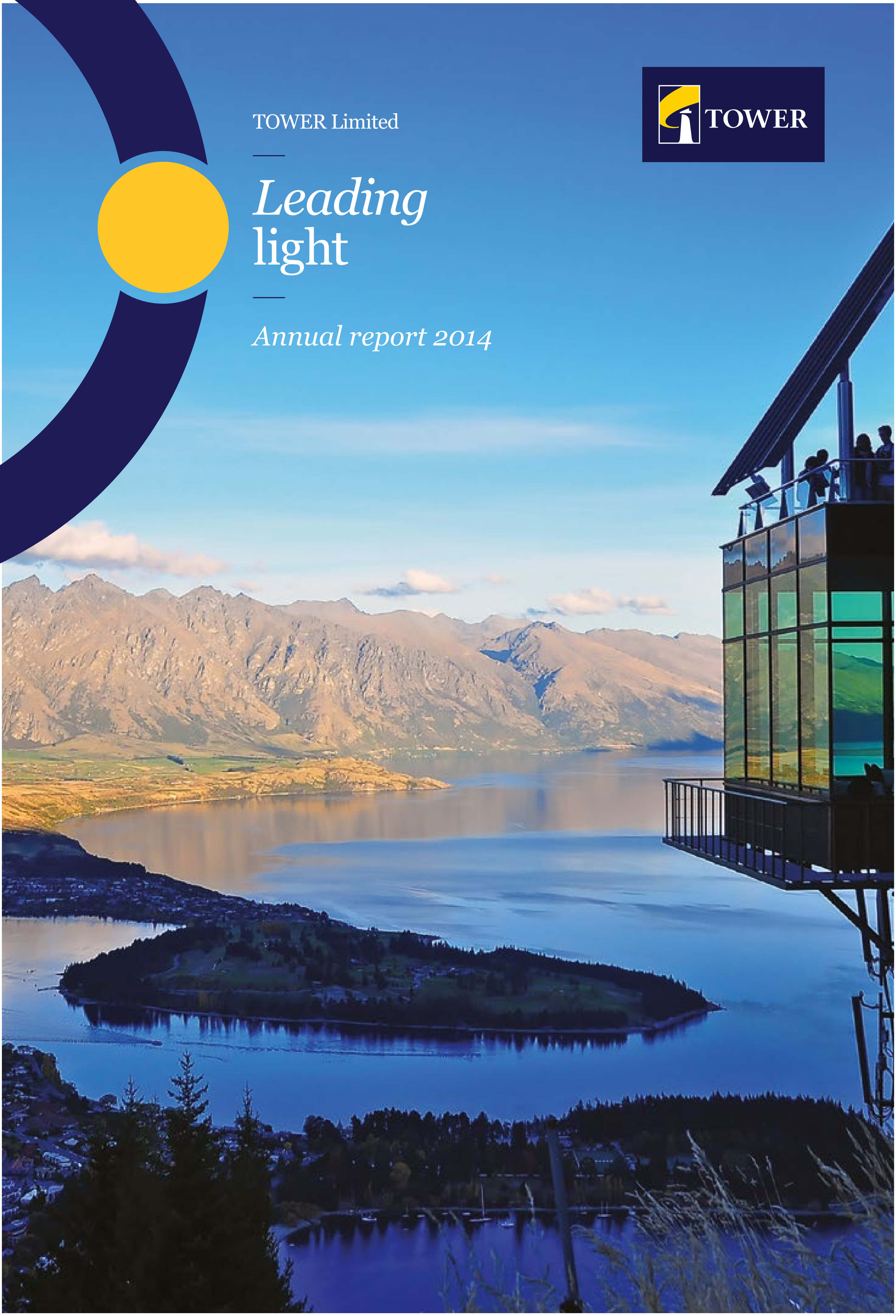
TOWER Limited

Leading light

Annual report 2014



Highlights and achievements

April 2014 launched

*Smart*Driver
Innovation of the year

NEW ZEALAND
INSURANCE
INDUSTRY AWARDS
WINNER 2014

Aon Hewitt staff survey
increased
22.4% *to* 60

October 2014 launched

Full replacement
house insurance
for fire

Customer satisfaction
Net Promoter Score
lifts to 29

Sale of TOWER Life (N.Z.)
Limited completed
releasing $36 million

Additional reinsurance
programme to reduce
earnings volatility

Underlying General Insurance net profit up
32.3% *to* $25.1 million

Gross written premium up
6.6% *to* $297.6 million

Pacific Underlying NPAT up
79.1% *to* $8.2 million

2014 final dividend up
33.3% *to* 8.0 cps
(unimputed)

2014 full year dividend up
31.8% *to* 14.5 cps
(unimputed)

Capital returned to shareholders of
$56.7 million

Well capitalised General Insurance business with
$75 million
in capital above solvency requirements plus
$66 million
in cash held by corporate entities

New on-market buyback announced of up to
$34 million
(or 10% of issued capital, whichever is lower)

Minimum Solvency Margin requirement reduced by
$30 million

Canterbury rebuild progress
88% *of* claims settled
as at 30 September 2014

Chairman's report on behalf of directors
Michael Stiassny

Building shareholder *value*

Following our multi-year corporate restructure and the divestment of the health, life and investments businesses, TOWER is a focused general insurer offering an attractive, independent alternative to the big international brands.

The divestment programme has realised significant value, with $56.7 million returned to shareholders via buybacks and all of the company's debt repaid. The process has established a more efficient and agile business with the resources to take full advantage of opportunities for growth in New Zealand and Pacific general insurance.

I am pleased to report that your company achieved a net profit after tax (NPAT) of $23.6 million for the year ended 30 September 2014 and a strong increase in general insurance underlying profit. The result reflects an improving industry backdrop and solid progress in executing our strategy to be the leading light in New Zealand and Pacific general insurance.

It is particularly encouraging that general insurance underlying profit,[1] which represents the continuing business, grew 32.3% to $25.1 million in FY2014.

You may also have noticed that we have achieved some success in increasing the profile of our brand, launching innovative insurance products and improving customer service. These are all important parts of our general insurance growth strategy. The highlights for FY2014 included an encouraging 79.1% increase in underlying net profit from the Pacific, which we see as a growth engine for the company.

TOWER also achieved solid progress on the Canterbury rebuild while further asset sales and prudent capital management have also supported shareholder returns.

Helping the people of Canterbury rebuild remains an important focus for the company and TOWER remains an industry leader in claims resolution, reaching 88% of claims settled and closed at 30 September 2014. TOWER remains on track to achieve 95% by end of calendar year 2015.

1. General insurance underlying profit excludes the impact of the Christchurch earthquakes, the revaluation of Australian liabilities and the gains or losses from the sale of businesses.

We are working hard to resolve our remaining claims and get our customers back in their homes as quickly as possible.

The earthquakes and the global financial crisis have contributed to higher reinsurance costs in recent years that have been reflected in insurance premiums. While reinsurance costs are now easing, they remain high relative to premiums. In addition, several years of unusually high weather claims and the increasing compliance burden have further added to industry costs.

Through sensible control of risk and capital and the implementation of our growth strategy, we are well positioned to manage these industry pressures and take advantage of the significant opportunities to build shareholder value and maintain a strong solvency position.

Our sturdy capital position has allowed the return of $56.7 million to shareholders through buybacks in January and September 2014. The September buyback gave shareholders with small holdings a cost-effective way to sell their shares.

Our shareholders have indicated that dividends remain an important component of shareholder returns. The Board continues the policy to pay out 90 to 100% of NPAT as dividends.

In line with this policy TOWER's Board declared a final dividend for FY2014 of 8.0 cents per share unimputed. This brought the full year dividend to 14.5 cents per share, which compares favourably with 11.0 cents unimputed in the previous year. The dividend will be paid on 3 February 2015 to shareholders on the register on 22 January 2015 (record date).

Given our capital position, TOWER intends to undertake a further on-market share buyback of up to $34 million (or 10% of issued capital, whichever is lower) over the next 12 months.

The Board is always looking to ensure it has the appropriate mix of experience and skills to continue to build shareholder value. During the year the Board was pleased to welcome a new director, Rebecca Dee-Bradbury, who will stand for election at the 2015 Annual Shareholders' Meeting. Ms Dee-Bradbury's extensive marketing experience and demonstrated track record in transformational leadership bring a new dimension to the TOWER Board.

Mike Allen retired by rotation at the 2014 Annual Shareholders' Meeting and did not seek re-election. Mike's extensive management background and focus on shareholder value has strengthening the business

made him a valuable asset to the Board and I thank him for his contribution. Mike Jefferies also retired by rotation and did not seek re-election after seven years of dedicated Board service. Mike offered extensive support to senior management and consistently focused on building value for shareholders. I thank Mike for his contribution.

On behalf of your Directors, I acknowledge the hard work and commitment of all our staff over the past 12 months. I thank CEO David Hancock for his dedication and strong leadership in establishing and executing a strategy for realising our potential in general insurance and enhancing shareholder value. The TOWER team has worked very hard to strengthen this business for the long-term.

Finally, I thank our customers, shareholders and business partners for their continued loyalty and support.

"Through sensible control of risk and capital and the implementation of our growth strategy, we are well positioned to manage these industry pressures and *take advantage of the significant opportunities to build shareholder value* and maintain a strong solvency position."

Michael Stiassny
Chairman

Customer *focused*

General Insurance	2014	2013	Movement %
Reported			
Gross Written Premium (GWP) ($m)	297.6	279.3	6.6%
General Insurance Reported NPAT ($m)[1]	24.3	(3.3)	-
Underlying			
Underwriting profit ($m)	23.7	25.4	-6.6%
General insurance Underlying NPAT ($m)[2]	25.1	19.0	32.3%
Claims ratio (%)	50.8%	50.6%	20bp
Combined ratio (%)	90.0%	88.4%	160bp
Group			
Reported NPAT ($m)	23.6	34.4	-31.3%
EPS (c)[3]	11.3	0.1	-
DPS (c)	14.5	11.0	31.8%

Performance

TOWER has come through a period of significant change to be a stronger, more focused and well-capitalised business that is positioned to grow as a specialist general insurer in New Zealand and the Pacific.

Our financial results are particularly encouraging given that the benefits of the work we are doing are yet to be fully realised and reflected in financial measures. This bodes well for future revenue, costs and shareholder returns.

The underlying general insurance net profit after tax of $25.1 million in FY2014, up 32.3%, highlights the healthy rate of earnings growth in our continuing general insurance business and supports our decision to focus on this sector. These numbers were aided by 6.6% growth in Gross Written Premium (GWP), reflecting premium increases across the industry.

While reported Group NPAT declined 31.3% from $34.4 million in FY2013 to $23.6 million in FY2014, profit in the previous year was higher due to the inclusion of earnings from businesses we have since divested as well as several abnormal items. The divestments have allowed a significant reduction in the capital employed in the business and, as the Chairman notes, much of which has been returned to shareholders.

The growth in underlying general insurance profit was especially heartening given significant adverse weather events that continued to impact claims activity across the industry. Large claim events cost $14.4 million in FY2014, up from $9.6 million in the previous year.

New reinsurance cover in place from 1 October 2014, which covers multiple large events (excluding New Zealand earthquakes) from $1 million up to $5 million per event, will reduce future earnings volatility.

During the year, we continued to focus on our strategic pillars of financial performance, customer satisfaction and staff engagement. These are early days, but our focus on customer service, product innovation, people and cost management is beginning to deliver results, which should support our underlying performance over the medium term.

Our brand recognition, net promoter score and staff engagement measures have improved markedly in the last 12 months. This is expected to help us further unlock the potential of our general insurance brand in New Zealand and the Pacific.

1. General Insurance Reported NPAT, excluding the TOWER Life (N.Z.) Limited business and the loss of sale in 2014.

2. General Insurance Underlying NPAT excludes impact of the Canterbury earthquakes and the discontinuation of the Australian business.

3. Includes profit attributable to shareholders from continuing operations only, including the impact of Canterbury earthquakes.

realising our potential

Strong responses to our new SmartDriver app, which provides motor vehicle insurance premium discounts to safe drivers, and our decision to offer full replacement cover for homes destroyed by fire, highlight our ability to provide innovative products by leveraging technology and carefully managing risk.

We are working over the medium term toward a significant improvement in our expense ratios through the implementation of new customer management systems and processes. At the same time we are investing in people to drive a high performance culture and further operating efficiencies. Our focus on staff engagement and efficiency has led to a significant increase in key engagement indicators in FY2014.

The Pacific business enjoyed a strong rebound in earnings following the devastation of Cyclone Evan in FY2013 and now represents almost a third of underlying general insurance net profit. We are exploring opportunities to further expand our presence in the Pacific which represents growth opportunities aligned to our core strength and competencies.

We are looking to take advantage of industry consolidation and rationalisation by working with reinsurers to develop new products and to differentiate our offer through innovation and technology. We are also working hard to broaden the strong portfolio of alliance relationships to enhance our distribution channels.

We have made pleasing progress on the Canterbury rebuild, reaching 88% of all claims settled and closed for customers as at 30 September 2014, up from 81% at the half year. As part of the Reserve Bank of New Zealand's annual review in August 2014 the required solvency margin was reduced by $30 million.

In August 2014 we were pleased to complete the sale of the remaining life insurance business, TOWER Life (N.Z.) Limited, for $36 million[1]. We thank our employees for their hard work in support of this business and the customers who insured with us.

Prudent capital management remains a key component of our approach to growing shareholder value. In addition to increased dividends, we returned $56.7 million to shareholders in FY2014 via share buybacks and repaid $81.8 million in bonds, enabling us to become debt free.

TOWER remains a well capitalised business and, prior to the $34 million on-market buyback proposed for 2015, General Insurance holds $75 million in capital over and above the minimum regulatory solvency requirements, plus $66 million cash held by corporate entities.

1. This excluded purchase price adjustment at completion of $1.7 million.

$ million	2014	2013	Movement $m	Movement %
General Insurance	**25.1**	**19.0**	**6.1**	**32.3%**
Life[1]	5.7	12.0	(6.3)	-52.6%
Health	0.0	0.9	(0.9)	-100.0%
Investments	0.0	4.0	(4.0)	-100.0%
Business unit net profit after tax	**30.8**	**35.9**	**(5.1)**	**-14.2%**
Corporate financing costs and investment income	(1.1)	(3.9)	2.7	-70.9%
Corporate expenses	(2.3)	(3.3)	1.1	-32.0%
Profit excluding the impact of discount rate and abnormal items	**27.4**	**28.7**	**(1.3)**	**-4.5%**
Discount rate effect	0.0	(9.0)	9.0	-100.0%
(Loss)/Profit on disposal of subsidiaries	(3.0)	37.0	(40.0)	-108.0%
Impact of Canterbury earthquakes	(0.1)	(15.2)	15.1	-99.9%
Revaluation of Australian liabilities and foreign exchange loss	(0.7)	(7.1)	6.4	-90.0%
Reported net profit after tax[2]	**23.6**	**34.4**	**(10.8)**	**-31.3%**

Group profit summary

Group net profit after tax was $23.6 million in FY2014, a decrease of 31.3% on the prior year due to profit from now discontinued business units and profit from the disposal of businesses boosting the result in FY2013.

General Insurance contributed $25.1 million net profit after tax in FY2014, an increase of 32.3% on the prior year, while TOWER Life (N.Z.) Limited contributed $5.7 million for part of the year.

Group corporate financing costs and investment income decreased in FY2014 due to a reduction in interest expense following the repayment of $81.8 million bonds in April 2014.

Abnormal items reduced reported net profit after tax by $3.8 million in FY2014, primarily due to the sale of TOWER Life (N.Z.) Limited in August 2014, compared to abnormal gains of $14.7 million (excluding the discount rate effect of $9.0 million) in the prior year due to the profits on sale of investments and health businesses, offset by IT systems write-down, loss of non-participating life business, impact of Canterbury earthquakes and sale of Australian liabilities.

General Insurance

In General Insurance, GWP increased 6.6% on the prior year to $297.6 million, supported by premium growth which reflected earlier rises in reinsurance costs. Stabilised reinsurance costs allowed for net earned premiums (NEP) to increase 8.1% on the prior year to $237.1 million,[3] primarily due to premium rate increases.

Total claims were $120.5 million[4] in FY2014 compared to $110.9 million[4] in FY2013, including large claim events of $14.4 million in FY2014 compared with $9.6 million in FY2013. Large claim events in New Zealand increased in the year, primarily due to storms and severe weather over Easter and in June / July. The Insurance Council of New Zealand noted that “This year is heading to be one of the most expensive years for insured losses” (September 2014).

1. Life includes profits from significant part of life business sold in FY13, and the remaining TOWER Life (N.Z.) Limited sold in FY14.

2. A number of items are classified as discontinued operations in the Group financial statements.

3. The above NEP excludes the impact of Canterbury earthquakes.

4. Total claims excludes claims handling expense and Canterbury earthquake claims that have been classified differently within the financial statements.

$ million	2014	2013	Movement $m	Movement %
Gross earned premiums	285.1	267.2	17.9	6.7%
Reinsurance	(48.0)	(47.9)	(0.1)	0.2%
Net premiums	**237.1**	**219.3**	**17.8**	**8.1%**
Net incurred claims	(106.1)	(101.3)	(4.8)	4.7%
Large claim events[1]	(14.4)	(9.6)	(4.8)	49.5%
Management and sales expenses	(92.9)	(83.0)	(9.9)	12.0%
Underwriting profit	**23.7**	**25.4**	**(1.7)**	**-6.6%**
Investment revenue	11.5	8.1	3.4	41.9%
Underlying Profit before tax	**35.2**	**33.5**	**1.7**	**5.2%**
Income tax expense	(10.1)	(14.5)	4.4	-30.4%
Underlying Profit (loss) after tax	**25.1**	**19.0**	**6.1**	**32.3%**
Impact of Canterbury earthquakes	(0.1)	(15.2)	15.1	-99.2%
Revaluation of Australian liabilities and foreign exchange loss[3]	(0.7)	(7.1)	6.4	-90.0%
Profit (loss) after tax	**24.3**	**(3.3)**	**27.6**	**-**

Despite these pressures, our claims ratio was maintained at 50.8% (up slightly from 50.6% in FY2013). Excluding the impact of large claim events, our claims ratio actually improved from 46.2% to 44.8% in FY2014. Nonetheless, large claims events impacted general insurance underwriting profit before tax, which decreased 6.6% to $23.7 million compared to the prior year.

Importantly, new reinsurance cover in place from 1 October 2014 covering large events (excluding New Zealand earthquakes) from $1 million up to $5 million per event, will reduce future earnings volatility.

The underlying expense ratio (management expenses and commissions relative to NEP) increased from 37.8% to 39.2% in FY2014 as we invested in brand, new products and systems to promote future growth. With the corporate restructure, a larger proportion of previously shared expenses are now allocated to the General Insurance business. We continue to focus on staff engagement, efficiency and the appropriate cost structure to support future growth.

Investment revenue increased 41.9% to $11.5 million in FY2014 primarily due to increased average cash and investment assets held by General Insurance.

TOWER's average tax rate for the General Insurance business in FY2014 was 28.6%. The 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. The rate decreased from 43.3% in FY2013 as TOWER Insurance Limited is now able to benefit from certain foreign tax credits.

TOWER holds an estimated 4.6% share of the New Zealand general insurance market, placing us fourth in the market. More important is our position in the key personal lines market, with shares of 10.8% in home, 9.8% in contents and 6.3% in motor lines. We hold a substantial position in these markets, giving us a promising opportunity to further leverage our advantages and grow market share.

1. Large claim events are those greater than $1m. 2013 large claim events included $2.8m claims due to Cyclone Evan in the Pacific. 2014 large claim events were due to the storms within New Zealand.

2. In the Group financial statements the impacts of the Canterbury earthquakes are accounted for as part of claims expense and the tax impact thereon, and include both an increase in the provision for claims and actual claims expense, plus an amount associated with reinsurance.

3. In the Group financial statements the revaluation and foreign exchange impact of Australian liabilities are accounted for as part of (loss)/profit from discontinued operations.

TOWER has nearly 492,000 policies and 264,000 customers in New Zealand and seven Pacific territories through our direct business and alliance partnerships.

Customer service to unlock brand potential

We continue to utilise technology to lower costs and improve our value proposition. We are seeking to grow share in personal lines through a customer-focused culture. We are introducing better products, improved risk-based pricing, lower costs and better customer service to position us for growth in General Insurance via direct channels and through alliances and distribution agreements.

The Net Promoter Score (NPS) measures if customers are likely to recommend us. 'Promoters' will generally hold more policies with us, hold higher value policies, and stay with us longer. Since we began our focus on customer feedback to drive our service culture the company's NPS has increased from 6 in November 2013 to 29 in September 2014. Our 'Voice of the Customer' portal has been an important enabler, allowing us to capture feedback and further improve the customer experience.

We are building a culture that delivers on our customer promise of an 'easy, caring, and individual' relationship with our customers. Our four principles are:

- Interactions are an opportunity to engage and build a relationship
- Greater focus on customer retention
- Internal processes reflect customer needs, particularly in claims
- A new customer service model that reflects the full customer experience

We have undertaken a number of activities during the year to strengthen our position as a leading insurer that has been looking out for New Zealanders and Pacific Islanders for more than 140 years. There has been a very positive response to our brand campaign that has been reflected in meaningful increases in preference, brand recognition and awareness.

We are utilising technology to gain a deeper and richer understanding of our customers, which helps us more accurately identify our key market segments. This improves our understanding of the growth opportunities that these segments offer for our direct, digital and alliance businesses.

The launch of the SmartDriver app in April 2014 represented a major change in how we interact with customers. SmartDriver monitors customer driving behaviour and allows us to offer a premium reflecting this metric. Customers who demonstrate better driving behaviour can be rewarded by insurance discounts of up to 20%.

This technological advance won 'Innovation of the Year' at the New Zealand Insurance Industry Awards 2014.

We continue to focus on technology to improve our connections with customers.

We are also driving important innovations on the claims side, and in October 2014 successfully launched full replacement for fire benefit for homes destroyed by fire.

Staff engagement and efficiency

We continue to improve staff engagement which is reflected in our Aon Hewitt staff survey score increasing 22.4% to 60 in the 12 months to October 2014. We are working hard to reach our next milestone of 65. Personal development, career path management, succession planning and investment in senior leadership are important features of our approach.

During the year special focus has also been placed on enhancing staff efficiency and productivity. Specific initiatives include the new customer service 'incubator' (combining service, sales and claims staff to create a seamless experience for customers), the introduction of Lean Six Sigma to optimise efficiency and business processes and further investment in staff development and training.

Pacific

The Pacific Islands is a significant and important business, accounting for 18.1% of GWP and 32.6% of General Insurance underlying NPAT in FY2014. In local currencies, GWP increased across the region, although Pacific GWP decreased marginally in NZD to $53.9 million, due to currency effects. NPAT from the Pacific increased 79.1% to $8.2 million. Results were affected in FY2013 by Cyclone Evan in Fiji and Samoa and by increased withholding tax expenses. Policy numbers in the region grew an encouraging 6.6% in FY2014 supported by favourable economic fundamentals and our efforts to grow the business.

Papua New Guinea and Fiji together represent 63% of Pacific GWP in FY2014. TOWER's National Pacific Insurance business operating in Samoa, American Samoa and Tonga represents a further 21% of GWP. Operations in the Cook Islands and Solomon Islands contribute the remaining 16%.

We undertook key branding and marketing campaigns in FY2014, including TV advertising and online campaigns in Fiji and an arson prevention campaign in the Cook Islands. The online strategy in Fiji is now driving up to 20% of direct lead generation. We have been working for some time on the Cook Islands community-oriented arson prevention campaign with a number of experts and Government representatives including the Prime Minister of the Cook Islands Henry Puna and the Cook Islands Police Commissioner.

Customer satisfaction is high in the Pacific, with NPS reaching 48 in September 2014. Our local staff are highly engaged with the business and customers.

We are utilising our strong brand, alliances and expertise to seek out growth opportunities as a direct insurance provider. With appropriate risk management and underwriting policies in place, we believe there are further opportunities aligned to our core strength and competencies.

Canterbury rebuild

We continue to be a leader in the industry in our settlement of Canterbury earthquake claims, with 88% of all claims now settled and closed (as at September 2014), up from 81% at the half year. We are dedicated to resolving the outstanding claims and providing certainty to our customers through:

- Ensuring all customers who want TOWER to manage the rebuild or repair of their house are in the construction programme
- Resolving the last of the Earthquake Commission out-of-scope claims
- Working closely with builders and sub traders to ensure work is completed to schedule
- Ensuring multi-unit building customers clearly understand their settlement options.

TOWER continues to support the Residential Advisory Service to resolve claims where customers need independent advice on their claim.

Members of the Executive Leadership Team regularly visit Canterbury to talk to affected customers and view first-hand the recovery programme progress. The Board takes a very keen interest in our programme of work. TOWER reviews its earthquake provisions on a quarterly basis. Our most recent actuarial valuation confirmed that there is no change required to the key February 2011 event provisions for earthquake claims.

We are on track to achieve 95% settlement and closure of all earthquake related claims by the end of calendar year 2015, with a small tail of more complex claims remaining in progress.

Solvency and capital management

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.

In August 2014, as part of its annual review, the Reserve Bank of New Zealand released $30 million of TOWER's Minimum Solvency Margin (MSM), which now sits at $50 million. At 30 September 2014 our MSC was $74.6 million.

Capital held by TOWER was $141 million as at 30 September 2014 (made up of $75 million General Insurance solvency above the regulatory minimum solvency, plus $66 million of cash held at corporate level). As at 30 September 2014, TOWER held $380.5 million of cash and investments and is debt free.

TOWER paid $56.7 million in capital returns to shareholders in FY2014, including $52.6 million through an off-market voluntary share buyback in January 2014 and $4.1 million through a small shareholder buyback scheme in September 2014.

Strategy and outlook

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. We have three pillars on which we have constructed the General Insurance strategy: staff engagement, customer satisfaction and financial performance.

TOWER's approach to building shareholder value seeks to:

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

Industry outlook

For the industry, growth in reinsurance premiums is easing following the Canterbury earthquakes, but both the cost of compliance and capital requirements have increased. Adverse weather events have been an issue for industry costs in recent years and this, as well as rising compliance costs, may further support premiums.

Technological change will continue to have a significant impact on the industry, presenting opportunities to improve our service and offering. Customers are highly informed and mobile, with price and service key drivers of choice.

Industry consolidation is expected to remain a trend in New Zealand insurance. TOWER will look to actively participate in this where there is benefit to shareholders. However, with industry concentration increasing, the risk of new entrants remains.

Staff engagement and efficiency

TOWER is looking to build on the improvements made to its operating platform and customer culture in FY2014. The current expense ratio of 39.2% compares with best practice of 33%. New technology is expected to support an improvement in expense ratios in the medium term and top line growth should further assist.

An engaged, energised and productive staff is an important element of our customer and efficiency strategy. We are looking to make further significant improvements to staff engagement in FY2015. Our goal is to lift the key indicator of engagement, the Aon Hewitt score, to 65.

Industry consolidation transactions, such as those seen in the last 12 months, provide opportunities to improve our organisational expertise and skills as the mobility of workers in the industry increases. We have continued to add to our staff talent pool in FY2014 at all levels of TOWER and will continue to look to improve our mix of experience and diversity as an enabler of our general insurance strategy to build shareholder value.

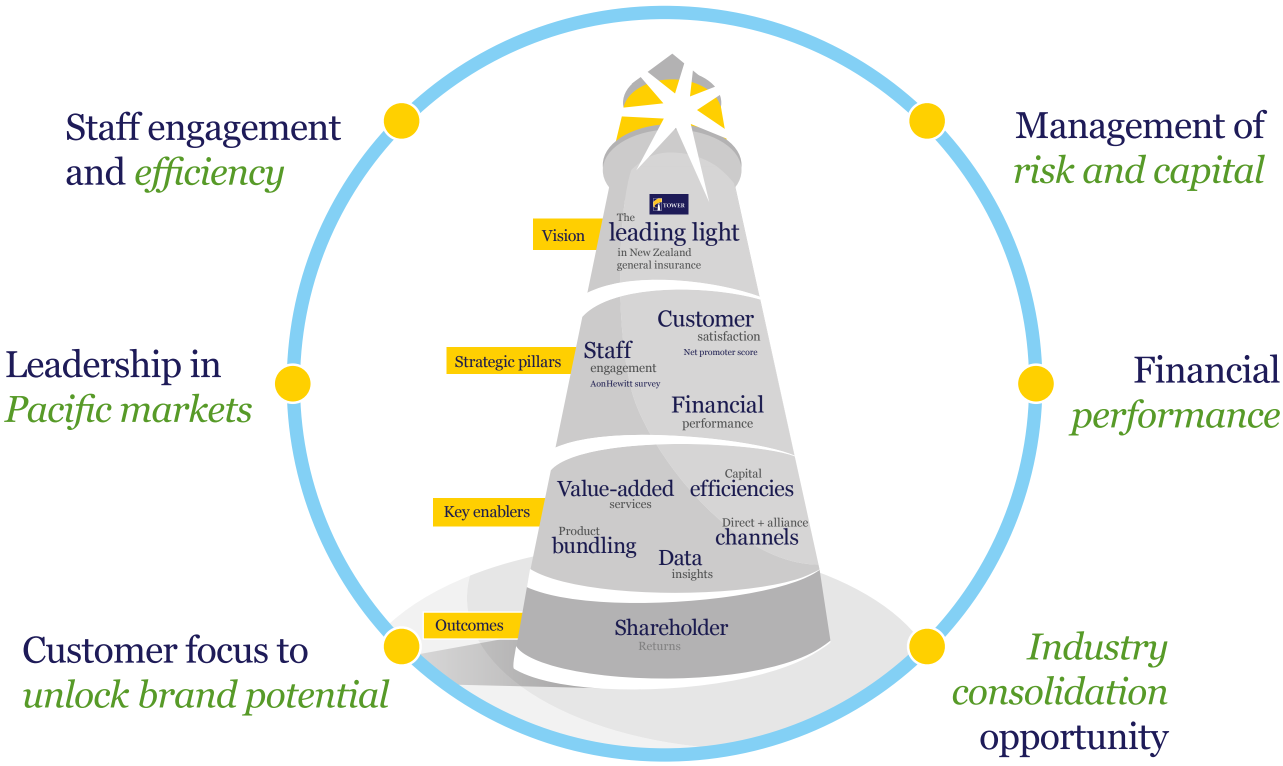
Customer focus and brand

We have seen substantial improvements in customer satisfaction in the last 12 months with our NPS reaching 29 in September 2014. Our goal is to continue the fundamental improvements in our business to further improve our NPS rating to 35 in FY2015.

We believe that greater industry concentration has the potential to constrain innovation as major players fail to recognise and respond to shifts in customer behaviour. One of the key drivers of these shifts remains technology.

Customer benefit and product innovation supported our branding and product offering in FY2014 with the release of the SmartDriver app and the introduction of our full replacement for fire benefit. We have utilised technology and risk management to introduce products that offer excellent value and address consumer needs.

These products are expected in the medium term to improve our brand, grow our customer base, reduce our costs and enhance risk management. We will continue to look for opportunities to innovate with new products in FY2015 to unlock the significant potential of our well-established brand.



Leadership in the Pacific

In FY2015, we are looking to build on our strong market positions and invest in technology and branding campaigns to reignite growth in policy numbers in our major established markets.

We are also looking at new opportunities to expand our presence in the Pacific, utilising our capital efficiently in the region to support this growth.

Management of risk and capital

The solid result for the year was encouraging given the significant adverse weather events that continued to impact claims activity across the industry. Large claim events cost $14.4 million in FY2014, up from $9.6 million in the previous year.

The reinsurance ratio improved from 17.2% to 16.2% in FY2014 as GWP growth exceeded reinsurance costs growth. As reinsurance rates eased we took the opportunity to increase the level of reinsurance cover while maintaining the level of reinsurance spending.

From 1 October 2014, TOWER has purchased new reinsurance cover for large events (excluding New Zealand earthquakes) from $1 million up to $5 million per event. Once such large events reach a total cost of $5 million we have reinsurance recovery of $10 million above the $5 million excess. If TOWER had this level of cover in place in FY2014 our large claim events exposure would have been capped at $5 million compared to the actual cost of $14.4 million.

TOWER has also purchased additional catastrophe cover, now at $682 million, with a $10 million excess. Maximum retention per individual risk is now NZ$1 million (US$1 million for American Samoa).

The shift in reinsurance markets has enabled us to significantly de-risk the General Insurance business, reducing our exposure to volatile large claim events. In FY2015, we will continue to examine ways to build shareholder value through improved risk management.

We are on track to achieve 95% settlement and closure of all earthquake related claims by the end of 2015, with a small tail of more complex claims remaining in progress. This provides the opportunity for further capital review and release from the RBNZ solvency requirement.

TOWER remains a well-capitalised company with $141 million in capital (made up of $75 million General Insurance solvency above the regulatory minimum solvency, plus $66 million of cash held at corporate level) even after returning $56.7 million to shareholders through share buybacks in FY2014.

Our 90-100% NPAT payout policy has provided further growth in shareholder returns through increased dividends.

TOWER intends to proceed with an on-market buyback of shares to return up to $34 million to shareholders (or 10% of TOWER's issued capital, whichever is lower). The buyback is anticipated to commence in the first quarter of calendar year 2015.

Details of the buyback will be announced on the NZX and ASX and a disclosure document sent to all shareholders once the final timetable for the buyback is approved by the Board.

Ongoing capital management remains a priority for TOWER and shareholder returns continue to be one of our key strategic outcomes. TOWER expects to undertake further capital management initiatives, having regard to our requirements for capital to fund growth and meet internal requirements.

Industry consolidation opportunities

Recent merger and acquisition activity highlights the value of TOWER's general insurance business.

TOWER is well positioned to take advantage of the distraction these events create among the large insurance players, which opens opportunities for our business. In particular, new distribution channels coming to the market provide the opportunity to align with new partners. Progress is being made with potential alliance partners.

The restructuring of large insurance companies have also allowed us to tap into a pool of world class talent and leadership.

Conclusion

I hope we have demonstrated what a busy and productive FY2014 was for everyone at TOWER. It has been a period of significant change at the corporate and business level but as a result we have a more focused, nimble and stronger company. TOWER is in a great position to take advantage of the opportunities we see for growing shareholder returns as a leader in New Zealand and Pacific general insurance.

These are early days in the implementation of our strategy but over the coming years we are expecting to see our hard work delivering growth, lower costs and continued attractive shareholder returns. All the while we will be looking to utilise strong management of risk and capital to support these strategic aims and drive shareholder value.

Over time this will support the continued recognition of the value of our quality general insurance business and the people that make it great. I would like to acknowledge the hard work and commitment shown during the year by the leadership team and all of our staff in New Zealand and the Pacific. I would also like to thank the Board for its invaluable advice and support.

Finally, I thank our customers for giving us the opportunity to deliver insurance products and services they value and helping make TOWER even stronger.

"These are early days in the implementation of our strategy but over the coming years *we are expecting to see our hard work delivering growth, lower costs and continued attractive shareholder returns."*

David Hancock
Chief Executive Officer

Board of *directors*

Michael Stiassny
LLB, BCom, CA, CFInstD
Chairman
Independent

Appointed Director: 12 October 2012

Last Re-elected: 2013

Appointed Chairman: 21 March 2013

Member of Audit and Risk Committee

Chair of Remuneration and Appointments Committee

Michael is a chartered accountant and senior partner of KordaMentha, based in Auckland, which specialises in financial consulting work. He has both a Commerce and Law degree from the University of Auckland. He is currently Chairman of Vector Limited, Chairman of Ngati Whatua Orakei Whai Rawa Limited, a Director of NZ Windfarms Limited, and is a director of a number of other companies. Michael is Vice President and a Chartered Fellow of the Institute of Directors in New Zealand (Inc).

Michael resides in Auckland, New Zealand.

David Hancock
BBus, GAICD
Executive Director

Appointed Non-Executive Director: 16 November 2012

Last Re-elected: 2013

Appointed Executive Director: 2 July 2013

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

David resides in Auckland, New Zealand and Sydney, Australia.

Rebecca Dee-Bradbury
BBus (Marketing), GAICD
Non Executive Director
Independent

Appointed Director: 15 August 2014

Member of Audit and Risk Committee

Member of Remuneration and Appointments Committee

Rebecca has a background in strategic marketing and business transformation. She has held senior regional executive and CEO roles with businesses in Australia, New Zealand and Asia Pacific. She has extensive experience in consumer and retail marketing, brand management and innovation gained with international companies such as Kraft/Cadbury, Maxxium and Lion Nathan/Pepsi Cola bottlers. She holds a Bachelor of Business from Monash University, Melbourne. Rebecca is a Director of Bluescope Steel Limited and GrainCorp Limited.

Rebecca resides in Melbourne, Australia.

Steve Smith

BCom, CA, Dip Bus (Finance), CFInstD
Non Executive Director
Independent

Appointed Director: 24 May 2012

Last Re-elected: 2013

Member of Audit and Risk Committee

Member of Remuneration and Appointments Committee

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

Steve resides in Auckland, New Zealand.

John Spencer CNZM

BCom, FCA, CFInstD
Non Executive Director
Independent

Appointed Director: 1 October 2003

Last Re-elected: 2013

Member of Audit and Risk Committee

Member of Remuneration and Appointments Committee

John brings to the Board significant financial and commercial expertise gained over many years from senior management positions with a number of major companies in New Zealand and overseas. John is a Chartered Fellow of the Institute of Directors in New Zealand (Inc). He holds a number of directorships and is Chairman of KiwiRail and the Tertiary Education Commission.

John resides in Wellington, New Zealand.

Graham Stuart

BCom (Hons), MS, CA
Non Executive Director
Independent

Appointed Director: 24 May 2012

Last Re-elected: 2013

Chair of Audit and Risk Committee

Member of Remuneration and Appointments Committee

With over 25 years of senior management experience, Graham has held leadership roles with several major corporates, in New Zealand and overseas, the latest being the Sealord Group of which he was Chief Executive Officer for 7 years. He has a Bachelor of Commerce (First Class Hons) from the University of Otago and a Master of Science from Massachusetts Institute of Technology and is a member of the New Zealand Institute of Chartered Accountants. Graham has served on the Food & Beverage Taskforce and the Maori Economic Development Panel.

Graham resides in Auckland, New Zealand.

TOWER Limited Financial Statements

For the *year* ended 30 September 2014

Performance

TOWER Limited
Independent Auditors' Report

For the *year* ended 30 September 2014

Independent Auditors' Report

to the shareholders of TOWER Limited

Report on the Financial Statements

We have audited the financial statements of TOWER Limited ("the Company") on pages 19 to 60 which comprise the balance sheets as at 30 September 2014, the income statements, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 September 2014 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, 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 Company's and 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 financial statements.

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

We have no relationship with, or interests in, TOWER Limited or any of its subsidiaries other than in our capacities as auditors and providers of other assurance and assurance related services. These services have not impaired our independence as auditors of the Company and the Group.

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Independent Auditors' Report

TOWER Limited

Opinion

In our opinion, the financial statements on pages 19 to 60:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 30 September 2014, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2014:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in 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.

PricewaterhouseCoopers

Chartered Accountants Auckland

27 November 2014

TOWER Limited
Income Statements

For the *year* ended 30 September 2014

	NOTE	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Revenue					
Premium revenue from insurance contracts		285,113	267,160	–	–
Less: Outwards reinsurance expense		(48,197)	(48,617)	–	–
Net premium revenue	4	236,916	218,543	–	–
Investment revenue	5	14,217	15,057	14,394	179,728
Fee and other revenue		3,731	3,568	–	–
Net operating revenue		**254,864**	**237,168**	**14,394**	**179,728**
Expenses					
Claims expense		258,855	198,818	–	–
Less: Reinsurance recoveries revenue		(119,742)	(52,253)	–	–
Net claims expense	6	**139,113**	**146,565**	**–**	**–**
Management and sales expenses	7(A)	81,699	75,244	602	813
Net claims and operating expenses		**220,812**	**221,809**	**602**	**813**
Financing costs	7(B)	4,104	7,869	–	–
Total expenses		**224,916**	**229,678**	**602**	**813**
Profit before taxation		**29,948**	**7,490**	**13,792**	**178,915**
Tax (expense)/credit attributed to shareholders' profits	8(A)	(8,324)	(7,071)	76	(129)
Profit for the year from continuing operations		**21,624**	**419**	**13,868**	**178,786**
Profit/(loss) for the year from discontinued operations	37	4,964	(2,981)	–	–
(Loss)/profit from disposal of subsidiaries	37	(2,977)	36,937	–	–
Profit for the year		**23,611**	**34,375**	**13,868**	**178,786**
Profit attributed to:					
Shareholders		23,194	34,245	13,868	178,786
Non-controlling interest		417	130	–	–
		23,611	**34,375**	**13,868**	**178,786**

		CENTS	CENTS
Basic and diluted earnings per share from continuing operations	34	11.29	0.12
Basic and diluted earnings per share from discontinued operations	34	1.06	14.24

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

TOWER Limited
Statements of Comprehensive Income

For the *year* ended 30 September 2014

		GROUP		COMPANY	
		2014	2013	2014	2013
	NOTE	$000	$000	$000	$000
Profit for the year		**23,611**	**34,375**	**13,868**	**178,786**
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Gain on asset revaluation	13	58	715	–	–
Gain transferred to income statement from asset sold	20	–	(467)	–	–
Deferred income tax relating to asset revaluation	20	(10)	(218)	–	–
Deferred income tax relating to asset sold	20	–	87	–	–
Currency translation differences		2,582	(6,453)	–	–
Other comprehensive income/(loss) net of taxation		**2,630**	**(6,336)**	**–**	**–**
Total comprehensive income for the year		**26,241**	**28,039**	**13,868**	**178,786**
Total comprehensive income attributed to:					
Shareholders		25,758	27,916	13,868	178,786
Non-controlling interest		483	123	–	–
		26,241	28,039	13,868	178,786
Total comprehensive income attributed to equity shareholders arises from:					
Continuing operations		24,254	(5,917)	13,868	178,786
Discontinuing operations		1,987	33,956	–	–
		26,241	**28,039**	**13,868**	**178,786**

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

TOWER Limited
Balance Sheets

As at 30 September 2014

		GROUP		COMPANY	
		2014	2013	2014	2013
	NOTE	$000	$000	$000	$000
Assets					
Cash and cash equivalents	29(A)	168,062	341,624	2,891	1,507
Receivables	9	316,295	380,957	22,888	20,008
Financial assets at fair value through profit or loss	25	212,407	147,437	–	–
Derivative financial assets	25	–	122	–	–
Property, plant and equipment	13	6,285	4,879	–	–
Current tax assets		12,733	10,713	2,146	2,181
Deferred acquisition costs	12	20,028	18,211	–	–
Investments in subsidiaries	11	–	–	235,254	235,254
Deferred tax assets	8(C)	19,303	23,652	58	–
Intangible assets	10	35,483	30,174	–	–
		790,596	**957,769**	**263,237**	**258,950**
Assets of disposal groups classified as held for sale	37	–	738,801	–	–
Total Assets		**790,596**	**1,696,570**	**263,237**	**258,950**
Liabilities					
Payables	14	46,157	45,036	175,641	104,077
Current tax liabilities		371	1,654	–	–
Provisions	15	7,308	12,213	–	–
Derivative financial liabilities	25	46	–	–	–
Interest bearing liabilities	16	–	82,791	–	–
Insurance liabilities	17	404,572	451,905	–	–
Deferred tax liabilities	8(C)	6,133	5,464	–	–
		464,587	**599,063**	**175,641**	**104,077**
Liabilities of disposal groups classified as held for sale	37	–	716,430	–	–
Total Liabilities		**464,587**	**1,315,493**	**175,641**	**104,077**
Net Assets		**326,009**	**381,077**	**87,596**	**154,873**
Equity					
Contributed equity	18	396,819	453,935	396,819	453,935
Accumulated profit/(losses)	19	42,174	42,983	(196,223)	(186,106)
Reserves	20	(114,583)	(117,103)	(113,000)	(112,956)
Total equity attributed to shareholders		**324,410**	**379,815**	**87,596**	**154,873**
Non-controlling interest		1,599	1,262	–	–
Total Equity		**326,009**	**381,077**	**87,596**	**154,873**

The financial statements were approved for issue by the Board on 27 November 2014.

Michael P Stiassny

Chairman

Graham R Stuart

Director

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

TOWER Limited
Statements of Changes in Equity

For the *year* ended 30 September 2014

GROUP		ATTRIBUTED TO SHAREHOLDERS					
YEAR ENDED 30 SEPTEMBER 2014	NOTE	CONTRIBUTED EQUITY $000	ACCUMULATED LOSSES/ PROFITS $000	RESERVES $000	TOTAL $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
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	18	(57,116)	–	–	**(57,116)**	–	**(57,116)**
Movement in share based payment reserve	19,20	–	44	(44)	**–**	–	**–**
Dividends paid	19	–	(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**

YEAR ENDED 30 SEPTEMBER 2013	NOTE	CONTRIBUTED EQUITY $000	ACCUMULATED LOSSES/ PROFITS $000	RESERVES $000	TOTAL $000	NON-CONTROLLING INTEREST $000	TOTAL EQUITY $000
At the beginning of the year		572,805	33,546	(109,005)	497,346	1,443	498,789
Comprehensive income							
Profit for the year		–	34,245	–	**34,245**	130	**34,375**
Other comprehensive income							
Gain on asset revaluation		–	–	715	**715**	–	**715**
Gain transferred to income statement from asset sold		–	–	(467)	**(467)**	–	**(467)**
Deferred income tax relating to asset revaluation		–	–	(218)	**(218)**	–	**(218)**
Deferred income tax relating to asset sold		–	–	87	**87**	–	**87**
Currency translation differences		–	–	(6,446)	**(6,446)**	(7)	**(6,453)**
Total comprehensive income		**–**	**34,245**	**(6,329)**	**27,916**	**123**	**28,039**
Transactions with shareholders							
Capital repayment plan	18	(119,228)	–	–	**(119,228)**	–	**(119,228)**
Shares issued under employee share options scheme	18	358	–	–	**358**	–	**358**
Movement in share based payment reserve	19,20	–	1,697	(1,770)	**(73)**	–	**(73)**
Dividends paid	19	–	(26,505)	–	**(26,505)**	–	**(26,505)**
Minority interest dividend paid		–	–	–	**–**	(304)	**(304)**
Other		–	–	1	**1**	–	**1**
Total transactions with shareholders		**(118,870)**	**(24,808)**	**(1,769)**	**(145,447)**	**(304)**	**(145,751)**
At the end of the year		**453,935**	**42,983**	**(117,103)**	**379,815**	**1,262**	**381,077**

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

TOWER Limited
Statements of Changes in Equity (continued)

For the *year* ended 30 September 2014

COMPANY		CONTRIBUTED EQUITY	ACCUMULATED LOSSES	RESERVES	TOTAL EQUITY
YEAR ENDED 30 SEPTEMBER 2014	NOTE	$000	$000	$000	$000
At the beginning of the year		453,935	(186,106)	(112,956)	154,873
Comprehensive income					
Profit for the year		–	13,868	–	**13,868**
Total comprehensive income		**–**	**13,868**	**–**	**13,868**
Transactions with shareholders					
Capital repayment plan	18	(57,116)	–	–	**(57,116)**
Movement in share based payment reserve	19,20	–	44	(44)	**–**
Dividends paid	19	–	(24,011)	–	**(24,011)**
Other		–	(18)	–	**(18)**
Total transactions with shareholders		**(57,116)**	**(23,985)**	**(44)**	**(81,145)**
At the end of the year		**396,819**	**(196,223)**	**(113,000)**	**87,596**
YEAR ENDED 30 SEPTEMBER 2013					
At the beginning of the year		572,805	(340,085)	(111,186)	121,534
Comprehensive income					
Profit for the year		–	178,786	–	**178,786**
Total comprehensive income		**–**	**178,786**	**–**	**178,786**
Transactions with shareholders					
Capital repayment plan	18	(119,228)	–	–	**(119,228)**
Shares issued under employee share options scheme	18	358	–	–	**358**
Movement in share based payment reserve	19,20	–	1,697	(1,770)	**(73)**
Dividends paid	19	–	(26,505)	–	**(26,505)**
Other		–	1	–	**1**
Total transactions with shareholders		**(118,870)**	**(24,807)**	**(1,770)**	**(145,447)**
At the end of the year		**453,935**	**(186,106)**	**(112,956)**	**154,873**

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

TOWER Limited
Statements of Cash Flows

For the *year* ended 30 September 2014

		GROUP		COMPANY	
		2014	2013	2014	2013
	NOTE	$000	$000	$000	$000
Cash flows from operating activities					
Premiums received		303,993	378,947	–	–
Interest received		36,035	38,981	394	1,528
Dividends received		1,377	1,710	–	–
Investment income		18,896	21,660	–	–
Fee and other income		3,825	16,304	–	–
Reinsurance received		193,920	178,492	–	–
Reinsurance paid		(51,688)	(69,416)	–	–
Claims paid		(383,020)	(399,880)	–	–
Payments to suppliers and employees		(81,287)	(156,481)	(103)	(14)
Interest paid		(5,136)	(7,068)	–	–
Income tax paid		(4,539)	(13,306)	–	–
Net cash inflow/(outflow) from operating activities	29(B)	**32,376**	**(10,057)**	**291**	**1,514**
Cash flows from investing activities					
Net (payments)/receipts for financial assets		(63,294)	126,058	–	–
Payments for purchase of property, plant and equipment and intangible assets		(9,983)	(12,219)	–	–
Receipt for disposal of property, plant and equipment and intangible assets		(77)	591	–	–
Cash disposed with sale of subsidiaries		(12,194)	(58,101)	–	–
Proceeds from sale of subsidiaries		35,500	253,895	–	–
Net cash (outflow)/inflow from investing activities		**(50,048)**	**310,224**	**–**	**–**
Cash flows from financing activities					
Proceeds from issue of share capital		–	276	–	276
Dividends paid		(24,011)	(26,505)	(24,011)	(26,505)
Bond repayment		(81,759)	–	–	–
Payment of minority interest dividends		(146)	(304)	–	–
Capital repayment		(57,116)	(119,227)	(57,116)	(119,227)
Net advances from subsidiaries		–	–	82,220	72,521
Net cash outflow from financing activities		**(163,032)**	**(145,760)**	**1,093**	**(72,935)**
Net (decrease)/increase in cash and cash equivalents		**(180,704)**	**154,407**	**1,384**	**(71,421)**
Foreign exchange movement in cash		(1,257)	(4,118)	–	–
Cash and cash equivalents at the beginning of year		341,624	186,477	1,507	72,928
Cash reclassified as part of sale		8,399	13,257	–	–
Cash reclassified to disposal group held for sale		–	(8,399)	–	–
Cash and cash equivalents at the end of year	29(A)	**168,062**	**341,624**	**2,891**	**1,507**

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

TOWER Limited
Notes to the Financial Statements

For the *year* ended 30 September 2014

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied to all the periods presented, unless otherwise stated.

TOWER Limited (the Company) is a profit-oriented company incorporated in New Zealand under the New Zealand Companies Act 1993. The Company is listed on the New Zealand and Australian Stock Exchanges. The Company is an issuer under the Financial Reporting Act 1993. 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 its registered office is 22 Fanshawe Street, Auckland, New Zealand.

The financial report of the Company and the Group has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). It complies with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for profit-oriented entities.

The group has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The group is a Tier 1 entity. There was no impact on the current or prior year financial statements.

During the periods presented, the principal activity of the TOWER Limited Group was provision of life and general insurance. The Group predominantly operates in New Zealand with some of its general insurance operations based in the Pacific Islands region. In recent financial years, TOWER Group has divested a number of businesses the details of which are presented below:

On 30 November 2012, TOWER Limited sold its health insurance business, TOWER Medical Insurance Limited. The sale of TOWER Medical Insurance Limited resulted in the health insurance business segment being treated as a discontinued operation. The sale is disclosed in more detail in note 37(A).

On 26 February 2013, TOWER Limited announced the sale of its investment business comprising, TOWER Managed Funds Limited, TOWER Managed Funds Investments Limited, TOWER Employee Benefits Limited, TOWER Asset Management Limited and TOWER Investments Limited. The sale was completed on 2 April 2013 and resulted in the investment business segment being treated as a discontinued operation in the 30 September 2013 financial statements. The sale is disclosed in more detail in note 37(B).

On 10 May 2013, TOWER Limited announced the sale of most of its non-participating life insurance business to Fidelity Life Assurance Company Limited. The sale was completed on 1 August 2013 and resulted in the non-participating life business segment being treated as a discontinued operation in the 30 September 2013 financial statements. The sale is disclosed in more detail in note 37(C).

On 28 November 2013, TOWER Limited announced the approval by the Federal Court of Australia for the portfolio transfer of the runoff business underwritten by the TOWER Insurance Limited's Australian branch. The transfer included disposing of all policies written or assumed by the branch and all the associated assets and liabilities under those policies. The sale was completed on 5 December and resulted in the release of approximately $20 million surplus capital to TOWER Insurance Limited. The operations of the branch have been discontinued. The Australian branch of TOWER Insurance Limited was treated as a discontinued operation in the 30 September 2013 financial statements. The sale is disclosed in more detail in note 37(D).

On 1 July 2014, TOWER Limited announced the sale of TOWER Life (N.Z.) Limited to Foundation Life (NZ) Holdings Limited. The sale resulted in the remaining life business segment being treated as a discontinued operation of the Group in the 30 September 2014 financial statements. Completion of the sale occurred on 29 August 2014. The TOWER Life (N.Z.) Limited remaining life business was being marketed as for sale as at 30 September 2013 and was treated as a held for sale. The sale is disclosed in more detail in note 37(E).

As disclosed in accounting policy (AF) Comparatives, the sale of TOWER businesses has resulted in the classification of balances into two line items. Income statement balances for 2014 and 2013 years have been classified into either, 'Profit for the year from discontinued operations' or 'Profit from disposal of subsidiaries'. 2013 balance sheet items have been classified into two lines 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale'. The cash flow statement continues to include related cash flows from discontinued operations within each line item. A summary of cash flows from discontinued operations is presented in the relevant sections of note 37 – Discontinued operations, which contains full details of the business disposals.

Compliance with International Financial Reporting Standards (IFRS)

The consolidated financial statements and notes of TOWER Limited comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a fair value basis with any exceptions noted in the accounting policies below.

The Company's owners or others do not have the power to amend the financial statements after they have been authorised for issue.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 September 2014 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the consolidated entity has control, being the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

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

The acquisition of controlled entities from external parties is accounted for using the acquisition method of accounting. The acquisition of entities under common control is accounted for using the predecessor values method. 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.

Investment in subsidaries

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes directly attributable costs of investment.

TOWER Limited
Notes to the Financial Statements

For the *year* ended 30 September 2014

1. Summary of significant accounting policies *(continued)*

Specific accounting policies

(A) Premium revenue

(i) General insurance contracts

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 the 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.

(B) Fee and other revenue

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.

(C) 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.

(D) Claims expense

(i) General insurance contracts

Claims expenses are recognised when claims are notified with the exception of claims incurred but not reported for which a provision is estimated (discussed in note 2(A)).

(E) Basis of expense apportionment

All operating expenses in respect of life insurance or life investment contracts have been apportioned between policy acquisition, policy maintenance and investment management expenses with regard to the objective when incurring the expense and the outcome achieved.

The apportionment process is adopted by applying the following methodology:

(i) Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned.

(ii) Commission expenses that cannot be allocated to a class of business, for example volume bonuses, are apportioned on the basis of new business and renewal commissions of each class, allowing for limits implied by the basis of adviser remuneration.

(iii) Investment expenses are apportioned to the classes of business on the mean balance of assets under management.

(iv) Other expenses that cannot be allocated to a particular class of business are apportioned to classes of business based on appropriate cost drivers, including number of new policies issued and related premiums, number of new units issued, mean balance of assets under management, average number of policies in-force and time and activity based allocations.

(F) Policy acquisition costs

General insurance products

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.

(G) Outwards reinsurance

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

(H) Reinsurance recoveries

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

(I) Financing costs

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

(J) Taxation

(i) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax 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).

(ii) Deferred tax

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

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

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

(iii) Tax consolidation

TOWER Limited and its New Zealand wholly-owned subsidiaries (excluding 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.

(iv) Income tax expense

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

(v) GST

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

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

(K) Foreign currency

(i) Functional and presentation currencies

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

(ii) Transactions and balances

In preparing the financial statements of the individual entities transactions denominated in foreign currencies are translated into the reporting currency 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.

(L) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within cash and cash equivalents on the balance sheet if the net position is an asset due to TOWER Group's right to offset overdrafts within its banking facility.

(M) 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 their 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 years
Motor vehicles	5 years
Buildings	50 - 100 years
Leasehold property improvements	3 - 12 years

(N) Assets backing insurance business

The Group has determined that:

- all assets of the life insurance companies were assets backing the policy liabilities of the life insurance business including life insurance contract liabilities and life investment contract liabilities, with the exception of investments in operating subsidiaries;

TOWER Limited
Notes to the Financial Statements

For the *year* ended 30 September 2014

1. Summary of significant accounting policies *(continued)*

- all assets within the general insurance companies are held to back general insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries; and

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. They have been measured at fair value through profit or loss wherever the applicable standard allows.

(O) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders 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, adjusted for bonus elements of ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(P) Intangibles

(i) 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.

(ii) 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

(Q) Impairment of non financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested bi-annually for impairment. Assets with a finite useful life are subject to amortisation 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).

(R) Financial instruments

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.

(iii) 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 note 26.

(iv) Offsetting financial instruments

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

The Group does not hold financial assets and financial liabilities subject to offsetting arrangements other than cash and cash equivalents. Refer to note 29.

(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.

(S) Impairment of financial assets

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

For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of the 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 notification of insolvency of the debtor or upon receipt of similar 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.

(T) Leased assets

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.

Benefits received and receivable for entering into an operating lease are recognised on a straight line basis over the term of the lease.

(U) Interest bearing liabilities

Interest bearing debt and overdrafts are initially measured at fair value, net of transaction costs incurred and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of liability is recognised over the term of the liability.

(V) 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.

(W) 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.

(X) Employee entitlements

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.

(Y) General Insurance Liabilities

General insurance 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.

1. Summary of significant accounting policies *(continued)*

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.

(Z) Contributed equity

Ordinary shares issued by the Group are classified as equity and are recognised at fair value less direct issue costs.

(AA) Share based payments

The Group issues share based compensation packages to senior executives as part of their remuneration packages.

These options are measured at fair value at grant date and expensed over the period during which the employee becomes unconditionally entitled to the options, based on the estimate of shares that will eventually vest. Fair value at grant date is measured using a binomial model, taking into account the specific conditions of the options issued. The determination of fair value excludes the impact of any non-market vesting conditions which are allowed for in assumptions about the number of options that are expected to be exercisable. When an expense is recognised there is an equal and opposite entry made to the share option reserve in equity. When the options are exercised the receipt of the exercise price is transferred to share capital.

Where there is a tax deduction allowable in relation to the share option scheme this is recognised in the income statement, to the extent of the tax credit commensurate to the expense recognised in the income statement, with the balance reported through the share option reserve in equity.

Where terms are changed during the period that increase the cost of the options then this is recognised over the remaining vesting period. Where terms are changed during the period that decrease the cost of the options then there is no change to the expense recognised.

(AB) Segment 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.

(AC) Cash flows

The statements of cash flows present the 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 and it is considered acceptable to report only the net cash flows for these items. This is based on the fact that either the turnover of these items is quick, the amounts are large, and the maturities are short or the value of the sales are immaterial.

(AD) Discontinued operations and disposal groups

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 Statements and Statements 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.

Cash flows associated with discontinued operations are disclosed in note 37.

The following specific accounting policies refer to the discontinued life insurance businesses disposed of during the current and prior financial years.

(A) Premium revenue

(i) Life insurance contracts

Premiums on life insurance contracts are separated into their revenue and deposit components. Where it is not practicable to split out the two components all premiums have been recognised as revenue. Where policies provide for the payment of amounts of premiums on specific due dates, such premiums are recognised as revenue when due. Unpaid premiums are recognised as revenue only during the days of grace or where secured by the surrender values of the policies concerned. Other premiums are recognised as revenue on a cash received basis.

(ii) Life investment contracts

Under life investment contracts the life companies receive deposits from policyholders which are then invested on behalf of the policyholders. No premiums are recognised as revenue. Fees deducted from members' accounts are accounted for as fee revenue.

(B) Claims expense

(i) Life insurance contracts

Claims are recognised when the liability to a policyholder under a life insurance contract has been established or upon notification of the insured event. Claims are separated into their expense and withdrawal components. Claims on risk business are treated as an expense and are recognised when a liability to the policyholder is established.

(ii) Life investment contracts

There is no claims expense in respect of investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Other claim amounts are similar to withdrawals and as such do not relate to the provision of services or the bearing of risk. Accordingly, they are not expenses and are treated as movements in life insurance contract liabilities.

(C) Policy acquisition costs

Life insurance contracts

In determining the life insurance contract liabilities, the deferral and future recovery of acquisition costs were capitalised by way of movement in life insurance contract liabilities, then amortised over the period in which they were recoverable.

(AE) Business combinations

Identifiable assets acquired and liabilities assumed in business combination with third parties are measured at fair value at acquisition date with any excess of cost over the fair value of the net assets acquired recognised as goodwill on the balance sheet.

Identifiable assets acquired and liabilities assumed in business combination with entities within the TOWER Limited group are accounted for at carrying value at the date of acquisition. Any difference between the cost and carrying value of net assets is recognised in the business combination under common control reserve in the balance sheet.

(AF) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current year.

As required by NZ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the sale of TOWER businesses has resulted in the classification of balances into two line items. Income statement balances for 2014 and 2013 years have been classified into either, 'Profit for the year from discontinued operations' or 'Profit from disposal of subsidiaries'. 2013 balance sheet items have been `classified into two lines 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale'. The cash flow statement continues to include related cash flows from discontinued operations within each line item. A summary of cash flows from discontinued operations is presented in the relevant section note 37 – Discontinued operations, which contains full details of the business disposals.

The split of total comprehensive income attributed to equity shareholder arising from continuing and discontinuing operations for the year ended of September 2013 has been restated within the statement of comprehensive income to correct a prior year misstatement. Total comprehensive income from continuing operation for the year ended 30 September 2013 has been decreased from $31,020,000 to ($5,917,000). Correspondingly total comprehensive income from discontinued operations for the year ended 30 September 2013 has been increased from ($2,981,000) to $33,956,000.

In the 2013 comparatives for Fee and other revenue, an amount of $3,175,000 was presented net within Management and sales expenses. To correct a prior year misstatement, Fee and other revenue for the year ended 30 September 2013 has been increased from $393,000 to $3,568,000 in the income statements, with a corresponding increase in 2013 comparative Management and sales expenses (from $72,069,000 to $75,244,000).

2. Critical accounting judgements and estimates

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

(A) Claims liabilities under general insurance contracts

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group.

The estimated cost of claims includes direct expenses to be incurred in settling claims net of the expected value of salvage 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 has 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 the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the 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 2014

2. Critical accounting judgements and estimates *(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 as 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. 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 24.

(B) Assets arising from reinsurance contracts

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

(C) Taxation

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.

3. 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 2014 or later periods, and the Group has not early adopted them. 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 TOWER Group. The standard will provide a single source of requirements for accounting for all contracts with customers (except for some specific exceptions, such as lease contracts, insurance contracts and financial instruments) and will replace all current accounting pronouncements on revenue. New revenue disclosures are also introduced. The Group is in the process of evaluating the impact of this standard.

(B) Standards, amendments and interpretations to existing standards effective 2014 or early adopted by the Group.

The Group has adopted the following new and amended IFRS's as of 1 October 2013:

- NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013). The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The revised standard has not had a material impact on the financial statements other than additional disclosures.
- NZ IFRS 10 'Consolidated Financial statements' (effective from 1 January 2013). The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in NZ IAS 27 Consolidated and Separate Financial Statements. The revised standard has not had a material impact on the financial statements.
- NZ IFRS 12 'Disclosure of Interests in Other Entities' (effective from 1 January 2013). The standard requires extensive disclosure of information that enables users of the financial statements to evaluate the nature of, and risks associated with, interests in other entities. The revised standard has not had a material impact on the financial statements.
- NZ IFRS 7, 'Financial Instruments: Disclosures' amendments, on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The revised standard has not had a material impact on the financial statements other than additional disclosures.

4. Premium revenue

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Gross written premiums	297,627	279,307	–	–
Less: Gross unearned premiums	(12,514)	(12,147)	–	–
Premium revenue earned from insurance contracts	**285,113**	**267,160**	**–**	**–**
Less: Outwards reinsurance expense	(48,197)	(48,617)	–	–
Total net premium revenue	**236,916**	**218,543**	**–**	**–**

5. Investment revenue

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Fixed interest securities (1)				
Interest income	15,637	16,750	394	1,252
Net realised (loss)/gain	(2,947)	3,100	–	–
Net unrealised gain/(loss)	1,563	(6,455)	–	–
	14,253	**13,395**	**394**	**1,252**
Equity securities (1)				
Dividend income	14	231	14,000	178,453
Net realised gain	–	461	–	–
Net unrealised gain	–	196	–	–
	14	**888**	**14,000**	**178,453**
Property securities (1)				
Property income	4	105	–	–
Net realised gain	412	3,215	–	–
Net unrealised loss	(401)	(2,729)	–	–
	15	**591**	**–**	**–**
Other (2)				
Other investment income	–	–	–	23
Net realised gain/(loss)	103	(63)	–	–
Net unrealised (loss)/gain	(168)	246	–	–
	(65)	**183**	**–**	**23**
Total investment revenue				
Total investment revenue	15,655	17,086	14,394	179,728
Total net realised (loss)/gain	(2,432)	6,713	–	–
Total net unrealised gain/(loss)	994	(8,742)	–	–
	14,217	**15,057**	**14,394**	**179,728**

(1) The income and loss in these categories has been generated by financial assets designated on initial recognition at fair value through profit or loss.

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

6. Claims expense

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
General insurance claims	258,855	198,818	–	–
Less: Reinsurance recoveries revenue	(119,742)	(52,253)	–	–
Total net claims expense	**139,113**	**146,565**	**–**	**–**

7. Other expenses

(A) Management and sales expenses

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Management and sale expenses	81,699	75,244	602	813
Total management and sales expenses	**81,699**	**75,244**	**602**	**813**
Included in total management and sales expenses are the following:				
Amortisation of deferred acquisition costs	18,211	17,086	–	–
Bad debts written off	(32)	219	–	–
Change in provision for doubtful debts	(160)	161	–	–
Amortisation of software	931	3,648	–	–
Depreciation:				
Office equipment and furniture	328	323	–	–
Motor vehicles	186	292	–	–
Computer equipment	1,247	1,214	–	–
Directors' fees	495	824	495	724
Operating leases	3,834	4,413	–	–
Employee benefits expense	49,621	62,872	–	–
Loss on disposal of property, plant and equipment	(21)	(2,140)	–	–
Claims related expense reclassified to claims expense	(18,564)	(15,630)	–	–
Auditors' remuneration				
Fees paid to Company's auditors:				
Audit of financial statements (1)	518	761	–	–
Other services:				
Other assurance related services (2)	71	160	–	–
Non-assurance advisory related services (3)	6	43	–	–
Fees paid to subsidiary's auditors which are different from Group auditors:				
Audit of annual financial statements	33	37	–	–

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Notes to the Financial Statements

For the *year* ended 30 September 2014

7. Other expenses *(continued)*

(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 in the current year relate solvency audit, share register, audit of TOWER Life (N.Z) Limited net asset statement, Australian branch licence revocation and regulatory returns. In the prior year other assurance related services related predominantly to work performed on the sale of health business completion accounts, the investment businesses net asset statements and non-participating life business closing balance at point of disposal. The amount also includes work performed on solvency returns of TOWER Insurance Limited and TOWER Life (N.Z.) Limited.

(3) Non-assurance advisory related services relate to Annual Shareholders Meeting procedures. In the prior year non-assurance advisory related services related to return of capital requirements, investors pack review and advice on the sale of the investment businesses.

(B) Financing costs

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Interest expense	4,104	7,750	–	–
Other costs	–	119	–	–
Total financing costs	**4,104**	**7,869**	**–**	**–**

8. Taxation

(A) Current tax expense

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Analysis of taxation expense				
Current taxation	10,681	7,446	5	129
Deferred taxation	(2,088)	(34)	(58)	–
Under provided in prior years	(269)	(341)	(23)	–
Income tax expense for the year	**8,324**	**7,071**	**(76)**	**129**
Income tax expense attributed to shareholders	8,324	7,071	(76)	129
	8,324	**7,071**	**(76)**	**129**
The tax expense recognised can be reconciled to the accounting profit as follows:				
Profit before taxation from continuing operation	29,948	7,490	13,792	178,915
Income tax at the current rate of 28%	8,385	2,097	3,862	50,096
Taxation effect of non deductible expenses / non-assessable revenue:				
Life insurance companies permanent differences	–	(33)	–	–
Recognition of prior period current tax	(551)	(340)	(23)	–
Non deductible (income)/losses from PIEs	–	(78)	–	–
Non deductible (income)/expenditure	(146)	423	–	–
Non taxable dividend from subsidiaries	–	–	(3,920)	(49,967)
Foreign tax credits write-off	795	3,592	–	–
Other	(159)	1,410	5	–
Income tax expense	**8,324**	**7,071**	**(76)**	**129**

(B) Current tax liabilities

Current tax liabilities of $371,000 relate to taxes payable to off shore tax authorities in the Pacific Islands (2013: $1,654,000).

(C) Deferred tax assets and liabilities

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:

	GROUP					
	OPENING BALANCE AT 1 OCTOBER	CHARGED/(CREDITED) TO INCOME STATEMENT	CREDITED TO STATEMENT OF COMPREHENSIVE INCOME	DISCONTINUED OPERATIONS AND DISPOSAL GROUP HELD FOR SALE	CHARGED/(CREDITED) TO OTHER GROUP COMPANIES	CLOSING BALANCE AT 30 SEPTEMBER
2014	$000	$000	$000	$000	$000	$000
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
Fixed Assets	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 acquistion 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**
2013						
Movements in deferred tax assets						
Provisions and accruals	1,759	721	–	1,267	–	3,747
Tax losses	11,703	5,298	–	(6,539)	–	10,462
Insurance Liabilities	1,177	(1,177)	–	–	–	–
Fixed Assets	1,248	(4,356)	–	12,551	–	9,443
Other	19	–	–	(19)	–	–
Total deferred tax assets	**15,906**	**486**	**–**	**7,260**	**–**	**23,652**
Movements in deferred tax liabilities						
Deferred acquisition costs	5,923	298	–	(1,787)	–	4,434
Unrealised gains	1,148	(274)	–	(874)	–	–
Life insurance contract liabilities	39,784	–	–	(39,784)	–	–
Other	617	428	131	(146)	–	1,030
Total deferred tax liabilities	**47,472**	**452**	**131**	**(42,591)**	**–**	**5,464**
Net deferred tax	**(31,566)**	**34**	**(131)**	**49,851**	**–**	**18,188**

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For the *year* ended 30 September 2014

8. Taxation *(continued)*

	COMPANY				
	OPENING BALANCE AT 1 OCTOBER	CHARGED/(CREDITED) TO INCOME STATEMENT	CREDITED TO STATEMENT OF COMPREHENSIVE INCOME	CHARGED/(CREDITED) TO OTHER GROUP COMPANIES	CLOSING BALANCE AT 30 SEPTEMBER
2014	$000	$000	$000	$000	$000
Movements in deferred tax assets					
Other	–	58	–	–	58
Total deferred tax assets	**–**	**58**	**–**	**–**	**58**

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

	GROUP	
	2014	2013
	$000	$000
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	4,459	2,596
Deferred tax assets to be recovered after more than 12 months	9,621	15,995
	14,080	**18,591**
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	688	(200)
Deferred tax liabilities to be settled after more than 12 months	222	603
	910	**403**

Deferred tax liabilities of $908,000 have not been recognised in respect of temporary differences associated with investments in subsidiaries (2013: liabilities of $1,355,000).

(D) Imputation credits

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

	GROUP	
	2014	2013
	$000	$000
Imputation credits available for use in subsequent periods	477	361

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

i) Imputation credits that will arise from the payment of the amount of the provision for income tax;

ii) Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

iii) Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The company and its New Zealand subsidiaries have formed a tax consolidated group. The consolidated group imputation credit account balance reflects the imputation credits available to all members of the group. As at 1 October 2013 TOWER Insurance Limited ceased to be a member of the consolidated group.

9. Receivables

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Reinsurance recovery receivables	187,590	257,310	–	–
Outstanding premiums and trade receivables	121,836	114,535	–	–
Unsettled investment sales	–	601	–	–
Related party receivables	–	–	22,888	20,008
Other	6,869	8,511	–	–
Total receivables	**316,295**	**380,957**	**22,888**	**20,008**
Analysed as:				
Current	280,276	310,629	22,888	20,008
Non current	36,019	70,328	–	–
	316,295	**380,957**	**22,888**	**20,008**

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:

Outstanding premiums and trade receivables	123,789	141,413	–	–
Allowance for doubtful debts	(1,953)	(2,113)	–	–
Transferred to discontinued operation	–	(24,765)	–	–
	121,836	**114,535**	**–**	**–**
Balance at 1 October	2,113	1,952	–	–
Provisions added during the year	–	567	–	–
Impairment loss recognised during the year	32	(219)	–	–
Provisions released during the year	(192)	(187)	–	–
Balance at 30 September	**1,953**	**2,113**	**–**	**–**

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

10. Intangible assets

GROUP		SOFTWARE			
	GOODWILL	ACQUIRED	INTERNALLY DEVELOPED	UNDER DEVELOPMENT	TOTAL
	$000	$000	$000	$000	$000
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**
Year ended 30 September 2013					
Cost:					
At 1 October 2012	17,744	3,485	59,798	5,877	86,904
Additions	–	632	–	9,268	9,900
Disposals	–	–	(1,588)	–	(1,588)
Impairment of assets (1)	–	–	(40,000)	(4,900)	(44,900)
At 30 September 2013	**17,744**	**4,117**	**18,210**	**10,245**	**50,316**
Accumulated amortisation:					
At 1 October 2012	–	(2,545)	(15,537)	–	(18,082)
Amortisation charge	–	(635)	(3,013)	–	(3,648)
Amortisation on disposals	–	–	1,588	–	1,588
At 30 September 2013	**–**	**(3,180)**	**(16,962)**	**–**	**(20,142)**
At 30 September 2013					
At cost	17,744	4,117	18,210	10,245	50,316
Accumulated amortisation	–	(3,180)	(16,962)	–	(20,142)
Net book value at 30 September 2013	**17,744**	**937**	**1,248**	**10,245**	**30,174**

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10. Intangible assets *(continued)*

(1) During the 30 September 2013 financial year, management reviewed the carrying value of intangible assets in light of business disposals during that year. The carrying value is the fair value less cost to sell determined by reference to invoiced amounts split by functionality of the software. Following the review an impairment of $44.9 million ($32.3 million net of tax) was recorded against the carrying value of Intangible assets – software. This impairment was expensed in the 30 September 2013 results reducing the profit from discontinued operations/disposal groups. The impairment related to the write down of policy administration software developed to process health and life insurance contracts. The reporting segment to which the impaired asset belonged was Other (Holding companies and eliminations).

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:

	GENERAL INSURANCE	
	2014	2013
	$000	$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 2014 as a result of the impairment review (2013: Nil).

Impairment review method overview

General Insurance

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 10% was used in the calculation (2013: 10%). Other assumptions used are consistent with the actuarial assumptions in note 24 in respect of TOWER Insurance. The projected cash flows have been determined using a steady average growth rate of 2% (2013: 4%). 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.

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. Investment in subsidiaries

	COMPANY	
	2014	2013
	$000	$000
Investments in controlled entities carried at cost	235,254	235,254

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

Principal trading subsidiary companies and controlled entries at 30 September 2014 and 2013 are as follows:

	HOLDINGS		
NAME OF COMPANY	2014	2013	NATURE OF BUSINESS
Held by Parent:			
Incorporated in New Zealand			
TOWER Financial Services Group Limited	100%	100%	Holding company
TOWER New Zealand Limited	100%	100%	Management services
TOWER Capital Limited	–	100%	Holding company for fixed rate senior unsecured bonds amalgamated into TOWER Financial Services Group Limited on 30 June 2014
Held by Group:			
Incorporated in New Zealand			
TOWER Insurance Limited	100%	100%	Fire and general insurance
TOWER Operations Limited	100%	100%	Non-operating Company (29 November 2013 name changed from TOWER Health & Life Limited)
TOWER Life (N.Z.) Limited	–	100%	Life insurance and superannuation management (sold 29 August 2014)
TOWER Option Scheme Limited	–	100%	Trustee for executive share options, amalgamated into TOWER Financial Services Group Limited on 9 September 2014
TAM International Trust Income Fund	–	100%	Unitised investment trust (sold 29 August 2014)
Incorporated in Fiji			
TOWER Insurance (Fiji) Limited	100%	100%	Fire and general insurance
Incorporated in Cook Islands			
TOWER Insurance (Cook Islands) Limited	100%	100%	Fire and general insurance
Incorporated in PNG			
TOWER Insurance (PNG) Limited	100%	100%	Fire and general insurance
Incorporated in Samoa			
National Pacific Insurance Limited	71%	71%	Fire and general insurance

12. Deferred acquisition costs

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Balance at 1 October	18,211	23,467	–	–
Acquisition costs deferred during the year	20,028	18,211	–	–
Current period amortisation	(18,211)	(17,086)	–	–
Reclassified as discontinued operations	–	(6,381)	–	–
Balance at 30 September	**20,028**	**18,211**	**–**	**–**
Analysed as:				
Current	20,028	18,211	–	–
Non current	–	–	–	–
	20,028	**18,211**	**–**	**–**

13. Property, plant and equipment

	GROUP				
	LAND AND BUILDINGS	OFFICE EQUIPMENT AND FURNITURE	MOTOR VEHICLES	COMPUTER EQUIPMENT	TOTAL
	$000	$000	$000	$000	$000
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**

	GROUP				
	LAND AND BUILDINGS	OFFICE EQUIPMENT AND FURNITURE	MOTOR VEHICLES	COMPUTER EQUIPMENT	TOTAL
	$000	$000	$000	$000	$000
Year ended 30 September 2013					
Cost:					
At 1 October 2012	2,207	7,620	2,021	9,775	21,623
Additions	–	257	17	1,330	1,604
Revaluation	715	–	–	–	715
Disposals	(533)	(1,064)	(627)	(405)	(2,629)
Foreign exchange movements	(109)	(80)	(126)	(34)	(349)
At 30 September 2013	**2,280**	**6,733**	**1,285**	**10,666**	**20,964**
Accumulated Depreciation:					
At 1 October 2012	–	(6,727)	(1,096)	(8,271)	(16,094)
Depreciation charge	–	(323)	(292)	(1,214)	(1,829)
Disposals	–	941	380	325	1,646
Foreign exchange movements	–	71	90	31	192
At 30 September 2013	**–**	**(6,038)**	**(918)**	**(9,129)**	**(16,085)**
At 30 September 2013					
At cost	2,280	6,733	1,285	10,666	20,964
Accumulated depreciation	–	(6,038)	(918)	(9,129)	(16,085)
Net book value at 30 September 2013	**2,280**	**695**	**367**	**1,537**	**4,879**

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 23 August 2014 by Rolle Associates, registered valuers in Fiji. There has been no material movement in the valuation between 23 August and 30 September 2014. Inputs to the valuation of the Fiji property are considered as level 3 in the fair value hierarchy. The fair value is not considered to be material and no further disclosures have been made.

The residential property was sold effective 30 September 2013 and as a result is presented as a disposal in the table above.

Had land and buildings been recognised under the cost model the carrying amount would have been $1,145,000 (2013: $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.

The Company does not hold any property, plant and equipment.

TOWER Limited
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For the *year* ended 30 September 2014

14. Payables

		GROUP		COMPANY	
		2014	2013	2014	2013
	NOTE	$000	$000	$000	$000
Trade payables		14,200	11,902	–	–
Reinsurance payables		2,967	5,864	–	–
Other payables		28,990	27,270	2,877	1,732
Related party payables	33	–	–	172,764	102,345
Total payables		**46,157**	**45,036**	**175,641**	**104,077**
Analysed as:					
Current		46,157	45,036	175,641	104,077
Non current		–	–	–	–
		46,157	45,036	175,641	104,077

15. Provisions

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Business separation	3,028	9,257	–	–
Employee benefits	4,280	2,956	–	–
Total provisions	**7,308**	**12,213**	**–**	**–**
Analysed as:				
Current	7,308	12,075	–	–
Non current	–	138	–	–
	7,308	**12,213**	**–**	**–**

Movement in provisions

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

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Business separation				
Opening balance at 1 October	9,257	2	–	–
Additions	834	21,115	–	–
Amount utilised in the year	(6,060)	(11,860)	–	–
Reversal of unused amount	(1,003)	–	–	–
Closing balance at 30 September	**3,028**	**9,257**	**–**	**–**

Health business

As at 30 September 2013, the balance of separation costs relating directly to the sale of the health business was $372,000. $226,000 of the provision has been utilised during the year ended 30 September 2014, for legal, consultancy and IT related costs. $146,000 of the provision has been released. There is no provision remaining at 30 September 2014.

Investments business

As at 30 September 2013, the balance of separation costs relating directly to the sale of the investments business was $1,444,000. $1,102,000 of the provision has been utilised during the year ended 30 September 2014, for legal, consultancy and IT related costs. $329,000 of the provision has been released. The remaining balance is expected to be fully utilised by December 2014.

Non-participating life business

As at 30 September 2013, the balance of separation costs relating directly to the sale of the non-participating life business was $4,561,000. $3,444,000 was utilised during the year ended 30 September 2014, for legal, consultancy and IT related costs. $133,000 of the provision has been released. The remaining provision is expected to be fully utilised by June 2015.

Participating life business

Separation costs of $2,880,000 relating directly to the sale of the remaining life business were provided for at 30 September 2013. The provision increased by $834,000 during the year ended 30 September 2014 relating to restructuring. $1,289,000 of the provision has been utilised during the year ended 30 September 2014, for legal, consultancy and IT related costs. $395,000 of the provision has been released. The remaining provision is expected to be fully utilised by September 2015.

Further details of the discontinued operations to which these provisions relate are disclosed in note 37.

Employee benefits

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

16. Interest bearing liabilities

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Fixed rate senior unsecured bonds	–	83,219	–	–
Unamortised capitalised costs	–	(428)	–	–
	–	**82,791**	**–**	**–**
Analysed as:				
Current	–	82,791	–	–
Non current	–	–	–	–
	–	**82,791**	**–**	**–**

Fixed rate senior unsecured bonds

On 24 March 2009, the Group issued $81,759,000 of fixed rate senior unsecured bonds, bearing a fixed interest rate of 8.5% per annum. The bonds are carried at amortised cost using the effective interest method. The bonds matured on 15 April 2014 and in accordance with the Trust Deed for TOWER Fixed Rate Senior Unsecured Bonds dated 12 February 2009 (the 'Trust Deed'), the Group redeemed for cash on 15 April 2014 all of the bonds held by bondholders on the register at 5pm on the record date of 4 April 2014. Payment of the issue price of $1.00 per bond plus accrued interest amounted to a return of $83,496,379 to bondholders.

Following repayment of bond principal and accrued interest, TOWER Capital Limited was delisted from the NZX Debt Market and discharged from the Trust Deed. It has subsequently been amalgamated into TOWER Financial Services Group Limited.

The Group capitalised $3,499,000 of costs associated with the issuance of the bonds. These costs were amortised over the five year term of the bonds using the effective interest method. The amortised issuance costs during the year to 30 September 2014 were $428,500 (2013: $800,500).

17. Insurance liabilities

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Unearned premiums	150,504	136,915	–	–
Outstanding claims	254,068	314,990	–	–
	404,572	**451,905**	**–**	**–**
Analysed as:				
Current	365,674	345,926	–	–
Non current	38,898	105,979	–	–
	404,572	**451,905**	**–**	**–**

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

Unearned premiums – general insurance				
Opening balance at 1 October 2013	136,915	127,309	–	–
Premiums written	283,314	265,259	–	–
Premiums earned	(270,804)	(254,701)	–	–
Other	1,079	(952)	–	–
Closing balance at 30 September 2014	**150,504**	**136,915**	**–**	**–**

18. Contributed equity

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Ordinary share capital (fully paid)	396,819	453,935	396,819	453,935
Total contributed equity	**396,819**	**453,935**	**396,819**	**453,935**
	NUMBER OF SHARES		NUMBER OF SHARES	
Represented by:				
Ordinary shares	175,749,449	207,193,438	175,749,449	207,193,438
Movements in ordinary shares				
Balance at 1 October	207,193,438	269,091,094	207,193,438	269,091,094
Capital repayment plan	(31,443,989)	(62,097,656)	(31,443,989)	(62,097,656)
Employee share options scheme shares issued	–	200,000	–	200,000
Balance at 30 September	**175,749,449**	**207,193,438**	**175,749,449**	**207,193,438**
Movements in ordinary share capital				
	$000	$000	$000	$000
Balance at 1 October	453,935	572,805	453,935	572,805
Capital repayment	(57,116)	(119,228)	(57,116)	(119,228)
Employee share options scheme shares issued	–	358	–	358
Balance at 30 September	**396,819**	**453,935**	**396,819**	**453,935**

All shares rank equally with one vote attached to each share. There is no par value for each share.

19. Accumulated profits/(losses)

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Accumulated profits/(losses)				
Balance at 1 October	42,983	33,546	(186,106)	(340,085)
Profit for the year	23,194	34,245	13,868	178,786
Movement in share based payments reserve	44	1,697	44	1,697
Dividends paid	(24,011)	(26,505)	(24,011)	(26,505)
Other	(36)	–	(18)	1
Balance at 30 September	**42,174**	**42,983**	**(196,223)**	**(186,106)**

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20. Reserves

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Foreign currency translation reserve (FCTR)				
Balance at 1 October	(4,501)	1,945	–	–
Currency translation differences arising during the year	2,516	(6,446)	–	–
Balance at 30 September	**(1,985)**	**(4,501)**	**–**	**–**

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

Share based payments reserve				
Balance at 1 October	44	1,814	44	1,814
Movement in share based payments reserve	(44)	(1,770)	(44)	(1,770)
Balance at 30 September	**–**	**44**	**–**	**44**

The share based payments reserve is used to recognise the fair value of options issued but not exercised.

Separation reserve	**(113,000)**	**(113,000)**	**(113,000)**	**(113,000)**

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

Asset revaluation reserves				
Opening balance at 1 October	354	236	–	–
Gain on revaluation	48	498	–	–
Gain transferred to income statement from asset sold	–	(380)	–	–
Balance at 30 September	**402**	**354**	**–**	**–**

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

Total reserves	**(114,583)**	**(117,103)**	**(113,000)**	**(112,956)**

21. Net assets per share

	GROUP		COMPANY	
	2014	2013	2014	2013
Net assets per share (dollars)	1.85	1.84	0.50	0.75
Net tangible assets per share (dollars)	1.58	1.53	0.50	0.75

Net assets per share represents 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 represents the net assets per share adjusted for the effect of intangible assets and deferred tax balances. Assets from the disposal group are included in the calculation.

A reconciliation to net tangible assets is provided below:

Net assets	326,009	381,077	87,596	154,873
Less deferred tax	(13,170)	(34,208)	(58)	–
Less intangible assets	(35,483)	(30,174)	–	–
Net tangible assets	**277,356**	**316,695**	**87,538**	**154,873**

22. Distributions to shareholders

Dividend payments

On 26 November 2013 the Directors declared a final dividend for the 2013 financial year of 6 cents per share. The dividend was paid on 3 February 2014. The total amount payable was $12,431,606. 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 2014 financial year of 6.5 cents per share was declared by the Board of Directors on 26 May 2014 for the half year ended 31 March 2014. 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 $11,579,537. The dividend was paid on 30 June 2014.

Return of capital

On 26 November 2013 TOWER announced the acquisition of shares under a voluntary buyback offer for TOWER shares listed on the ASX and NZX exchanges and registered in the name of each TOWER ordinary shareholder. On 31 January 2014, this resulted in the acquisition for $1.81 per share and subsequent cancellation of 29,048,308 shares for a total consideration of NZ$52,577,437. This left 178,145,130 shares on issue immediately following the buyback. Australian shareholders received approximately AUD$1.64 per acquired share (based on a NZD/AUD exchange rate of 0.9050 as at the record date).

Small shareholder buyback

On 27 May 2014 TOWER announced options to acquire small shareholdings of fewer than 200 shares. Shareholders had the option to do nothing and have their shares cancelled on 12 September 2014 with them receiving NZ$1.72 per share. Shareholders also had the option of ether increasing their shareholding to more than 200 shares or notify TOWER in writing if they wished to remain a TOWER shareholder with a small parcel. On 17 September 2014 the small shareholder buyback resulted in the cancellation of 2,395,681 shares for a total consideration of NZ$4,120,571. This left 175,749,449 shares on issue immediately following the cancellation. Australian shareholders received approximately AUD$1.55 per cancelled share (based on a NZD/AUD exchange rate of 0.9010 as at the 16 September 2014).

Return of capital and small shareholder buyback transaction costs totalling $418,000 were incurred.

23. Segmental reporting

	GROUP			
	NEW ZEALAND GENERAL INSURANCE	PACIFIC GENERAL INSURANCE	OTHER (HOLDING COMPANIES AND ELIMINATIONS)	TOTAL
	$000	$000	$000	$000
30 September 2014				
Revenue				
Revenue – external	213,427	38,792	2,645	254,864
Revenue – internal	–	–	–	–
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	–	(186)	(2,506)	(2,692)
Profit before income tax	**23,250**	**11,804**	**(5,106)**	**29,948**
Income tax credit/(expense) (1)	(6,421)	(3,612)	1,709	(8,324)
Profit for the year	**16,829**	**8,192**	**(3,397)**	**21,624**
Total assets	594,094	82,609	113,893	**790,596**
Total liabilities	406,264	50,380	7,943	**464,587**
Acquistion of property, plant and equipment, intangibles and other non current assets	–	384	16,394	**16,778**
30 September 2013				
Revenue				
Revenue – external	181,683	45,539	6,771	233,993
Revenue – internal	2,614	(2,609)	(5)	–
Total revenue	**184,297**	**42,930**	**6,766**	**233,993**
Earnings before interest, tax, depreciation and amortisation	**(919)**	**13,580**	**8,175**	**20,836**
Interest expense	–	–	(7,869)	(7,869)
Depreciation and amortisation	(2)	(236)	(5,239)	(5,477)
Profit before income tax	**(921)**	**13,344**	**(4,933)**	**7,490**
Income tax (expense) (1)	186	(8,772)	1,515	(7,071)
Profit for the year	**(735)**	**4,572**	**(3,418)**	**419**
Total assets (2)	707,623	67,503	182,643	**957,769**
Total liabilities (2)	471,045	45,282	82,736	**599,063**
Acquistion of property, plant and equipment, intangibles and other non current assets	(4)	159	11,349	**11,504**

(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.

(2) The investment businesses, Australian liabilities, non-participating and remaining life business has been excluded from the above disclosure as the results, assets and liabilities of this segment are contained within note 37.

Description of segments and other segment information

Operating segments are based on the 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.

Management has determined operating segments are based on internal reporting reviewed by the Board of Directors (Chief Operating Decision Maker) for the purpose of making decisions on resource allocation and assessing performance.

New Zealand general insurance includes all fire and general insurance business written in New Zealand. Pacific general insurance includes all fire and general insurance business with customers in the Pacific Islands written by TOWER insurance subsidiaries and branches operations. Other includes head office expenses, financing costs and eliminations. The health, investments and life businesses have been excluded from the above disclosure as the results of these segments are contained within note 37.

TOWER Group operates predominantly in two geographical segments, New Zealand and the Pacific region. The operations in the United Kingdom and the United States do not represent a significant part of the Group's operations or hold material non-current assets.

The Group is domiciled in New Zealand. Revenue from external customers in New Zealand (excluding disposal group held for sale) is $216,072,000 (2013: $188,454,000) and total revenue from external customers from other countries is $38,792,000 (2013: $45,539,000).

The Group does not derive revenue from an individual policy holder or intermediary that represents 10% or more of the Group's total revenue.

24. General insurance business

(A) Analysis of general insurance operating result

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Premium revenue	285,113	267,160	–	–
Outward reinsurance expense	(48,197)	(48,617)	–	–
Net premium income	**236,916**	**218,543**	**–**	**–**
Claims expense	258,855	198,818	–	–
Reinsurance recoveries	(119,746)	(51,880)	–	–
Net claims incurred	**139,109**	**146,938**	**–**	**–**
Acquisition costs	38,691	36,281	–	–
Other underwriting expenses	39,363	35,226	–	–
Underwriting result	**19,753**	**98**	**–**	**–**
Investment and other income	15,303	12,325	–	–
Operating profit before taxation	**35,056**	**12,423**	**–**	**–**
Profit before taxation from general insurance	**35,056**	**12,423**	**–**	**–**

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(B) Net general insurance claims incurred

	2014			2013		
	RISKS BORNE IN CURRENT YEAR	RISKS BORNE IN PRIOR YEARS	TOTAL	RISKS BORNE IN CURRENT YEAR	RISKS BORNE IN PRIOR YEARS	TOTAL
	$000	$000	$000	$000	$000	$000
Gross claims expense						
Direct claims – undiscounted	152,282	103,706	255,988	131,045	65,395	196,440
Movement in discount	(294)	3,161	2,867	(410)	2,788	2,378
Gross claims expense	**151,988**	**106,867**	**258,855**	**130,635**	**68,183**	**198,818**
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue – undiscounted	(13,097)	(104,753)	(117,850)	(6,844)	(44,961)	(51,805)
Movement in discount	(14)	(1,882)	(1,896)	25	(100)	(75)
Reinsurance recoveries	**(13,111)**	**(106,635)**	**(119,746)**	**(6,819)**	**(45,061)**	**(51,880)**
Net claims incurred	**138,877**	**232**	**139,109**	**123,816**	**23,122**	**146,938**

Current year amounts relates 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 35.

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Central estimate of expected present value of future payments for claims incurred	53,174	56,996	–	–
Risk margin	23,944	19,350	–	–
Claims handling costs	3,314	3,061	–	–
	80,432	**79,407**	**–**	**–**
Discount	(1,819)	(2,792)	–	–
Outstanding claims liability	**78,613**	**76,615**	**–**	**–**

(C) Outstanding claims

(a) Assumptions adopted in calculation of general insurance provisions

Estimates of the outstanding claims as at 30 September 2014 have been carried out by the following Actuaries:

General Insurance: P. Davies, B.Bus.Sc, FNZSA, FIA; and
C. Hett, FIA, FNZSA, Head of Actuarial Services, Deloitte

The New Zealand actuarial assessments are 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:

	2014	2013
Inflation rates for succeeding year	1.5% to 3.7%	1.5% to 3.7%
Inflation rates for following years	1.5% to 3.7%	1.5% to 3.7%
Discount rates for succeeding year	2.5% to 5.2%	4.0% to 6.2%
Discount rates for following years	2.5% to 5.2%	4.0% to 6.7%
Claims handling expense ratio	3.5% to 15.7%	3.3% to 13.1%
Risk margin	7.0% to 22.9%	6.5% to 10.7%

In addition to the risk margin range shown above, the total risk margin also includes $30,100,000 (2013: $15,900,000) associated with the Canterbury earthquake.

The weighted average expected term to settlement of outstanding claims (except for Canterbury earthquake claims, refer to note 35), based on historical trends is:

Short tail claims	within 1 year	within 1 year
Long tail claims in the Pacific Islands	1.0 to 1.6 years	1.0 to 3.0 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.

Claims handling expense

The estimate of outstanding claims liabilities incorporates an allowance for the future cost of administrating 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 at least 75% probability of sufficiency for both the outstanding claims liability and the unexpired risk liability.

The following analysis is in respect of the general insurance businesses:

	2014			2013		
	GROSS	REINSURANCE	NET	GROSS	REINSURANCE	NET
	$000	$000	$000	$000	$000	$000
Reconciliation of movements in discounted outstanding claims liability						
Balance brought forward	**314,990**	**(238,375)**	**76,615**	**427,396**	**(356,695)**	**70,701**
Effect of change in foreign exchange rates	1,943	(3,120)	(1,177)	(3,708)	3,830	122
Effect of changes in assumptions	–	–	–	(17,690)	271	(17,419)
Incurred claims recognised in the income statement	258,855	(119,746)	139,109	198,818	(51,880)	146,938
Claim (payment) / recoveries during the year	(321,720)	185,786	(135,934)	(289,826)	166,099	(123,727)
Balance carried forward	**254,068**	**(175,455)**	**78,613**	**314,990**	**(238,375)**	**76,615**
Reconciliation of undiscounted claims to liability for outstanding claims						
Outstanding claims undiscounted	4,654	(139)	4,515	6,235	(130)	6,105
Discount	(1,566)	70	(1,496)	(2,482)	66	(2,416)
Outstanding claims	**3,088**	**(69)**	**3,019**	**3,753**	**(64)**	**3,689**
Short tail outstanding claims			75,594			72,926
Total outstanding claims as per balance sheet			**78,613**			**76,615**

(b) Sensitivity analysis and terms of insurance business

Generally all insurance business entered into is short tail in nature. Key sensitivities relate to the volume of claims and in particular those for significant events such as earthquakes or weather events.

The Group has exposure to some historic 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 undiscounted outstanding claims.

	GENERAL INSURANCE	
	2014	2013
	$000	$000
Expected Claims Run Off		
Within 3 months	26,248	23,588
3 to 6 months	9,000	7,596
6 to 12 months	6,002	5,627
After 12 months	37,363	39,804
Total	**78,613**	**76,615**

(D) Risk management policies and procedures

The financial condition and operations of the general 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 26. Notes on the policies and procedures employed in managing these risks in the general 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 general 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.

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24. General insurance business *(continued)*

(b) Concentration of insurance risk

RISK	SOURCE OF CONCENTRATION	RISK MANAGEMENT MEASURES
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection
Inclusion of multiple classes of casualty business in the one event	Response by a multitude of the Group's policies to the one event, for example a construction liability and professional indemnity policy	Purchase of reinsurance clash protection

(c) Development of claims

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

	INCIDENT YEAR						
	PRIOR	2010	2011	2012	2013	2014	TOTAL
	$000	$000	$000	$000	$000	$000	$000
Ultimate claims cost estimate							
At end of incident year		110,287	113,814	113,839	123,816	138,878	
One year later		109,078	127,689	117,277	124,667	–	
Two years later		108,277	147,024	116,819	–	–	
Three years later		108,968	147,438	–	–	–	
Four years later		109,481	–	–	–	–	
Earlier		–	–	–	–	–	
Current estimate of ultimate claims cost		109,481	147,438	116,819	124,667	138,878	
Cumulative payments		(108,460)	(137,136)	(115,770)	(121,216)	(105,303)	
Undiscounted central estimate	3,774	1,022	10,303	1,049	3,451	33,575	53,174
Discount to present value	(1,481)	–	(12)	(2)	(17)	(307)	(1,819)
Discounted central estimate	**2,293**	**1,022**	**10,291**	**1,047**	**3,434**	**33,268**	**51,355**
Claims handling expense							3,314
Risk margin							23,944
Net outstanding claims liabilities							**78,613**
Reinsurance recoveries on outstanding claims liabilities and other recoveries							175,455
Gross outstanding claims liabilities							**254,068**

(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 the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate 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 same methodology as described above.

	CENTRAL ESTIMATE CLAIM % OF PREMIUM		RISK MARGIN	
	2014	2013	2014	2013
General Insurance	42.5%	43.7%	13.6%	11.8%

Unearned premium liabilities as at 30 September 2014 were sufficient (2013: sufficient).

(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 25 July 2014.

(G) Reinsurance programme

Reinsurance programmes are structured to adequately protect the general insurance companies' solvency and capital positions. The adequacy of reinsurance cover is modelled on 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 are shown below. The actual solvency capital exceeds the minimum requirements for TOWER Insurance Limited general insurance group by $125 million.

	2014	2013
	$000	$000
Actual Solvency Capital	199,400	195,993
Minimum Solvency Capital	74,600	78,805
Solvency Margin	124,800	117,188

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.

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.

25. Financial instrument categories

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

	GROUP			
			FAIR VALUE THROUGH PROFIT OR LOSS	
	TOTAL	LOANS AND RECEIV-ABLES	DESIGNATED	HELD FOR TRADING
	$000	$000	$000	$000
As at 30 September 2014				
Financial assets				
Cash and cash equivalents	**168,062**	168,062	–	–
Reinsurance recoveries receivable	**187,590**	187,590	–	–
Outstanding premiums and trade receivables	**121,836**	121,836	–	–
Other receivables	**6,869**	6,869	–	–
Investment in equity securities	**1,835**	–	1,835	–
Investment in fixed interest securities	**210,538**	–	210,538	–
Investment in property securities	**34**	–	34	–
Total financial assets	**696,764**	**484,357**	**212,407**	**–**

	GROUP			
			FAIR VALUE THROUGH PROFIT OR LOSS	
	TOTAL	LOANS AND RECEIV-ABLES	DESIGNATED	HELD FOR TRADING
	$000	$000	$000	$000
As at 30 September 2013				
Financial assets				
Cash and cash equivalents	**341,624**	341,624	–	–
Reinsurance recoveries receivable	**257,310**	257,310	–	–
Outstanding premiums and trade receivables	**114,535**	114,535	–	–
Unsettled investments sale	**601**	601	–	–
Other receivables	**4,865**	4,865	–	–
Derivative financial assets	**122**	–	–	122
Investment in equity securities	**1,685**	–	1,685	–
Investment in fixed interest securities	**144,897**	–	144,897	–
Investment in property securities	**855**	–	855	–
Total financial assets	**866,494**	**718,935**	**147,437**	**122**

	GROUP			
		FAIR VALUE THROUGH PROFIT OR LOSS		FINANCIAL LIABILITIES AT AMORTISED COST
	TOTAL	DESIGNATED	HELD FOR TRADING	
	$000	$000	$000	$000
As at 30 September 2014				
Financial liabilities				
Trade payables	**14,200**	–	–	14,200
Reinsurance payables	**2,967**	–	–	2,967
Other payables	**14,168**	–	–	14,168
Derivative financial liabilities	**46**	–	46	–
Total financial liabilities	**31,381**	**–**	**46**	**31,335**
As at 30 September 2013				
Financial liabilities				
Trade payables	**11,902**	–	–	11,902
Reinsurance payables	**5,864**	–	–	5,864
Other payables	**6,204**	–	–	6,204
Interest bearing liabilities	**82,791**	–	–	82,791
Total financial liabilities	**106,761**	**–**	**–**	**106,761**

25. Financial instrument categories *(continued)*

	COMPANY	
	TOTAL	LOANS AND RECEIVABLES
	$000	$000
As at 30 September 2014		
Financial assets		
Cash and cash equivalents	**2,891**	2,891
Related party receivables	**22,888**	22,888
Total financial assets	**25,779**	**25,779**
As at 30 September 2013		
Financial assets		
Cash and cash equivalents	**1,507**	1,507
Related party receivables	**20,008**	20,008
Total financial assets	**21,515**	**21,515**

	COMPANY	
	TOTAL	FINANCIAL LIABILITIES AT AMORTISED COST
	$000	$000
As at 30 September 2014		
Financial liabilities		
Other payables	**2,877**	2,877
Related party payables	**172,764**	172,764
Total financial liabilities	**175,641**	**175,641**
As at 30 September 2013		
Financial liabilities		
Other payables	**1,732**	1,732
Related party payables	**102,345**	102,345
Total financial liabilities	**104,077**	**104,077**

26. Risk management and financial instrument information

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 24, 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, group 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 policy 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 the 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 26(F) 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 General 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 Board is responsible for the management of the interest rate risk arising from external borrowings. As at 30 September 2014 there were no interest rate swaps in place in relation to external borrowings (2013: nil). The Group manages interest rate risk arising from its interest bearing investments in accordance with approved investment management agreements.

Interest rate risk arises in general insurance to the extent that there is a mismatch between the fixed interest portfolios used to back outstanding claims 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. As at 30 September 2014 there was no exposure to price risk. TOWER's exposure to pricing risk as at 30 September 2013 was due to TOWER Life (N.Z.) Limited's investments in publicly traded equity securities and other unit trusts. Price risk was managed by diversification of the investment portfolio, which was done in accordance with the limits set by investment mandates and monitored by the Board. TOWER Life (N.Z.) Limited's remaining life business was sold on the 29 August 2014; further details are disclosed in note 37(E).

(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	
	2014	2013
	$000	$000
New Zealand government	2,990	13,773
Other government agencies	13,428	23,635
Banks	343,341	447,835
Financial institutions	19,187	1,920
Other non-investment related receivable	314,290	373,077
Other industries	1,659	3,114
Total financial assets with credit exposure	**694,895**	**863,354**

(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	
	2014	2013
	$000	$000
Cash and cash equivalents	168,062	341,624
Loans and receivables	316,295	376,711
Financial assets at fair value through profit or loss	210,538	144,897
Derivative financial assets	–	122
Total credit risk	**694,895**	**863,354**

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

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

	CARRYING VALUE	
	2014	2013
	$000	$000
Credit exposure by credit rating		
AAA	85,549	59,602
AA	278,185	397,872
A	–	5,053
Below BBB	13,810	12,798
Total counterparties with external credit rating by Standard and Poor's	**377,544**	**475,325**
Group 1	305,894	361,555
Group 2	–	–
Group 3	1,402	12,499
Total counterparties with no external credit rating	307,296	374,054
Total financial assets neither past due nor impaired with credit exposure	**684,840**	**849,379**

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 a number of Pacific region investment markets through its Pacific Islands operations to comply with local statutory requirements and in accordance with TOWER investment policies. These investments relate to the general 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 (2013: nil).

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26. Risk management and financial instrument information *(continued)*

(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 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**
As at 30 September 2013					
Reinsurance recoveries receivable	80	474	620	3,509	4,683
Outstanding premiums and trade receivables	5,550	2,434	1,098	210	9,292
Total	**5,630**	**2,908**	**1,718**	**3,719**	**13,975**

The parent company does not have past due financial assets as at 30 September 2014 (2013: Nil).

(vi) Financial assets that are individually impaired

Financial assets that have been individually impaired in the past year are as follows (2013: nil):

	CARRYING VALUE	
	2014	2013
	$000	$000
Outstanding premiums and trade receivables	32	–
Total	**32**	**–**

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

	GROUP						
	CARRYING VALUE	TOTAL CONTRACTUAL CASH FLOWS	LESS THAN ONE YEAR	ONE TO TWO YEARS	TWO TO FOUR YEARS	OVER FIVE YEARS	ON DEMAND
	$000	$000	$000	$000	$000	$000	$000
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 (1)	46	90	55	31	4	–	–
Total financial liabilities and guarantees	**31,381**	**31,425**	**30,966**	**455**	**4**	**–**	**–**
As at 30 September 2013							
Financial liabilities and guarantees							
Trade payables	11,902	11,902	11,902	–	–	–	–
Reinsurance payables	5,864	5,864	5,864	–	–	–	–
Other payables	6,204	6,204	6,204	–	–	–	–
Interest bearing liabilities	82,791	85,510	85,510	–	–	–	–
Total financial liabilities and guarantees	**106,761**	**109,480**	**109,480**	**–**	**–**	**–**	**–**

(1) Please see note 26(E) for total cash flows for forward foreign exchange contracts.

	COMPANY			
	CARRYING VALUE	TOTAL CONTRACTUAL CASH FLOWS	LESS THAN ONE YEAR	ON DEMAND
	$000	$000	$000	$000
As at 30 September 2014				
Financial liabilities				
Related party payables	172,764	172,764	–	172,764
Other payables	2,877	2,877	2,877	–
Total financial liabilities	**175,641**	**175,641**	**2,877**	**172,764**
As at 30 September 2013				
Financial liabilities				
Related party payables	102,345	102,345	–	102,345
Other payables	1,732	1,732	1,732	–
Total financial liabilities	**104,077**	**104,077**	**1,732**	**102,345**

(D) Fair values of 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 reasonably approximate their fair values.

The following methods and assumptions were used by TOWER in estimating the fair values of assets and liabilities.

(i) Cash and cash equivalents

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

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

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

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. At 30 September 2014, the level 3 category includes an investment in equity securities of $1,835,000 (2013: $1,685,000). This investment is in unlisted shares of a company which owns one building. The fair value is calculated based on the net assets of the property owned 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 (2013: nil).

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 (2013: nil).

	GROUP			
	TOTAL	LEVEL 1	LEVEL 2	LEVEL 3
	$000	$000	$000	$000
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**
As at 30 September 2013				
Assets				
Derivative financial assets	122	–	122	–
Investment in equity securities	1,685	–	–	1,685
Investments in fixed Interest securities	144,897	–	144,897	–
Investments in property securities	855	–	855	–
Total financial assets	**147,559**	**–**	**145,874**	**1,685**

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

	INVESTMENT IN EQUITY SECURITIES	
	2014	2013
	$000	$000
Opening balance	1,685	3,251
Total gains and losses recognised in profit and loss	–	(1,050)
Foreign currency movement	150	(516)
Closing balance	**1,835**	**1,685**

The following table shows the sensitivity of Level 3 measurements to reasonably possible favourable or unfavourable 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	FAVOURABLE CHANGES OF 10%	UNFAVOURABLE CHANGES OF 10%
	$000	$000	$000
2014			
Investment in equity securities	1,835	184	(184)
2013			
Investment in equity securities	1,685	169	(169)

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26. Risk management and financial instrument information *(continued)*

(E) 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 remeasured at their fair value. The fair values of interest rate swaps are calculated by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates. The average interest rate is based on the outstanding balances at the start of the financial year.

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

	AVERAGE CONTRACTED FIXED INTEREST		NOTIONAL PRINCIPAL AMOUNT		FAIR VALUE	
	2014	2013	2014	2013	2014	2013
	%	%	$000	$000	$000	$000
Less than 1 year	0%	0%	–	–	–	–
1 to 2 years	0%	0%	–	–	–	–
2 to 5 years	5%	3%	21,000	10,400	(46)	34
over 5 years	0%	0%	–	–	–	–
			21,000	**10,400**	**(46)**	**34**

The Group has no foreign exchange forward contracts.

(F) 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.

	2014		2013	
	IMPACT ON		IMPACT ON	
	PROFIT AFTER TAX	EQUITY	PROFIT AFTER TAX	EQUITY
	$000	$000	$000	$000
Change in variables				
+50 basis points	(750)	(750)	(879)	(879)
–50 basis points	544	544	584	584

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.

	2014		2013	
	IMPACT ON		IMPACT ON	
	PROFIT AFTER TAX	EQUITY	PROFIT AFTER TAX	EQUITY
	$000	$000	$000	$000
Change in variables				
10% appreciation of New Zealand dollar	330	(6,161)	291	(6,812)
10% depreciation of New Zealand dollar	(403)	7,530	(274)	8,408

The dollar impact of the change in currency movements is determined by applying the sensitivity to the value of the unhedged 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 equities at fair value through profit or loss (2013: nil).

(iv) Other price

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

	2014		2013	
	IMPACT ON		IMPACT ON	
	PROFIT AFTER TAX	EQUITY	PROFIT AFTER TAX	EQUITY
	$000	$000	$000	$000
Change in variables				
+10% property funds and other unit trusts	2	2	59	59
–10% property funds and other unit trusts	(2)	(2)	(59)	(59)

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.

27. 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 a look forward basis to enable it to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders of the Group.

The Group's capital resources include ordinary shareholders' equity and interest bearing liabilities.

	GROUP	
	2014	2013
	$000	$000
Interest bearing liabilities (Note 16)	–	82,791
TOWER shareholder equity	324,410	379,815
Total capital resources	**324,410**	**462,606**

The Group measures adequacy of their 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 is required 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 should exceed the minimum solvency capital level by at least these amounts. The amount retained as minimum solvency capital is shown note 24 (H).

During the year ended 30 September 2014 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 they continue 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.

28. Operating leases

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
As lessee				
Rent paid under non-cancellable operating leases during the year	3,834	4,413	–	–
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
– Not later than one year	3,492	4,703	–	–
– Later than one year and not later than five years	9,953	1,569	–	–
– Later than five years	9,754	293	–	–
	23,199	**6,565**	**–**	**–**

Operating lease payments represent the 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.

29. Cash and cash equivalents

(A) Reconciliation of cash at the end of the year

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Cash at bank and in hand	24,253	15,100	2,891	1,507
Deposits at call	143,809	326,524	–	–
Total cash and cash equivalents	**168,062**	**341,624**	**2,891**	**1,507**

The effective interest rate for deposits at call is 4% (2013: 3.0%). The balances primarily mature within three months of balance date.

Offsetting within cash and cash equivalents was as follows:

Cash at bank and on call	168,062	342,775
Bank overdraft	–	(1,151)
Total cash and cash equivalents	**168,062**	**341,624**

(B) Reconciliation of profit for the period to net cash flows from operating activities

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Profit after tax for the year	23,611	34,375	13,868	178,786
Add/(less) non-cash items				
Depreciation of property, plant and equipment	1,761	1,829	–	–
Amortisation of software	931	3,648	–	–
Change in life insurance and life investment contract liabilities	1,194	(25,316)	–	–
Unrealised (loss)/gain on financial assets	(22,978)	41,902	–	–
Share based payments expense and movement in fair value of employee share option derivative	–	17	–	–
Increase/(decrease) in deferred tax	16,029	(13,959)	–	–
Movement on disposal of property, plant and equipment	673	420	–	–
Intangible asset impairment net of tax	–	32,328	–	–
Gross (loss)/gain on sale of subsidiaries	6,319	(96,056)	–	–
	27,540	**(20,812)**	**13,868**	**178,786**
Add/(less) movements in working capital (excluding the effects of exchange differences on consolidation)				
Decrease in receivables	74,374	106,464	–	277
Decrease in payables	(69,959)	(87,379)	(13,577)	(177,549)
Decrease/(increase) in taxation	68	(9,130)	–	–
	4,483	**9,955**	**(13,577)**	**(177,272)**

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29. Cash and cash equivalents *(continued)*

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Add other items classified as financing activities				
Decrease in capitalised costs	353	800	–	–
Net cash inflow/(outflow) from operating activities	**32,376**	**(10,057)**	**291**	**1,514**

30. Contingent liabilities

The Group has no contingent liabilities as at 30 September 2014.

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.

31. Capital commitments

The Group has capital commitments of approximately $4,641,000 at reporting date related to software under development (2013: $2,556,000).

32. Share based payments

The Company has no active executive share option scheme as at 30 September 2014. All fully vested share options were forfeited in December 2013. The equity settled conditions during the current financial year are set out in the tables below. The exercise prices were set at the average of the share price for the 5 days before grant date. Subject to the discretion of the Board, options are forfeited if an employee leaves the Group before the options vest.

Vesting requirements include service and performance conditions. The performance condition is based on a market condition such as total shareholder return achieved at the end of each reporting period. The holders of the options are not entitled to dividends or have other shareholder benefits, including voting rights.

The grant date fair value for options was estimated by using a binomial pricing model. The main inputs to the model were as follows:

TERMS OF SHARE SCHEMES	TRANCHE F
Exercise price after rights issue	$2.10
Grant date	11-Dec-07
Vesting date	1-Dec-10
Expiry date	1-Dec-13
Expected volatility	20%
Risk free rate	5.71%
Amount expensed during 2014 year ($000)	–
Amount expensed during 2013 year ($000)	–

Expected volatility was determined by looking at the performance of the share price over a number of periods ranging from six months to two years adjusted to remove significant impacts arising from one off events.

The expected life is based on best estimates of management allowing for non-transferability, exercise restrictions and behavioural considerations. No share options were issued in 2014 (2013: nil).

Tranche F share options that were forfeited during the 2014 year of $44,225 were transferred to retained earnings.

The following reconciles the share options outstanding at the beginning and end of the year.

	NUMBER OF OPTIONS TRANCHE F	WEIGHTED AVERAGE EXERCISE PRICE
30 September 2014		
Outstanding at start of year	100,000	$2.10
Forfeited	(100,000)	$2.10
Outstanding at the end of the year	**–**	**$2.10**
Exercisable at the end of the year	**–**	**$2.10**

	NUMBER OF OPTIONS				WEIGHTED AVERAGE EXERCISE PRICE
	TRANCHE E	TRANCHE F	TRANCHE G	TRANCHE I	
30 September 2013					
Outstanding at start of year	3,000,000	300,000	200,000	300,000	$1.92
Forfeited	(3,000,000)	(200,000)	–	(300,000)	$1.95
Exercised	–	–	(200,000)	–	$1.38
Outstanding at the end of the year	**–**	**100,000**	**–**	**–**	**$2.10**
Exercisable at the end of the year	**–**	**100,000**	**–**	**–**	**$2.10**

All tranches had been fully vested as at 30 September 2013.

33. Transactions and balances with related parties

(A) Subsidiaries

During the year there have been transactions between TOWER Limited and its subsidiaries. Balances outstanding are interest free and payable on demand.

Related party receivable and payable balances of TOWER Limited at the reporting date were as follows:

RELATED PARTY	2014 $000	2013 $000	NATURE OF RELATIONSHIP	TYPE OF TRANSACTION
TOWER New Zealand Limited	22,888	20,008	Subsidiary	Advance
TOWER Operations Limited	(172,750)	(102,346)	Subsidiary	Loan
TOWER Insurance Limited	(14)	–	Subsidiary	Settlement

The receivable owing from TOWER consolidated tax group members in 2014 of nil (2013: nil) represents the benefit of tax losses offset by TOWER Limited as a member of the TOWER consolidated tax group. All subsidiary companies incorporated in New Zealand listed in note 11 except for TOWER Option Scheme Limited are members of the TOWER consolidated tax group.

TOWER Limited enters into transactions with its related parties in the normal course of business. Transactions during the year included partial settlement of intercompany balances and intercompany dividends as shown below:

RELATED PARTY	2014 $000	2013 $000	NATURE OF RELATIONSHIP	TYPE OF TRANSACTION
TOWER New Zealand Limited	2,902	29,333	Subsidiary	Settlement/ Advance
TOWER Financial Services Group Limited	14,000	178,453	Subsidiary	Dividend
TOWER Operations Limited	(70,000)	(102,346)	Subsidiary	Loan
TOWER Operations Limited	(404)	–	Subsidiary	Operation expense
TOWER Insurance Limited	(14)	–	Subsidiary	Operation expense
TOWER New Zealand Limited	–	1,153	Subsidiary	Group tax loss offset

During the year a number of the Company's subsidiaries have been amalgamated resulting in the transfer of intercompany balances of these subsidiaries to the amalgamating entities. These transfers have not been included in the above movements due to non-transactional nature of the transfers.

(B) Key management personnel compensation

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

	GROUP		COMPANY	
	2014	2013	2014	2013
	$000	$000	$000	$000
Salaries and other short-term employee benefits paid	2,000	3,384	–	–
Termination benefits	–	1,042	–	–
Share based payments	–	17	–	–
Independent directors fees (1)	495	824	495	724
	2,495	**5,267**	**495**	**724**

(1) Information regarding individual directors' and executives' compensation is provided in the Corporate Governance section of the Annual Report.

(C) 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 (2013: nil).

(D) Other transactions with key management personnel

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

Up until 29 September 2013, Guinness Peat Group Plc (GPG) held approximately 34% of TOWER's shares, which made it a related party to the Group. The Group did not have any material transactions or balances with GPG, other than in the normal course of its investment activities.

34. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributed to shareholders of the Company by the weighted average number of ordinary shares in issue 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 of outstanding share options on basic earnings per share for 2014 (2013: nil).

	GROUP	
	2014	2013
	$000	$000
Profit attributable to shareholders from continuing operations	21,207	289
Profit attributable to shareholders from discontinuing operations	1,987	33,956
	NUMBER OF SHARES	
Weighted average number of ordinary shares for basic and diluted earnings per share	187,795,541	238,455,989
	CENTS	
Basic and diluted earnings per share from continuing operations	11.29	0.12
Basic and diluted earnings per share from discontinued operations	1.06	14.24

35. Impact of Canterbury earthquakes

There remains considerable uncertainty surrounding the measurement of gross claims liabilities in respect of the Canterbury earthquakes. This uncertainty arises from a number of factors including; longer than normal claims development periods; the allocation of claim costs between events; building cost related inflation; EQC recoveries and complexities associated with determining risk margin, discount rates, inflation and other key actuarial assumptions.

For the year ended 30 September 2014, gross ultimate incurred claims is $706,900,000 (2013: $600,400,000) in respect of the 4 September 2010, 22 February 2011, 13 June 2011 and 23 December 2011 earthquakes. There is no impact on the income statement from this increase in gross incurred claims due to reinsurance cover.

A key factor determining the level of impact on the income statement is the apportionment of the gross ultimate incurred claims and associated reinsurance recoveries across the various earthquake events. Given the large number of claims the Group has already processed and the level of data the Group has gathered in respect of the claims, the Group has been able to develop a sophisticated approach based on actual data to determine the apportionment across earthquake events. This approach has been applied to a sample of properties for which the Group has received claims. The findings from this sample have been applied to the wider population of claims. This extrapolation process involves subjectivity and actual experience may deviate, perhaps substantially, from results presented in the financial statements. Given that the February 2011 event has exceeded the reinsurance cover of $325 million, any movement in gross ultimate incurred claims allocated to the February 2011 event from the current $358 million allocated, will have a direct impact going forward on the Profit before taxation and Equity of the Group.

35. Impact of Canterbury earthquakes *(continued)*

The Group's Appointed Actuary has been directly involved with the earthquake ultimate incurred claims estimate and this extends to the derivation of this range of outcomes. Given the nature of uncertainties associated with the Canterbury earthquakes, actual claims experience may deviate, perhaps substantially, from the gross outstanding claims liabilities recorded as at 30 September 2014. Any changes to estimates will be recorded in the accounting period when they become known.

In October 2014, TOWER Limited confirmed the successful placement of its reinsurance programme for the TOWER Limited Group for the 2014/15 financial year. The programme again involves reinsurance cover for two catastrophe events. TOWER has continued to enhance its reinsurance programme, with the limit for 2014/15 increased to $682 million per event (2013: $585 million). The excess for an event in 2014/15 remains at $10 million (2013: $10 million).

36. Subsequent events

Dividend declared

On 26 November 2014 the Directors declared a dividend of 8 cents per share. There will be no imputation credits attached to the dividend. The dividend will be paid on 3 February 2015 (Payment Date) to all shareholders on the register as at 5pm on Tuesday, 22 January 2015 (Record Date). The estimated dividend payable is $14,060,000 based on the share register at 30 September 2014.

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.

Return of capital

On 26 November 2014, the Board approved for announcement to the market, the return of approximately $34 million of capital to shareholders via a voluntary on-market buyback. Details of the buyback are subject to completion of legal, accounting and actuarial due diligence. Further information will be provided to shareholders in the next quarter via issuance of a Disclosure Document.

37. Discontinued operations and disposal groups held for sale

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

	GROUP	
	2014	2013
	$000	$000
Profit for the year from discontinued operations/ disposal groups		
Profit/(loss) for the year from discontinued operations:		
Health business (A)	–	940
Investments business (B)	–	4,007
Non-Participating life business (C)	–	(3,655)
Australian liabilities (D)	(711)	(7,114)
Participating life business (E)	5,675	2,841
Profit/(loss) from discontinued operations	**4,964**	**(2,981)**
Profit from disposal of subsidiaries (2)		
Health business (A)	105	17,553
Investments business (B)	(90)	66,626
Non-Participating life business (C)	1,312	(12,483)
Participating life business attributable cost (E)	(4,304)	(2,431)
Impairment of intangible assets (1)	–	(32,328)
	(2,977)	**36,937**
Profit from discontinued operations/disposal groups	**1,987**	**33,956**
Net assets/(liabilities) held for sale:		
Australian liabilities (D)	–	(17,068)
Participating life business (E)	–	39,439
Total net assets held for sale	**–**	**22,371**
Liabilities transferred on disposal of Australian operation	**(16,628)**	**–**

Note:

(1) Management have reviewed the carrying value of intangible assets in light of recent business disposals. During the September 2013 financial year following the review, an impairment of $44.9 million ($32.3 million net of tax) was recorded against the carrying value of Intangible assets – software. This impairment has been expensed in the 30 September 2013 results reducing the profit from discontinued operations/disposal groups.

(2) Profits for the year from disposal of subsidiaries in the table above result from releases of provision (net of tax) for the Health, Investments and participating life businesses.

(A) Sale of TOWER Medical Insurance Limited

On 30 November 2012, TOWER Limited sold its health insurance business, TOWER Medical Insurance Limited to Australian health insurer, nib holdings limited for approximately $102 million. The sale followed a strategic review of TOWER Group's businesses announced earlier in 2012. The sale of TOWER Medical Insurance Limited has resulted in the health insurance business segment being treated as a discontinued operation of the Group.

Operating results for the two months prior to sale of TOWER Medical Insurance Limited 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. A more detailed breakdown of the financial performance, position and cash flows of TOWER Medical Insurance Limited is presented below.

The results of the health business were as follows:

	2014	2013
	$000	$000
Premium revenue from insurance contracts	–	24,812
Investment revenue	–	1,047
Net operating revenue	**–**	**25,859**
Claims expense	–	18,718
Net claims expense	**–**	**18,718**
Decrease in policy liabilities	–	(667)
Management and sales expenses	–	6,503
Net claims and operating expenses	**–**	**24,554**
Profit before taxation	**–**	**1,305**
Income tax expense	–	(365)
Profit after tax from discontinued operations	**–**	**940**
Cash flows of the health business:		
Operating cash inflow	–	3,068
Investing cash inflow	–	41,230
Financing cash (outflow)	–	–
Total cash inflow	**–**	**44,298**
Profit on disposal		
Cash consideration received	**–**	**102,346**
Net assets at 30 September 2012	–	76,955
Profit after tax to 30 November 2012	–	940
Net assets at 30 November 2012	**–**	**77,895**
Gross profit on disposal	**–**	**24,451**
Less directly attributable costs of sale	146	(7,235)
Tax directly attributable to costs of sale	(41)	337
	105	**(6,898)**
Profit on disposal	**105**	**17,553**

(B) Sale of TOWER Investments Business

On 26 February 2013, TOWER Limited announced the sale of its investments business comprising, TOWER Managed Funds Limited, TOWER Managed Funds Investments Limited, TOWER Employee Benefits Limited, TOWER Asset Management Limited and TOWER Investments Limited, to Fisher Funds Management Limited for approximately $79 million. The sale followed a strategic review of TOWER Group's businesses announced in 2012. The sale has resulted in the investments business segment being treated as a discontinued operation of the Group. Completion of the sale occurred on 2 April 2013.

The operating results of the investments business 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. A more detailed breakdown of the financial performance, position and cash flows of the investments business is presented below.

The results of the investments business were as follows:

	2014	2013
	$000	$000
Investment revenue	–	123
Fee and other revenue	–	17,996
Net operating revenue	**–**	**18,119**
Management and sales expenses	–	12,517
Net claims and operating expenses	**–**	**12,517**
Profit before taxation	**–**	**5,602**
Income tax expense	–	(1,595)
Profit after tax from discontinued operations	**–**	**4,007**
Cash flows of disposal group held for sale:		
Operating cash inflow	–	246
Investing cash (outflow)	–	(63)
Financing cash (outflow)	–	(236)
Total cash outflow	**–**	**(53)**
Profit on disposal		
Cash consideration receivable	**–**	**79,708**
Net assets at 1 April 2013	–	6,714
Net assets on disposal	**–**	**6,714**
Gross profit on disposal	**–**	**72,994**
Less directly attributable costs of sale	90	(6,877)
Tax directly attributable to costs of sale	(180)	509
	(90)	**(6,368)**
(Loss)/Profit on disposal	**(90)**	**66,626**

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37. Discontinued operations and disposal groups held for sale *(continued)*

(C) Sale of non-participating life business

On 10 May 2013, TOWER Limited announced the sale of most of its non-participating life insurance business to Fidelity Life Assurance Company Limited for the aggregate value to TOWER, including cash consideration and release of capital, of $189 million. The sale followed a strategic review of TOWER Group's businesses announced in 2012. The sale has resulted in the non-participating life business segment being treated as a discontinued operation of the Group. Completion of the sale occurred on 1 August 2013.

As part of the sale of the non-participating life business, an amount due to Fidelity Life Assurance Company Limited for the transfer of certain net insurance liabilities was offset against the purchase price payable by Fidelity Life Assurance Company Limited to TOWER. TOWER has applied for a binding ruling from Inland Revenue on the deductibility of this amount and this is currently at a consultation stage. TOWER has not included any benefit that may arise from this tax deduction in the financial statements.

The operating results and financial position of the non-participating life business 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 and disposal group held for sale. A more detailed breakdown of the financial performance, position and cash flows of the non-participating life business is presented below.

The results of the non-participating life business were as follows:

	2014	2013
	$000	$000
Premium revenue from insurance contracts	–	72,614
Less: Outwards reinsurance expense	–	(19,279)
Net operating revenue	**–**	**53,335**
Claims expense	–	33,900
Less: reinsurance recoveries revenue	–	(13,242)
Net claims expense	**–**	**20,658**
Decrease in policy liabilities	–	9,388
Management and sales expenses	–	33,315
Net claims and operating expenses	**–**	**63,361**
(Loss) before taxation	**–**	**(10,026)**
Income tax credit	–	6,371
(Loss) after tax from discontinued operations	**–**	**(3,655)**
Cash flows of the health business:		
Operating cash (outflow)	–	(1,851)
Total cash inflow	**–**	**(1,851)**

	GROUP	
	2014	2013
	$000	$000
Profit on disposal		
Cash consideration received	**1,550**	**71,841**
Final adjustment on net assets	(876)	–
Tax on gain on disposal	(5)	–
Net Assets at 1 August 2013	–	73,230
Gross gain/(loss) on disposal	**669**	**(1,389)**
Less directly attributable costs of sale	479	(12,696)
Tax directly attributable to costs of sale	164	1,602
	643	**(11,094)**
Profit/(loss) on disposal	**1,312**	**(12,483)**

(D) Disposal of Australian liabilities

On 28 November 2013, TOWER Limited announced the approval by the Federal Court of Australia for the portfolio transfer of the runoff business underwritten by the TOWER Insurance Limited's Australian branch. The transfer included disposing of all policies written or assumed by the branch and all the associated assets and liabilities under those policies. The sale was completed on 5 December and resulted in the release of approximately $20 million surplus capital to TOWER Insurance Limited.

Operating results and financial position of the Australian branch runoff business 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 and disposal group held for sale. A more detailed breakdown of the financial performance, position and cash flows of the Australian branch runoff business is presented below.

The results associated with the Australian liabilities were as follows:

	2014	2013
	$000	$000
Claims expense	–	6,718
Less: reinsurance recoveries revenue	43	340
Net claims expense	**43**	**7,058**
Management and sales expenses	1,978	56
Net claims and operating expenses	**2,021**	**7,114**
Loss before taxation	**(2,021)**	**(7,114)**
Income tax expense	1,310	–
Loss after tax from discontinued operations	**(711)**	**(7,114)**
Cash flows of disposal group held for sale:		
Operating cash outflow	–	(3,006)
Total cash outflow	**–**	**(3,006)**

The financial position of the Australian business held for sale was as follows:

	2014 $000	2013 $000
Assets		
Reinsurance receivables	–	622
Total assets	**–**	**622**
Liabilities		
Insurance liabilities	–	17,690
Total liabilities	**–**	**17,690**
Net liabilities	**–**	**(17,068)**
Liabilities transferred on disposal	**(16,628)**	**–**
Currency movement on closure of branch operations	(1,912)	–
Net claims and management expenses prior to transfer of liabilities	(109)	–
Tax	1,310	–
Branch operations closure costs	**(711)**	**–**

(E) Sale of TOWER Life (N.Z.) Limited

On 1 July 2014, TOWER Limited announced the sale of TOWER Life (N.Z.) Limited to Foundation Life (NZ) Holdings Limited for $36 million of which $2 million will be deferred for two years post settlement. The sale was subject to Overseas Investment Office and Reserve Bank of New Zealand approval, both of which were received in August 2014. The sale has resulted in the remaining life business segment being treated as a discontinued operation of the Group. Completion of the sale occurred on 29 August 2014 with a further $1.7 million receivable by the Group as a result of net asset statement completion adjustments in accordance with the sale and purchase agreements.

The operating results and financial position of the life business 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 and disposal group held for sale. A more detailed breakdown of the financial performance, position and cash flows of the remaining life business is presented below.

The results of the remaining life business were as follows:

	2014 $000	2013 $000
Premium revenue from insurance contracts	8,429	9,771
Less: Outwards reinsurance expense	100	53
Net premium revenue	**8,529**	**9,824**
Investment revenue	62,914	4,045
Management fees	95	73
Net operating revenue	**71,538**	**13,942**
Claims expense	44,854	39,041
Less: reinsurance recoveries revenue	185	–
Net claims expense	**45,039**	**39,041**
Increase/(decrease) in policy liabilities	1,892	(27,807)
Management and sales expenses	5,270	5,135
Net claims and operating expenses	**52,201**	**16,369**
Profit/(loss) before taxation	**19,337**	**(2,427)**
Income tax (expense)/credit	(13,662)	5,268
Profit for the year from operations	**5,675**	**2,841**
Profit from disposal of non-participating life business [1]	7	–
Profit for the year from discontinuing operations	**5,682**	**2,841**
Cash flows of the health business:		
Operating cash inflow/(outflow)	8,977	(22,008)
Investing cash (outflow)/inflow	(1,737)	8,831
Financing cash (outflow)/inflow	(3,444)	14,091
Total cash inflow	**3,796**	**914**

(1) Disposal of non-participating life business employee provision release during year ended 30 September 2014 in the above results table is included within Directly attributable costs of sale in note 37(C).

37. Discontinued operations and disposal groups held for sale *(continued)*

The financial position of the remaining life business was as follows:

	2014 $000	2013 $000
Assets		
Cash and cash equivalents	–	8,399
Receivables	–	36,452
Financial assets at fair value through profit or loss	–	625,663
Derivative financial assets	–	48,082
Current tax asset	–	3,479
Deferred tax asset	–	16,104
Total assets	**–**	**738,179**
Liabilities		
Payables	–	1,971
Provisions	–	57
Insurance liabilities	–	7,008
Derivative financial liability	–	5,086
Deferred tax liabilities	–	84
Life insurance contract liabilities	–	660,945
Life investment contract liabilities	–	23,589
Total liabilities	**–**	**698,740**
Net assets	**–**	**39,439**
Profit on disposal		
Cash consideration received	**34,000**	**–**
Deferred consideration at NPV	1,846	–
Purchase price adjustment at completion	1,682	–
	37,528	**–**
Less net assets at 29 August 2014	(41,121)	–
Gross loss on disposal	**(3,593)**	**–**
Directly attributable costs of sale	(813)	(2,880)
Tax directly attributable to costs of sale	102	449
	(711)	**(2,431)**
Loss on disposal	**(4,304)**	**(2,431)**

Corporate governance and disclosures

The Board and senior management have a responsibility to achieve the highest standards of corporate performance, ethical behaviour and accountability.

The Board has adopted and developed corporate governance structures and practices that are consistent with best practice and ensure the integrity of the governance framework, with continual reassessment of its practices against these standards. Where developments arise in corporate governance, the Board is committed to reviewing TOWER's practices and incorporating changes where appropriate to ensure TOWER maintains best practice governance structures.

Compliance with governance requirements and recommendations

For the reporting period to 30 September 2014, TOWER considers its corporate governance practices have adhered to the NZX Corporate Governance Best Practice Code, the New Zealand Securities Commission Corporate Governance Principles and Guidelines and the ASX Corporate Governance Council Principles and Recommendations as outlined in this corporate governance section. Copies of the principal governance documents and more detail about TOWER's governance practices are available on TOWER's website at www.tower.co.nz under 'Corporate Governance'.

Role of the Board of directors

The Board, elected by TOWER shareholders, is responsible for the performance of the company. In practice, this is achieved through formal delegation to the Chief Executive Officer and to its two Board Committees (Audit and Risk Committee and Remuneration and Appointments Committee – the role of each of these Committees is outlined on page 65). Each year the Board holds a strategy session with senior management to review TOWER's business direction. The application of these strategies is reviewed regularly at Board meetings.

The Board is primarily governed by the Board Charter, Board Protocols and the Code of Ethics. The Board Charter records the Board's roles and responsibilities, the Board Protocols describe internal board procedures for efficient decision making and the Code of Ethics ensures decision making is in accordance with TOWER's values. These documents can be found on TOWER's website at www.tower.co.nz under 'Corporate Governance'.

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

The Board reserves certain functions to itself. These include:

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

Role of senior executives

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

Board composition, nominations and appointments

Board composition

At 30 November 2014, the Board included five non-executive directors and one executive director being the Chief Executive Officer. The TOWER constitution currently requires a minimum of five directors and provides for a maximum of eight. Directors' profiles are on pages 14 and 15.

The Remuneration and Appointments Committee is responsible for identifying directors for appointment to the Board to ensure there is an appropriate blend of commercial skills and experience to govern and add value to TOWER and to ensure the Board works effectively. The Committee is also responsible for the Board Protocols which have been established to facilitate the effective operation of the Board. Current directors contribute significant commercial, financial, legal and investment skills to the Board.

Role of Chairman

The Chairman's role is to lead and manage the Board so that it operates effectively, and to facilitate interaction between the Board and the Chief Executive Officer. The Chairman of the Board is elected by the directors. The Board supports the separation of the roles of Chairman and Chief Executive Officer and these roles are separate at TOWER. Michael Stiassny was appointed Chairman of TOWER on 21 March 2013.

Nominations, appointments and ongoing education

The Remuneration and Appointments Committee recommends to the Board suitable candidates for appointment as directors. The Committee will consider, among other things:

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

To ensure that the Board appoints directors and officers who have appropriate skills, knowledge, experience and integrity to perform their duties, and to fulfil their roles, TOWER has developed a Fit and Proper Policy benchmarked to the requirements of the Insurance (Prudential Supervision) Act 2010 and Fit and Proper Policy Guidelines for Licensed Insurers issued by the Reserve Bank of New Zealand. This policy is applied to all directors and relevant officers.

On appointment to the Board, directors receive a formal letter of appointment outlining their duties and obligations and are provided induction information about TOWER in the form of a Director's Manual. The Director's Manual contains historical background on TOWER and its operations, information about how TOWER and its subsidiaries are structured, details of the Company's directors' and officers' insurance, the Board Charter and other TOWER corporate governance policies. The induction process also involves one-on-one discussions with the Chairman, other directors and briefings from senior management to help new directors participate actively in Board decision making at the earliest opportunity.

To ensure ongoing education, directors are regularly informed of developments that affect TOWER's industry and business environment, as well as company and legal issues that impact the directors themselves. Directors receive comprehensive board papers and briefing information before Board meetings, including a report from the Chief Executive Officer and reports from senior management. Directors have unrestricted access to management and any additional information they consider necessary for informed decision making.

Senior management also attend Board meetings in order to provide presentations to the Board and answer any queries directors may have. This allows the Board to understand the practical issues affecting TOWER and the impact of these issues on its performance. Directors are expected to develop their skills, competencies and industry knowledge by taking responsibility for their continuing education.

A director may obtain independent professional advice relating to the affairs of TOWER or his/her responsibilities as a director or Committee member. Where the director has the approval of the Board Chairman or Committee Chairman to obtain independent professional advice, TOWER will meet the reasonable costs of the advice.

Director independence

The Board Protocols require that a majority of the Board are independent directors. The Board regularly assesses the independence of each director based on the interests disclosed by them. For this purpose directors are required to immediately advise the Board of any new or changed relationships so the Board can make this assessment.

Based on the NZX Listing Rules and the ASX Corporate Governance Council Principles and Recommendations, the Board Protocols define a director as being independent if he/she is a non-executive director who does not have any direct or indirect interest or relationship that could, or could reasonably be perceived to:

- reasonably influence, in a material way, his/her decisions relating to TOWER, or
- materially interfere with his/her ability to act in TOWER's best interests.

Examples of relationships that remove independence are relationships with a material TOWER customer, supplier, professional advisor or substantial shareholder. As at 30 September 2014, the Board considered that five of the directors are independent, namely: Rebecca Dee-Bradbury, John Spencer, Steve Smith, Graham Stuart and Michael Stiassny.

The ASX Corporate Governance Council Principles and Recommendations recommend that the Chairman should be an independent director. Michael Stiassny is considered an independent director.

In accordance with TOWER's Constitution, directors with an actual or potential conflict of interest on particular issues are required to disclose the conflict and may still attend meetings but will abstain from voting on that issue.

Retirement and re-election

During the year Mike Allen and Michael Jefferies resigned from the TOWER Limited and TOWER Capital Boards.

At least one-third of the total number of directors must retire from office each year by rotation and, if they choose, stand for re-election by shareholders at the Annual Shareholders' Meeting. Directors who retire each year are those who have been in office longest since their last election. If two directors have held office for equal terms and cannot agree who will retire, it is determined by lot. The Chief Executive Officer is not required to retire by rotation.

In addition, all directors appointed by the Board since the last Annual Shareholders' Meeting to fill a casual vacancy must stand for election. Shareholders will be provided with relevant information on the directors standing for re-election and election prior to the Annual Shareholders' Meeting to enable them to make informed decisions when voting. Rebecca Dee-Bradbury will retire and, being eligible, will offer herself for election at the Annual Shareholders' Meeting.

Board and committee performance review

The Board recognises that the performance of the directors and Board Committees are crucial to TOWER's success and to the interests of shareholders. The Board regularly reviews its own composition and performance and that of Board Committees in accordance with the terms of the Board Charter (which also includes a review of the Board structure, policies, Board succession, delegations and the necessity for and composition of the Committees). The Remuneration and Appointments Committee is responsible for the regular performance management and appraisal of the Chief Executive Officer, individual directors and senior executives. Evaluations may be carried out by an external consultant. For the financial year ended 30 September 2014, a performance evaluation of TOWER's Board, Board committees, directors and senior executives was not undertaken. Performance evaluations are undertaken in accordance with the process established by TOWER's Remuneration and Appointments Committee and the terms of TOWER's Board Charter (as applicable).

Director share ownership

All directors are required by the Company's constitution to hold TOWER shares. Directors and management are required to comply with TOWER's Insider Trading and Market Manipulation Policy when purchasing and disposing of TOWER securities. The number of shares held by each director and their dealings in TOWER securities during the financial year are disclosed on page 72.

Indemnities and insurance

TOWER has given Deeds of Indemnity to directors for potential liabilities and costs they may incur for acts or omissions in their capacity as directors. Directors' and officers' liability insurance is in place for directors and employees acting on behalf of TOWER and its subsidiaries. While the insurance covers risks arising out of acts or omissions of directors and employees acting for TOWER, it does not cover dishonest, fraudulent or malicious acts or omissions, or criminal liability.

Board committees

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

The Committees are governed by written terms of reference, which detail their specific functions and responsibilities. The terms of reference for each Committee are reviewed annually. Copies of each Committee's terms of reference are available on the TOWER website at www.tower.co.nz under 'Corporate Governance'.

The Committees make recommendations to the Board. They have no decision making ability except where expressly provided by the Board. The Board is required to annually confirm the membership and Chairmanship of each of the Committees. The experience and skills of individual Committee members are set out in the directors' profiles on pages 14 and 15. Member attendance at each Committee meeting is set out on page 66.

Audit and Risk Committee

Members: Graham Stuart (Chairman), Rebecca Dee-Bradbury, John Spencer, Steve Smith and Michael Stiassny.

TOWER has a structure to independently verify and safeguard the integrity of its financial reporting. The principal components of this are the Audit and Risk Committee, the external and internal auditors, and the certifications provided to the Board by senior management.

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

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

The Committee meets with the internal auditors three times during the financial year and with the external auditors at least twice.

The Terms of Reference require that the Committee has a minimum of three suitably qualified non-executive directors, the majority of whom are independent. The Board appoints the Chairman of the Committee, who cannot also be Chairman of the Board.

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

Remuneration and Appointments Committee

Members: Michael Stiassny (Chairman), Rebecca Dee-Bradbury, Steve Smith, John Spencer and Graham Stuart.

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

- the appointment and succession of directors, and director remuneration
- the composition and structure of the Board
- performance evaluations of the Board and individual directors, and
- the Chief Executive Officer and senior executive appointments, termination, performance appraisal and remuneration.

The Terms of Reference for the Remuneration and Appointments Committee require that the Committee comprises suitably qualified non-executive directors, the majority of whom are independent. The Board appoints the Chairman of the Committee.

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

The Company's remuneration policies for directors and senior executives are set out on pages 69 and 70.

Board and Committee meeting attendance

There were 8 scheduled Board meetings during the year from 1 October 2013 to 30 September 2014. Director attendance at Board and Committee meetings is set out below. The Chief Executive Officer attends all Board and Committee meetings. The Chief Financial Officer attends all Board meetings and the Audit and Risk Committee meetings, along with an appropriately qualified person who is responsible for taking accurate minutes of each meeting and ensuring that Board procedures are observed.

2013/2014 TOWER Limited directors' attendance record

	TOWER LIMITED BOARD	AUDIT AND RISK COMMITTEE	DUE DILIGENCE COMMITTEE	REMUNERATION AND APPOINTMENTS COMMITTEE
Meetings held	8	4	4	1
Mike Allen [1]	2	1	0	0
Rebecca Dee-Bradbury [2]	2	1	0	0
David Hancock	8	4	4	0
Mike Jefferies [3]	3	1	0	0
Steve Smith	7	3	4	1
John Spencer	7	4	0	1
Michael Stiassny	8	4	3	1
Graham Stuart	8	4	0	1

1 Mike Allen resigned as a director of TOWER on 5 February 2014

2 Rebecca Dee-Bradbury was appointed as a director of TOWER on 15 August 2014

3 Mike Jefferies resigned as a director of TOWER on 5 February 2014

Promoting ethical and responsible behaviour

Ethical and responsible behaviour

TOWER is committed to meeting its legal and other obligations to stakeholders, including shareholders, employees, customers, policyholders and the wider community. Maintaining TOWER's reputation for honesty and fairness is crucial to its success as a financial services business. The Board has adopted a Code of Ethics which is an important tool for achieving these aims as it sets out the minimum standards of conduct and behaviour TOWER expects of its directors, executives and employees and requires them to adhere to these standards. The Code of Ethics is available to staff both on the TOWER website and through the induction process. The types of behaviour addressed in the Code of Ethics include:

- avoiding situations in which personal interests interfere or appear to interfere with the interests of TOWER
- using a person's position at TOWER or TOWER's information or property for personal gain
- safeguarding the confidentiality of all TOWER non-public information, and
- complying with all applicable legal requirements and ensuring that behaviour is appropriate while conducting TOWER's business.

Any person who becomes aware of a breach or suspected breach of the Code of Ethics is required to report it immediately in accordance with the policy.

In addition to the Code of Ethics, TOWER has a Fraud Policy which is applicable to all staff. The policy includes reference to a whistleblower process and sets out TOWER's approach to the way in which suspicions/allegations of fraud, corruption and/or misconduct within TOWER are to be reported by staff and how TOWER will deal with such incidents. The policy provides that TOWER will ensure that a person who, in good faith, makes an allegation of misconduct under the policy will not be personally disadvantaged by having made the report.

Insurance (Prudential Supervision) Act 2010

The New Zealand insurance industry is regulated by the Reserve Bank of New Zealand, under the Insurance (Prudential Supervision) Act 2010 (IPSA). All companies carrying on insurance business in New Zealand must hold a licence. The relevant TOWER company is TOWER Insurance Limited (fire and general), which holds a full licence under IPSA.

Key elements of the insurance prudential supervision regime include minimum solvency requirements and regular reporting to the Reserve Bank, the need for directors and other relevant officers to meet fit and proper standards, and governance and risk management requirements.

The TOWER Insurance Limited Board:

- is governed by a Board Charter
- comprises the same directors as the Board of TOWER Limited, and
- has two standing committees, being the Audit and Risk Committee and the Remuneration and Appointments Committee, which are governed by written terms of reference.

Further information on the governance of TOWER Insurance Limited will be contained in the annual report of the company, which will be registered with the Companies Office.

Further information on the insurance prudential supervision regime can be found on the Reserve Bank website www.rbnz.govt.nz.

Insider trading

Legal restrictions and TOWER's Insider Trading and Market Manipulation Policy do not allow trading and dealing in TOWER securities while directors and employees are in possession of information that has not been released to the public and that is likely to have a material effect on the price of TOWER securities.

There are supplementary guidelines for directors and designated employees (usually senior executives) requiring prior consent to trade, and specifying periods when trading is allowed (following half year and full year announcements). A copy of TOWER's Insider Trading and Market Manipulation Policy is available on TOWER's website at www.tower.co.nz under 'Corporate Governance'.

Diversity Policy

TOWER's Diversity Policy has been designed to ensure that diversity is encouraged, respected and embraced in our day-to-day business practices. Our people bring different experiences, backgrounds and skills to our business. TOWER believes that by valuing diversity, this will help drive our performance culture, brand and shareholder returns. The overall goal is an inclusive, flexible workplace with people motivated to do their very best for our customers and for each other. Nurturing an environment that values and promotes diversity will help improve the quality of our decision making, productivity, and collaboration. TOWER's Diversity Policy does not require measurable objectives to be set with respect to gender and other diversity and no objectives have been set. This is because the Board takes an holistic rather than prescriptive approach to achieving diversity throughout its business. The Board considers TOWER has addressed the requirements of its Diversity Policy.

The Board is responsible for overseeing the Diversity Policy, with delegation to the Remuneration and Appointment Committee to review and report annually on the status of diversity within TOWER and policy effectiveness. The following table shows gender representation across TOWER as at 30 November 2014:

	2014	2013
GROUP	% BY GROUP	% BY GROUP
Board of Directors		
Male	83%	100%
Female	17%	0%
Executive leadership team and senior management		
Male	64%	56%
Female	36%	44%
Employees		
Male	42%	42%
Female	58%	58%
Total company		
Male	43%	42%
Female	57%	58%

Market and shareholder communication

TOWER recognises that public confidence in the integrity of TOWER is based on continuous, full and open disclosure of information about its activities to the market and relevant stakeholders. TOWER's Corporate Disclosure Policy provides for a planned, proactive communication programme with shareholders and the wider investment community to encourage their participation in TOWER. TOWER believes this communication programme assists in creating a fully informed market and enhances shareholder value. The policy provides that only authorised spokespersons can communicate on behalf of TOWER with the investment community, shareholders and the media. A copy of the policy is available on TOWER's website at www.tower.co.nz.

TOWER has policies and procedures in place designed to ensure that all investors have equal and timely access to material information concerning TOWER:

- company announcements are factual and presented in a clear and balanced way, and
- TOWER complies with the continuous disclosure requirements of the ASX and NZX.

Announcements of financial results, changes in profit forecasts and other material market announcements require Board approval. TOWER's website, www.tower.co.nz, provides information to shareholders and investors about the company. The website includes copies of past annual reports, results announcements, media releases (including NZX and ASX announcements) and general TOWER information. It also has a comprehensive corporate governance section for shareholders.

Announcements

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

- Full year results are announced in late November
- Annual reports are released in late December
- TOWER's Notice of Annual Shareholders' Meeting is sent to shareholders in late December or mid January
- TOWER's Annual Shareholders' Meeting is held in February
- Half year results are announced in late May, and
- Half year reports are released in late June.

Credit Rating

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

TOWER Insurance Limited
Financial Strength Rating A- (Excellent)
Issuer Credit Rating a-
Effective 25 July 2014

TOWER Limited
Issuer Credit Rating bbb- (Good)
Effective 25 July 2014

Audit and risk management at TOWER

TOWER has established a framework to identify, assess, monitor and manage risk. At the forefront of this are the internal audit and compliance processes, and the comprehensive risk management process for each operating company. TOWER faces a range of risks that are inherent to the business activities undertaken. TOWER stakeholders, including shareholders, clients, staff and suppliers require assurance that TOWER will manage its exposure to risk. Executive and senior management and staff must be able to demonstrate that all reasonable steps have been taken to effectively manage TOWER's risks.

Risk and compliance framework

The Risk and Compliance Framework Policy sets out TOWER's commitment to managing risk and compliance, and provides an overview of the core components including roles and responsibilities and requirements that must be met.

This applies to TOWER and all of its subsidiaries and related companies, and all staff and contractors employed by TOWER and any of its subsidiaries. Effective management of risk and compliance is essential to ensure that TOWER remains a viable business and is able to achieve its objectives. This is integral in providing guidance to management and staff of TOWER in dealing with its risk and compliance obligations. During the financial year ended 30 September 2014, TOWER received and considered regular reports from management as to the effectiveness of TOWER's management of its material business risks and monitored progress on an ongoing basis.

Internal audit

TOWER contracts an independent chartered accounting firm to carry out the internal audit function reporting to the Chairman of the Audit and Risk Committee and with full access to other Committee members and the Board. The Committee approves the Internal Audit Policy that governs the internal audit function across the company.

The Internal Audit Policy formally records the delegations the Audit and Risk Committee has made to the internal auditor in relation to the internal control systems and processes of TOWER. The Audit and Risk Committee approves the appointment of the internal auditor following the Chief Executive Officer's recommendation.

The internal auditors help the Board and TOWER exercise good corporate governance and meet their regulatory obligations by providing them with independent assurance of the adequacy and effectiveness of internal control systems and processes within TOWER. The internal auditors have unrestricted access to TOWER information and staff, and are completely independent of the activities and operations they audit.

External audit

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

PwC was re-appointed as auditor by shareholders at the Annual Shareholders' Meeting in 2014 to audit TOWER and its subsidiaries' financial statements.

A formal engagement letter with PwC sets out the respective obligations and responsibilities of PwC and TOWER in relation to preparation and audit of financial statements. The Board also has a formal External Audit Independence Policy that includes the provision of non-audit services by the external auditor. This policy specifies which services the external auditor may and may not provide TOWER. The policy is overseen by the Audit and Risk Committee. The policy is available on TOWER's website at www.tower.co.nz under the 'Corporate Governance' section.

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

Representatives from TOWER's external auditor will be present at the Annual Shareholders' Meeting and will be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditors' report.

Details of PwC fees for audit and other services provided to TOWER are set out in note 7 of the TOWER Limited financial statements.

Corporate governance policies and procedures

To support the Board's aims of developing and fostering corporate governance practices which are consistent with best practice, TOWER has developed a number of corporate governance policies that apply to all directors and employees of TOWER. Where indicated copies are available on TOWER's website at www.tower.co.nz under the 'Corporate Governance' section.

Remuneration at TOWER

TOWER's remuneration policies aim to attract and retain talented and motivated directors and employees who will contribute to enhanced performance. TOWER aims to provide employees with remuneration that is competitive, equitable and related to the achievement of individual, team and business unit objectives. TOWER rewards high performing staff for providing superior performance.

TOWER has different policies for remunerating the non-executive directors as opposed to the Chief Executive Officer and senior executives. The following section discusses TOWER's remuneration policies and arrangements for non-executive directors, the Chief Executive Officer, the senior executives and staff in general.

Role of the Remuneration and Appointments Committee

The Remuneration and Appointments Committee is responsible for assisting and advising the Board in relation to, amongst other things:

- remuneration strategy, structure and policy
- remuneration of the Chief Executive Officer
- setting non-executive directors' remuneration
- setting Board committee members' fees, and
- determining remuneration packages of senior executives, following recommendations from the Chief Executive Officer.

Non-executive director remuneration

The Board's policy is to remunerate directors at a similar level to comparable Australasian companies, with a small premium to reflect the complexity of the insurance and financial services sector. At the Annual Shareholders' Meeting in February 2004 shareholders approved an increase in non-executive director annual remuneration to the current maximum of NZ$900,000 per annum. TOWER seeks external advice when reviewing Board remuneration. The Remuneration and Appointments Committee is responsible for reviewing directors' fees. Non-executive directors are also paid additional annual fees for sitting on Board Committees.

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

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

Additional fees may be paid to non-executive directors for one-off tasks and/or additional appointments where required, for example, sitting on a due diligence committee.

The remuneration policy for non-executive directors does not include participation in either a share or share option plan.

Retirement allowances

Directors were previously entitled to a retirement allowance on their retirement from the Board. At the 2004 Annual Shareholders' Meeting shareholders approved an increase in the maximum amount of directors' fees. In exchange for the increase and to provide greater transparency for remuneration the Board resolved that retirement allowances would cease to accrue from 1 October 2003. Allowances are paid as a lump sum on retirement from the Board. The retirement allowance was calculated by dividing the relevant director's number of years service by nine and multiplying the result by the director's remuneration for a three year period. For this reason no director is eligible for a retirement allowance.

2013/2014 directors' remuneration and benefits of TOWER and its subsidiaries

DIRECTORS' REMUNERATION AND BENEFITS OF TOWER AND ITS SUBSIDIARIES

FOR THE YEAR TO 30 SEPTEMBER 2014	FEES $	OTHER $
Mike Allen[1]	39,285	
David Hancock		728,155[2]
Mike Jefferies[3]	30,023	
Steve Smith	87,570	
John Spencer	87,570	
Michael Stiassny	139,000	
Graham Stuart	93,570	
Alden Godinet	4,310[4]	
Rodney Reid	4,310[4]	

1. Mike Allen retired as a director of TOWER on 5 February 2014
2. Salary (exclusive of any KiwiSaver contribution)
3. Mike Jefferies retired as a director of TOWER on 5 February 2014
4. Fees earned in capacity as director of National Pacific Insurance Limited

Note

Amounts in the table above reflect fees paid (but not accrued) for the year ended 30 September 2014.

Fees include base fees and additional fees in the financial year for one-off tasks and additional appointments, including participation in due diligence committees.

Chief Executive Officer and senior executive remuneration

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

The policy is intended to encourage meeting the short and long term objectives for TOWER. The Chief Executive Officer does not receive directors' fees. The amounts shown in the directors' remuneration and benefits table on page 69 is the total remuneration paid to them in the year ended 30 September 2014. David Hancock's remuneration consisted of base salary of $728,155 (exclusive of any KiwiSaver contribution) and the potential for a short term performance incentive of up to $500,000 in respect of the year ended 30 September 2014.

Employee remuneration

Set out in the following table are the number of employees or former employees of TOWER, not being directors or former directors, who received remuneration and other benefits valued at or exceeding $100,000 for the year ended 30 September 2014. Remuneration includes redundancy payments and termination payments made during the year to employees whose remuneration would not otherwise have been included in the table. The remuneration bands are expressed in New Zealand Dollars.

FROM	TO	2013/14	2012/13
100,000	109,999	17	24
110,000	119,999	7	18
120,000	129,999	7	17
130,000	139,999	11	12
140,000	149,999	5	12
150,000	159,999	1	11
160,000	169,999	4	5
170,000	179,999	2	3
180,000	189,999	1	3
190,000	199,999	2	3
200,000	209,999	-	7
210,000	219,999	1	1
220,000	229,999	-	5
230,000	239,999	1	1
240,000	249,999	-	2
250,000	259,999	-	2
260,000	269,999	-	3
290,000	299,999	1	-
310,000	319,999	-	3
320,000	329,999	1	-
330,000	339,999	-	1
350,000	359,999	-	1
390,000	399,999	-	1
400,000	409,999	-	1
450,000	459,999	-	2
470,000	479,999	1	-
490,000	499,999	-	1
540,000	549,999	-	1
720,000	729,999	1	-
770,000	779,000	-	1
Total		**63**	**141**

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

Disclosures

Interests register

TOWER and its subsidiaries are required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests register for TOWER Limited is available for inspection on request by shareholders. An 'interested' director may not vote on a matter in which he or she is interested unless the director is required to sign a certificate in relation to that vote pursuant to the Companies Act 1993, or the matter relates to a grant of an indemnity pursuant to s162 of the Companies Act 1993.

General disclosures of interest

During the financial year directors of TOWER disclosed interest, or a cessation of interest (indicated by an asterisk (*)), in the following entities pursuant to section 140 of the Companies Act 1993. No disclosures were made by directors of any other TOWER subsidiary.

Mike Allen[1]	
Breakwater Consulting Limited	Chairman
Canterbury Spinners	Director
Coats plc	Chairman
Godfrey Hirst NZ Limited	Director
Guinness Peat Group plc	Director

NZ Windfarms Limited	Director
NZWL - TRH Limited	Director
Tainui Group Holdings Limited	Director
TRH Services Limited	Director
Waikato-Tainui Fisheries Limited	Director
WaterCare Services Limited	Deputy Chair
Rebecca Dee-Bradbury	
Bluescope Steel Limited	Director
GrainCorp Limited	Director
LMH Investments Pty Limited	Director
Tyro Payments Limited	Director*
David Hancock	
Connec Pty Limited	Director*
Finarch Pty Limited	Director
AXE ECN Pty Limited	Director
Mike Jefferies[2]	
OzGrowth Limited	Director
Touch Holdings Limited	Chairman
Steve Smith	
Fulton Hogan Limited	Director
Hellaby Holdings Limited	Chairman
Kinrich Trust	Trustee
Kinrich Holdings Limited	Director
Summerlee Investments Limited	Director
Unison Securities Limited	Director
Unison Capital Advisors Limited	Director
Pascaro Investments Limited	Director
Spanbild Holdings Limited and subsidiary companies	Director
Trebol Investments Limited	Director
Trebol Nominees Limited	Director
John Spencer	
DairyNZ Limited	Director*
Derby Street Limited	Director
Dexcel Holdings	Director*
Fairway Resolution Limited	Director*
KiwiRail Holdings Limited	Chairman
Mitre 10 (New Zealand) Limited and subsidiary companies	Director
New Zealand Railways Corporation	Chairman
Raukawa Iwi Development Limited	Chairman
RVNZ Investments Limited	Director
Tertiary Education Commission	Chairman
Titanium Park Limited	Director
Waikato Regional Airport Limited	Director
WEL Networks Limited and subsidiary companies	Chairman*
Michael Stiassny	
Atapo Corporation Limited	Director
DNZ Property Fund Limited	Director
DNZ Holdings Limited	Director
EXAPL Limited	Director*
EXSCSL Limited	Director*
Frequency Media Group Limited	Director
Gadol Corporation Limited	Director
Geffen Holdings Limited	Director
Glenogle Trust Limited	Director
Knotser Properties Limited	Director
Kordamentha Limited and subsidiary companies	Director
Michael Spencer Limited	Director
Ngati Whatua Orakei Whai Rawa Limited	Chairman
NZ Windfarms Limited and subsidiary companies	Director
Plan B Limited	Director
Poukawa Estate Limited	Director
Sasha Properties Limited	Director
SB Entertainment Holdings Limited and subsidiary companies	Director
Ted Kingsway Limited	Director
Triceps Holdings Limited	Director
Vector Limited and subsidiary companies	Chairman
WEST24 Limited	Director
Whai Rawa GP Limited	Director
Whai Rawa Kainga Development Limited	Director
Graham Stuart	
Clear Sky Syndicate Limited	Director
Five Rivers Dairies Limited	Director
Leroy Holdings Limited	Director
Lincoln Hub	Chairman
Owaka Dairies Limited	Director
Sealord subsidiary companies	CEO/Director*

1 Mike Allen retired as a director of TOWER on 5 February 2014. Interests as at retirement date.

2 Mike Jefferies retired as a director of TOWER on 5 February 2014. Interests as at retirement date.

Specific disclosures of interests

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

Indemnity and insurance

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

Use of company information by directors

No member of the Board, nor of any subsidiary, issued a notice requesting to use information received in his or her capacity as a director which would not have otherwise been available to that director.

Directors' shareholdings

At 30 September 2014 TOWER Limited directors held the following interests in TOWER Limited shares:

	ORDINARY SHARES
DIRECTOR	BENEFICIAL
Rebecca Dee-Bradbury [1]	–
David Hancock	–
Steve Smith	9,230
John Spencer	13,798
Michael Stiassny	82,335
Graham Stuart	6,154

1 Rebecca Dee-Bradbury was appointed as a director of TOWER on 15 August 2014.

Directors' trading in TOWER securities

Directors disclosed the following acquisitions and disposals of relevant interests in TOWER securities during the financial year pursuant to section 148 of the Companies Act 1993.

DIRECTOR	DATE	INTEREST	NUMBER ACQUIRED (DISPOSED)	CONSIDERATION
Mike Jefferies [1]	31/01/14	Beneficial	(554)[2]	$1,002.74
Steve Smith	31/01/14	Beneficial	(2,308)[2]	$4,177.48
John Spencer	31/01/14	Beneficial	(3,449)[2]	$6,242.69
Michael Stiassny	31/01/14	Beneficial	(20,584)[2]	$37,257.04
Graham Stuart	31/01/14	Beneficial	(1,538)[2]	$2,783.78

1 Mike Jefferies retired as a director of TOWER on 5 February 2014.

2 All disposals were share cancellations pursuant to a off-market share buyback.

Buybacks

TOWER has announced its intention to implement an on-market buyback of up to $34 million, currently anticipated to commence in the first quarter of calendar year 2015. Details of the buyback will be announced on NZX and ASX in the required form, and a disclosure document sent to all shareholders, once final advice on an appropriate timetable for the buyback is considered, and Board approval is given to proceed.

TOWER subsidiary company director disclosures

The following persons held office as directors of subsidiary companies at 30 September 2014. Those who retired during the year are indicated with an (R).

TOWER SUBSIDIARY COMPANY	DIRECTOR DISCLOSURES
TOWER Capital Limited [1]	M Allen (R), D Hancock, M Jefferies (R), S Smith, J Spencer, M Stiassny, G Stuart
TOWER Financial Services Group Limited	M Allen (R), R Dee-Bradbury, D Hancock, M Jefferies (R), S Smith, J Spencer, M Stiassny, G Stuart
TOWER Option Scheme [2]	M Boggs, D Hancock, B Walsh (R)
The National Insurance Company of New Zealand Limited	M Boggs, D Hancock, B Walsh (R)
TOWER New Zealand Limited	M Boggs, D Hancock, B Walsh (R)
TOWER Operations Limited	M Boggs, D Hancock, B Walsh (R)
TOWER Life (N.Z.) Limited [3]	M Allen (R), D Hancock, M Jefferies (R), S Smith, J Spencer, M Stiassny, G Stuart
TOWER Insurance Limited	M Allen (R), R Dee-Bradbury, D Hancock, M Jefferies (R), S Smith, J Spencer, M Stiassny, G Stuart
National Insurance Company (Holdings) Limited	P Absell, M Boggs, D Hancock
Southern Pacific Insurance Company (Fiji) Limited	P Absell, M Boggs, D Hancock
TOWER Insurance (Fiji) Limited	P Absell, M Boggs, D Hancock
TOWER Insurance (Cook Islands) Limited	M Boggs, D Hancock, M Savage, B Walsh (R)
TOWER Insurance (PNG) Limited	W Beilby (R), M Boggs, D Eyre [4], C Gilson [5], D Hancock, M Savage, B Walsh (R)
Southern Cross Marine Limited	M Boggs, D Eyre [4], C Gilson [5], D Hancock, M Savage, B Walsh (R)
National Pacific Insurance Limited	M Boggs, A Godinet, D Hancock, R Reid, D Williamson
National Pacific Insurance (Tonga) Limited	M Boggs, A Godinet, D Hancock, R Reid, D Williamson

1 TOWER Capital Limited was amalgamated into TOWER Financial Services Group Limited on 30 June 2014.

2 TOWER Option Scheme Limited was amalgamated into TOWER Financial Services Group Limited on 9 September 2014.

3 TOWER Life (N.Z.) Limited was sold on 29 August 2014 and all TOWER directors resigned at that date.

4 On 7 November 2014, Debbie Eyre resigned her directorships of TOWER Insurance (PNG) Limited and Southern Cross Marine Limited.

5 On 12 November 2014, Colin Gilson resigned his directorships of TOWER Insurance (PNG) Limited and Southern Cross Marine Limited.

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

Shareholder and exchange disclosures

Shareholder analysis

TOWER's shares are quoted on both the NZSX and ASX. As at 30 November 2014, 6,788 TOWER shareholders held less than A$500 of TOWER shares (i.e. less than a marketable parcel as defined in the ASX Listing Rules), holding a total of 1,482,404 TOWER shares.

Total voting securities

As at 30 November 2014, TOWER had 175,749,449 ordinary shares. TOWER's ordinary shares each carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney.

Voting may be conducted by show of hands or poll.

The address and telephone number of each office at which a register of TOWER securities is kept is set out in the directory.

Substantial security holders

The names and holdings of TOWER's substantial security holders based on notices filed with TOWER under the Securities Markets Act 1988 as at 30 November 2014 are:

NAME	NUMBER OF ORDINARY SHARES
Accident Compensation Corporation	14,997,893
AMP Capital Investors (NZ) Limited	14,037,959
Devon Funds Management Limited	22,675,671
Harbour Asset Management	12,794,017
New Zealand Superannuation Fund	9,547,714
Salt Funds Management Limited	13,605,245
Westpac Banking Corporation	15,920,483

Principal shareholders

The names and holdings of the 20 largest registered TOWER shareholders as at 30 November 2014 are:

	NAME	TOTAL	%
1	BNP Paribas Nominees (NZ) Limited	21,819,318	12.42
2	Accident Compensation Corporation	14,868,654	8.46
3	Citibank Nominees (New Zealand) Limited	10,063,919	5.73
4	New Zealand Superannuation Fund Nominees Limited	9,789,367	5.57
5	Westpac NZ Shares 2002 Wholesale Trust	9,526,969	5.42
6	TEA Custodians Limited	7,231,207	4.11
7	HSBC Nominees (New Zealand) Limited	5,947,147	3.38
8	JPMorgan Chase Bank NA NZ Branch	4,938,502	2.81
9	National Nominees Limited	3,713,852	2.11
10	BT NZ Unit Trust Nominees Limited	3,664,450	2.09
11	BNP Paribas Nominees (NZ) Limited	3,447,086	1.96
12	HSBC Custody Nominees (Australia) Limited	2,599,464	1.48
13	JP Morgan Nominees Australia Limited	1,874,329	1.07
14	Citicorp Nominees Pty Limited	1,801,605	1.03
15	BNP Paribas Noms Pty Limited	1,800,029	1.02
16	JBWere (NZ) Nominees Limited	1,691,008	0.96
17	HSBC Nominees (New Zealand) Limited A/C State Street	1,643,266	0.94
18	National Nominees New Zealand Limited	1,576,024	0.90
19	Investment Custodial Services Limited	1,315,811	0.75
20	FNZ Custodians Limited	1,276,398	0.73

TOWER Limited Shareholder Statistics (as at 30 November 2014)

HOLDING RANGE	HOLDER COUNT	HOLDER COUNT %	HOLDING QUANTITY	HOLDING QUANTITY %
1 to 1,000	22,107	75.61	9,199,182	5.23
1,001 to 5,000	5,259	17.99	10,715,428	6.1
5,001 to 10,000	899	3.07	6,509,845	3.7
10,001 to 100,000	899	3.07	22,341,387	12.71
100,001 to 9,999,999,999,999	74	0.25	126,983,607	72.25
Total	29,238	99.99	175,749,449	99.99

Other matters

Limits on acquisition of securities under New Zealand law

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

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

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

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

Corporations Act 2001 (Australia)

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

Waivers

New Zealand

On 4 September 2014, NZX Regulation approved TOWER's application for a determination under Appendix 2 of the NZX Main Board Listing Rules (Listing Rules).

The application for determination was sought in respect of TOWER's scheme for the cancellation of shares, under which shareholders holding less than the minimum holding would have their shares cancelled by TOWER and the proceeds paid to them on 12 September 2014.

Under Appendix 2 of the Listing Rules, the relevant minimum holding for shares with a market price exceeding $1.00 but not exceeding $2.00 is 200 shares. The relevant minimum holding for shares with a market price exceeding $2.00 but not exceeding $5.00 is 100 shares.

At 27 May 2014 a minimum holding was 200 shares, as the share price was below $2.00. On 26 August 2014 the share price moved above $2.00. TOWER sought a determination from NZX that it may treat the minimum holding as 200 shares for the purpose of the scheme, notwithstanding that the share price may exceed $2.00 at the date of cancellation of the shares (being 12 September 2014).

NZX determined that the minimum holding was 200 shares for the purposes of the scheme on the conditions that:

- TOWER would immediately announce the implications of the decision to the market
- TOWER's share price would not exceed $5.00 on 12 September 2014
- The determination would not apply if the information provided by TOWER ceased to be accurate.

TOWER complied with all of these conditions.

Australia

On 12 December 2013, ASX granted TOWER a waiver from ASX Listing Rule 14.5. That rule requires that an entity with directors must hold an election of directors each year. The waiver permitted TOWER not to hold an election of directors in the 2014 calendar year, on the conditions that:

- All persons who were directors of TOWER before the 2014 Annual Shareholders' Meeting and who would not be eligible to retain office without re-election beyond any date before the 2014 Annual Shareholders' Meeting, ceased to hold office no later than the end of the 2014 Annual Shareholders' Meeting
- No person had nominated as a candidate for election a director within the relevant minimum time period before the 2014 Annual Shareholders' Meeting
- The notice of the 2014 Annual Shareholders' Meeting stated the reason no election of directors was being held during the calendar year 2014.

ASX granted the waiver because it was satisfied that it did not undermine the principle of shareholder democracy where no director who would otherwise have to seek re-election at the Annual Shareholders' Meeting will hold office after the Annual Shareholders' Meeting, and there were no other candidates.

On 27 May 2014 ASX granted TOWER a waiver from ASX Listing Rule 15.13, which provides that an entity's constitution must not permit divestment of holdings that are less than a marketable parcel unless the holding has become less than a marketable parcel due to market movements, or the holding, when created, was less than a marketable parcel. The waiver allowed TOWER to divest shareholdings of less than a minimum holding and was granted on the basis that the TOWER's constitution complies with the NZX Listing Rules, and investors were aware of the constitution's provisions.

The Annual Report is signed on behalf of the Board by

Michael Stiassny Chairman	David Hancock Executive Director

TOWER Directory

Enquiries

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

For investor enquiries:
Julia Belk
Head of Capital & Investor Relations
Telephone: +64 9 925 0034
Email: investor.relations@tower.co.nz
Website: www.tower.co.nz

Board of Directors

Michael Stiassny (Chairman)
David Hancock (CEO)
Rebecca Dee-Bradbury
Steve Smith
John Spencer CNZM
Graham Stuart

Chief Financial Officer and Company Secretarial

Michael Boggs

Executive leadership team

David Hancock (CEO)
Michael Boggs (CFO)
Andrew Diver
Vanessa Dudley
Mark Savage
Glenys Talivai

Registered Office

New Zealand

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TOWER Centre
45 Queen Street
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Auckland

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Facsimile: +64 9 369 2160

Australia

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

Auditor

PricewaterhouseCoopers

Banker

Westpac New Zealand Limited

Solicitor

DLA Phillips Fox

Company numbers

TOWER Limited
(Incorporated in New Zealand)

NZ Incorporation 979635
NZBN 9429 0374 84576
ARBN 088 481 234

Stock exchanges

The Company's ordinary shares are listed on the NZSX and the ASX.

Registrar

New Zealand

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

Freephone within New Zealand: 0800 222 065
Telephone New Zealand: +64 9 488 8777
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Australia (TOWER Limited Shareholders)

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Yarra Falls, 452 Johnston Street
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Melbourne Vic 3000

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Telephone Australia: +61 3 9415 4083
Facsimile Australia: +61 3 9473 2500
Email: enquiry@computershare.co.nz

Website: www.investorcentre.com/nz

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

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

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

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

TOWER Limited and Investor Relations

Julia Belk
Head of Capital & Investor Relations
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Email: investor.relations@tower.co.nz
Website: www.tower.co.nz

Registrar

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