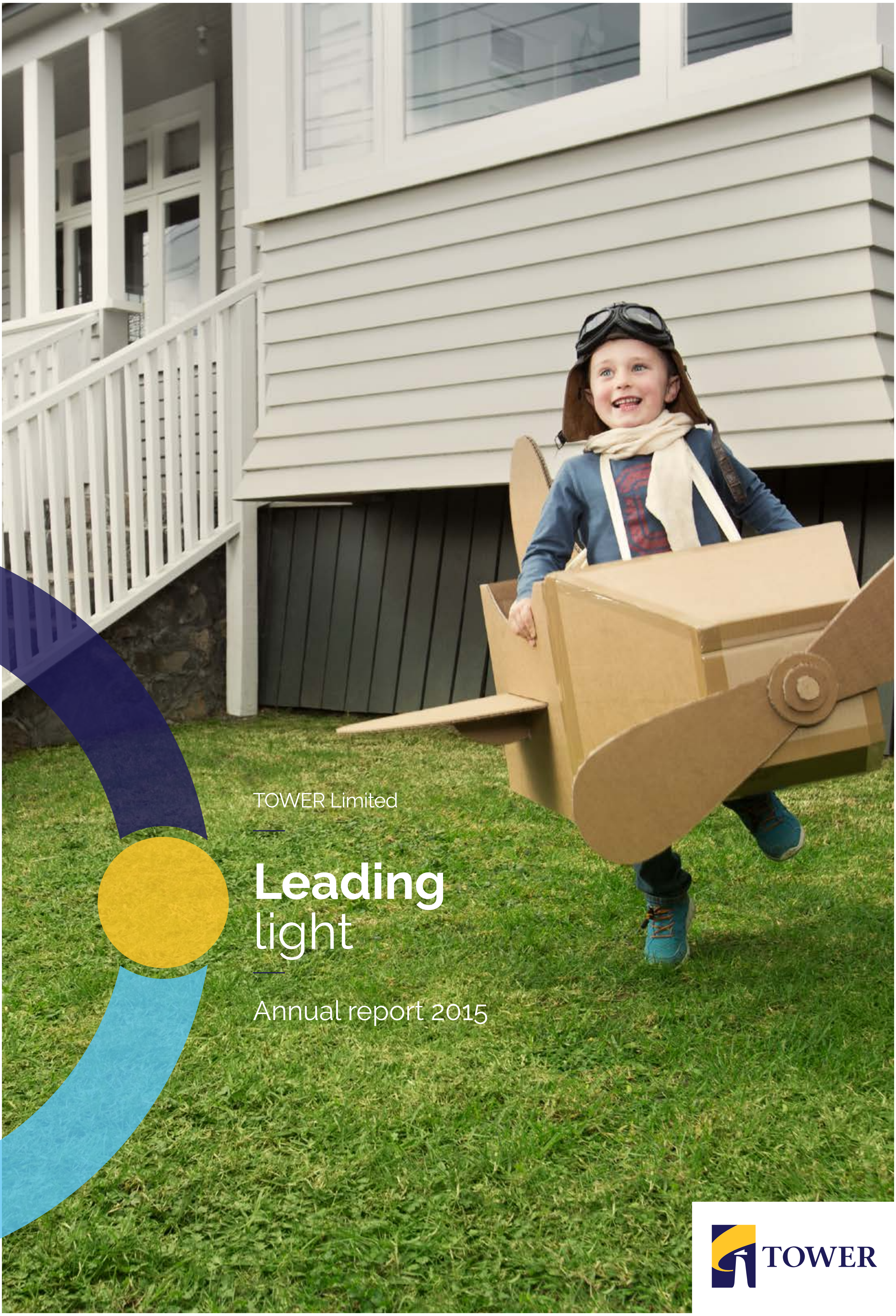


TOWER Limited

Leading light

Annual report 2015

TOWER

Highlights and achievements

+ First year as a pure **General Insurer**

+ **Investment** in branding - refresh the TOWER brand

+ **Launch** of Trade Me Insurance
August 2015

+ **Improved customer satisfaction** NPS increased

+ **Expanded distribution** alliances in New Zealand and the Pacific

+ **Increased confidence** resolving remaining Canterbury claims

+ **Well capitalised General Insurance business**
$35 million in capital above target solvency requirements[1], (comprising $25 million in New Zealand and $10 million across subsidiaries) plus $38 million in cash held by corporate entities

REPORTED NET LOSS AFTER TAX

$6.6m

UNDERLYING NET PROFIT

$28.2m[2]

UP 29.6%

GROSS WRITTEN PREMIUMS

$305.6m

UP 2.7%

PACIFIC NET PROFIT

$9.6m

UP 17.4%

DIVIDEND POLICY MAINTAINED

FULL YEAR DIVIDEND

16.0 CPS UNIMPUTED

UP 10.3%

ON MARKET SHARE BUYBACK CONTINUES OF UP TO

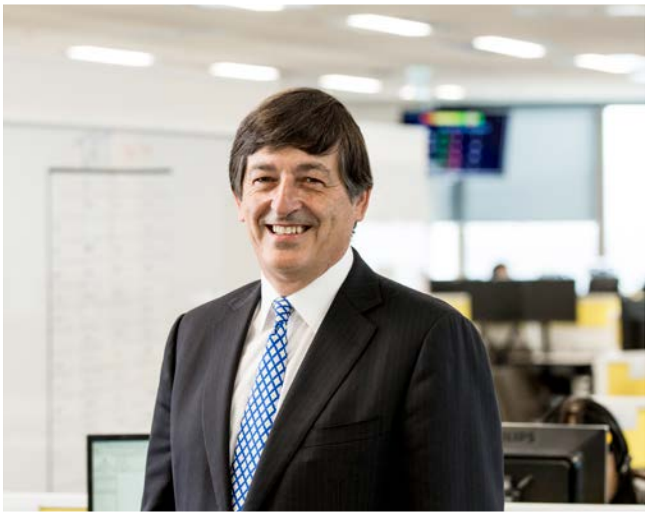
$22m[3]

$12m COMPLETED

1. Based on TOWER's long term policy of targeting 175% of Minimum Solvency Capital.
2. Underlying net profit excludes the impact of Canterbury earthquakes and profit from disposal of subsidiaries.
3. Total buyback of up to $34 million.

Delivering business improvement, prudent risk management and **shareholder value**

Chairman's report on behalf of the directors



TOWER has delivered a strong underlying performance, while managing the remaining risk posed by unresolved Canterbury claims and **producing solid returns for our shareholders.**

Michael Stiassny
Chairman

Marking our first year as a pure General Insurer, TOWER has delivered a strong underlying performance, while managing the remaining risk posed by unresolved Canterbury claims and producing solid returns for our shareholders.

While TOWER reported a net loss after tax (NPAT) of \$6.6 million, reflecting the need to increase provisions for Canterbury, underlying profit after tax increased by 29.6% to \$28.2 million. TOWER maintains a strong balance sheet and is well capitalised, holding significant capital above target solvency levels.

The strength of the underlying results – together with its solid capital position – indicates the business is in good heart.

TOWER's gross written premium (GWP) increased 2.7% to \$305.6 million, largely influenced by stable rates in New Zealand and continued strong premium and policy growth in the Pacific.

The Pacific continues to perform very strongly with a 17.4% increase in net profit after tax (NPAT) of \$9.6 million.

Another highlight this year has been the expansion of distribution alliances both in the Pacific, and through the launch of Trade Me Insurance in New Zealand, which is not only building TOWER's digital capability, but also providing access to new markets and customers.

With regard to Canterbury, TOWER has sought to act in the best interests of our customers and our shareholders by closely managing the rebuild programme, resolving claims, and getting our customers back in their homes as quickly as possible. This has resulted in 96% of claims by number (88% by value) being settled and closed by 30 September 2015.

However, managing the tail end of Canterbury earthquake claims is challenging and complex. TOWER strengthened its actuarial process by adding expertise in catastrophe and reinsurance claims, and by having the Appointed Actuary conduct a file-by-file analysis of all remaining claims. This process identified the need to increase Canterbury claims provisions, the total impact over the full year was $36.2 million after tax.

While the increased provision is disappointing, the Board now has greater confidence in the likely costs and risks faced in resolving the remaining claims.

This gives us comfort that TOWER can work through the balance of Canterbury claims to deliver good outcomes for customers, while continuing to invest in growth and providing solid shareholder returns.

Judicious capital management remains essential to TOWER's continued growth and success. As a result, despite the increase in provisions for Canterbury, TOWER holds $73 million in capital above target levels, comprised of $35 million in General Insurance solvency ($25 million in New Zealand and $10 million across subsidiaries) and $38 million at corporate level.

TOWER continues to offer strong dividends – an unimputed dividend of 7.5 cents per share will be paid for the six months to September 2015, bringing the annual dividend to 16.0 cents per share (unimputed), an increase of 10.3%.

TOWER will continue to maintain its dividend policy at 90% to 100% of NPAT where prudent to do so.

The on-market share buyback programme announced at the half year has acquired $12 million of TOWER's issued capital. This programme will continue to a maximum of $34 million.

On behalf of your Board, I acknowledge and thank former CEO, David Hancock for successfully leading TOWER's transition into a pure general insurer over the past two years. David was instrumental in developing an appropriate management and operating structure to support change and deliver a growth strategy.

With the transition to general insurer now well underway it is the Board's pleasure to welcome new CEO, Richard Harding.

Richard is a 30-year insurance industry veteran who brings a depth of critical insurance experience that will not only assist in resolving the last of the Canterbury claims, but also enhance TOWER's growth prospects through delivering operational excellence and a high performance customer service culture.

In closing, my fellow directors join with me in thanking the entire TOWER team for their daily commitment to building this business.

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

Michael Stiassny
Chairman

Strong underlying performance despite provisions increase

Business review and outlook

TOWER is well positioned to drive growth through product and alliance innovation, improved customer retention and operational excellence in the coming year.

Richard Harding
Chief Executive Officer

TOWER delivered a strong underlying performance in 2015, but earnings were significantly impacted by the need to increase provisions for the remaining Canterbury Earthquake claims.

The complexity and costs associated with Canterbury Earthquake claims continue to represent a challenge for the whole insurance industry and TOWER is not immune. We acknowledge that the provision increase is disappointing for our shareholders.

However, as a result of the recent actuarial report, we are more confident that TOWER can continue to deliver positive outcomes for our Canterbury customers, maintaining our focus on finalising claims quickly and fairly.

It is important and pleasing to note that TOWER has maintained a strong balance sheet and increased returns to shareholders. Our underlying results are very good and reflect the potential of the General Insurance business.

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

The company has more than 480,000 policies and almost 265,000 customers in New Zealand and eight Pacific territories through its own direct business and alliance partnerships.

TOWER is well positioned to drive growth through product and alliance innovation, improved customer retention and operational excellence in the coming year.

Having only recently joined the company, these underlying results represent a solid foundation on which to build. I look forward to bringing sound general insurance capability to bear in realising TOWER's significant potential and delivering strong shareholder returns.

Performance summary

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

The increased provisions for the February 2011 Canterbury earthquake impacted net profit after tax (NPAT) by $36.2 million, after taking into account reinsurance recoveries and tax benefits. The Adverse Development Cover (ADC) taken out in April 2015 significantly reduced the impact on profit.

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

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

Despite the increased provisions for Canterbury claims costs, the TOWER balance sheet remains strong with significant capital above our long-term target solvency levels. The on market share buyback of up to $34 million – $12 million of which has been completed – is continuing.

TOWER Insurance Limited, the licenced insurance entity, remains well capitalised and carries significant capital above target solvency levels. Further excess cash of $38 million is held in the corporate entities[1]. Further details of TOWER's solvency position can be found in the solvency disclosures section of TOWER's website: www.tower.co.nz

Group Performance

$ MILLION	FY15	FY14	MOVEMENT %
Gross written premium	305.6	297.6	2.7%
Reported (loss)/profit after tax	**(6.6)**	**23.6**	**-**
Canterbury earthquakes	(36.2)	(0.1)	-
Profit on discontinued businesses	1.4	2.0	-
Underlying profit after tax from continuing operations	**28.2**	**21.7**	**29.6%**
New Zealand[2]	18.9	16.9	11.6%
Pacific	9.6	8.2	17.4%
Underlying EPS(c)[3]	16.0	11.3	41.6%
DPS(c)	16.0	14.5	10.3%
Key ratios[4]			
Claims ratio	47.7%	50.8%	-
Expense ratio	41.9%	40.8%	-
Combined ratio	89.6%	91.6%	-

1. Excess cash defined as cash balance less payables.
2. New Zealand figures include general insurance only
3. Profit attributable to shareholders from ongoing operations only and excludes Canterbury impacts, using weighted average number of shares outstanding.
4. Based on underlying business, excludes Canterbury impacts.

Underlying financial performance

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

While industry reinsurance costs have eased, TOWER elected to take out increased cover as part of its risk management strategy, which has seen our reinsurance costs increase over the previous financial year. We have increased cover for large claim events and the February 2011 Canterbury earthquake ADC, both of which have reduced our final exposure to claims.

Underlying earnings performance[1]

$ MILLION	2015	2014	MOVEMENT $	MOVEMENT %
Gross written premium	305.6	297.6	8.0	2.7%
Gross earned premium	304.7	285.1	19.6	6.9%
Reinsurance costs	(51.9)	(48.0)	(3.9)	8.1%
Net earned premium	**252.8**	**237.1**	**10.9**	**6.6%**
Net incurred claims	(115.6)	(106.2)	(9.4)	8.9%
Large events claims[2]	(4.9)	(14.4)	9.4	(65.6%)
Management and sales expenses	(101.9)	(94.0)	(7.9)	8.4%
Depreciation and amortisation	(4.0)	(2.7)	(1.4)	51.9%
Underwriting profit	**26.3**	**19.9**	**6.4**	**32.1%**
Investment revenue	14.0	14.2	(0.2)	(1.2%)
Financing costs	-	(4.1)	4.1	-
Underlying profit before tax	40.3	30.0	10.3	34.4%
Income tax expense	(12.2)	(8.3)	(3.9)	46.9%
Underlying profit after tax	**28.2**	**21.7**	**6.4**	**29.6%**

1. Table excludes the impact of Canterbury earthquakes and related ADC reinsurance
2. Large claim events are those greater than $1m. 2014 large claim events were due to storms in New Zealand.

The ratio of claims to net earned premium (NEP) across New Zealand and the Pacific declined to 47.7%, from 50.8%, reflecting fewer large claim events. There were no large event claims in the first half. The second half was affected by storms in Wellington, Dunedin and Whanganui, as well as by seasonally higher travel and motor claims.

Our combined ratio (a measure of insurance margins, with a lower number being better) improved to 89.6%, down from 91.6% in the previous year. The underlying expense ratio (management expenses and sales expenses to net earned premium) increased to 41.9% in the year, up from 40.8%. Operating expenses increased in the second half due to the timing of a number of our initiatives including the launch of Trade Me Insurance, the brand refresh and Insurance Faces migration programme. These investments have led to an increase in the management expense ratio but are anticipated to improve returns to shareholders through revenue and efficiency benefits over the medium term.

Our Pacific business continues to grow, and is a significant component of TOWER, accounting for 34% of underlying net profit after tax (NPAT). Profit after tax increased 17.4% to $9.6 million supported by benign weather across the Pacific territories as well as policy and premium growth and currency translation.

Investment revenue net of financing costs increased $3.9 million to $14.7 million following the bond redemption undertaken in the previous year that left TOWER debt free.

TOWER's tax expense 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.

Operating priorities during the year

TOWER's strategy remained focused on the strategic pillars of customer satisfaction, staff engagement and financial performance. TOWER aims to become the leading light in the New Zealand and Pacific General Insurance markets and to drive shareholder value.

Making it easy for customers

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

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

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

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

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

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

Unlocking the power of TOWER

The TOWER Insurance brand consistently achieves a level of recognition associated with the major market leaders. However, our market share does not reflect this high recognition. The realisation of this latent brand potential has been – and will continue to be – a focus. We seek effective communication of the brand story, ensuring product quality and innovation, and delivery of an attractive value proposition.

TOWER continues to build its brand as a trusted alternative to the major insurers, and a leader in customer service and product innovation. We launched a new branding campaign during the year: "Confidence. Get it back with TOWER Insurance."

The advertising campaign – which included increased use of social media and billboards – seeks to help realise the potential of the well-recognised TOWER brand, creating a stronger connection with customers, increased confidence in our policies and improved consumer preference for our insurance products. To date, the campaign has achieved encouraging improvement in brand awareness, preference, consideration and inbound inquiries.

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

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

New alliances, distribution channels and markets

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

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

In mid-August, TOWER and Trade Me launched Trade Me Insurance, with a fully online end-to-end service model. Trade Me Insurance represents an exciting market innovation that aims to offer policy flexibility and deliver operating efficiencies that supports a competitive price and value position. The Trade Me platform offers access to 1.4 million potential insurance customers.

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

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

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

Boosting Pacific growth

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

TOWER has been operating in the Pacific region for over 140 years and in a number of our markets, we are the industry leader. Customer satisfaction is high in the Pacific, with NPS in the high 40s. Local staff record high levels of engagement.

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

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

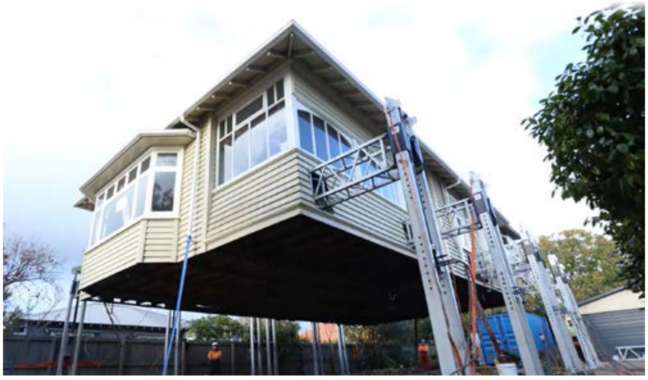
Update on Canterbury earthquake rebuild

TOWER made further progress on the Canterbury rebuild, and at 30 September 2015 had achieved 96% closed by volume and 88% by value, with approximately 700 claims outstanding.

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

TOWER has used Deloitte to provide actuarial services to project claims costs from the remaining Canterbury earthquake rebuild. In preparing the 30 September financial statements, the Board requested additional expertise from TOWER's actuarial adviser, Deloitte, who began a file-by-file review of remaining claims. Following the receipt of an actuarial report in April 2015, the TOWER Board determined that Canterbury provisions should be prudently increased by $22.6 million after tax for the February 2011 event. This is reflected in the 31 March 2015 interim financial statements.[1]

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



At 30 September 2015, TOWER has further increased the provision for the February 2011 event to an impact of $13.6 million net of tax and after the benefit of the ADC reinsurance. The total increase to Earthquake provisions was $36.2 million after tax for the full financial year.

The provision adjustment in the second half of the financial year was driven by increased costs for paid claims during the period, an increase in case estimates for current claims, and an increase in the claims incurred but not reported, a reflection of the unreported cost.

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

As a result of the Deloitte review, TOWER believes there is greater certainty regarding the balance of the claims provision given:

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

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

TOWER remains focused on bringing resolution as quickly as possible to the remaining approximately 700 customers with unresolved claims at 30 September 2015. The complexity of these claims means some risk still remains. However, the detailed actuarial analysis completed to understand these claims, their significantly smaller number, and the pace of TOWER's claims resolution progress in resolving claims, provides the company with greater certainty regarding the balance of the outstanding claims provision.

Balance sheet and capital management

TOWER's solvency remains sound with capital above target levels within the licenced insurance entity (TOWER Insurance Limited). TOWER has a long term policy of retaining within its licenced General Insurance entity 175% of the minimum solvency capital (MSC) required under the Insurance (Prudential Supervision) Act 2010. As at 30 September 2015, TOWER's actual MSC was $70 million and therefore the target solvency margin was $52 million. Tower Group therefore had a surplus of $35 million over the long-term target (comprising $25 million in New Zealand and $10 million across subsidiaries). Further excess cash of $38 million is held in the corporate entities.

Further details on TOWER's solvency position can be found in the solvency disclosures section of TOWER's website: www.tower.co.nz

Capital management remains a priority for TOWER. In addition to paying healthy dividends, we have returned $189 million of capital over the past three years and remain committed to returning additional capital to shareholders where possible.

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

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

TOWER outlook

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

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

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

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

Our focus now moves to achieving **operational excellence, developing a high performance customer service culture and unleashing the power of the TOWER brand.**

Richard Harding
Chief Executive Officer

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

Growth and Retention

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

New markets and channels

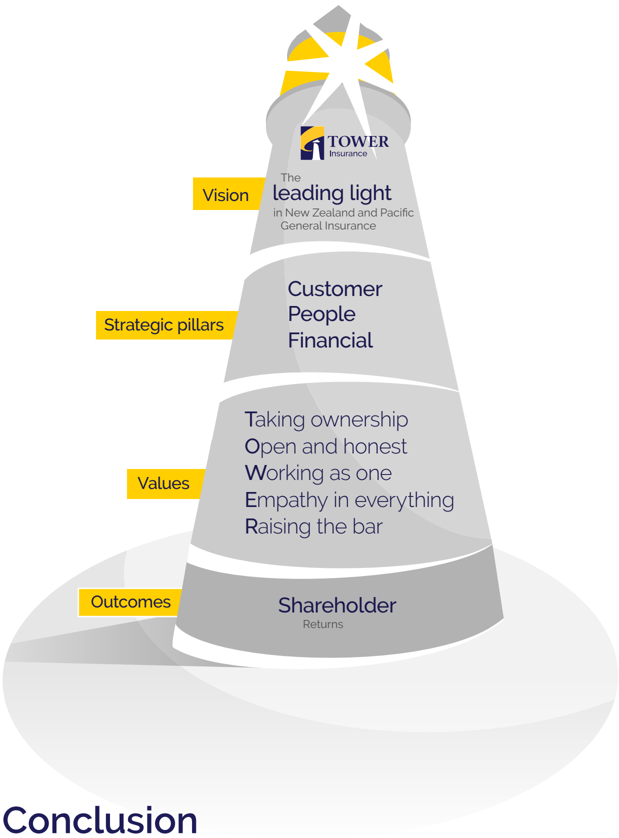
Trade Me Insurance represents an exciting market innovation. The online delivery platform has now entered into the post-launch phase. TOWER has gained valuable experience through this relationship which can be applied to growing our own direct business and pursuing further new alliance opportunities in New Zealand.

Operational excellence

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

Capital management

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



Conclusion

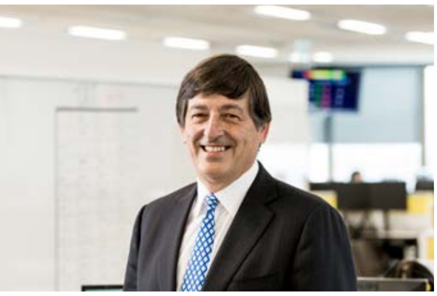
With the foundations of a pure General Insurer now firmly bedded in, I am looking forward to leading TOWER through its next phase of development and growth. Our focus now moves to achieving operational excellence, developing a high performance customer service culture and unleashing the power of the TOWER brand.

I would like to acknowledge and thank the TOWER team for their dedication in what has proven a challenging year. The enthusiasm they demonstrate for the business stands TOWER in very good stead for the future.

On the team's behalf, I also thank our customers for their loyal support of TOWER. We will continue to work hard to earn the confidence they place in our insurance products.

Richard Harding
Chief Executive Officer

Board of **Directors**



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

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, and is a Director of a number of other companies. Michael is President and a Chartered Fellow of the Institute of Directors in New Zealand (Inc).

Michael resides in Auckland, New Zealand.

Rebecca Dee-Bradbury
BBus (Marketing), GAICD
Non-Executive Director
Independent
Appointed Director: 15 August 2014

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 is on the Business Advisory Board for Monash Business School.

Rebecca resides in Melbourne, Australia.

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

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

David resides in Sydney, Australia.

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

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

Warren resides in Melbourne, Australia.

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

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

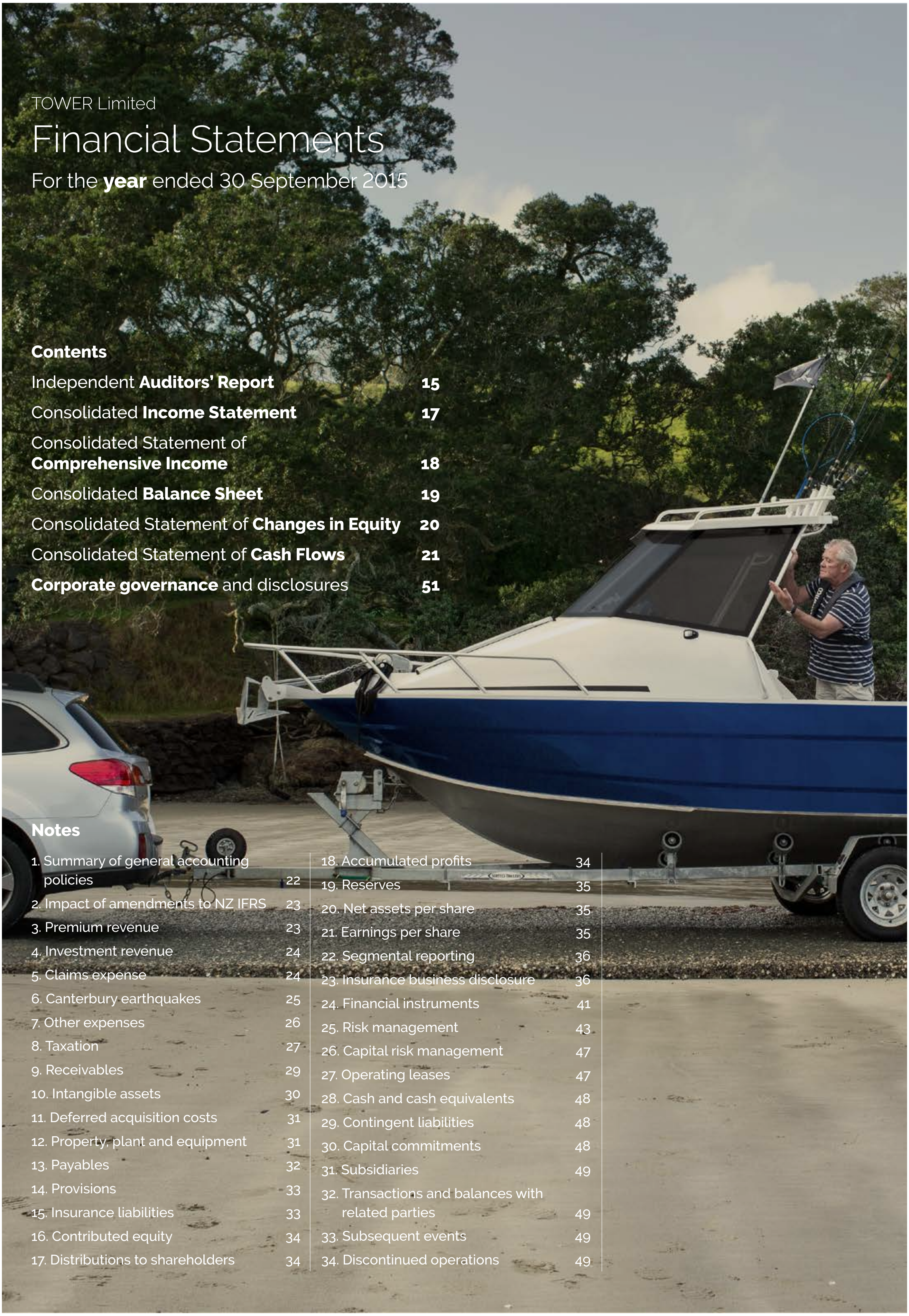
Steve resides in Auckland, New Zealand.

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

With over 30 years of senior management experience, Graham has held senior leadership roles with several major corporates, in New Zealand and overseas, the latest being the Sealord Group of which he was Chief Executive Officer for 7 years. Prior to that he held a number of diverse leadership roles including CEO of Mainland Products, Managing Director of Lion Nathan International, and Chief Financial Officer and Director of Strategy for the Fonterra Co-operative Group.

Graham has a Bachelor of Commerce (First Class Hons) from the University of Otago, a Master of Science from Massachusetts Institute of Technology and is a Fellow of Chartered Accountants Australia and New Zealand. Graham has served on a number of Government bodies including the Food & Beverage Taskforce and the Maori Economic Development Panel.

Graham resides in Auckland, New Zealand.



TOWER Limited

Financial Statements

For the **year** ended 30 September 2015

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Independent **Auditors' Report**

For the **year** ended 30 September 2015

Independent Auditors' Report

to the shareholders of TOWER Limited

Report on the Financial Statements

We have audited the consolidated financial statements of TOWER Limited ("the Company") on pages 17 to 50, which comprise the consolidated balance sheet as at 30 September 2015 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of general accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 30 September 2015 or from time to time during the financial year.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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

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Independent Auditors' Report

TOWER Limited

Opinion

In our opinion, the financial statements on pages 17 to 50 present fairly, in all material respects, the financial position of the Group as at 30 September 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Restriction on Use of our Report

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

PricewaterhouseCoopers

Chartered Accountants — Auckland

24 November 2015

TOWER Limited

Consolidated **Income Statement**

For the **year** ended 30 September 2015

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

		Cents	Cents
Basic and diluted (loss) earnings per share from continuing operations	21	(4.79)	11.29
Basic and diluted earnings per share from discontinued operations	21	0.80	1.06

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

TOWER Limited

Consolidated Statement of **Comprehensive Income**

For the **year** ended 30 September 2015

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

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

TOWER Limited

Consolidated **Balance Sheet**

As at 30 September 2015

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

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

Michael P Stiassny
Chairman

Graham R Stuart
Director

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

TOWER Limited

Consolidated Statement of **Changes in Equity**

For the **year** ended 30 September 2015

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

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

TOWER Limited

Consolidated Statement of **Cash Flows**

For the **year** ended 30 September 2015

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

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

Notes to the Consolidated **Financial Statements**

For the **year** ended 30 September 2015

1. Summary of general accounting policies

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

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

The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013, the NZX Main Board Listing Rules and the ASX Listing Rules. In accordance with the Financial Markets Conduct Act 2013, separate financial statements for the Company (being the parent entity) are no longer required.

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

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

Principles of consolidation

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

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

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

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

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

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

Currency

(i) Functional and presentation currencies

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

(ii) Transactions and balances

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

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

Exchange differences arising on the settlement or retranslation of monetary items at year end exchange rates are recognised in the income statement.

(iii) Consolidation

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

Comparatives

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

(i) Canterbury earthquake receivables

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

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

On the Balance Sheet, 2014 receivables increased $17.7 million to $333.9 million and 2014 insurance liabilities increased $17.7 million to $422.3 million. Total assets and total liabilities balances have increased accordingly. There is no change to net assets.

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

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

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

(ii) Segmental reporting

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

2. Impact of amendments to NZ IFRS

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 October 2015 or later periods, and the Group has not adopted them early. The Group expects to adopt the following new standards on 1 October after the effective date.

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

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

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

3. Premium revenue

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

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

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

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

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

Notes to the Consolidated **Financial Statements**

For the **year** ended 30 September 2015

4. Investment revenue

Investment revenue is recognised as follows:

(i) Dividends and distributions

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

(ii) Property income

Property income is recognised on an accrual basis.

(iii) Interest income

Interest income is recognised using the effective interest method.

(iv) Fair value gains and losses

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

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

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

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

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

5. Claims expense

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

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

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

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

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

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

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

6. Canterbury earthquakes

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

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

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

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

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

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

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

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

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

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

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

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

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

- the rate of claims closure
- recoveries from EQC in respect of land damage and building costs
- apportionment of claim costs to each of the four main earthquake event
- future increases in building costs
- future claim management expenses
- closed claims reopening, and
- risk margin.

Given the nature of estimation uncertainties (including those listed above) actual claims experience may still deviate, perhaps substantially, from the gross outstanding claims liabilities recorded as at 30 September 2015. Any further changes to estimates will be recorded in the accounting period when they become known.

Sensitivity analysis – impact of changes in key variables

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

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

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6. Canterbury earthquakes (continued)

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

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

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

7. Other expenses

	2015 $000	2014 $000
Included in total management and sales expenses are the following:		
Amortisation of deferred acquisition costs	20,028	18,211
Bad debts written off	155	32
Change in provision for doubtful debts	104	(160)
Amortisation of software	1,660	931
Depreciation:		
Office equipment and furniture	676	328
Motor vehicles	184	186
Computer equipment	1,514	1,247
Directors' fees	455	495
Operating leases	2,966	3,834
Employee benefits expense	51,038	49,621
Loss on disposal of property, plant and equipment	15	21
Claims related expense reclassified to claims expense	(21,352)	(18,564)
Auditors' remuneration		
Fees paid to Company's auditors:		
Audit of financial statements (1)	343	518
Other services:		
Other assurance related services (2)	33	71
Non-assurance advisory related services (3)	8	6
Fees paid to subsidiaries' auditors different to Group auditors:		
Audit of annual financial statements	39	33

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

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

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

(B) Financing costs

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

	2015 $000	2014 $000
Interest expense	–	4,104
Total financing costs	**–**	**4,104**

8. Taxation

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

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

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

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

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

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

(A) Current tax expense

	2015 $000	2014 $000
Analysis of taxation benefit (expense)		
Current taxation	4,223	10,681
Deferred taxation	(5,082)	(2,088)
Under provided in prior years	(1,039)	(269)
Income tax (benefit) expense for the year attributed to shareholders	**(1,898)**	**8,324**
The tax (benefit) expense can be reconciled to the accounting profit as follows:		
(Loss) profit before taxation from continuing operations	(9,930)	29,948
Income tax at the current rate of 28%	(2,780)	8,385
Taxation effect of non deductible expenses / non-assessable revenue:		
Recognition of prior period current tax	(1,325)	(551)
Non deductible expenditure (income)	253	(146)
Foreign tax credits write-off	2,132	795
Other	(178)	(159)
Income tax (benefit) expense	**(1,898)**	**8,324**

(B) Tax assets

	2015 $000	2014 $000
Analysed as:		
Current	3,629	12,733
Non-current	11,264	–
	14,893	**12,733**

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

(C) Tax liabilities

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

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8. Taxation (continued)

(D) Deferred tax assets and liabilities

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

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

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

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

	Opening balance at 1 October	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
2015	$000	$000	$000	$000	$000	$000
Movements in deferred tax assets						
Provisions and accruals	3,427	(649)	–	(457)	–	2,321
Tax losses	11,063	6,968	–	949	54	19,034
Property, plant and equipment	4,813	(1,382)	–	–	–	3,431
Total deferred tax assets	**19,303**	**4,937**	**–**	**492**	**54**	**24,786**
Movements in deferred tax liabilities						
Deferred acquisition costs	4,810	75	–	–	–	4,885
Other	1,323	(218)	18	–	–	1,123
Total deferred tax liabilities	**6,133**	**(143)**	**18**	**–**	**–**	**6,008**
Net deferred tax	**13,170**	**5,080**	**(18)**	**492**	**54**	**18,778**
2014						
Movements in deferred tax assets						
Provisions and accruals	3,747	(324)	–	4	–	3,427
Tax losses	10,462	7,701	–	(34)	(7,066)	11,063
Property, plant and equipment	9,443	(4,630)	–	–	–	4,813
Total deferred tax assets	**23,652**	**2,747**	**–**	**(30)**	**(7,066)**	**19,303**
Movements in deferred tax liabilities						
Deferred acquisition costs	4,434	376	–	–	–	4,810
Other	1,030	283	10	–	–	1,323
Total deferred tax liabilities	**5,464**	**659**	**10**	**–**	**–**	**6,133**
Net deferred tax	**18,188**	**2,088**	**(10)**	**(30)**	**(7,066)**	**13,170**

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

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

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

(E) Imputation Credits

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

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

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

9. Receivables

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

Assets arising from reinsurance contracts are determined using the methods discussed in note 5, regarding the provision of outstanding claims. The recoverability of these assets is assessed on a periodic basis to ensure that the balance reflects the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Group may not receive amounts due to it and these amounts can be reliably measured.

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

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

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

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

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

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10. Intangible assets

Goodwill

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

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

Any impairment is recognised immediately in the income statement.

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

Software

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

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

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

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

Impairment testing for goodwill

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

	2015 $000	2014 $000
Carrying amount of goodwill	17,744	17,744

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

Impairment review method

The recoverable amount of the general insurance business has been assessed with reference to its appraisal value to determine its value in use. A base discount rate of 14% was used in the calculation (2014: 10%). Other assumptions used are consistent with the actuarial assumptions in note 23 in respect of TOWER Insurance. The projected cash flows have been determined using a steady average growth rate of 2% (2014: 2%). The cash flows were projected over the expected life of the policies. The projected cash flows are determined based on past performances and management expectations for market developments.

Sensitivity to changes in assumptions

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

11. Deferred acquisition costs

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

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

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

12. Property, plant and equipment

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

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

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

Computer equipment	3 – 5 years
Office equipment and furniture	5 – 9 years
Motor vehicles	5 years
Buildings	50 – 100 years
Leasehold property improvements	3 – 12 years

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

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

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12. Property, plant and equipment (continued)

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

Land and buildings are all located in Fiji and are stated at fair value. Fair value is determined using a replacement cost approach whereby the depreciated replacement cost of improvements is added to the leasehold interest in the land. This value is then adjusted to take into account recent market activity. Valuation of the commercial building was performed as at 7 September 2015 by Rolle Associates, registered valuers in Fiji. There has been no material movement in the valuation between 7 September and 30 September 2015. Inputs to the valuation of the Fiji property are considered to be based on non-observable market data, thus classified as level 3 in the fair value hierarchy.

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

13. Payables

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

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

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

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

14. Provisions

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

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

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

Movement in provisions

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

	2015 $000	2014 $000
Business separation		
Opening balance at 1 October	3,028	9,257
Additions	1	834
Amount utilised in the year	(1,817)	(6,060)
Reversal of unused amount	(1,003)	(1,003)
Closing balance at 30 September	**209**	**3,028**

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

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

Employee benefits

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

15. Insurance liabilities

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

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

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

Liability adequacy testing is performed in order to recognise any deficiencies in the income statement arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance conditions. Liability adequacy testing is performed at a portfolio level of contracts that are subject to broadly similar risks and are managed together as a single portfolio. Refer to note 23 (E).

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15. Insurance liabilities (continued)

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

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

	2015 $000	2014 $000
Unearned premiums		
Opening balance at 1 October	150,504	136,915
Premiums written	290,780	283,314
Premiums earned	(286,376)	(270,804)
Other	769	1,079
Closing balance at 30 September	**155,677**	**150,504**

16. Contributed equity

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

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

Represented by:	Number of shares	
Ordinary shares	169,983,470	175,749,449
Movements in ordinary shares		
Balance at 1 October	175,749,449	207,193,438
Capital repayment plan	(5,765,979)	(31,443,989)
Balance at 30 September	**169,983,470**	**175,749,449**
Movements in ordinary share capital		
Balance at 1 October	396,819	453,935
Capital repayment	(12,234)	(57,116)
Balance at 30 September	**384,585**	**396,819**

17. Distributions to shareholders

Dividend payments

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

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

Return of capital

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

18. Accumulated profits

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

19. Reserves

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

	2015 $000	2014 $000
Foreign currency translation reserve (FCTR)		
Balance at 1 October	(1,985)	(4,501)
Currency translation differences arising during the year	2,776	2,516
Balance at 30 September	**791**	**(1,985)**

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

	2015 $000	2014 $000
Separation reserve	**(113,000)**	**(113,000)**

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

	2015 $000	2014 $000
Asset revaluation reserves		
Opening balance at 1 October	402	354
Gain on revaluation	111	48
Balance at 30 September	**513**	**402**
Total reserves	**(111,696)**	**(114,583)**

20. Net assets per share

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

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

Reconciliation to net tangible assets is provided below,

	2015 $000	2014 $000
Net assets	280,909	326,009
Less deferred tax	(18,778)	(13,170)
Less intangible assets	(48,373)	(35,483)
Net tangible assets	**213,758**	**277,356**

21. Earnings per share

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

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

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

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

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22. Segmental reporting

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

	New Zealand General Insurance	Pacific General Insurance	Other (Holding companies and eliminations)	Total
	$000	$000	$000	$000
30 September 2015				
Revenue				
Revenue – external	216,813	46,919	1,951	265,683
Total revenue	**216,813**	**46,919**	**1,951**	**265,683**
Earnings before interest, tax, depreciation and amortisation	**(22,474)**	**14,844**	**1,734**	**(5,896)**
Depreciation and amortisation	(2,954)	(239)	(841)	(4,034)
Profit before income tax	**(25,428)**	**14,605**	**893**	**(9,930)**
Income tax credit (expense) (1)	6,249	(4,989)	638	1,898
Profit for the year	**(19,179)**	**9,616**	**1,531**	**(8,032)**
Total assets	598,856	86,651	73,415	**758,922**
Total liabilities	419,050	54,266	4,697	**478,013**
Acquisition of property, plant and equipment, intangibles and other non current assets	12,496	3,429	4,847	**20,772**
30 September 2014				
Revenue				
Revenue – external	213,427	38,792	2,645	254,864
Total revenue	**213,427**	**38,792**	**2,645**	**254,864**
Earnings before interest, tax, depreciation and amortisation	**23,250**	**11,990**	**1,504**	**36,744**
Interest expense	–	–	(4,104)	(4,104)
Depreciation and amortisation	(930)	(186)	(1,576)	(2,692)
Profit before income tax	**22,320**	**11,804**	**(4,176)**	**29,948**
Income tax credit (expense) (1)	(6,421)	(3,612)	1,709	(8,324)
Profit for the year	**15,899**	**8,192**	**(2,467)**	**21,624**
Total assets	629,530	82,609	96,158	**808,297**
Total liabilities	423,965	50,380	7,943	**482,288**
Acquisition of property, plant and equipment, intangibles and other non current assets	13,376	619	2,783	**16,778**

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

Description of segments and other segment information

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

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

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

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

23. Insurance business disclosure

(A) Analysis of general insurance operating result

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

(B) Net claims expense

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

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

(C) Outstanding claims

(a) Assumptions adopted in calculation of general insurance provisions

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

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

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

The New Zealand actuarial assessments are undertaken in accordance with the standards of the New Zealand Society of Actuaries. The Actuaries were satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

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

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

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

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

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

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23. Insurance business disclosure (continued)

Inflation rate

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

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

Discount rate

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

EQC recoveries

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

Claims handling expense

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

The following analysis is in respect of the insurance liabilities:

	2015 $000	2014 $000
Central estimate of expected present value of future payments for claims incurred	139,111	70,874
Risk margin	11,675	23,944
Claims handling costs	3,766	3,314
	154,552	98,132
Discount	(266)	(1,819)
Net outstanding claims	**154,286**	**96,313**

	2015			2014		
	Gross $000	Reinsur-ance $000	Net $000	Gross $000	Reinsur-ance $000	Net $000
Reconciliation of movements in outstanding claims						
Balance brought forward	**271,768**	**(175,455)**	**96,313**	314,990	(238,375)	**76,615**
Effect of change in foreign exchange rates	2,210	(4,059)	**(1,849)**	1,943	(3,120)	**(1,177)**
Incurred claims recognised in the income statement	252,244	(64,907)	**187,337**	258,855	(119,746)	**139,109**
Claim (payment) recoveries during the year	(262,207)	134,692	**(127,515)**	(304,020)	185,786	**(135,934)**
Balance carried forward	**264,015**	**(109,729)**	**154,286**	**271,768**	**(175,455)**	**96,313**
Reconciliation of undiscounted claims to liability for outstanding claims						
Outstanding claims undiscounted	2,200	(129)	2,071	4,654	(139)	4,515
Discount	(28)	7	(21)	(1,566)	70	(1,496)
Outstanding claims	**2,172**	**(122)**	**2,050**	**3,088**	**(69)**	**3,019**
Short tail outstanding claims			152,236			93,294
Total outstanding claims as per balance sheet			**154,286**			**96,313**

(b) Sensitivity analysis and terms of insurance business

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

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

(c) Future net cash out flows

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

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

(D) Risk management policies and procedures

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

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

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

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

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

(b) Concentration of insurance risk

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

23. Insurance business disclosure (continued)

(c) Development of claims

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

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

(E) Liability adequacy test

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

If the unearned premium liability less related deferred acquisition costs exceeds the present value of expected future cash flows plus additional risk margin then the unearned premium liability is deemed to be sufficient. The risk margins applied to future claims were determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability using the methodology described above. The unearned premium liabilities as at 30 September 2015 were sufficient (2014: sufficient).

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

(F) Insurer financial strength rating

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

(G) Reinsurance programme

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

(H) Solvency requirements

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

	2015 $000	2014 $000
Actual Solvency Capital	156,646	199,400
Minimum Solvency Capital	69,730	74,600
Solvency Margin	86,916	124,800
Solvency ratio	225%	267%

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

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

(I) Assets backing insurance business

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

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

24. Financial instruments

(A) Financial instrument categories

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

(i) Loans and receivables

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

(ii) Financial liabilities at amortised cost

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

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

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

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

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

(iv) Fair value

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

(v) Offsetting financial instruments

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

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

24. Financial instruments (continued)

(vi) Derecognition

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

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

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

	Total $000	Fair value through profit or loss: Designated $000	Fair value through profit or loss: Held for trading $000	Financial liabilities at amortised cost $000
As at 30 September 2015				
Financial liabilities				
Payables	**26,229**	–	–	26,229
Total financial liabilities	**26,229**	–	–	26,229
As at 30 September 2014				
Financial liabilities				
Payables	**31,335**	–	–	31,335
Derivative financial liabilities	**46**	–	46	–
Total financial liabilities	**31,381**	–	46	31,335

(B) Fair value of financial assets and liabilities

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

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

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

(i) Cash and cash equivalents

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

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

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

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

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

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

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

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

(iv) Derivative financial liabilities and assets

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

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

Impairment of Financial assets and liabilities

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

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

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

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

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

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

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

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

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

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

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

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

25. Risk management

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

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

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

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

25. Risk management (continued)

The Board is responsible for:

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

(A) Market risk

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

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

(i) Currency risk

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

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

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

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

(ii) Interest rate risk

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

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

Interest rate risk arises in insurance to the extent that there is a mismatch between the fixed interest portfolios used to back outstanding claim liabilities and those outstanding claims. Interest rate risk is managed by matching the duration profiles of investment assets and outstanding claim liabilities. The exposure is not considered to be material.

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

(iii) Price risk

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

(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 Group's cash deposit balances in New Zealand are limited to banks with minimum AA credit ratings. TOWER invests in Pacific regional investment markets through its Pacific Island operations to comply with local statutory requirements and in accordance with TOWER investment policies. These investments relate to the insurance business of the Group and generally have low credit ratings. These investments represent the majority of the value included in the 'Below BBB' and unrated categories in the following tables. Investments held with banks and financial institutions that are managed by investment managers have a minimum credit rating accepted by the Group of 'A'. Independent ratings are used for customers that are rated by rating agencies. For customers with no external ratings, internally developed minimum credit quality requirements are applied, which take into account customers' financial position, past experience and other relevant factors. Overall exposure to credit risk is monitored on a Group basis in accordance with limits set by the Board.

(i) Credit risk concentration

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

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

	Carrying value	
	2015 $000	2014 $000
New Zealand government	3,760	2,990
Other government agencies	72,152	31,128
Banks	300,874	343,341
Financial institutions	17,555	19,187
Other non-investment related receivables	240,562	314,290
Other industries	–	1,659
Total financial assets with credit exposure	**634,903**	**712,595**

(ii) Maximum exposure to credit risk

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

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

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

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

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

Group 1 – trade debtors outstanding for less than 6 months

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

Group 3 – unrated investments

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

None of the financial assets that are fully performing have been renegotiated in the past year (2014: nil).

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

The Group considers that financial assets are past due if payments have not been received when contractually due. At the reporting date, the total 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 $000	31 to 60 days $000	61 to 90 days $000	Over 90 days $000	Total $000
As at 30 September 2015					
Reinsurance recoveries receivable	243	28	2	196	469
Outstanding premiums and trade receivables	3,644	2,031	1,433	22	7,130
Total	**3,887**	**2,059**	**1,435**	**218**	**7,599**
As at 30 September 2014					
Reinsurance recoveries receivable	134	29	78	1,120	1,361
Outstanding premiums and trade receivables	4,361	2,749	481	1,071	8,662
Total	**4,495**	**2,778**	**559**	**2,191**	**10,023**

(vi) Financial assets that are individually impaired

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

	Carrying value	
	2015 $000	2014 $000
Outstanding premiums and trade receivables	1	32
Total	**1**	**32**

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25. Risk management (continued)

(C) Financing and liquidity risk

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

(i) Financial liabilities and guarantees by contractual maturity

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

	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 2015							
Financial liabilities and guarantees							
Trade payables	19,329	19,329	19,329	–	–	–	–
Reinsurance payables	2,612	2,612	2,612	–	–	–	–
Other payables	4,288	4,288	4,288	–	–	–	–
Total financial liabilities and guarantees	**26,229**	**26,229**	**26,229**	**–**	**–**	**–**	**–**
As at 30 September 2014							
Financial liabilities and guarantees							
Trade payables	14,200	14,200	13,776	424	–	–	–
Reinsurance payables	2,967	2,967	2,967	–	–	–	–
Other payables	14,168	14,168	14,168	–	–	–	–
Derivative financial liabilities	46	90	55	31	4	–	–
Total financial liabilities and guarantees	**31,381**	**31,425**	**30,966**	**455**	**4**	**–**	**–**

(D) Derivative financial instruments

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

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

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

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

The Group has no foreign exchange forward contracts.

(E) Sensitivity analysis

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

(i) Interest rate

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

	2015 Impact on		2014 Impact on	
	Profit after tax $000	Equity $000	Profit after tax $000	Equity $000
Change in variables				
+50 basis points	(664)	(664)	(750)	(750)
–50 basis points	660	660	544	544

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

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

(ii) Foreign currency

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

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

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

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

(iii) Equity price

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

(iv) Other price

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

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

	2015 Impact on		2014 Impact on	
	Profit after tax $000	Equity $000	Profit after tax $000	Equity $000
Change in variables				
+10% property funds and other unit trusts	2	2	2	2
–10% property funds and other unit trusts	(2)	(2)	(2)	(2)

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

26. Capital risk management

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

The Group's capital resources include shareholders' equity.

	2015 $000	2014 $000
TOWER shareholder equity	279,265	324,410
Total capital resources	**279,265**	**324,410**

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

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

During the year ended 30 September 2015 the Group complied with all externally imposed capital requirements.

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

27. Operating leases

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

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

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28. Cash and cash equivalents

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

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

	2015 $000	2014 $000
Cash at bank and in hand	28,330	24,253
Deposits at call	90,043	143,809
Restricted cash	6,740	–
Total cash and cash equivalents	**125,113**	**168,062**

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

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

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

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

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

The statement of cash flows presents net cash flows for financial assets, property, plant and equipment, intangible assets and advances to subsidiaries. TOWER considers that knowledge of gross receipts and payments is not essential to understanding the activities of TOWER based on either; the turnover of these items is quick, the amounts are large; and the maturities are short, or the value of sales is immaterial.

29. Contingent liabilities

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

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

30. Capital commitments

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

31. Subsidiaries

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

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

32. Transactions and balances with related parties

(A) Key management personnel compensation

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

	2015 $000	2014 $000
Salaries and other short-term employee benefits paid	2,732	2,000
Independent director fees [1]	455	495
	3,187	**2,495**

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

(B) Loans to key management personnel

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

(C) Other transactions with key management personnel

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

33. Subsequent events

Dividend declared

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

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

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

34. Discontinued operations

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

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

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

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

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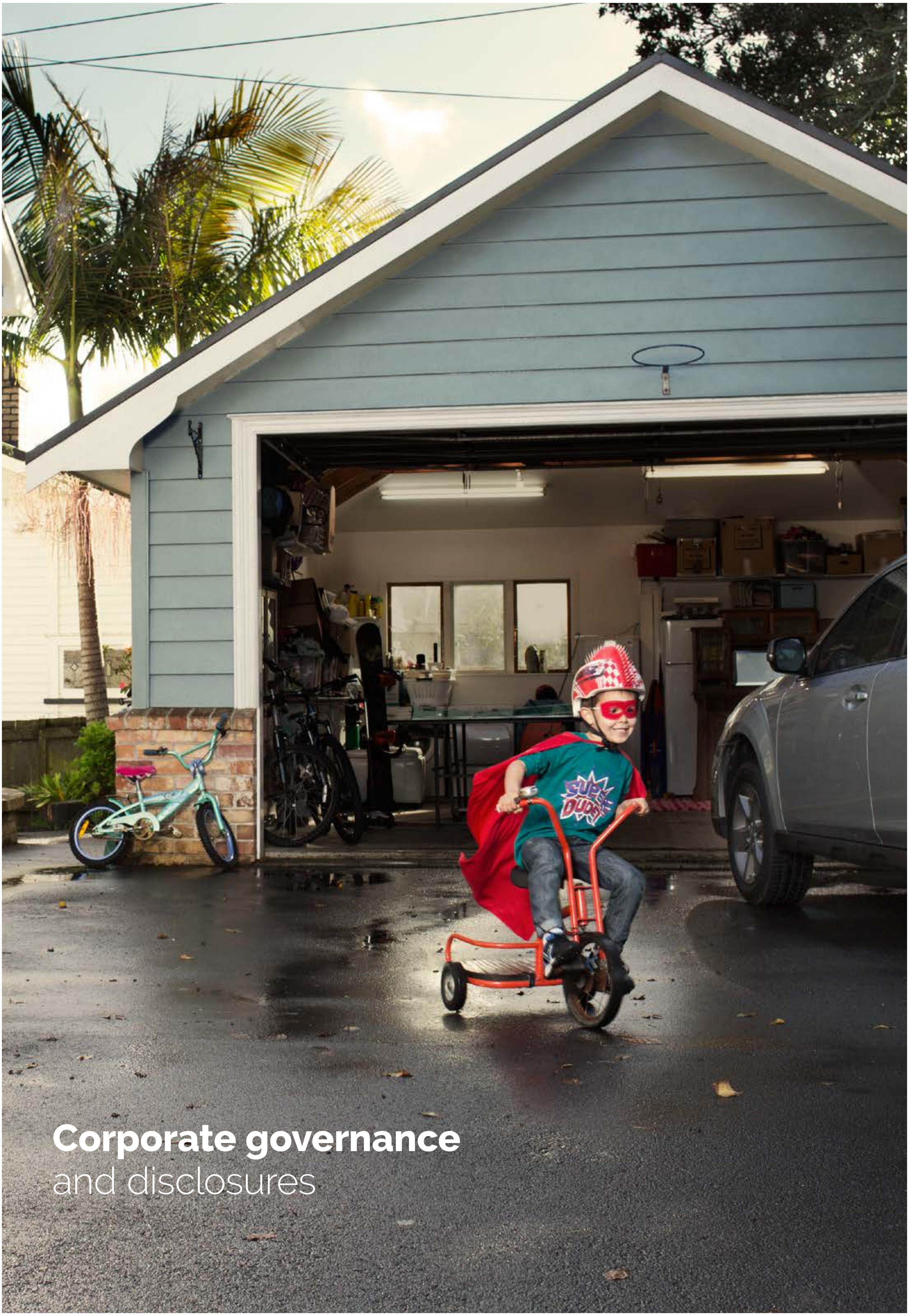
34. Discounted operations (continued)

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

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

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

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



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 2015, TOWER considers its corporate governance practices have adhered to the NZX Corporate Governance Best Practice Code, the Financial Markets Authority's 'Corporate Governance in New Zealand: Principles and Guidelines' handbook (FMA Handbook) and the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Recommendations), other than as outlined in this corporate governance section.

Copies of TOWER's principal governance documents and more detail about TOWER's governance practices are available on TOWER's website at www.tower.co.nz under the heading 'Corporate Governance' in the Investor Centre section.

This statement is current as at 20 November 2015 and has been approved by the Board of TOWER.

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 TOWER's two Board Committees (Audit and Risk Committee and Remuneration and Appointments Committee – the role of each of these Committees is outlined on pages 55 and 56). 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. It provides that the primary role of the Board is to effectively represent and promote the interests of shareholders with a view to enhancing growth and returns across TOWER and its subsidiaries, adding long-term value to TOWER shares. The Board, when fulfilling its roles and responsibilities, is required to have appropriate regard to TOWER's values, the concerns of its shareholders, its relationships with significant stakeholders and the communities and environment in which it operates.

The Board reserves certain functions to itself. These include:

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

The Board Protocols describe internal board procedures for efficient decision making. They set out how the Board will be structured, how directors are appointed and evaluated, how directors gain access to training and information, and they provide that the Company Secretary is accountable to the Board on all matters to do with the proper functioning of the Board. At 30 September 2015, Brett Wilson held the Company Secretarial position.

The Code of Ethics ensures decision making is in accordance with TOWER's values.

The Board Charter, Board Protocols and Code of Ethics can be found on TOWER's website at www.tower.co.nz under the heading 'Corporate Governance'.

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 September 2015, the Board was comprised of six non-executive directors. David Hancock was an executive director prior to the conclusion of his tenure as Chief Executive Officer on 16 August 2015. David became a non-executive director after that date. The TOWER constitution currently requires a minimum of five directors and provides for a maximum of eight. Directors' profiles are on pages 12 and 13.

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.

The Remuneration and Appointments Committee has considered and is satisfied that the composition of the Board reflects an appropriate range of skills and experience for TOWER to effectively discharge its responsibilities. An independent evaluation of the Board was undertaken in the reporting period to 30 September 2015 in accordance with the Board Charter.

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 as recommended by the NZX Corporate Governance Best Practice Code, 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 the Fit and Proper Standard for Licensed Insurers, along with the Fit and Proper Policy Guidelines for Licensed Insurers issued by the Reserve Bank of New Zealand. This policy is applied to all directors and relevant officers.

The Remuneration and Appointments Committee undertakes appropriate checks before appointing a person or putting forward to shareholders a new candidate for election as a director. Such checks have been undertaken in relation to all current Board members, and will be undertaken prior to the appointment or election of any new Board candidate.

In the case of a candidate standing for election as a director for the first time, TOWER will provide information to shareholders about the candidate to enable them to make an informed decision on whether or not to elect the candidate, including material adverse information revealed by any checks the Remuneration and Appointments Committee has performed on the candidate; details of any interest, position, association or relationship that might influence, or reasonably be perceived to influence in a material respect the candidate's capacity to exercise judgement on board matters or to act in the best interests of TOWER and its shareholders; the Board's view on whether the candidate will be considered to be an independent Director; and a recommendation by the Board in respect of the candidate's election.

Where Directors are seeking re-election at a general meeting, TOWER will provide information to shareholders to enable them to make an informed decision on whether or not to re-elect the Director, including their relevant qualifications and experience and the skills they bring to the Board; details of any other material directorships currently held by the candidate; the term of office already served by the Director; whether the Director is considered to be independent; and a recommendation by the Board in respect of the re-election of the Director.

On appointment to the Board, directors receive a formal letter of appointment outlining their duties, obligations and remuneration 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 will be independent directors. The Board assesses director independence upon each director's appointment and then 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 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:

- 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 and the interests of its securityholders generally.

Examples of relationships that remove independence include relationships with a material TOWER customer, supplier, professional advisor or substantial shareholder.

As at 30 September 2015, the Board considered that five of the six directors were independent. Those directors are Michael Stiassny, Steve Smith, Graham Stuart, Rebecca Dee-Bradbury, and Warren Lee. David Hancock's two-year tenure as Chief Executive Officer concluded on 16 August 2015. David is currently on a sabbatical but remains a non-executive director on the Board, and is not considered to be independent. TOWER's Board Protocols provide that being an executive of TOWER within the last three years or being a director after ceasing to hold such employment is a relationship that removes independence.

The ASX Recommendations recommend that the Chairman should be an independent director. Michael Stiassny is considered to be an independent director.

The roles of Chairman and Chief Executive Officer are not exercised by the same person. The role of Chief Executive Officer is held by Richard Harding.

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, election and re-election

During the year John Spencer retired from the TOWER Limited Board.

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 several directors have held office for equal terms and cannot agree who will retire, it is determined by lot. The directors who will retire and stand for re-election at the 2016 Annual Shareholders' Meeting are David Hancock and Steve Smith.

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 prior to the Annual Shareholders' Meeting to enable them to make informed decisions when voting. Warren Lee was appointed as an independent, non-executive director to fill a casual vacancy on 26 May 2015. He will retire, and being eligible, will offer himself for election at the 2016 Annual Shareholders' Meeting.

The length of service of each director on the Board is disclosed on the 'Director Profiles' section on pages 12 and 13.

Performance reviews of the Board, Board committees and individual directors

The Board recognises that the performance of the directors and Board Committees is crucial to TOWER's success and to the interests of shareholders. The Board regularly reviews its own composition and performance and that of the Board Committees in accordance with the terms of the Board Charter (which also includes a review of the Board structure, policies, Board succession, delegations and the necessity for and composition of the Committees). A performance evaluation of the Board and Board Committees was undertaken in the reporting period to 30 September 2015 in accordance with the Board Charter.

The Remuneration and Appointments Committee is responsible for the regular performance management and annual appraisal of the Chief Executive Officer, individual directors and senior executives. Evaluations may be carried out by an external consultant. A performance evaluation of the Chief Executive Officer, individual directors and senior executives was undertaken in the reporting period to 30 September 2015 in accordance with the process established by the Remuneration and Appointments Committee.

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 63.

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 periodically. Copies of each Committee's terms of reference are available on the TOWER website at www.tower.co.nz under the 'Corporate Governance' section.

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 12 and 13. Member attendance at each Committee meeting is set out on page 56.

Audit and Risk Committee

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

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

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
- recommend the appointment of, and 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 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, and who is an independent director.

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), Steve Smith, Graham Stuart, Rebecca Dee-Bradbury and Warren Lee.

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

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

The 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, who will be an independent, non-executive director.

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 page 60.

Board and Committee meeting attendance

There were six scheduled Board meetings during the year from 1 October 2014 to 30 September 2015. 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.

2014/2015 TOWER Limited directors' attendance record

	TOWER LIMITED BOARD	AUDIT AND RISK COMMITTEE	REMUNERATION AND APPOINTMENTS COMMITTEE
Meetings held	**6**	**4**	**3**
Michael Stiassny	6	2	3
Steve Smith	6	4	2
Graham Stuart	6	4	3
Rebecca Dee-Bradbury	6	4	3
Warren Lee [1]	2	1	0
David Hancock [2]	5	3	1
John Spencer [3]	2	2	1

1. Warren Lee was appointed as a director of TOWER on 26 May 2015.
2. David Hancock's tenure as CEO concluded on 16 August 2015. David is currently on a sabbatical but remains a director of TOWER.
3. John Spencer retired as a director of TOWER on 11 February 2015.

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 (which is also set out in TOWER's Whistleblower Policy) and sets out TOWER's approach to the way in which suspicions/allegations of fraud, corruption and/or misconduct within the Group 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 under IPSA. The relevant TOWER company is TOWER Insurance Limited, which is a licensed general insurer.

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 that 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 by directors, employees, consultants and contractors while they are in possession of information that has not been released to the public and that is likely to have a material effect on the price of TOWER securities.

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 results announcements). A copy of TOWER's Insider Trading and Market Manipulation Policy is available on TOWER's website at www.tower.co.nz under the 'Corporate Governance' section.

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.

ASX Recommendation 1.5 provides that a listed entity should have a diversity policy which includes requirements for the Board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them. The Recommendation also provides that the entity should disclose at the end of each reporting period the measurable objectives and its progress towards achieving them. TOWER does not fully follow ASX Recommendation 1.5 as its Diversity Policy does not include requirements for the Board to set measurable objectives. However the Board considers that TOWER has addressed the requirements of its Diversity Policy.

The Board is responsible for overseeing the implementation of the Diversity Policy, with delegation to the Remuneration and Appointments Committee to review and report annually on the status of diversity within TOWER and on policy effectiveness. TOWER's diversity Policy will be reviewed in the next 12 months for compliance with NZX and ASX diversity requirements.

The following table shows gender representation across TOWER as at 30 September 2015:

GROUP	2014–2015 % BY GROUP	2014–2015 NUMBER	2013–2014 % BY GROUP	2013–2014 NUMBER
Board of Directors				
Male	84%	5	84%	5
Female	16%	1	16%	1
Executive leadership team [1]				
Male	66%	4	60%	3
Female	34%	2	40%	2
Senior leadership team [2]				
Male	65%	15	64%	16
Female	35%	8	36%	9
Employees				
Male	42%	235	42%	209
Female	58%	318	58%	290
Total company [3]				
Male	44%	254	42%	228
Female	56%	328	58%	301

1. 'Executive Leadership Team' includes the Chief Executive Officer, and those employees who report directly to the Chief Executive Officer.
2. 'Senior Leadership Team' is the second level of employees below the Chief Executive Officer, who report directly to the Executive Leadership Team.
3. 'Total Company' figures do not include the Board of Directors.

Market and shareholder communication and shareholder participation at meetings

TOWER recognises that public confidence in the integrity of TOWER is based on continuous, full and open disclosure of information about its activities to the market and relevant stakeholders. TOWER's Corporate Disclosure Policy provides for a planned, proactive communication programme with shareholders and the wider investment community to encourage their participation and interaction with TOWER. TOWER believes this communication programme assists in creating a fully informed market and enhances shareholder value. The Policy 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, and to ensure that company announcements are factual and presented in a clear and balanced way, and that 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 TOWER. 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 at http://www.tower.co.nz/investor-centre/.

TOWER provides shareholders with the option to receive communications from, and send communications to, TOWER and the share registry electronically, for reasons of speed, convenience, cost and environmental considerations. TOWER encourages its shareholders to receive company information electronically by registering their email addresses online with TOWER's share registry.

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

Whilst shareholders are encouraged to attend meetings in person, in the event that they are unable to do so, they are encouraged to participate in the meeting by proxy, attorney or representative to vote on their behalf.

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
- TOWER's Annual Shareholders' Meeting is held in February
- Half year results are announced in late May
- 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 24 July 2015

TOWER Limited
Issuer Credit Rating bbb– (Good)
Effective 24 July 2015

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 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 reasonable steps have been taken to effectively manage TOWER's risks.

Risk and compliance framework

The Risk and Compliance Framework Board 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.

The Audit and Risk Committee regularly reviews its risk management procedures and framework to ensure that it complies with its legal obligations. No significant changes to the framework or Policy were identified during the financial year.

The Audit and Risk Committee is responsible for reviewing whether TOWER has any material exposure to any economic, environmental and social sustainability risks, and if so, to develop strategies to manage such risks, and present such strategies to the Board. For the reporting period to 30 September 2015, no material exposure to these risks was identified.

Internal audit

TOWER contracts an independent chartered accounting firm to carry out the internal audit function. That firm reports to the Chairman of the Audit and Risk Committee and has 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.

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

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 February 2015 to audit the financial statements for TOWER and its subsidiaries.

A formal engagement letter with PwC sets out the respective obligations and responsibilities of PwC and TOWER in relation to the preparation and audit of financial statements. The Board also has a formal External Audit Independence Policy that includes the provision of non-audit services by the external auditor.

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

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

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

The Policy is overseen by the Audit and Risk Committee. The Policy is available on TOWER's website at www.tower.co.nz under the 'Corporate Governance' section.

Representatives from TOWER's external auditor will be present at the Annual Shareholders' Meeting to be held in February 2016 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. 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 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.

2014/2015 directors' remuneration and benefits of TOWER and its subsidiaries

Amounts in the table below reflect fees paid and accrued for the year ended 30 September 2015.

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

DIRECTORS' REMUNERATION AND BENEFITS OF TOWER LIMITED

FOR THE YEAR TO 30 SEPTEMBER 2015	FEES (NZ$)
Michael Stiassny	127,417
Steve Smith	87,570
Graham Stuart	93,570
Rebecca Dee-Bradbury	87,570
Warren Lee[1]	26,940
John Spencer[2]	31,997
David Hancock[3]	Nil

1. Warren Lee was appointed as a director of TOWER on 26 May 2015.
2. John Spencer retired as a director of TOWER on 11 February 2015.
3. David Hancock did not receive directors' fees during his tenure as CEO. Further information relating to David's salary is disclosed under the heading 'Chief Executive Officer and senior executive remuneration' below. David is currently on a sabbatical but remains a director of TOWER. David is not receiving director fees while he is on sabbatical.

DIRECTORS' REMUNERATION AND BENEFITS OF TOWER LIMITED SUBSIDIARIES

FOR THE YEAR TO 30 SEPTEMBER 2015	FEES (WST$)
Alden Godinet [1]	$7,500
Rodney Reid [1]	$7,500

1. Fees earned in capacity as director of National Pacific Insurance Limited. These fees are paid in Western Samoan Tala.

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 TOWER's short and long term objectives.

The Chief Executive Officer does not receive directors' fees. David Hancock's remuneration paid during the financial year ended 30 September 2015 equated to $2,038,270, which consisted of:

- a base salary of $705,835;
- a $503,864 short-term incentive payment for the 12 months from July 2013 to June 2014 (paid December 2014);
- a $175,000 short-term incentive payment for the 12 months from July 2014 to June 2015 (paid August 2015);
- a $500,000 long-term incentive payment paid at the conclusion of his tenure as CEO; and
- an additional allowance provided for under the terms of the contract extending his tenure as CEO.

Richard Harding's tenure as CEO commenced on 17 August 2015. Richard's remuneration consisted of a salary of $95,192 from the date his tenure commenced until 30 September 2015. Richard's annual base salary is $750,000, with the potential to earn short-term incentives up to $500,000.

Under the terms of TOWER's Insider Trading and Market Manipulation Policy, directors are prohibited from entering into transactions which operate to limit the economic risk of their TOWER securities (including under any equity-based remuneration scheme).

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 2015. 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	2014–2015	2013–2014
100,000	109,999	13	17
110,000	119,999	14	7
120,000	129,999	12	7
130,000	139,999	14	11
140,000	149,999	10	5
150,000	159,999	5	1
160,000	169,999	1	4
170,000	179,999	3	2
180,000	189,999	4	1
190,000	199,999	2	2
200,000	209,999	2	–
210,000	219,999	–	1
220,000	299,999	2	–
230,000	239,999	2	1
280,000	289,999	2	–
290,000	299,999	–	1
310,000	319,999	1	–
320,000	329,999	–	1
380,000	389,999	1	–
400,000	409,999	1	–
470,000	479,999	–	1
490,000	499,999	1	–
720,000	729,999	1	1
Total		91	63

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.

Donations

During the financial year ended 30 September 2015, total donations made by TOWER and its subsidiaries are as follows:

TOWER Limited: NZ$1,000

TOWER Limited subsidiaries: NZ$4,260

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. TOWER's constitution provides that an 'interested' director may not vote on a matter in which he or she is interested unless the director is required to sign a certificate in relation to that vote pursuant to the Companies Act 1993, or the matter relates to a grant of an indemnity pursuant to section 162 of the Companies Act 1993.

General disclosures of interest

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

Any cessation of interest that occurred after 30 September 2015 is indicated by two asterisks (**).

Rebecca Dee-Bradbury	
Bluescope Steel	Director
GrainCorp Ltd	Director
LMH Investments Pty Ltd	Director
Business Advisory Board, Monash Business School	Member
David Hancock	
Finarch Pty Limited	Director
AXE ECN Pty Limited	Director
Steve Smith	
Fulton Hogan Limited and subsidiary companies	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	Chairman
Spanbild Holdings Limited and subsidiary companies	Chairman
Trebol Investments Limited and subsidiary companies	Director
Rimu SA (Chile) and subsidiary companies	Director
The National Foundation for the Deaf Incorporated	Board Member
Good Sounds Limited	Board Member
John Spencer [1]	
Derby Street 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
Raukawa Asset Holding Company Limited	Director
RVNZ Investments Limited	Director
Tertiary Education Commission	Chairman
Titanium Park Limited	Director
Waikato Regional Airport Limited	Director
Michael Stiassny	
Atapo Corporation Limited	Director
DNZ Property Fund Limited	Director
DNZ Holdings 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
Queenstown Airport Corporation Limited	Director
Sasha Properties Limited	Director
SB Entertainment Holdings 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 River Dairies Limited	Director*
Leroy Holdings Limited	Director
Lincoln Hub	Chairman*
Owaka Dairies Limited	Director*

1. John Spencer retired as a director of TOWER on 11 February 2015.

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 2015, TOWER Limited directors held the following interests in TOWER Limited shares:

	ORDINARY SHARES
DIRECTOR	BENEFICIAL
Rebecca Dee-Bradbury [1]	5,000
David Hancock	–
Steve Smith	9,230
John Spencer [2]	–
Michael Stiassny	82,335
Graham Stuart	6,154
Warren Lee	2,000

1. These shares were purchased by LMH Investments Pty Limited, of which Rebecca is a director. Rebecca has a beneficial interest in LMH Investments Pty Limited through her family trust.
2. John Spencer retired as a director of TOWER on 11 February 2015.

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 OF DISCLOSURE	INTEREST	NUMBER ACQUIRED (DISPOSED)	CONSIDER-ATION
John Spencer [1]	10/02/15	Beneficial	(13,798)	NZ$30,475
Rebecca Dee-Bradbury [2]	22/07/15	Beneficial	5,000	AU$9,611
Warren Lee [3]	26/05/15	Beneficial	2,000	AU$4,377.50

1. John Spencer retired as a director of TOWER on 11 February 2015.
2. Rebecca purchased shares in Australian dollars.
3. Warren purchased shares in Australian dollars.

Buyback

An on market share buyback of up to $34 million is currently underway. This buyback is being funded out of excess cash held in TOWER's corporate entities.

As at 1 October 2015, TOWER had purchased 5,765,979 shares at an average price of $2.1056, returning approximately $12.1 million to shareholders. This represents 21% of the total market volumes since TOWER started trading and 23% of the available market volume. The proportional target for the full $34 million over the 12 month period was $14.0 million at 1 October 2015.

TOWER subsidiary company director disclosures

The following persons held office as directors of subsidiary companies at 30 September 2015. Those who retired during the year are indicated with an (R). Those who retired or were appointed after 30 September 2015 are footnoted.

TOWER SUBSIDIARY COMPANY DIRECTOR DISCLOSURES

TOWER Insurance Limited	Rebecca Dee-Bradbury, David Hancock, Warren Lee, Steve Smith, Michael Stiassny, Graham Stuart, John Spencer (R)
TOWER Financial Services Group Limited	Rebecca Dee-Bradbury, David Hancock, Warren Lee, Steve Smith, Michael Stiassny, Graham Stuart, John Spencer (R)
The National Insurance Company of New Zealand Limited	Richard Harding, Brett Wilson, Michael Boggs (R), David Hancock (R)
TOWER New Zealand Limited	Richard Harding, Brett Wilson, Michael Boggs (R), David Hancock (R)
TOWER Operations Limited	Richard Harding, Brett Wilson, Michael Boggs (R), David Hancock (R)
National Insurance Company (Holdings) Limited	Vanessa Dudley, Richard Harding, Sarah-Jane Wild, Brett Wilson, Michael Boggs (R), David Hancock (R), Paul Absell [1]
Southern Pacific Insurance Company (Fiji) Limited	Vanessa Dudley, Richard Harding, Sarah-Jane Wild, Brett Wilson, Michael Boggs (R), David Hancock (R), Paul Absell [1]
TOWER Insurance (Fiji) Limited	Vanessa Dudley, Richard Harding, Sarah-Jane Wild, Brett Wilson, Michael Boggs (R), David Hancock (R), Paul Absell [1]
TOWER Insurance (Cook Islands) Limited	Vanessa Dudley, Richard Harding, Brett Wilson, Michael Boggs (R), David Hancock (R), Mark Savage [2]
TOWER Insurance (PNG) Limited	Vanessa Dudley, Jeremy Fergusson, Richard Harding, Brett Wilson, Michael Boggs (R), Debbie Eyre (R), Colin Gilson (R), David Hancock (R), Mark Savage [2], Paul Absell [3]
Southern Cross Marine Limited	Vanessa Dudley, Jeremy Fergusson, Richard Harding, Brett Wilson, Michael Boggs (R), Debbie Eyre (R), Colin Gilson (R), David Hancock (R), Mark Savage [2], Paul Absell [3]
National Pacific Insurance Limited	Vanessa Dudley, Alden Godinet, Richard Harding, Rodney Reid, Brett Wilson, Michael Boggs (R), David Hancock (R), Darryl Williamson (R)
National Pacific Insurance (Tonga) Limited	Vanessa Dudley, Alden Godinet, Richard Harding, Rodney Reid, Brett Wilson, Michael Boggs (R), David Hancock (R), Darryl Williamson (R)
TOWER Insurance (Vanuatu) Limited	Vanessa Dudley, David Hancock, Richard Harding, Mike Petrie, Brett Wilson

1. Paul Absell resigned as director of National Insurance Company (Holdings) Limited, TOWER Insurance (Fiji) Limited and Southern Pacific Insurance Company (Fiji) Limited on 27 October 2015.
2. Mark Savage resigned as director of TOWER Insurance (Cook Islands) Limited, Southern Cross Marine Limited and TOWER Insurance (PNG) Limited on 16 October 2015.
3. Paul Absell resigned his directorships of TOWER Insurance (PNG) Limited and Southern Cross Marine Limited on 11 December 2015.

No employee appointed as a director of a subsidiary receives any remuneration in their role as a director. The number of employees who receive remuneration of more than $100,000 is included in the remuneration table on page 61. Auditor fees paid on behalf of TOWER and its subsidiaries are disclosed in the financial statements.

Shareholder and exchange disclosures

Shareholder analysis

TOWER's shares are quoted on both the NZSX and ASX. As at 20 November 2015, 6,256 TOWER shareholders held less than A$500 of TOWER shares (ie less than a marketable parcel as defined in the ASX Listing Rules), holding a total of 1,345,975 TOWER shares.

Total voting securities

As at 20 November 2015, TOWER had 169,983,470 ordinary shares held by 28,247 holders. TOWER's ordinary shares each carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney.

Voting may be conducted by a show of hands or a poll.

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

Substantial product holders (as at 20 November 2015)

The names and holdings of TOWER's substantial product holders based on notices filed with TOWER under the Securities Markets Act 1988 and the Financial Markets Conduct Act 2013 as at 20 November 2015 were:

NAME	TOTAL ORDINARY SHARES[1]
Devon Funds Management Limited	24,579,604
Salt Funds Management Limited	18,698,751
Westpac Banking Corporation	15,004,226
AMP Capital Investors (NZ) Limited	14,037,959
Accident Compensation Corporation	12,004,388
IOOF Holdings	8,893,090

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

Principal shareholders (as at 20 November 2015)

The names and holdings of the 20 largest registered TOWER shareholders as at 20 November 2015 were:

	NAME	TOTAL ORDINARY SHARES	%
1	BNP Paribas Nominees (NZ) Limited	13,235,816	7.78
2	Accident Compensation Corporation	11,250,392	6.61
3	Citibank Nominees (New Zealand) Limited	10,887,918	6.40
4	Guardian Nominees No 2 A/C	9,718,851	5.71
5	FNZ Custodians Limited	7,189,874	4.22
6	BNP Paribas Nominees (NZ) Limited	6,513,700	3.83
7	National Nominees Limited	6,398,503	3.76
8	New Zealand Superannuation Fund Nominees Limited	5,764,245	3.39
9	JP Morgan Nominees Australia Limited	5,464,233	3.21
10	RBC Investor Services Australia Nominees Pty Limited	4,000,000	2.35
11	BT NZ Unit Trust Nominees Limited	3,462,403	2.03
12	BNP Paribas Nominees (NZ) Limited	3,221,897	1.89
13	BNP Paribas Nominees Pty Limited	3,215,123	1.89
14	JP Morgan Chase Bank NA NZ Branch	3,179,582	1.87
15	National Nominees New Zealand Limited	2,636,668	1.55
16	Citicorp Nominees Pty Limited	2,354,622	1.38
17	HSBC Nominees (New Zealand) Limited A/C State Street	2,083,601	1.22
18	JBWere (NZ) Nominees Limited	1,617,008	0.95
19	HSBC Nominees (New Zealand) Limited	1,519,873	0.89
20	Investment Custodial Services Limited	1,399,254	0.82

TOWER Limited shareholder statistics (as at 20 November 2015)

HOLDING RANGE	HOLDER COUNT	HOLDER COUNT %	HOLDING QUANTITY (ORDINARY SHARES)	HOLDING QUANTITY %
1 to 1,000	21,313	75.45	8,835,036	5.2
1,001 to 5,000	5,076	17.97	10,505,294	6.18
5,001 to 10,000	902	3.19	6,586,888	3.88
10,001 to 100,000	902	3.19	22,537,605	13.26
100,001 and over	54	0.19	121,518,647	71.49
Total	28,247	99.99	169,983,470	100.00

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

There were no applications to NZX or ASX for any waivers in the financial year ending 30 September 2015.

The Annual Report is signed on behalf of the Board by

Michael Stiassny Chairman	Graham Stuart Director

TOWER Directory

Enquiries

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

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

Board of Directors

Michael Stiassny (Chairman)
Rebecca Dee-Bradbury
David Hancock
Warren Lee
Steve Smith
Graham Stuart

Chief Executive Officer

Richard Harding

Chief Financial Officer and Company Secretarial

Brett Wilson

Executive Leadership Team

Richard Harding (CEO)
Brett Wilson (CFO)
Vanessa Dudley
Faye Luxton
Glenys Talivai
Glenn Vade

Registered Office

New Zealand

Level 14
TOWER Centre
45 Queen Street
PO Box 90347
Auckland

Telephone: +64 9 369 2000
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 Piper New Zealand

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
Facsimile New Zealand: +64 9 488 8787

Australia (TOWER Limited Shareholders)

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
GPO Box 3329
Melbourne Vic 3001

Freephone within Australia: 1800 501 366
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 investorcentre.com/nz

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

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

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

TOWER Limited Investor Relations

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

Registrar

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