13,680 |
| Disposals | - | - | - | (587) | (587) |
| Transfers | - | - | - | (6,853) | (6,853) |
| At 30 September 2014 | 17,744 | 4,186 | 25,063 | 9,563 | 56,556 |
| Accumulated amortisation: | | | | | |
| At 1 October 2013 | - | (3,180) | (16,962) | - | (20,142) |
| Amortisation charge | - | (565) | (366) | - | (931) |
| At 30 September 2014 | - | (3,745) | (17,328) | - | (21,073) |
| At 30 September 2014 | | | | | |
| At cost | 17,744 | 4,186 | 25,063 | 9,563 | 56,556 |
| Accumulated amortisation | - | (3,745) | (17,328) | - | (21,073) |
| Net book value at 30 September 2014 | 17,744 | 441 | 7,735 | 9,563 | 35,483 |

Impairment testing for goodwill

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

| | 2015 \$000 | 2014 \$000 |
|-----------------------------|---------------|---------------|
| Carrying amount of goodwill | 17,744 | 17,744 |

Goodwill is subject to impairment testing at the cash-generating unit level every six months. No impairment loss has been recognised in 2015 as a result of the impairment review (2014: Nil).

Impairment review method

The recoverable amount of the general insurance business has been assessed with reference to its appraisal value to determine its value in use. A base discount rate of 14% was used in the calculation (2014: 10%). Other assumptions used are consistent with the actuarial assumptions in note 23 in respect of TOWER Insurance. The projected cash flows have been determined using a steady

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average growth rate of 2% (2014: 2%). The cash flows were projected over the expected life of the policies. The projected cash flows are determined based on past performances and management expectations for market developments.

10. INTANGIBLE ASSETS (CONTINUED)

Sensitivity to changes in assumptions

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

11. DEFERRED ACQUISITION COSTS

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.

| | 2015 | 2014 |
|--|---------------|---------------|
| | \$000 | \$000 |
| Balance at 1 October | 20,028 | 18,211 |
| Acquisition costs deferred during the year | 20,277 | 20,028 |
| Current period amortisation | (20,028) | (18,211) |
| Balance at 30 September | 20,277 | 20,028 |
| Analysed as: | | |
| Current | 20,277 | 20,028 |
| | 20,277 | 20,028 |

12. PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation 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 |
| Office equipment and furniture | 5 - 9 years |
| Motor vehicles | 5 years |
| Buildings | 50 - 100 years |
| Leasehold property improvements | 3 - 12 years |

Assets that have an indefinite useful life are not subject to depreciation and are tested bi-annually for impairment. Assets with a finite useful life are subject to depreciation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

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For the year ended 30 September 2015

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Land and buildings \$000 | Office equipment and furniture \$000 | Motor vehicles \$000 | Computer equipment \$000 | Total \$000 |
|--|--------------------------------|---|-------------------------|--------------------------------|-----------------|
| Year ended 30 September 2015 | | | | | |
| Cost: | | | | | |
| At 1 October 2014 | 2,374 | 6,896 | 1,365 | 13,155 | 23,790 |
| Additions | - | 5,583 | 101 | 432 | 6,116 |
| Revaluation | 129 | - | - | - | 129 |
| Disposals | - | (6,005) | (246) | (16) | (6,267) |
| Foreign exchange movements | 251 | 275 | 176 | 26 | 728 |
| At 30 September 2015 | 2,754 | 6,749 | 1,396 | 13,597 | 24,496 |
| Accumulated Depreciation: | | | | | |
| At 1 October 2014 | - | (6,295) | (992) | (10,218) | (17,505) |
| Depreciation charge | - | (676) | (184) | (1,514) | (2,374) |
| Disposals | - | 5,755 | 237 | 15 | 6,007 |
| Foreign exchange movements | - | (297) | (83) | (23) | (403) |
| At 30 September 2015 | - | (1,513) | (1,022) | (11,740) | (14,275) |
| At 30 September 2015 | | | | | |
| At cost | 2,754 | 6,749 | 1,396 | 13,597 | 24,496 |
| Accumulated depreciation | - | (1,513) | (1,022) | (11,740) | (14,275) |
| Net book value at 30 September 2015 | 2,754 | 5,236 | 374 | 1,857 | 10,221 |
| Year ended 30 September 2014 | | | | | |
| Cost: | | | | | |
| At 1 October 2013 | 2,280 | 6,733 | 1,285 | 10,666 | 20,964 |
| Additions | - | 251 | 197 | 2,650 | 3,098 |
| Revaluation | 58 | - | - | - | 58 |
| Disposals | - | (167) | (132) | (173) | (472) |
| Foreign exchange movements | 36 | 79 | 15 | 12 | 142 |
| At 30 September 2014 | 2,374 | 6,896 | 1,365 | 13,155 | 23,790 |
| Accumulated Depreciation: | | | | | |
| At 1 October 2013 | - | (6,038) | (918) | (9,129) | (16,085) |
| Depreciation charge | - | (328) | (186) | (1,247) | (1,761) |
| Disposals | - | 139 | 112 | 168 | 419 |
| Foreign exchange movements | - | (68) | - | (10) | (78) |
| At 30 September 2014 | - | (6,295) | (992) | (10,218) | (17,505) |
| At 30 September 2014 | | | | | |
| At cost | 2,374 | 6,896 | 1,365 | 13,155 | 23,790 |
| Accumulated depreciation | - | (6,295) | (992) | (10,218) | (17,505) |
| Net book value at 30 September 2014 | 2,374 | 601 | 373 | 2,937 | 6,285 |

Land and buildings are all located in Fiji and are stated at fair value. Fair value is determined using a replacement cost approach whereby the depreciated replacement cost of improvements is added to the leasehold interest in the land. This value is then adjusted to take into account recent market activity. Valuation of the commercial building was performed as at 7 September 2015 by Rolle Associates, registered valuers in Fiji. There has been no material movement in the valuation between 7 September and 30 September 2015. 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.

Had land been recognised under the cost model the carrying amount would have been \$1,145,000 (2014: \$1,145,000). The revaluation surplus for the period is recorded in other comprehensive income. There are no restrictions on the distribution of this balance to shareholders.

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13. PAYABLES

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

| | 2015 | 2014 |
|---------------------------|---------------|---------------|
| | \$000 | \$000 |
| Trade payables | 15,847 | 14,200 |
| Reinsurance payables | 2,612 | 2,967 |
| Other payables | 26,532 | 28,990 |
| Payable to other insurers | 3,481 | - |
| Total payables | 48,472 | 46,157 |
| Analysed as: | | |
| Current | 48,472 | 46,157 |
| | 48,472 | 46,157 |

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

At 30 September there was \$3.5 million recorded within Payables as funds held on behalf of other insurers in respect of SPP claims. Refer also note 28 for further details on cash held in respect of multi-unit claims as lead insurer.

14. PROVISIONS

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

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

| | 2015 | 2014 |
|-------------------------|--------------|--------------|
| | \$000 | \$000 |
| Business separation | 209 | 3,028 |
| Employee benefits | 3,064 | 4,280 |
| Total provisions | 3,273 | 7,308 |
| Analysed as: | | |
| Current | 3,273 | 7,308 |
| | 3,273 | 7,308 |

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For the year ended 30 September 2015

14. PROVISIONS (CONTINUED)

Movement in provisions

Movements in each class of provision (other than employee benefits) during the financial year are set out below:

Business separation

| | | |
|--|------------|--------------|
| Opening balance at 1 October | 3,028 | 9,257 |
| Additions | 1 | 834 |
| Amount utilised in the year | (1,817) | (6,060) |
| Reversal of unused amount | (1,003) | (1,003) |
| Closing balance at 30 September | 209 | 3,028 |

| Business separation | Non-participating | | | | Total \$000 |
|---|-------------------|----------------------|---------------|-----------------------------|----------------|
| | Health \$000 | Investments \$000 | life \$000 | Participating life \$000 | |
| Opening balance at 1 October 2014 | - | 13 | 984 | 2,031 | 3,028 |
| Additions | - | - | - | 1 | 1 |
| Amount utilised in the period | - | - | (845) | (972) | (1,817) |
| Reversal of unused amount | - | (13) | (130) | (860) | (1,003) |
| Closing balance at 30 September 2015 | - | - | 9 | 200 | 209 |
| Opening balance at 1 October 2013 | 372 | 1,444 | 4,561 | 2,880 | 9,257 |
| Additions | - | - | - | 834 | 834 |
| Amount utilised in the period | (226) | (1,102) | (3,444) | (1,288) | (6,060) |
| Reversal of unused amount | (146) | (329) | (133) | (395) | (1,003) |
| Closing balance at 30 September 2014 | - | 13 | 984 | 2,031 | 3,028 |

Provision has been utilised during the year ended 30 September 2015 for legal, consultancy and IT related costs.

Employee benefits

Employee benefits include provisions for holiday pay and long service leave.

15. INSURANCE LIABILITIES

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

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

Provision has been made for the estimate of claim recoveries from third parties in respect of general insurance business.

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 23 (E).

| | 2015 \$000 | 2014 \$000 |
|---------------------|----------------|----------------|
| Unearned premiums | 155,677 | 150,504 |
| Outstanding claims | 264,015 | 271,769 |
| | 419,692 | 422,273 |
| Analysed as: | | |
| Current | 381,313 | 365,674 |
| Non current | 38,379 | 56,599 |
| | 419,692 | 422,273 |

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15. INSURANCE LIABILITIES (CONTINUED)

The table below includes a reconciliation of unearned premiums as at balance date:

Unearned premiums

| | | |
|--|----------------|----------------|
| Opening balance at 1 October | 150,504 | 136,915 |
| Premiums written | 290,780 | 283,314 |
| Premiums earned | (286,376) | (270,804) |
| Other | 769 | 1,079 |
| Closing balance at 30 September | 155,677 | 150,504 |

16. CONTRIBUTED EQUITY

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.

| | 2015 | 2014 |
|-------------------------------------|----------------|----------------|
| | \$000 | \$000 |
| Ordinary share capital (fully paid) | 384,585 | 396,819 |
| Total contributed equity | 384,585 | 396,819 |

Represented by:

Number of shares

| | | |
|-----------------|-------------|-------------|
| Ordinary shares | 169,983,470 | 175,749,449 |
|-----------------|-------------|-------------|

Movements in ordinary shares

| | | |
|--------------------------------|--------------------|--------------------|
| Balance at 1 October | 175,749,449 | 207,193,438 |
| Capital repayment plan | (5,765,979) | (31,443,989) |
| Balance at 30 September | 169,983,470 | 175,749,449 |

Movements in ordinary share capital

| | | |
|--------------------------------|----------------|----------------|
| Balance at 1 October | 396,819 | 453,935 |
| Capital repayment | (12,234) | (57,116) |
| Balance at 30 September | 384,585 | 396,819 |

17. DISTRIBUTIONS TO SHAREHOLDERS

Dividend payments

On 26 November 2014 the Directors declared a final dividend for the 2014 financial year of 8 cents per share. The dividend was paid on 3 February 2015. The total amount payable was \$14,059,956. There were no imputation credits attached to the dividend and TOWER did not offer its Dividend Reinvestment Plan for this dividend.

An interim dividend for the 2015 financial year of 8.5 cents per share was declared by the Directors on 25 May 2015 for the half year ended 31 March 2015. There were no imputation credits attached to the dividend and TOWER did not offer its Dividend Reinvestment Plan for this dividend. The total amount payable was \$14,938,762. The dividend was paid on 30 June 2015.

Return of capital

In 2014, the Board announced to the market the return of approximately \$34 million of capital to shareholders via a voluntary on-market buyback. TOWER continues to hold significant capital above the current solvency minimum required by the Reserve Bank of New Zealand and its own long-term solvency policy. TOWER's on market share buyback of up to \$34 million commenced following the Company's half-year results announcement on 26 May 2015. \$12.2 million of capital was bought back and cancelled as at 30 September 2015.

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18. ACCUMULATED PROFITS

| | 2015 \$000 | 2014 \$000 |
|--|---------------|---------------|
| Accumulated profits | | |
| Balance at 1 October | 42,174 | 42,983 |
| (Loss) profit for the year | (6,982) | 23,194 |
| Movement in share based payments reserve | - | 44 |
| Dividends paid | (28,999) | (24,011) |
| Other | 183 | (36) |
| Balance at 30 September | 6,376 | 42,174 |

19. RESERVES

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

Foreign currency translation reserve (FCTR)

| | | |
|--|------------|----------------|
| Balance at 1 October | (1,985) | (4,501) |
| Currency translation differences arising during the year | 2,776 | 2,516 |
| Balance at 30 September | 791 | (1,985) |

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.

| | | |
|---------------------------|------------------|------------------|
| Separation reserve | (113,000) | (113,000) |
|---------------------------|------------------|------------------|

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

Asset revaluation reserves

| | | |
|--------------------------------|------------|------------|
| Opening balance at 1 October | 402 | 354 |
| Gain on revaluation | 111 | 48 |
| Balance at 30 September | 513 | 402 |

| | | |
|-----------------------|------------------|------------------|
| Total reserves | (111,696) | (114,583) |
|-----------------------|------------------|------------------|

20. NET ASSETS PER SHARE

Net assets per share represent the value of the Group/Company's net assets divided by the number of ordinary shares on issue at the balance date. Net tangible assets per share represent the net assets per share adjusted for the effect of intangible assets and deferred tax balances.

| | 2015 | 2014 |
|---|------|------|
| Net assets per share (dollars) | 1.65 | 1.85 |
| Net tangible assets per share (dollars) | 1.26 | 1.58 |

Reconciliation to net tangible assets is provided below.

| | | |
|----------------------------|----------------|----------------|
| Net assets | 280,909 | 326,009 |
| Less deferred tax | (18,778) | (13,170) |
| Less intangible assets | (48,373) | (35,483) |
| Net tangible assets | 213,758 | 277,356 |

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21. EARNINGS PER SHARE

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

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

There was no dilutive impact on basic earnings per share for 2015 (2014: nil).

| | 2015 \$000 | 2014 \$000 |
|---|-------------------------|---------------|
| (Loss) profit attributable to shareholders from continuing operations | (8,378) | 21,207 |
| Profit attributable to shareholders from discontinued operations | 1,396 | 1,987 |
| | Number of shares | |
| Weighted average number of ordinary shares for basic and diluted earnings per share | 175,024,794 | 187,795,541 |
| | Cents | Cents |
| Basic and diluted (loss) earnings per share from continuing operations | (4.79) | 11.29 |
| Basic and diluted earnings per share from discontinued operations | 0.80 | 1.06 |

22. SEGMENTAL REPORTING

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance. The chief operating decision-maker has been identified as the Company's Board of Directors.

| 30 September 2015 | New Zealand General Insurance \$000 | Pacific General Insurance \$000 | Other (Holding companies and eliminations) \$000 | Total \$000 |
|--|--|---------------------------------------|---|----------------|
| Revenue | | | | |
| Revenue - external | 216,813 | 46,919 | 1,951 | 265,683 |
| Total revenue | 216,813 | 46,919 | 1,951 | 265,683 |
| Earnings before interest, tax, depreciation and amortisation | (22,474) | 14,844 | 1,734 | (5,896) |
| Depreciation and amortisation | (2,954) | (239) | (841) | (4,034) |
| Profit before income tax | (25,428) | 14,605 | 893 | (9,930) |
| Income tax credit (expense) ⁽¹⁾ | 6,249 | (4,989) | 638 | 1,898 |
| Profit for the year | (19,179) | 9,616 | 1,531 | (8,032) |
| Total assets | 598,856 | 86,651 | 73,415 | 758,922 |
| Total liabilities | 419,050 | 54,266 | 4,697 | 478,013 |
| Acquisition of property, plant and equipment, intangibles and other non current assets | 12,496 | 3,429 | 4,847 | 20,772 |

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22. SEGMENTAL REPORTING (CONTINUED)

| | New Zealand General Insurance \$000 | Pacific General Insurance \$000 | Other (Holding companies and eliminations) \$000 | Total \$000 |
|--|--|--|---|------------------------|
| 30 September 2014 | | | | |
| Revenue | | | | |
| Revenue - external | 213,427 | 38,792 | 2,645 | 254,864 |
| Total revenue | 213,427 | 38,792 | 2,645 | 254,864 |
| Earnings before interest, tax, depreciation and amortisation | 23,250 | 11,990 | 1,504 | 36,744 |
| Interest expense | - | - | (4,104) | (4,104) |
| Depreciation and amortisation | (930) | (186) | (1,576) | (2,692) |
| Profit before income tax | 22,320 | 11,804 | (4,176) | 29,948 |
| Income tax credit (expense) ⁽¹⁾ | (6,421) | (3,612) | 1,709 | (8,324) |
| Profit for the year | 15,899 | 8,192 | (2,467) | 21,624 |
| Total assets | 629,530 | 82,609 | 96,158 | 808,297 |
| Total liabilities | 423,965 | 50,380 | 7,943 | 482,288 |
| Acquisition of property, plant and equipment, intangibles and other non current assets | 13,376 | 619 | 2,783 | 16,778 |

⁽¹⁾Tax expense of individual segments has been impacted by intercompany reclassifications which have been eliminated for management and segmental reporting. This has a nil impact on the Group.

DESCRIPTION OF SEGMENTS AND OTHER SEGMENT INFORMATION

New Zealand general insurance segment comprised general insurance business written in New Zealand. Pacific general insurance segment includes general insurance business with customers in the Pacific Islands written by TOWER Insurance subsidiaries and branch operations. Other includes head office expenses, financing costs and eliminations. Life businesses have been excluded from 30 September 2014 as the results of these segments are contained within note 34.

TOWER Group operates predominantly in two geographical segments, New Zealand and the Pacific region. Dormant operations in the United Kingdom and the United States are a negligible part of the Group's operations and assets.

Revenue from external customers in New Zealand (excluding discontinued operations) is \$218,764,000 (2014: \$216,072,000) and total revenue from external customers from other countries is \$46,919,000 (2014: \$38,792,000).

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

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23. INSURANCE BUSINESS DISCLOSURE

| | 2015 \$000 | 2014 \$000 |
|---|-----------------|----------------|
| (A) ANALYSIS OF GENERAL INSURANCE OPERATING RESULT | | |
| Premium revenue | 304,730 | 285,113 |
| Outward reinsurance expense | (56,765) | (48,197) |
| Net premium income | 247,965 | 236,916 |
| Claims expense | 252,244 | 258,855 |
| Reinsurance recoveries | (64,907) | (119,746) |
| Net claims incurred | 187,337 | 139,109 |
| Acquisition costs | 46,958 | 38,691 |
| Other underwriting expenses | 38,365 | 39,363 |
| Underwriting result | (24,695) | 19,753 |
| Investment and other income | 15,767 | 15,303 |
| Operating profit before taxation | (8,928) | 35,056 |

(B) NET CLAIMS EXPENSE

| | 2015 Risks borne in current year \$000 | Risks borne in prior years \$000 | Total \$000 | 2014 Risks borne in current year \$000 | Risks borne in prior years \$000 | Total \$000 |
|--|---|--|-----------------|---|--|------------------|
| Gross claims expense | | | | | | |
| Direct claims - undiscounted | 141,049 | 109,663 | 250,712 | 152,282 | 103,706 | 255,988 |
| Movement in discount | 54 | 1,478 | 1,532 | (294) | 3,161 | 2,867 |
| Gross claims expense | 141,103 | 111,141 | 252,244 | 151,988 | 106,867 | 258,855 |
| Reinsurance and other recoveries | | | | | | |
| Reinsurance and other recoveries revenue - undiscounted | (3,901) | (61,026) | (64,927) | (13,097) | (104,753) | (117,850) |
| Movement in discount | 18 | 2 | 20 | (14) | (1,882) | (1,896) |
| Reinsurance recoveries | (3,883) | (61,024) | (64,907) | (13,111) | (106,635) | (119,746) |
| Net claims expense | 137,220 | 50,117 | 187,337 | 138,877 | 232 | 139,109 |

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years including those arising due to the Canterbury earthquakes. Refer to note 6.

(C) OUTSTANDING CLAIMS

(a) Assumptions adopted in calculation of general insurance provisions

Estimation of outstanding claims as at 30 September 2015 have been carried out by the following Actuaries:

General Insurance: R. Shaw, B.Sc. (Hons), FIAA, Deloitte Australia; and
P. Davies, B.Bus.Sc, FNZSA, FIA.

TOWER appointed R. Shaw (Deloitte Australia) as Appointed Actuary on 10 November 2015, replacing C. Hett (Deloitte New Zealand).

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23. INSURANCE BUSINESS DISCLOSURE (CONTINUED)

The New Zealand actuarial assessments are undertaken in accordance with the standards of the New Zealand Society of Actuaries. The Actuaries were satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The outstanding claims liability is set 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 general insurance net outstanding claims liabilities:

| | 2015 | 2014 |
|-------------------------------------|---------------|---------------|
| Inflation rates for succeeding year | 2.5% to 3.8% | 1.5% to 3.7% |
| Inflation rates for following years | 2.5% to 3.8% | 1.5% to 3.7% |
| Discount rates for succeeding year | 2.5% to 6.3% | 2.5% to 5.2% |
| Discount rates for following years | 2.5% to 6.3% | 2.5% to 5.2% |
| Claims handling expense ratio | 4.7% to 43.0% | 3.5% to 15.7% |
| Risk margin | 8.0% to 14.8% | 7.0% to 22.9% |

In addition to the risk margin range shown above, the total risk margin also includes \$19,300,000 (2014: \$30,100,000) associated with the Canterbury earthquake.

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

| | | |
|---|-----------------------|-----------------------|
| Short tail claims | within 1 year | within 1 year |
| Long tail claims in the Pacific Islands | 0.9 to 1.8 years | 1.0 to 1.6 years |
| Inwards reinsurance | greater than 10 years | greater than 10 years |

Inflation rate

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

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

Discount rate

General insurance outstanding claims liabilities are discounted to present value using a risk free rate relevant to the term of the liability and the jurisdiction.

EQC recoveries

TOWER has adopted an approach which allocates recoverable amounts from EQC according to various tiers reflecting the likelihood of recovery. For example, tier 1 represents TOWER having good information and a strong position for recovery, whereas tier 5 represents TOWER having to rely on EQC information and having a lower likelihood of recovery.

Claims handling expense

The estimate of outstanding claims 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 liability also includes 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 TOWER's 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, defined as the standard deviation of the distribution of future cash flows divided by the mean.

Risk margins are calculated for each 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.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

23. INSURANCE BUSINESS DISCLOSURE (CONTINUED)

The following analysis is in respect of the insurance liabilities:

| | 2015 \$000 | 2014 \$000 |
|---|---------------|---------------|
| Central estimate of expected present value of future payments for claims incurred | - | 70,874 |
| Risk margin | - | 23,944 |
| Claims handling costs | - | 3,314 |
| | - | 98,132 |
| Discount | Group | (1,819) |
| Net outstanding claims | - | 96,313 |

| | Gross \$000 | Reinsurance \$000 | 2015 Net \$000 | Gross \$000 | 2014 Reinsurance \$000 | Net \$000 |
|--|----------------|----------------------|----------------------|----------------|------------------------------|---------------|
| Reconciliation of movements in outstanding claims | | | | | | |
| Balance brought forward | 271,768 | (175,455) | 96,313 | 314,990 | (238,375) | 76,615 |
| Effect of change in foreign exchange rates | 2,210 | (4,059) | (1,849) | 1,943 | (3,120) | (1,177) |
| Incurred claims recognised in the income statement | 252,244 | (64,907) | 187,337 | 258,855 | (119,746) | 139,109 |
| Claim (payment) recoveries during the year | (262,207) | 134,692 | (127,515) | (304,020) | 185,786 | (135,934) |
| Balance carried forward | 264,015 | (109,729) | 154,286 | 271,768 | (175,455) | 96,313 |

Reconciliation of undiscounted claims to liability for outstanding claims

| | | | | | | |
|--|-------|-------|----------------|---------|-------|---------------|
| Outstanding claims undiscounted | 2,200 | (129) | 2,071 | 4,654 | (139) | 4,515 |
| Discount | (28) | 7 | (21) | (1,566) | 70 | (1,496) |
| Outstanding claims | 2,172 | (122) | 2,050 | 3,088 | (69) | 3,019 |
| Short tail outstanding claims | | | 152,236 | | | 93,294 |
| Total outstanding claims as per balance sheet | | | 154,286 | | | 96,313 |

(b) Sensitivity analysis and terms of insurance business

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

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

(c) Future net cash out flows

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

| | 2015 \$000 | 2014 \$000 |
|---------------------------------|----------------|---------------|
| Expected Claims payments | | |
| Within 3 months | 51,307 | 26,248 |
| 3 to 6 months | 22,982 | 9,000 |
| 6 to 12 months | 6,063 | 6,002 |
| After 12 months | 73,934 | 55,063 |
| Total | 154,286 | 96,313 |

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

23. INSURANCE BUSINESS DISCLOSURE (CONTINUED)

(D) RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operations of the insurance business are affected by a number of key risks including insurance risk, interest rate risk, currency risk, market risk, financial risk, compliance risk, fiscal risk and operational risk (refer to note 25). Notes on the policies and procedures employed in managing these risks in the insurance business are set out below.

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

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

The key processes and controls in place to mitigate risk arising from writing insurance contracts include:

- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- monitoring natural disasters such as earthquakes, floods, storms and other catastrophes using models; and
- the use of reinsurance to limit the Group's exposure to individual catastrophic risks.

(b) Concentration of insurance risk

| Risk | Source of concentration | Risk Management measures |
|---|--|--|
| An accumulation of risks arising from a natural peril | Insured property concentrations | Accumulation risk modelling, reinsurance protection |
| A large property loss | Fire or collapse affecting one building or a group of adjacent buildings | Maximum acceptance limits, property risk grading, reinsurance protection |

(c) Development of claims

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

| | Incident year | | | | | | |
|--|---------------|----------------|------------|--------------|--------------|---------------|----------------|
| | Prior | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
| Ultimate claims cost estimate | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| At end of incident year | | 113,814 | 113,839 | 123,816 | 138,878 | 137,221 | |
| One year later | | 127,689 | 117,277 | 124,667 | 138,720 | - | |
| Two years later | | 147,024 | 116,819 | 125,502 | - | - | |
| Three years later | | 147,438 | 117,862 | - | - | - | |
| Four years later | | 193,870 | - | - | - | - | |
| Earlier | | - | - | - | - | - | |
| Current estimate of ultimate claims cost | | 193,870 | 117,862 | 125,502 | 138,720 | 137,221 | |
| Cumulative payments | | (82,688) | (117,542) | (124,394) | (137,386) | (117,052) | |
| Undiscounted central estimate | 4,998 | 111,182 | 320 | 1,108 | 1,334 | 20,169 | 139,111 |
| Discount to present value | (1) | (1) | (1) | - | (28) | (235) | (266) |
| Discounted central estimate | 4,997 | 111,181 | 319 | 1,108 | 1,306 | 19,934 | 138,845 |
| Claims handling expense | | | | | | | 3,766 |
| Risk margin | | | | | | | 11,675 |
| Net outstanding claim liabilities | | | | | | | 154,286 |
| Reinsurance recoveries on outstanding claim liabilities and other recoveries | | | | | | | 109,729 |
| Gross outstanding claim liabilities | | | | | | | 264,015 |

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

23. INSURANCE BUSINESS DISCLOSURE (CONTINUED)

(E) 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 sufficient. 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 2015 were sufficient (2014: sufficient).

| | 2015 | 2014 |
|-------------------------------------|-------------|-------------|
| Central estimate claim % of premium | 41.1% | 42.5% |
| Risk margin | 9.3% | 13.6% |

(F) INSURER FINANCIAL STRENGTH RATING

TOWER Insurance Limited has an insurer financial strength rating of 'A-' (Excellent) issued by international rating agency A.M. Best Company Inc. with an effective date of 24 July 2015.

(G) 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.

(H) SOLVENCY REQUIREMENTS

The minimum solvency capital required to be retained to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 is shown below. Actual solvency capital exceeds the minimum capital requirements for TOWER Insurance Limited group by \$86.9 million.

| | 2015 | 2014 |
|--------------------------|--------------|--------------|
| | \$000 | \$000 |
| Actual Solvency Capital | 156,646 | 199,400 |
| Minimum Solvency Capital | 69,730 | 74,600 |
| Solvency Margin | 86,916 | 124,800 |

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

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

(I) ASSETS BACKING INSURANCE BUSINESS

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

These assets are managed in accordance with approved investment mandate agreements on a fair value basis and are reported to the Board on this basis.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

24. FINANCIAL INSTRUMENTS

(A) FINANCIAL INSTRUMENT CATEGORIES

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

(i) Loans and receivables

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

(ii) Financial liabilities at amortised cost

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

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

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

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

Derivatives are categorised as held for trading unless they are designated as hedges. All derivatives entered into by the Group are classified as held for trading as the Group does not apply hedge accounting.

(iv) Fair value

Financial assets and liabilities are measured in the balance sheet at fair value (excluding short term amounts held at a reasonable approximation of fair value). Refer to the heading Fair Value of Financial Asset and Liabilities below.

(v) Offsetting financial instruments

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

The Group does not hold financial assets and financial liabilities subject to offsetting arrangements other than cash and cash equivalents. Refer to note 28.

(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.

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

| | Total | Loans and Receivables | Fair value through profit or loss | |
|---|----------------|--------------------------|--------------------------------------|------------------------------|
| | \$000 | \$000 | Designated \$000 | Held for trading \$000 |
| As at 30 September 2015 | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 125,113 | 125,113 | - | - |
| Receivables | 298,203 | 298,203 | - | - |
| Financial assets at fair value through profit or loss | 213,593 | - | 213,593 | - |
| Total financial assets | 636,909 | 423,316 | 213,593 | - |
| As at 30 September 2014 | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 168,062 | 168,062 | - | - |
| Receivables | 333,995 | 333,995 | - | - |
| Financial assets at fair value through profit or loss | 212,407 | - | 212,407 | - |
| Total financial assets | 714,464 | 502,057 | 212,407 | - |

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

24. FINANCIAL INSTRUMENTS (CONTINUED)

| | <u>Fair value through profit or loss</u> | | <u>Financial liabilities at amortised cost</u> |
|------------------------------------|--|-------------------|--|
| | <u>Total</u> | <u>Designated</u> | <u>Held for trading</u> |
| | <u>\$000</u> | <u>\$000</u> | <u>\$000</u> |
| As at 30 September 2015 | | | |
| Financial liabilities | | | |
| Payables | 26,229 | - | - |
| Total financial liabilities | 26,229 | - | - |
| As at 30 September 2014 | | | |
| Financial liabilities | | | |
| Payables | 31,335 | - | - |
| Derivative financial liabilities | 46 | - | 46 |
| Total financial liabilities | 31,381 | - | 46 |

(B) 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 used for each category of financial assets and liabilities.

The carrying amounts of all assets and liabilities not measured at fair value reasonably approximate their fair values.

The following methods and assumptions were used by TOWER in estimating the fair values of assets and liabilities measured at fair value:

(i) Cash and cash equivalents

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

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

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

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. At 30 September 2015, the level 3 category included an investment in equity securities of \$1,972,000 (2014: \$1,835,000). This investment is unlisted shares of a company which owns a building used by TOWER. The fair value is calculated based on the net assets of the property owning company from the most recently available financial information. The property is periodically independently valued.

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

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

(iv) Derivative financial liabilities and assets

The fair value of derivative financial liabilities and assets is determined by reference to market accepted valuation techniques using observable market inputs.

There have been no transfers between levels of the fair value hierarchy during the current financial year (2014: nil).

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

24. FINANCIAL INSTRUMENTS (CONTINUED)

Impairment of Financial assets and liabilities

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

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

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

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

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

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

The following tables present the Group's assets categorised by fair value measurement hierarchy levels. There has been no designated financial liability held at fair value through the income statement (2014: nil).

| Group | Total \$000 | Level 1 \$000 | Level 2 \$000 | Level 3 \$000 |
|--|------------------------|--------------------------|--------------------------|--------------------------|
| As at 30 September 2015 | | | | |
| Assets | | | | |
| Investment in equity securities | 1,972 | - | - | 1,972 |
| Investments in fixed Interest securities | 211,587 | - | 211,587 | - |
| Investments in property securities | 34 | - | 34 | - |
| Total financial assets | 213,593 | - | 211,621 | 1,972 |
| As at 30 September 2014 | | | | |
| Assets | | | | |
| Investment in equity securities | 1,835 | - | - | 1,835 |
| Investments in fixed Interest securities | 210,538 | - | 210,538 | - |
| Investments in property securities | 34 | - | 34 | - |
| Total financial assets | 212,407 | - | 210,572 | 1,835 |

The following table represents the changes in Level 3 instruments for the year ended 30 September.

| | 2015 | 2014 |
|---------------------------|--|--------------|
| | Investment in equity securities | |
| | \$000 | \$000 |
| Opening balance | 1,835 | 1,685 |
| Foreign currency movement | 137 | 150 |
| Closing balance | 1,972 | 1,835 |

The following table shows the sensitivity of Level 3 measurements to changes in assumptions used to determine the fair value of the financial asset. If the market value of the investment in equity securities were to change by +/- 10% the impact is outlined below:

| | Carrying Amount \$000 | Favourable changes of 10% \$000 | Unfavourable changes of 10% \$000 |
|---------------------------------|--------------------------------------|--|--|
| 2015 | | | |
| Investment in equity securities | 1,972 | 197 | (197) |
| 2014 | | | |
| Investment in equity securities | 1,835 | 184 | (184) |

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

25. RISK MANAGEMENT

The financial condition and operating results of the Group are affected by a number of key financial and non-financial risks. Financial risks include market risk, credit risk, financing and liquidity risk. The non-financial risks include insurance risk, compliance risk and operational risk. The Group's objectives and policies in respect of insurance risks are disclosed in notes 23 while the managing of financial and other non-financial risks are set out in the remainder of this section.

TOWER's objective is to satisfactorily manage these risks in line with the Board approved Group Risk and Compliance framework policy. Various procedures are in place to help identify, mitigate and monitor 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. A 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 is responsible for:

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

(A) MARKET RISK

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

The impact of reasonably possible changes in market risk on the Group shareholders' profit and equity is included in note 25(E) below.

(i) Currency risk

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

TOWER's principal transactions are carried out in New Zealand Dollars and its exposure to foreign exchange risk arises primarily with respect to the Pacific Island Insurance business.

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

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

The Group manages interest rate risk arising from its interest bearing investments in accordance with approved investment management agreements.

Interest rate risk arises in insurance 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. The exposure is not considered to be material.

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

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The exposure is not considered to be material. Refer to note 25 (E) (iv) for sensitivity analysis.

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For the year ended 30 September 2015

25. RISK MANAGEMENT (CONTINUED)

(B) 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 cash deposits and investments held with banks and other financial institutions as well as credit exposure to trade customers or other counterparties. Credit exposure in respect of the Company's cash deposit balances is limited to banks with minimum AA credit ratings. Investments held with banks and financial institutes that are managed by investment managers have a minimum credit rating accepted by the Group of 'A'. Independent ratings are used for customers that are rated by rating agencies. For customers with no external ratings, internally developed minimum credit quality requirements are applied, which take into account customers' financial position, past experience and other relevant factors. Overall exposure to credit risk is monitored on a Group basis in accordance with limits set by the Board. The Company 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 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 | |
|--|-----------------------|----------------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| New Zealand government | 3,760 | 2,990 |
| Other government agencies | 72,152 | 31,128 |
| Banks | 300,874 | 343,341 |
| Financial institutions | 17,555 | 19,187 |
| Other non-investment related receivables | 240,562 | 314,290 |
| Other industries | - | 1,659 |
| Total financial assets with credit exposure | 634,903 | 712,595 |

(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 | |
|---|-----------------------|----------------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Cash and cash equivalents | 125,113 | 168,062 |
| Loans and receivables | 298,203 | 333,995 |
| Financial assets at fair value through profit or loss | 211,587 | 210,538 |
| Total credit risk | 634,903 | 712,595 |

(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:

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

25. RISK MANAGEMENT (CONTINUED)

| | Carrying value | |
|--|----------------|----------------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| <i>Credit exposure by credit rating</i> | | |
| AAA | 92,119 | 85,549 |
| AA | 214,153 | 278,185 |
| Below BBB | 16,705 | 13,810 |
| Total counterparties with external credit rating by Standard and Poor's | 322,977 | 377,544 |
| Group 1 | 290,362 | 323,594 |
| Group 2 | - | - |
| Group 3 | 13,964 | 1,402 |
| Total counterparties with no external credit rating | 304,326 | 324,996 |
| Total financial assets neither past due nor impaired with credit exposure | 627,303 | 702,540 |

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 invests in Pacific regional investment markets through its Pacific Island operations to comply with local statutory requirements and in accordance with TOWER investment policies. These investments relate to the insurance business of the Group and generally have low credit ratings. These investments represent 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

None of the financial assets that are fully performing have been renegotiated in the past year (2014: 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 of carrying value of past due but not impaired assets held by the Group is as follows:

| | Past due but not impaired | | | | |
|--|---------------------------|---------------|---------------|--------------|---------------|
| | Less than 30 days | 31 to 60 days | 61 to 90 days | Over 90 days | Total |
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| As at 30 September 2015 | | | | | |
| Reinsurance recoveries receivable | 243 | 28 | 2 | 196 | 469 |
| Outstanding premiums and trade receivables | 3,644 | 2,031 | 1,433 | 22 | 7,130 |
| Total | 3,887 | 2,059 | 1,435 | 218 | 7,599 |
| As at 30 September 2014 | | | | | |
| Reinsurance recoveries receivable | 134 | 29 | 78 | 1,120 | 1,361 |
| Outstanding premiums and trade receivables | 4,361 | 2,749 | 481 | 1,071 | 8,662 |
| Total | 4,495 | 2,778 | 559 | 2,191 | 10,023 |

(vi) Financial assets that are individually impaired

Financial assets that have been individually impaired in the past year are as follows:

| | Carrying value | |
|--|----------------|-----------|
| | 2015 | 2014 |
| | \$000 | \$000 |
| Outstanding premiums and trade receivables | 1 | 32 |
| Total | 1 | 32 |

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

25. RISK MANAGEMENT (CONTINUED)

(C) 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 treasury function maintains sufficient liquid assets to ensure that the Group can meet its debt obligations and other cash outflows on a timely basis.

(i) 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 the balance date. All amounts disclosed are contractual undiscounted cash flows that include interest payments and exclude the impact of netting agreements.

| Group | Carrying value \$000 | Total contractual cash flows \$000 | Less than one year \$000 | One to two years \$000 | Two to four years \$000 | Over five years \$000 | On demand \$000 |
|---|----------------------------|--|--------------------------------|------------------------------|-------------------------------|-----------------------------|--------------------|
| As at 30 September 2015 | | | | | | | |
| Financial liabilities and guarantees | | | | | | | |
| Trade payables | 19,329 | 19,329 | 19,329 | - | - | - | - |
| Reinsurance payables | 2,612 | 2,612 | 2,612 | - | - | - | - |
| Other payables | 4,288 | 4,288 | 4,288 | - | - | - | - |
| Total financial liabilities and guarantees | 26,229 | 26,229 | 26,229 | - | - | - | - |

As at 30 September 2014

| | | | | | | | |
|---|---------------|---------------|---------------|------------|----------|----------|----------|
| Financial liabilities and guarantees | | | | | | | |
| Trade payables | 14,200 | 14,200 | 13,776 | 424 | - | - | - |
| Reinsurance payables | 2,967 | 2,967 | 2,967 | - | - | - | - |
| Other payables | 14,168 | 14,168 | 14,168 | - | - | - | - |
| Derivative financial liabilities | 46 | 90 | 55 | 31 | 4 | - | - |
| Total financial liabilities and guarantees | 31,381 | 31,425 | 30,966 | 455 | 4 | - | - |

(D) 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 and foreign exchange forward contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The fair values of interest rate swaps are calculated by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates. The average interest rate is based on the outstanding balances at the start of the financial year.

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

| | Average contracted fixed interest | | Notional principal amount | | Fair value | |
|------------------|--------------------------------------|-----------|---------------------------|---------------|---------------|---------------|
| | 2015 % | 2014 % | 2015 \$000 | 2014 \$000 | 2015 \$000 | 2014 \$000 |
| Less than 1 year | 0% | 0% | - | - | - | - |
| 1 to 2 years | 0% | 0% | - | - | - | - |
| 2 to 5 years | 0% | 5% | - | 21,000 | - | (46) |
| over 5 years | 0% | 0% | - | - | - | - |
| | | | - | 21,000 | - | (46) |

The Group has no foreign exchange forward contracts.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

25. RISK MANAGEMENT (CONTINUED)

(E) 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 the Group's profit after tax and equity is included in the table below. The sensitivity analysis assumes changes in interest rates only. All other variables are held constant.

| | 2015 | | 2014 | |
|----------------------------|---------------------|---------------|---------------------|---------------|
| | Impact on | | Impact on | |
| | Profit after | Equity | Profit after | Equity |
| | tax | | tax | |
| | \$000 | \$000 | \$000 | \$000 |
| <i>Change in variables</i> | | | | |
| <i>+50 basis points</i> | (664) | (664) | (750) | (750) |
| <i>-50 basis points</i> | 660 | 660 | 544 | 544 |

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

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

(ii) Foreign currency

The table below demonstrates 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.

| | 2015 | | 2014 | |
|---|---------------------|---------------|---------------------|---------------|
| | Impact on | | Impact on | |
| | Profit after | Equity | Profit after | Equity |
| | tax | | tax | |
| | \$000 | \$000 | \$000 | \$000 |
| <i>Change in variables</i> | | | | |
| <i>10% appreciation of New Zealand dollar</i> | 153 | (6,010) | 330 | (6,161) |
| <i>10% depreciation of New Zealand dollar</i> | (187) | 7,394 | (403) | 7,530 |

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

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

(iii) Equity price

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The Group does not hold any listed equities at fair value through profit or loss (2014: nil).

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

25. RISK MANAGEMENT (CONTINUED)

(iv) Other price

Other price sensitivity includes sensitivity to unit price fluctuations. Unit price risk is the risk that the fair value of investments in property fund units and international equities held in unit trusts will decrease as a result of changes in the value of these units. The Group holds all of its investments in property securities, international equities and other unit trusts at fair value through profit or loss.

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

| | 2015 | | 2014 | |
|--|---------------------|---------------|---------------------|---------------|
| | Impact on | | Impact on | |
| | Profit after | Equity | Profit after | Equity |
| | tax | | tax | |
| | \$000 | \$000 | \$000 | \$000 |
| <i>Change in variables</i> | | | | |
| <i>+10% property funds and other unit trusts</i> | 2 | 2 | 2 | 2 |
| <i>-10% property funds and other unit trusts</i> | (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.

26. CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to ensure that the Group's level of capital is sufficient to meet 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.

| | 2015 | 2014 |
|--------------------------|----------------|----------------|
| | \$000 | \$000 |
| TOWER shareholder equity | 279,265 | 324,410 |
| Total capital resources | 279,265 | 324,410 |

The Group measures adequacy of its capital against Solvency Standards for Non-life Insurance (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.

From 22 August 2014 the Group has been required by Reserve Bank of New Zealand to maintain a minimum solvency margin of no less than \$50,000,000 in TOWER Insurance Limited. The actual solvency capital as determined under the solvency standards is required to exceed the minimum solvency capital level by at least this amount. The amount retained as minimum solvency capital is shown in note 23 (H).

During the year ended 30 September 2015 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.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

27. OPERATING LEASES

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 term of the lease. Operating lease payments represent future rentals payable for office space under current leases. Initial leases were for an average of four years with rental rates reviewed every two to six years.

| | 2015 | 2014 |
|---|---------------|---------------|
| | \$000 | \$000 |
| As lessee | | |
| Rent paid during the year | 2,966 | 3,834 |
| Rent payable to the end of the lease terms are: | | |
| – Not later than one year | 2,934 | 3,492 |
| – Later than one year and not later than five years | 9,326 | 9,953 |
| – Later than five years | 7,001 | 9,754 |
| | 19,261 | 23,199 |

28. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and deposits held on 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. Bank overdrafts are shown within cash and cash equivalents on the balance sheet if the net position is an asset due to the Group's right to offset overdrafts within its banking facility.

(A) RECONCILIATION OF CASH AT THE END OF THE YEAR

| | | |
|--|----------------|----------------|
| Cash at bank and in hand | 28,330 | 24,253 |
| Deposits at call | 90,043 | 143,809 |
| Restricted cash | 6,740 | - |
| Total cash and cash equivalents | 125,113 | 168,062 |

The effective interest rate at 30 September for deposits on call is 3.25% (2014: 4.0%). The balances primarily mature within three months of balance date. There has been no offsetting within cash and cash equivalents (2014: nil).

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

At 30 September, TOWER was holding \$6.7 million cash in respect of multi-unit claims as lead insurer on Canterbury claims. This is recognised within Cash and cash equivalents on the balance sheet. Related to this are corresponding amounts being \$3.2 million recorded within Insurance liabilities for TOWER's portion of multi-unit outstanding claims; and \$3.5 million recorded within Payables as held on behalf of other insurers in respect of SPP claims.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

28. CASH AND CASH EQUIVALENTS (CONTINUED)

(B) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | 2015 | 2014 |
|---|----------------------|----------------------|
| | \$000 | \$000 |
| (Loss) profit for the year | (6,636) | 23,611 |
| Add (less) non-cash items | | |
| Depreciation of property, plant and equipment | 2,374 | 1,761 |
| Amortisation of software | 1,660 | 931 |
| Change in life insurance and life investment contract liabilities | - | 1,194 |
| Unrealised (gain) on financial assets | (913) | (22,978) |
| (Decrease) increase in deferred tax | (5,608) | 16,029 |
| Movement on disposal of property, plant and equipment | (16) | 673 |
| Gross gain on sale of subsidiaries | - | 6,319 |
| | <u>(9,139)</u> | <u>27,540</u> |
| Add (less) movements in working capital (excluding the effects of exchange differences on consolidation) | | |
| Decrease in receivables | 72,228 | 56,674 |
| Decrease in payables | (43,650) | (52,259) |
| (Increase) decrease in taxation | (1,502) | 68 |
| | <u>27,076</u> | <u>4,483</u> |
| Add other items classified as financing activities | | |
| Decrease in capitalised costs | - | 353 |
| Net cash inflow from operating activities | <u>17,937</u> | <u>32,376</u> |

The statement of cash flows presents net cash flows for financial assets, property, plant and equipment, intangible assets and advances to subsidiaries. TOWER considers that knowledge of gross receipts and payments is not essential to understanding the 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 sales is immaterial.

29. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 30 September 2015.

The Group is occasionally subject to claims and disputes as a commercial outcome of conducting its 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.

30. CAPITAL COMMITMENTS

The Group has capital commitments of approximately \$815,000 at reporting date related to software under development and licensing (2014: \$4,641,000).

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

31. SUBSIDIARIES

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

| Name of Company | Holdings | | Nature of Business |
|--|----------|------|----------------------------|
| | 2015 | 2014 | |
| Incorporated in New Zealand | | | |
| TOWER Financial Services Group Limited | 100% | 100% | Holding company |
| TOWER Insurance Limited | 100% | 100% | Fire and general insurance |
| TOWER New Zealand Limited | 100% | 100% | Management services |
| TOWER Operations Limited | 100% | 100% | Non-operating Company |
| Incorporated in Cook Islands | | | |
| TOWER Insurance (Cook Islands) Limited | 100% | 100% | General insurance |
| Incorporated in Fiji | | | |
| TOWER Insurance (Fiji) Limited | 100% | 100% | General insurance |
| Incorporated in PNG | | | |
| TOWER Insurance (PNG) Limited | 100% | 100% | General insurance |
| Incorporated in Samoa | | | |
| National Pacific Insurance Limited | 71% | 71% | General insurance |
| Incorporated in Vanuatu | | | |
| TOWER Insurance (Vanuatu) Limited | 100% | - | General insurance |

32. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

(A) KEY MANAGEMENT PERSONNEL COMPENSATION

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

| | 2015 | 2014 |
|--|--------------|--------------|
| | \$000 | \$000 |
| Salaries and other short-term employee benefits paid | 2,732 | 2,000 |
| Independent director fees ⁽¹⁾ | 455 | 495 |
| | 3,187 | 2,495 |

(1) Information regarding individual director and executive compensation is provided in the Corporate Governance section of the Annual Report.

(B) LOANS TO KEY MANAGEMENT PERSONNEL

There have been no loans made to directors of the Company and other key management personnel of the Group, including their personally related parties (2014: nil).

(C) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

33. SUBSEQUENT EVENTS

DIVIDEND DECLARED

On 24 November 2015 the Directors declared a dividend of 7.5 cents per share. There will be no imputation credits attached to the dividend. The dividend will be paid on 3 February 2016 (Payment Date) to all shareholders on the register as at 5pm on Wednesday, 20 January 2016 (Record Date). The estimated dividend payable is \$12,749,000 based on the share register at 30 September 2015.

TOWER will not be operating its Dividend Reinvestment Plan for the final dividend.

TOWER will withhold resident and non-resident withholding tax where applicable in respect of this final dividend.

TOWER LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2015

34. DISCONTINUED OPERATIONS

Assets and liabilities of a disposal group are classified as held for sale if their carrying amount will be recovered or settled principally through a sale transaction rather than through continuing use. A disposal group is defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated. This condition is regarded as being met only when the sale is highly probable and the assets or businesses are available for immediate sale in their present condition or is a subsidiary acquired exclusively with a view to resale.

As required by accounting standards, assets and liabilities of a disposal group are measured at the lower of carrying amount and fair value less costs to sell and disclosed in aggregate on the balance sheet as single line items. Items in the Income Statement and Statement of Comprehensive Income relating to discontinued operations are shown as a single amount for the total discontinued operations on the face of the statements, however profit for the year is separated between continuing and discontinued operations.

The operating results and financial position of the divested businesses have been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as a discontinued operation.

For details of discontinued operations and disposal groups held for sale, refer to the 30 September 2014 audited financial statements.

Consolidated results of discontinued operations/disposal groups are as follows:

| | 2015 | 2014 |
|--|--------------|-----------------|
| | \$000 | \$000 |
| Profit for the year from discontinued operations | | |
| Profit for the year from discontinued operations: | | |
| Australian liabilities | - | (711) |
| Participating life business | - | 5,675 |
| Profit from discontinued operations | - | 4,964 |
| Profit from disposal of subsidiaries | | |
| Health business | - | 105 |
| Investments business | 13 | (90) |
| Non-Participating life business | 491 | 1,312 |
| Participating life business attributable cost | 892 | (4,304) |
| | 1,396 | (2,977) |
| Profit from discontinued operations | 1,396 | 1,987 |
| Liabilities transferred on disposal of Australian operation | - | (16,628) |

Profits for the year from discontinued operations in the table above result from releases of provisions (net of tax) and other attributable costs.

In 2015, \$1,081,695 was released to tax expense relating to an under-deduction of premium payback obligations in TOWER Operations Limited's (formerly TOWER Health & Life Limited) 2010 to 2013 income tax returns. These deductions related to TOWER Operations Limited's non-participating life business which was sold in a prior year.



Independent Auditors' Report to the shareholders of TOWER Limited

Report on the Financial Statements

We have audited the consolidated financial statements of TOWER Limited ("the Company") on pages 2 to 44, which comprise the consolidated balance sheet as at 30 September 2015 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of general accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 30 September 2015 or from time to time during the financial year.

Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

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

We are independent of the Group. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Group.



Independent Auditors' Report

TOWER Limited

Opinion

In our opinion, the financial statements on pages 2 to 44 present fairly, in all material respects, the financial position of the Group as at 30 September 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants
24 November 2015

Auckland