TOWER INSURANCE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2014

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TOWER INSURANCE LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2014

The Directors of TOWER Insurance Limited present their report and consolidated financial statements of the Company and Group for the year ended 30 September 2014.

During the year the Company and Group undertook its principal activity of providing insurance and insurance related services to its customer base throughout New Zealand, Fiji, Papua New Guinea, Solomon Islands, Cook Islands, Samoa, Tonga and American Samoa.

The consolidated after tax profit attributable to shareholders for the year was $25,984,000 (2013: $7,504,000). Accumulated profits at the end of the year totalled $15,071,000 (2013: $67,872,000). Shareholders' equity at the end of the year totalled $200,468,000 (2013: $250,142,000). The Directors consider the state of affairs of the Company and Group to be satisfactory. During the year the Directors recommended and paid dividends of $78,000,000 (2013: nil).

No disclosure has been made in respect of Section 211 (1) (a) and (e) to (j) of the Companies Act 1993 following a unanimous decision by the shareholders in accordance with Section 211 (3) of the Act.

The Company has arranged Directors' liability insurance for Directors and officers of the Company and its related companies which ensures that generally Directors and those officers will incur no monetary losses as a result of actions undertaken by them in the course of their duties. Such insurance arrangements exclude certain actions such as the incurring of penalties or fines that may be imposed for breaches of the law.

Directors in office during the year and at the date of this report are M Allen, D Hancock, S Smith, J Spencer, M Stiassny G Stuart and Rebecca Dee-Bradbury. Directors in office during the year that are no longer Directors are M Allen and M Jefferies.

The Board of Directors of Tower Insurance Limited authorised the financial statements presented on pages 9 to 14 for issue on 27 November 2014.

The Directors wish to thank all staff for their loyalty, application and support during a testing year of change and challenge.

For and on behalf of the Board

Director ____________________

Date 27 November 2014

Director ____________________

Date 27 November 2014

TOWER INSURANCE LIMITED
GOVERNANCE STATEMENT
For the year ended 30 September 2014

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. TOWER Insurance Limited is a licensed insurer.

Governance is a key aspect of the Reserve Bank's licensing requirements and the Reserve Bank has published Governance Guidelines setting out the governance requirements for licensed insurers. TOWER Insurance Limited has adopted and developed corporate governance structures, policies and practices that are consistent with these guidelines.

Role and operation of the Board of Directors

The primary role of the Board of TOWER Insurance Limited is to govern the company, by ensuring there is a proper governance framework in place to promote and protect the company's interests for the benefit of its stakeholders.

Under IPSA, Directors of a licensed insurer must act in the best interests of that company and cannot act in the best interests of a holding company where it is not in the best interests of the licensed insurer.

The Board is primarily governed by the TOWER Insurance Limited Board Charter, and is also subject to the TOWER Code of Ethics. The Board Charter records the Board's roles and responsibilities, including reserving certain functions to the Board, and the Code of Ethics ensures decision making is in accordance with TOWER's values.

The Board meets a minimum of four times each calendar year and will hold additional meetings as required.

The day-to day leadership and management of TOWER Insurance Limited is undertaken by the Chief Executive Officer under a formal delegation from the Board, and by 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 within the Company.

Composition of the Board

The TOWER Insurance Limited constitution provides for a minimum of two, and a maximum of nine, Directors. TOWER Insurance Limited has six Directors as at 27 November 2014. Details on the Directors, including their qualifications and experience are set out below. Under the Reserve Bank Governance Guidelines it is expected that at least half of the Directors will be independent. Criteria that the Reserve Bank will consider when determining whether a Director is independent include, but are not limited to:

- any financial or other obligation the Director may have to the licensed insurer or its Directors;
- whether the Director has been employed in an executive capacity by the licensed insurer or any associated person within the last three years;
- whether the Director is, or has been, a provider of material professional services to the licensed insurer or any associated person within the last three years;
- whether the Director has a material contractual relationship with the licensed insurer or any associated person;
- any remuneration received in addition to Director's fees, related directorships or shareholdings in the licensed insurer; or
- whether the Director is a related party of the licensed insurer.

Five out of six of the TOWER Insurance Limited Directors are considered by the company to be independent and those Directors are noted below. All of the Directors of TOWER Insurance Limited are also Directors of TOWER Limited and TOWER Financial Services Group Limited.

Composition of the Board (including range of skills, knowledge and experience) and Director independence, is reviewed by the Remuneration and Appointments Committee.

TOWER INSURANCE LIMITED
GOVERNANCE STATEMENT (CONTINUED)
For the year ended 30 September 2014

Graham Stuart

BCom(Hons), MS, CA

Non Executive Director

Independent

Appointed: 5 August 2013

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

Graham resides in Auckland, New Zealand.

Michael Stiassny

LLB, BCom, CA, CFInstD

Chairman

Independent

Appointed: 5 August 2013

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, as well as a Director of a number of public and private companies. Mr Stiassny is a Fellow of Institute of Directors (FInstD) and Vice President of Institute of Directors in New Zealand Inc.

Michael resides in Auckland, New Zealand.

Steve Smith

BCom, CA, Dip Bus (Finance), CFInstD

Non Executive Director

Independent

Appointed: 5 August 2013

Steve has been a professional Director since 2004. He has over 35 years business experience, including being a specialist corporate finance partner at a leading New Zealand accountancy firm. He has a Bachelor of Commerce and Diploma in Business from the University of Auckland, is a member of the New Zealand Institute of Chartered Accountants and a Chartered Fellow of the Institute of Directors in New Zealand (Inc). Steve is Chairman of Hellaby Holdings 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.

John Spencer

BCom, FCA, CNZM

Non Executive Director

Independent

Appointed: 5 August 2013

John brings to the Board significant financial and commercial expertise gained over many years from senior management positions with a number of major companies in New Zealand and overseas. John holds a number of Directorships and is Chairman of KiwiRail and Tertiary Education Commission.

John resides in Wellington, New Zealand.

David Hancock

BBus, GAICD

Executive Director

Not Independent

Appointed: 5 August 2013

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

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

Rebecca Dee-Bradbury

BBus (Marketing), GAICD

Non Executive Director

Independent

Appointed: 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 and GrainCorp Limited.

Rebecca resides in Melbourne, Australia.

Board committees

The Board has two standing committees: the Audit and Risk Committee and the Remuneration and Appointments Committee. The committees are governed by written terms of reference, which detail their specific functions and responsibilities.

The Committees make recommendations to the Board. They have no decision-making ability except where expressly provided by the Board.

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

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

The terms of reference of the Audit and Risk Committee include the following duties and responsibilities:

- Independently and objectively review the financial information presented by management to the Board, external auditors, regulators and the public.
- Review draft half yearly and annual Company financial statements and reports and the external audit report, and make recommendations to the Board as to their adoption.
- Oversee the performance of the external auditor and be satisfied as to its independence.
- Review draft half yearly and annual solvency returns and receive the financial condition report prepared by the Appointed Actuary.
- Advise the Board in respect of IPSA solvency issues relating to the Company.
- Review the effectiveness of management processes, risk management and internal financial controls and control systems.
- Monitor and review compliance with regulatory and statutory requirements and obligations including, but not limited to, the requirements of IPSA.
- 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.
- Make recommendations to the Board as to the appointment of external auditors.
- Monitor and review policies and practices established to avoid and manage conflicts of interest (pecuniary or otherwise) by the Company, Directors, management and staff.

The Committee is to meet a minimum of three times per year.

The Terms of Reference require that the Audit and Risk Committee has a minimum of three Non-Executive Directors, the majority of whom are independent. The Board appoints the Chairman of the Committee, who is an independent non-executive Director who cannot also be the Chairman of the Board.

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

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

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

- the appointment, induction and succession of Board Directors, and Director remuneration;
- the composition and structure of the Board, including on-going review of Director independence; and
- performance evaluations of the Board.

The Terms of Reference require that the committee has a minimum of three suitably qualified Non-Executive Directors, the majority of which are independent. The Board appoints the Chairman of the Committee, who is to 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 the committee's activities, findings, recommendations and results for the past year.

Risk management

TOWER's approach to risk management is recorded in the TOWER Group Risk & Compliance Framework Policy. This policy sets out TOWER's commitment to managing risk and compliance, and provides an overview of the core components of the Framework including roles and responsibilities and requirements that must be met. The Framework applies to TOWER Insurance Limited. Effective management of risk and compliance is essential to ensure that TOWER Insurance Limited remains a viable business and is able to achieve its objectives. This Framework is integral in providing guidance to management and staff of TOWER in dealing with its risk and compliance obligations.

TOWER Insurance Limited is subject to the TOWER Group Conflicts of Interest and Related Party Transactions Policy. This Policy sets out the principles and procedures relating to the management of conflicts of interest within the TOWER group and includes principles and procedures for dealings with related parties.

Independent Auditors' Report

to the shareholder of TOWER Insurance Limited

Report on the Financial Statements

We have audited the financial statements of TOWER Insurance Limited ("the Company") on pages 9 to 64, which comprise the balance sheets as at 30 September 2014, the income statements, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 September 2014 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Independent Auditors' Report
TOWER Insurance Limited

Opinion
In our opinion, the financial statements on pages 9 to 64:

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

(ii) comply with International Financial Reporting Standards; and

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

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

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

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

Restriction on Use of our Report
This report is made solely to the Company's shareholder, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholder 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 shareholder, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
27 November 2014

Auckland

TOWER INSURANCE LIMITED
INCOME STATEMENTS
For the year ended 30 September 2014

	Note	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Revenue					
Premium revenue from insurance contracts		285,113	267,160	241,959	222,203
Less: Outwards reinsurance expense		(48,197)	(48,617)	(34,655)	(35,560)
Net premium revenue	5	236,916	218,543	207,304	186,643
Investment revenue	6	11,578	8,538	15,149	21,598
Other revenue		3,725	3,787	2,403	1,913
Net operating revenue		252,219	230,868	224,856	210,154
Expenses					
Claims expense		258,855	198,818	232,922	181,264
Less: Reinsurance recoveries revenue		(119,746)	(51,880)	(107,924)	(49,449)
Net claims expense		139,109	146,938	124,998	131,815
Management and sales expenses	7	78,054	71,507	67,343	59,967
Total expenses		217,163	218,445	192,341	191,782
Profit before taxation		35,056	12,423	32,515	18,372
Tax expense	8	(10,033)	(8,586)	(8,138)	(5,388)
Profit for the year from continuing operations		25,023	3,837	24,377	12,984
Profit/(loss) from discontinued operations	33	4,971	3,797	(711)	(7,114)
(Loss)/profit from disposal of subsidiaries	33	(3,593)	-	8,438	-
Profit for the year		26,401	7,634	32,104	5,870
Profit attributed to					
Shareholders		25,984	7,504	32,104	5,870
Non-controlling interests		417	130	-	-
		26,401	7,634	32,104	5,870

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

pwc

TOWER INSURANCE LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
For the year ended 30 September 2014

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Profit for the year	26,401	7,634	32,104	5,870
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Currency translation differences	2,582	(6,453)	1,117	(2,685)
Gain on asset revaluation	58	715	-	-
Gain transferred to income statement from asset sold	-	(467)	-	-
Deferred income tax relating to asset revaluation	(10)	(218)	-	-
Deferred income tax relating to asset sold	562	87	-	-
Items that may not be reclassified subsequently to profit or loss				
Business combinations under common control	(223)	(562)	(223)	-
Other comprehensive profit / (loss) net of taxation	2,969	(6,898)	894	(2,685)
Total comprehensive income for the year	29,370	736	32,998	3,185
Total comprehensive income attributed to				
Shareholders	28,888	613	32,998	3,185
Non-controlling interests	482	123	-	-
	29,370	736	32,998	3,185
Total comprehensive income / (expense) attributed to equity shareholders arises from				
Continuing operations	27,992	(912)	25,271	12,448
Profit / (loss) for the year from assets and liabilities held for sale	1,378	3,797	7,727	(7,114)
Currency translation differences of disposal group held for sale	-	(2,149)	-	(2,149)
Total comprehensive income for the year	29,370	736	32,998	3,185

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

TOWER INSURANCE LIMITED
BALANCE SHEETS
As at 30 September 2014

		Group		Company	
		2014	2013	2014	2013
	Note	$000	$000	$000	$000
Assets					
Cash and cash equivalents	9	101,728	189,094	84,235	174,747
Financial assets at fair value through profit or loss	22	212,407	142,984	182,982	117,851
Derivative financial assets	22	-	122	-	122
Deferred acquisition costs	10	20,028	18,211	17,569	16,123
Current tax assets		1,475	916	-	-
Receivables	11	317,567	372,313	297,296	357,614
Property, plant and equipment	12	2,976	2,661	80	24
Intangible assets	13	4	3	-	-
Deferred tax assets	8	2,621	1,645	1,905	1,015
Investments in subsidiaries	14	-	-	4,911	33,751
Total assets of continuing operations		658,806	727,949	588,978	701,247
Assets of disposal groups classified as held for sale	33	-	739,923	-	623
Total assets		658,806	1,467,872	588,978	701,870
Liabilities					
Payables	15	39,756	37,015	34,973	34,341
Derivative financial liabilities	22	46	-	46	-
Current tax liabilities		1,981	3,529	1,668	1,834
Provisions	16	4,253	1,124	4,014	983
Insurance liabilities	17	404,573	451,905	363,887	418,401
Deferred tax liabilities	8	6,131	5,344	5,767	4,996
Total liabilities of continuing operations		456,740	498,917	410,355	460,555
Liabilities of disposal groups classified as held for sale	33	-	717,551	-	17,690
Total liabilities		456,740	1,216,468	410,355	478,245
Net Assets		202,066	251,404	178,623	223,625
Equity					
Contributed equity	18	174,990	174,990	174,990	174,990
Accumulated profits	19	15,071	67,872	(8,390)	37,729
Reserves	20	10,407	7,280	12,023	10,906
Total equity attributed to shareholders		200,468	250,142	178,623	223,625
Non-controlling interests		1,598	1,262	-	-
Total equity		202,066	251,404	178,623	223,625

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

Director

Director

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

pwc

TOWER INSURANCE LIMITED
STATEMENTS OF CHANGES IN EQUITY
For the year ended 30 September 2014

Group		Attributed to shareholders					
	Note	Contributed equity $000	Accumulated profits $000	Reserves $000	Total $000	Non-controlling interests $000	Total equity $000
Year Ended 30 September 2014							
At the beginning of the year		**174,990**	**67,872**	**7,280**	**250,142**	**1,262**	**251,404**
Comprehensive income							
Profit for the year	19	-	25,984	-	25,984	417	26,401
Currency translation differences	20	-	-	2,517	2,517	65	2,582
Gain on asset revaluation	20	-	-	58	58	-	58
Gain on asset sold	20	-	-	-	-	-	-
Deferred income tax relating to asset revaluation	20	-	-	(10)	(10)	-	(10)
Release of business combination reserve due to sale	20	-	(562)	562	-	-	-
Other movements - Australian Branch	19	-	(223)	-	(223)	-	(223)
Total comprehensive income		-	25,199	3,127	28,326	482	28,808
Transactions with shareholders							
Addition to share capital	18	-	-	-	-	-	-
Dividends paid	21	-	(78,000)	-	(78,000)	(146)	(78,146)
Total transactions with shareholders		-	(78,000)	-	(78,000)	(146)	(78,146)
At the end of the year		**174,990**	**15,071**	**10,407**	**200,468**	**1,598**	**202,066**
Year Ended 30 September 2013							
At the beginning of the year		**67,900**	**60,343**	**14,196**	**142,439**	**1,443**	**143,882**
Comprehensive income							
Profit for the year	19	-	7,504	-	7,504	130	7,634
Currency translation differences	20	-	-	(6,446)	(6,446)	(7)	(6,453)
Gain on asset revaluation	20	-	-	715	715	-	715
Gain on asset sold	20	-	-	(467)	(467)	-	(467)
Deferred income tax relating to asset revaluation	20	-	-	(218)	(218)	-	(218)
Deferred income tax relating to asset sold	20	-	-	87	87	-	87
Business combinations under common control	20	-	-	(562)	(562)	-	(562)
Transfer	19	-	25	(25)	-	-	
Total comprehensive income		-	7,529	(6,916)	613	123	736
Transactions with shareholders							
Addition to share capital	18	107,090	-	-	107,090	-	107,090
Dividends paid	21	-	-	-	-	(304)	(304)
Total transactions with shareholders		107,090	-	-	107,090	(304)	106,786
At the end of the year		**174,990**	**67,872**	**7,280**	**250,142**	**1,262**	**251,404**

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

TOWER INSURANCE LIMITED
STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
For the year ended 30 September 2014

Company	Note	Contributed equity $000	Accumulated profits $000	Reserves $000	Total equity $000
Year Ended 30 September 2014					
At the beginning of the year		174,990	37,729	10,906	223,625
Comprehensive income					
Profit for the year	19	-	32,104	-	32,104
Currency translation differences	20	-	-	1,117	1,117
Other movements - Australian Branch	19		(223)	-	(223)
Total comprehensive income		-	31,881	1,117	32,998
Transactions with shareholders					
Addition to share capital	18	-	-	-	-
Dividends paid	21	-	(78,000)	-	(78,000)
Total transactions with shareholders		-	(78,000)	-	(78,000)
At the end of the year		174,990	(8,390)	12,023	178,623
Year Ended 30 September 2013					
At the beginning of the year		67,900	31,708	13,742	113,350
Comprehensive income					
Profit for the year	19	-	5,870	-	5,870
Currency translation differences	20	-	-	(2,685)	(2,685)
Transfer	19	-	151	(151)	-
Total comprehensive income		-	6,021	(2,836)	3,185
Transactions with shareholders					
Addition to share capital	18	107,090	-	-	107,090
Dividends paid	21	-	-	-	-
Total transactions with shareholders		107,090	-	-	107,090
At the end of the year		174,990	37,729	10,906	223,625

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

TOWER INSURANCE LIMITED
STATEMENTS OF CASH FLOWS
As at 30 September 2014

		Group		Company	
		2014	2013	2014	2013
	Note	$000	$000	$000	$000
Cash flows from operating activities					
Premiums received		304,106	273,550	248,373	225,455
Interest received		33,399	12,178	12,223	7,536
Dividends received		1,734	650	4,000	14,883
Investment income		18,431	11,252	(2,275)	5,557
Commission received		3,728	3,422	2,403	4,384
Receipts from intercompany		-	-	2,379	623
Reinsurance received		191,976	168,162	180,081	158,348
Reinsurance paid		(51,688)	(51,298)	(37,686)	(36,441)
Claims paid		(382,754)	(321,612)	(315,928)	(274,776)
Payments to suppliers and employees		(74,351)	(72,693)	(67,677)	(62,166)
Payments to intercompany		-	-	-	(2,788)
Interest paid		-	-	-	-
Income tax paid		(11,015)	(8,318)	(6,680)	(4,793)
Net cash inflow from operating activities	26	33,566	15,293	19,213	35,822
Cash flows from investing activities					
Net (payments) / receipts for financial assets		(68,079)	4,483	(63,612)	(1,048)
Payments for purchase of property, plant and equipment and intangible assets		(398)	(156)	(61)	(22)
Cash disposed with sale of property		(12,194)	-	-	-
Net cash (outflow) / inflow from investing activities		(80,671)	4,327	(63,673)	(1,070)
Cash flows from financing activities					
Proceeds from issue of share capital		-	107,090	-	107,090
Capital injection in subsidiary		-	-	(250)	-
Payment for purchase of company		-	(29,090)	-	(29,090)
Proceeds from sale of business		34,000	8,287	34,000	-
Payment of minority interest dividends		(146)	(304)	-	-
Payment of dividends		(78,000)	-	(78,000)	-
Net advances from related parties		(3,032)	300	-	-
Net cash (outflow) / inflow from financing activities		(47,178)	86,283	(44,250)	78,000
Net (decrease) / increase in cash and cash equivalents		(94,283)	105,903	(88,710)	112,752
Foreign exchange movement in cash		(1,482)	(4,118)	(1,802)	(3,572)
Cash and cash equivalents at the beginning of year		189,094	87,607	174,747	65,567
Cash acquired in purchase of subsidiary		-	8,101	-	-
Cash reclassified as part of sale		8,399	-	-	-
Cash classified as held for sale		-	(8,399)	-	-
Cash and cash equivalents at the end of year	9	101,728	189,094	84,235	174,747

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

1. CORPORATE INFORMATION

TOWER Insurance Limited (the Company) is a profit-oriented company incorporated in New Zealand under the New Zealand Companies Act 1993. The parent of the Company is TOWER Financial Services Group Limited. The ultimate parent of the Group is TOWER Limited. The Company and its subsidiaries together are referred to in this financial report as TOWER Insurance, or the Group, or the consolidated entity. The address of its registered office is 22 Fanshawe Street, Auckland, New Zealand.

The principal activity of the TOWER Insurance Limited Group is providing general and life insurance services. The Group predominantly operates in New Zealand with some of its operations based in the Pacific Islands.

On 31 July 2013 the Company acquired the shares in TOWER Life (N.Z.) Limited, a member of the TOWER Limited Group. On 1 August 2013 the non participating group risk life insurance business of TOWER Life (N.Z.) Limited was sold to Fidelity Life Assurance Company Limited. This has resulted in the non participating group risk life insurance business segment being treated as a discontinued operation. The sale is disclosed in more detail in note 33(A).

On 1 July 2014, the Company announced the sale of TOWER Life (N.Z.) Limited to Foundation Life (NZ) Holdings Limited. The sale resulted in the remaining life business segment being treated as a discontinued operation of the Group in the 30 September 2014 financial statements. Completion of the sale occurred on 29 August 2014. The TOWER Life (N.Z.) Limited remaining life business was being marketed as for sale as at 30 September 2013 and was treated as assets held for sale. The sale is disclosed in more detail in note 33(B).

On 28 November 2013, the Company announced the approval by the Federal Court of Australia for the portfolio transfer of the runoff business underwritten by the Company's Australian branch. The transfer included disposing of all policies written or assumed by the branch and all the associated assets and liabilities under those policies. The sale was completed on 5 December and resulted in the release of approximately $20 million surplus capital to TOWER Insurance Limited. The operations of the branch have been discontinued. The Australian branch of the Company was treated as a discontinued operation in the 30 September 2013 financial statements. The sale is disclosed in more detail in note 33(C).

The financial statements were authorised for issue by the Board of Directors on 27 November 2014. The entity's owners or others do not have power to amend the financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

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

The financial statements of the Company and the Group comply with International Financial Reporting Standards (IFRS).

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

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

(B) PRINCIPLES OF CONSOLIDATION

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

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

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

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

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

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

(C) INVESTMENTS IN SUBSIDARIES

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(D) PREMIUM REVENUE

General insurance contracts
General insurance premium revenue is recognised in the period in which the premiums are earned during the term of the contract.

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

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

(E) OTHER REVENUE

Fee revenue on investment contracts and other services provided by the Group are recognised in the period the services are provided.

(F) 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.

(G) CLAIMS EXPENSE

General insurance contracts
Claims expenses are recognised when claims are notified with the exception of claims incurred but not reported for which a provision is estimated (discussed in note 3(A)).

(H) BASIS OF EXPENSE APPORTIONMENT

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

The apportionment process is adopted by applying the following methodology:

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

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

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

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

(I) POLICY ACQUISITION COSTS

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

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

(J) OUTWARDS REINSURANCE

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

(K) REINSURANCE RECOVERIES

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) TAXATION

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

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

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

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

(iii) Tax consolidation
The ultimate parent, TOWER Limited, and its New Zealand wholly-owned subsidiaries comprise a New Zealand tax consolidated Group of which TOWER Limited is the head entity and TOWER Insurance Limited is a part of. All members of the tax consolidated group are jointly and severally liable for the tax liabilities of the Group.

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

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

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

(M) FOREIGN CURRENCY

(i) Functional and presentation currencies
The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. The consolidated Group financial statements are presented in New Zealand dollars and rounded to the nearest thousand dollars unless stated otherwise.

(ii) Transactions and balances
In preparing the financial statements of the individual entities transactions denominated in foreign currencies are translated into the reporting currency using the exchange rates in effect at the transaction dates. Monetary items receivable or payable in a foreign currency are translated at reporting date at the closing exchange rate.

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

Exchange differences arising on the settlement or retranslation of monetary items at year end exchange rates are recognised in the income statements unless the items form part of a net investment in a foreign operation. In this case, exchange differences are taken to the Foreign Currency Translation Reserve and recognised in the statements of comprehensive income and the statements of changes in equity.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate with movements recorded through the Foreign Currency Translation Reserve in the statements of changes in equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(N) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(O) RECEIVABLES

Receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method. Due to the short term nature of these assets the recoverable value, i.e. allowing for doubtful debts, will be the fair value.

(P) PROPERTY, PLANT AND EQUIPMENT

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

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

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

Computer equipment	3-5 years
Furniture & fittings	5 years
Motor vehicles	5 years
Buildings	50-100 years
Leasehold property improvements	3-12 years

(Q) ASSETS BACKING INSURANCE BUSINESS

The Group has determined that all assets within the general insurance companies are held to back insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries. All assets of the life insurance companies are assets backing the policy liabilities of the life insurance business including life insurance contract liabilities and life investment contract liabilities.

These assets are managed in accordance with approved investment mandate agreements on a fair value basis and are reported to the Board on this basis. They have been measured at fair value through profit or loss wherever the applicable standard allows.

(R) INTANGIBLES

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.

General use computer software	3-5 years

(S) IMPAIRMENT OF NON FINANCIAL ASSETS

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

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

(T) BUSINESS COMBINATIONS

Identifiable assets acquired and liabilities assumed in business combinations with third parties are measured at fair value at acquisition date with any excess of cost over the fair value of the net assets acquired recognised as goodwill on the balance sheet. If there is negative goodwill then this is recognised directly in the income statement.

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

(U) FINANCIAL INSTRUMENTS

The Group classifies its financial assets and liabilities in the following categories: at fair value through profit or loss and 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 method less any impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

All derivatives entered into by the Group are classified as held for trading.

(iv) Fair value
Financial assets and liabilities that are measured in the balance sheet at fair value (excluding short term amounts held at a reasonable approximation of fair value). Refer to note 23.

(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 9.

(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.

(V) IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

Trade receivables and reinsurance receivables are deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Group will be unable to collect the amount. Changes in the carrying amount of the allowance account are recognised in the income statement.

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

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

(W) LEASED ASSETS

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the services are received over the period of the lease.

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

(X) 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 less transaction costs and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Y) 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.

(Z) EMPLOYEE ENTITLEMENTS

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

(AA) GENERAL 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.

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.

(AB) CONTRIBUTED EQUITY

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

(AC) CASH FLOWS

The statements of cash flows present the net cash flows for financial assets, property, plant and equipment, intangible assets and advances to subsidiaries. TOWER Insurance Limited considers that knowledge of gross receipts and payments is not essential to understanding the activities of the Group or company and it is considered acceptable to report only the net cash flows for these items. This is based on the fact that turnover is quick, the amounts are large, and the maturities are short or the value of the sales are immaterial.

(AD) SEGMENT REPORTING

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

(AE) DISCONTINUED OPERATIONS AND DISPOSAL GROUPS

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

As required by accounting standards assets and liabilities of a disposal group are measured at the lower of carrying amount and fair value less costs to sell and disclosed in aggregate on the balance sheet as single line items. Items in the income statements and statements of comprehensive income relating to discontinued operations are not shown as a single amount for the total discontinued operations on the face of the statements, however profit for the year is separated between continuing and discontinued operations.

Cash flows associated with discontinued operations are disclosed in note 33.

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

(A) PREMIUM REVENUE

(i) Life insurance contracts

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(C) POLICY ACQUISITION COSTS
Life insurance contracts
In determining the life insurance contract liabilities, the deferral and future recovery of acquisition costs were capitalised by way of movement in life insurance contract liabilities, then amortised over the period in which they were recoverable.

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

As required by NZ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the sale of Company's businesses has resulted in the classification of balances into two line items. Income statement balances for 2014 and 2013 years have been classified into either, 'Profit for the year from discontinued operations' or 'Profit from disposal of subsidiaries'. 2013 balance sheet items have been `classified into two lines 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale'. The cash flow statement continues to include related cash flows from discontinued operations within each line item. A summary of cash flows from discontinued operations is presented in the relevant section note 33 – Discontinued operations, which contains full details of the business disposals

(AG) CHANGES IN ACCOUNTING POLICIES
There have been no changes in accounting policies.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(A) CLAIMS LIABILITIES UNDER GENERAL INSURANCE CONTRACTS

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

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

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

- changes in Group processes which might accelerate or slow down the development and (or) recording of paid or incurred claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks; and
- medical 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 as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based on the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 24.

(B) ASSETS ARISING FROM REINSURANCE CONTRACTS

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

(C) TAXATION

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

4. IMPACT OF AMENDMENTS TO NZ IFRS

(A) STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 October 2014 or later periods, and the Group has not early adopted them. The Group expects to adopt the following new standards on 1 October after the effective date.

- NZ IFRS 9, 'Financial instruments', was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The Group is yet to assess NZ IFRS 9's full impact.

- NZ IFRS 15' Revenue from Contracts with Customers' is effective for balance dates beginning on or after 1 January 2017, thus for the year ending 30 September 2018 for the TOWER Group. The standard will provide a single source of requirements for accounting for all contracts with customers (except for some specific exceptions, such as lease contracts, insurance contracts and financial instruments) and will replace all current accounting pronouncements on revenue. New revenue disclosures are also introduced. The Group is in the process of evaluating the impact of this standard.

(B) STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE 2014 OR EARLY ADOPTED BY THE GROUP

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

- NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013). The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The revised standard has not had a material impact on the financial statements other than additional disclosures.

- NZ IFRS 10 'Consolidated Financial statements' (effective from 1 January 2013). The standard requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in NZ IAS 27 Consolidated and Separate Financial Statements. The revised standard has not had a material impact on the financial statements.

- NZ IFRS 12 'Disclosure of Interests in Other Entities' (effective from 1 January 2013). The standard requires extensive disclosure of information that enables users of the financial statements to evaluate the nature of, and risks associated with, interests in other entities. The revised standard has not had a material impact on the financial statements.

- NZ IFRS 7, 'Financial Instruments: Disclosures' amendments, on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The revised standard has not had a material impact on the financial statements other than additional disclosures.

5. PREMIUM REVENUE

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Gross written premiums	297,627	279,307	251,665	232,935
Less: Gross unearned premiums	(12,514)	(12,147)	(9,706)	(10,732)
Premium revenue earned from insurance contracts	**285,113**	**267,160**	**241,959**	**222,203**
Less: Outwards reinsurance expense	(48,197)	(48,617)	(34,655)	(35,560)
Total net premium revenue	**236,916**	**218,543**	**207,304**	**186,643**

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TOWER INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2014

6. INVESTMENT REVENUE

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Fixed interest securities [1]				
Interest income	13,001	8,804	12,223	7,870
Net realised (loss) / gain	(2,794)	2,301	(2,794)	2,301
Net unrealised gain / (loss)	1,407	(4,229)	1,407	(4,229)
	11,614	6,876	10,836	5,942
Equity securities [1]				
Dividend income	14	231	4,364	14,883
Net realised gain	-	461	-	-
Net unrealised gain	-	196	-	-
	14	888	4,364	14,883
Property securities [1]				
Property income	4	105	4	105
Net realised gain	413	3,215	412	3,214
Net unrealised (loss)	(402)	(2,729)	(402)	(2,729)
	15	591	14	590
Other [2]				
Net realised gain / (loss)	103	(63)	103	(63)
Net unrealised (loss) / gain	(168)	246	(168)	246
	(65)	183	(65)	183
Total investment revenue				
Total investment revenue	13,019	9,140	16,591	22,858
Total net realised (loss) / gain	(2,278)	5,914	(2,279)	5,452
Total net unrealised gain / (loss)	837	(6,516)	837	(6,712)
	11,578	8,538	15,149	21,598

[1] The gains and losses in these categories have been generated by financial assets designated on initial recognition at fair value through profit or loss.
[2] 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.

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7. MANAGEMENT AND SALES EXPENSES

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Employee benefits	48,557	16,234	45,027	12,678
Claims handling expense recognised within claims	(18,564)	(15,630)	(16,427)	(14,096)
Commissions paid	20,037	19,781	16,303	15,775
Amortisation of deferred acquisition costs	18,211	17,086	16,123	14,902
Acquisition costs deferred	(20,028)	(18,211)	(17,569)	(16,123)
Administration	15,212	41,491	10,961	38,074
Marketing	7,761	6,473	7,464	6,259
Foreign exchange loss	111	1,600	63	1,298
Travel	1,153	880	772	457
Tenancy	4,230	849	3,469	75
Other expenses	627	570	616	541
Bad debts written off	141	111	138	106
Auditors' remuneration:				
Audit of financial statements (1)	353	37	320	-
Other assurance related services (2)	68	-	68	-
Depreciation:				
Office equipment and furniture	62	69	5	4
Motor vehicles	104	141	7	10
Computer equipment	19	26	3	7
Total management and sales expenses	78,054	71,507	67,343	59,967

(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 relate to solvency audit, audit of TOWER Life (N.Z.) Limited net asset statement, Australian branch licence revocation and regulatory returns.

TOWER Insurance Limited paid all fees for audit services provided to the Group on its behalf other than the audit fees of National Pacific Insurance Limited.

8. TAXATION

(A) CURRENT TAX EXPENSE

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Analysis of taxation expense				
Current taxation	10,475	8,226	8,377	5,065
Deferred taxation	(198)	592	(119)	603
(Over) / under provided in prior years	(244)	(232)	(120)	(280)
Income tax expense for the year	**10,033**	**8,586**	**8,138**	**5,388**

The tax expense recognised can be reconciled to the accounting profit as follows:

	Group 2014	Group 2013	Company 2014	Company 2013
Profit before taxation	35,056	12,423	32,515	18,372
Income tax at the current rate of 28%	9,816	3,478	9,104	5,144
Taxation effect of non deductible expenses / non-assessable revenue				
Recognition of prior period current tax	(244)	(232)	(120)	(280)
Non deductible (income) / losses from PIEs	(1)	(78)	(1)	(78)
Non deductible expenditure	(170)	1,100	(455)	499
Foreign tax credits written off	795	3,894	795	3,894
Non taxable gain on sale	-	-	-	-
Tax expense/(benefit) arising	-	-	-	-
Non taxable dividend from subsidiaries	-	-	(1,222)	(4,167)
Other	(163)	424	37	376
Income tax expense	**10,033**	**8,586**	**8,138**	**5,388**

(B) CURRENT TAX LIABILITIES

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

8. TAXATION (CONTINUED)

(C) DEFERRED TAX ASSETS AND LIABILITIES

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

Group	Opening balance at 1 October	(Charged)/ credited to income statement	(Charged)/ credited to comprehensive income	Acquired in purchase of subsidiary	Balances of business held for sale	Closing balance at 30 September
2014	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Movements in deferred tax assets						
Provisions and accruals	1,479	994	-	-	-	2,473
Tax losses	166	(18)	-	-	-	148
Total deferred tax assets	1,645	976	-	-	-	2,621
Movements in deferred tax liabilities						
Deferred acquistion costs	(4,434)	(374)	-	-	-	(4,808)
Accrual for WHT on retained earnings	(571)	(465)	-	-	-	(1,036)
Other	(339)	62	(10)	-	-	(287)
Total deferred tax liabilities	(5,344)	(777)	(10)	-	-	(6,131)
Net deferred tax	(3,699)	199	(10)	-	-	(3,510)
2013						
Movements in deferred tax assets						
Provisions and accruals	1,562	(83)	-	28	(28)	1,479
Tax losses	-	166	-	6,725	(6,725)	166
Unrealised loss	-	-	-	1,221	(1,221)	-
Total deferred tax assets	1,562	83	-	7,974	(7,974)	1,645
Movements in deferred tax liabilities						
Deferred acquistion costs	(4,136)	(298)	-	-	-	(4,434)
Accrual for WHT on retained earnngs	-	(571)	-	-	-	(571)
Other	(402)	194	(131)	-	-	(339)
Total deferred tax liabilities	(4,538)	(675)	(131)	-	-	(5,344)
Net deferred tax	(2,976)	(592)	(131)	7,974	(7,974)	(3,699)

8. TAXATION (CONTINUED)

Company	Opening balance at 1 October	Charged/ (credited) to income statement	(Charged)/ credited to comprehensive income	Acquired in purchase of subsidiary	Balances of business held for sale	Closing balance at 30 September
2014	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Movements in deferred tax assets						
Provisions and accruals	1,015	890	-	-	-	1,905
Total deferred tax assets	**1,015**	**890**	-	-	-	**1,905**
Movements in deferred tax liabilities						
Deferred acquistion costs	(4,424)	(331)	-	-	-	(4,755)
Accrual for WHT on retained earnings	(571)	(465)	-	-	-	(1,036)
Other	(1)	25	-	-	-	24
Total deferred tax liabilities	(4,996)	(771)	-	-	-	(5,767)
Net deferred tax	(3,981)	119	-	-	-	(3,862)
2013						
Movements in deferred tax assets						
Provisions and accruals	980	35	-	-	-	1,015
Total deferred tax assets	980	35	-	-	-	1,015
Movements in deferred tax liabilities						
Deferred acquistion costs	(4,084)	(340)	-	-	-	(4,424)
Accrual for WHT on retained earnings	-	(571)	-	-	-	(571)
Other	(274)	273	-	-	-	(1)
Total deferred tax liabilities	**(4,358)**	**(638)**	-	-	-	(4,996)
Net deferred tax	(3,378)	(603)	-	-	-	(3,981)

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

	Group 2014	Group 2013	Company 2014	Company 2013
	$000	**$000**	**$000**	**$000**
Deferred tax assets				
Deferred tax assets to be recovered within 12 months	115	216	53	48
Deferred tax assets to be recovered after more than 12 months	175	142	11	11
	290	358	64	59
Deferred tax liabilities				
Deferred tax liabilities to be recovered within 12 months	(1,983)	(3,339)	(2,333)	(3,326)
Deferred tax liabilities to be recovered after more than 12 months	(1,818)	(718)	(1,595)	(715)
	(3,801)	(4,057)	(3,928)	(4,041)

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

(C) IMPUTATION CREDITS

The Parent has imputation credits available for use at 30 September 2014 of $nil (2013: the Parent was a member of the tax consolidated group which had imputation credits available of $361,000). The Parent is no longer a member of the tax consolidated group and will generate or utilise imputation credits on a standalone basis.

9. CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Cash at bank and in hand	19,119	13,494	12,147	8,714
Deposits at call	82,609	175,600	72,088	166,033
Total cash and cash equivalents	101,728	189,094	84,235	174,747

The effective interest rate for deposits at call is 4% (2013: 3%). The balances mature within three months of balance date.

There was no offsetting within cash and cash equivalents (2013: nil)

10. DEFERRED ACQUISITION COSTS

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
At 1 October	18,211	17,086	16,123	14,902
Acquisition costs deferred during the year	20,028	18,211	17,569	16,123
Current period amortisation	(18,211)	(17,086)	(16,123)	(14,902)
At 30 September	**20,028**	**18,211**	**17,569**	**16,123**
Analysed as				
Current	20,028	18,211	17,569	16,123
Non current	-	-	-	-
	20,028	18,211	17,569	16,123

11. RECEIVABLES

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Reinsurance recovery receivables	11,266	16,118	11,260	15,918
Reinsurance recoveries on outstanding claims	175,455	238,375	167,578	234,523
Outstanding premiums and trade receivables	121,648	114,369	105,602	101,417
Unsettled investment sales	-	601	-	601
Related party receivables (note 31)	3,901	1,533	7,719	4,452
Prepayments	454	106	438	87
Other	4,843	1,211	4,699	616
Total receivables	317,567	372,313	297,296	357,614
Analysed as				
Current	282,605	301,985	263,421	287,482
Non current	34,962	70,328	33,875	70,132
	317,567	372,313	297,296	357,614

11. RECEIVABLES (CONTINUED)

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:

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Outstanding premiums and trade receivables	123,009	115,837	106,111	102,203
Provision for cancellation	(1,361)	(1,468)	(509)	(786)
	121,648	114,369	105,602	101,417
Balance at 1 October	(1,468)	(1,443)	(786)	(611)
Provisions added during the year	(32)	(270)	(16)	(180)
Provisions released during the year	146	187	295	-
Foreign exchange movements	(7)	58	(2)	5
Balance at 30 September	(1,361)	(1,468)	(509)	(786)

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

12. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings	Office equipment and furniture	Motor vehicles	Computer equipment	Total
	$000	$000	$000	$000	$000
2014					
Cost					
At 1 October	2,269	1,472	920	330	4,991
Additions	-	169	197	16	382
Disposals	-	(70)	(89)	(16)	(175)
Revaluations	58	-	-	-	58
Foreign exchange movements	36	79	15	12	142
At 30 September	2,363	1,650	1,043	342	5,398
Accumulated Depreciation					
At 1 October	-	(1,319)	(725)	(286)	(2,330)
Depreciation charge	-	(62)	(104)	(19)	(185)
Disposals	-	66	89	13	168
Foreign exchange movements	-	(68)	3	(10)	(75)
At 30 September	-	(1,383)	(737)	(302)	(2,422)
At 30 September					
At cost / revaluation	2,363	1,650	1,043	342	5,398
Accumulated depreciation	-	(1,383)	(737)	(302)	(2,422)
Net book value	2,363	267	306	40	2,976

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Land and buildings	Office equipment and furniture	Motor vehicles	Computer equipment	Total
	$000	$000	$000	$000	$000
2013					
Cost					
At 1 October	2,195	1,611	1,045	330	5,181
Additions	1	116	-	39	156
Disposals	(533)	(175)	-	(5)	(713)
Revaluations	715	-	-	-	715
Foreign exchange movements	(109)	(80)	(125)	(34)	(348)
At 30 September	2,269	1,472	920	330	4,991
Accumulated Depreciation					
At 1 October	-	(1,481)	(674)	(296)	(2,451)
Depreciation charge	-	(69)	(141)	(26)	(236)
Disposals	-	160	-	5	165
Foreign exchange movements	-	71	90	31	192
At 30 September	-	(1,319)	(725)	(286)	(2,330)
At 30 September					
At cost / revaluation	2,269	1,472	920	330	4,991
Accumulated depreciation	-	(1,319)	(725)	(286)	(2,330)
Net book value	2,269	153	195	44	2,661

Land and buildings are located in Fiji and are stated at fair value. Fair value is determined using an income approach whereby future rental streams are capitalised at a rate appropriate for the type of property and lease arrangement. This value is then adjusted to take into account recent market activity. Valuation was performed as at 23 August 2014 by Rolle Associates, registered valuers in Fiji. There has been no material movement in the valuation between 23 August 2014 and 30 September 2014. Inputs to the valuation of the Fiji property are considered as level 3 in the fair value hierarchy. Inputs include gross rentals per square meter of similar property in the Suva area; recent comparable sales of commercial property in Suva and a capitalisation rate of 7.5% (2013: 7.5%)

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

Had land and buildings been recognised under the cost model the carrying amount would have been $1,145,000 (2013: $1,145,000). The revaluation surplus for the period is recorded in other comprehensive income and has no restrictions on the distribution of the balance to shareholders.

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Office equipment and furniture $000	Motor vehicles $000	Computer equipment $000	Total $000
2014				
Cost				
At 1 October	35	45	36	116
Additions	7	56	2	65
Disposals	(5)	-	(6)	(11)
Reclassification	-	-	-	-
Foreign exchange movements	2	6	2	10
At 30 September	39	107	34	180
Accumulated Depreciation				
At 1 October	(24)	(41)	(27)	(92)
Depreciation charge	(5)	(7)	(3)	(15)
Disposals	5	-	6	11
Foreign exchange movements	(1)	(2)	(1)	(4)
At 30 September	(25)	(50)	(25)	(100)
At 30 September				
At cost	39	107	34	180
Accumulated depreciation	(25)	(50)	(25)	(100)
Net book value	14	57	9	80
2013				
At 1 October	30	49	29	108
Additions	12	-	10	22
Disposals	(4)	-	-	(4)
Reclassification	-	-	-	-
Foreign exchange movements	(3)	(4)	(3)	(10)
At 30 September	35	45	36	116
Accumulated Depreciation				
At 1 October	(22)	(35)	(23)	(80)
Depreciation charge	(4)	(10)	(7)	(21)
Disposals	-	-	-	-
Foreign exchange movements	2	4	3	9
At 30 September	(24)	(41)	(27)	(92)
At 30 September				
At cost	35	45	36	116
Accumulated depreciation	(24)	(41)	(27)	(92)
Net book value	11	4	9	24

13. INTANGIBLE ASSETS

Group

	Software $000	Total $000
2014		
Cost		
At 1 October	3	3
Additions	2	2
Disposals	-	-
Revaluations	-	-
Foreign exchange movements	-	-
At 30 September	5	5
Accumulated Amortisation		
At 1 October	-	-
Amortisation charge	(1)	(1)
Disposals	-	-
Foreign exchange movements	-	-
At 30 September	(1)	(1)
At 30 September		
At cost	5	5
Accumulated amortisation	(1)	(1)
Net book value	4	4
2013		
Cost		
At 1 October	-	-
Additions	3	3
At 30 September	3	3
Accumulated Amortisation		
At 1 October	-	-
Amortisation charge	-	-
At 30 September	-	-
At 30 September		
At cost	3	3
Accumulated amortisation	-	-
Net book value	3	3

The parent has no intangible assets.

14. INVESTMENT IN SUBSIDIARIES

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Investments in controlled entities carried at cost	-	-	4,911	33,751

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

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

Name of Company	Holdings 2014	Holdings 2013	Nature of Business
Incorporated in Cook Islands			
TOWER Insurance (Cook Islands) Limited	100%	100%	Fire and general insurance
Incorporated in Fiji			
TOWER Insurance (Fiji) Limited	100%	100%	Fire and general insurance
Incorporated in PNG			
TOWER Insurance (PNG) Limited	100%	100%	Fire and general insurance
Incorporated in Samoa			
National Pacific Insurance Limited	71%	71%	Fire and general insurance
Incorporated in New Zealand			
TOWER Life (N.Z.) Limited	-	100%	Life insurance (sold 29 August 2014)

15. PAYABLES

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Trade payables	11,852	9,986	8,936	8,019
Reinsurance payables	2,967	5,864	3,052	6,082
GST payable	12,584	11,261	12,149	10,855
Other payables	12,257	9,904	10,836	8,812
Related party payables (note 31)	96	-	-	573
Total payables	39,756	37,015	34,973	34,341
Analysed as				
Current	39,756	37,015	34,973	34,341
Non current	-	-	-	-
	39,756	37,015	34,973	34,341

16. PROVISIONS

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Employee benefits	4,253	1,124	4,014	983
Total provisions	4,253	1,124	4,014	983
Analysed as				
Current	4,253	1,124	4,014	983
Non current	-	-	-	-
	4,253	1,124	4,014	983

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

17. INSURANCE LIABILITIES

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Unearned premiums	150,504	136,915	127,729	117,256
Outstanding claims	254,069	314,990	236,158	301,145
	404,573	451,905	363,887	418,401
Analysed as				
Current	365,675	345,926	327,131	313,925
Non current	38,898	105,979	36,756	104,476
	404,573	451,905	363,887	418,401

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

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Unearned premiums				
At 1 October	136,915	127,309	117,256	106,162
Premiums written	283,314	265,259	237,466	220,301
Premiums earned	(270,804)	(254,701)	(227,296)	(209,083)
Foreign exchange movements	1,079	(952)	303	(124)
At 30 September	150,504	136,915	127,729	117,256

18. CONTRIBUTED EQUITY

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Ordinary share capital	174,990	174,990	174,990	174,990
Total contributed equity	174,990	174,990	174,990	174,990

	Number of shares		Number of shares	
Represented by				
Ordinary shares (issued and fully paid)	176,107,758	176,107,758	176,107,758	176,107,758
	176,107,758	176,107,758	176,107,758	176,107,758
Movements in ordinary shares				
At 1 October	176,107,758	69,017,966	176,107,758	69,017,966
Issue of share capital	-	107,089,792	-	107,089,792
At 30 September	176,107,758	176,107,758	176,107,758	176,107,758

No shares (2013: 107,089,792) were issued during the 30 September 2014 year (2013: $107,089,792). All shares rank equally with one vote attached to each share. No shares are held by the entity or by its subsidiaries or are reserved for issue.

19. ACCUMULATED PROFITS

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Accumulated profits				
At 1 October	67,872	60,343	37,729	31,708
Net profit for the year attributable to shareholders	25,984	7,504	32,104	5,870
Transfer from foreign currency translation reserve (note 20)	-	25	-	151
Less: Dividends paid	(78,000)	-	(78,000)	-
Release of business combination reserve due to sale	(562)	-	-	-
Other movements - Australian branch	(223)	-	(223)	-
At 30 September	**15,071**	**67,872**	**(8,390)**	**37,729**

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20. RESERVES

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Foreign currency translation reserve (FCTR)				
At 1 October	(4,501)	1,970	(753)	2,083
Currency translation differences arising during the year	2,517	(6,446)	1,117	(2,685)
Transfer to accumulated profits	-	(25)	-	(151)
At 30 September	**(1,984)**	**(4,501)**	**364**	**(753)**
Capital reserve				
At 1 October	11,990	11,990	11,659	11,659
At 30 September	**11,990**	**11,990**	**11,659**	**11,659**
Asset revaluation reserve				
At 1 October	353	236	-	-
Gain on revaluation	58	497	-	-
Gain transferred to income statement from asset sold	(10)	(380)	-	-
At 30 September	**401**	**353**	-	-

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Business Combinations Reserve				
At 1 October	(562)	-	-	-
Acquisition of TOWER Life (N.Z.) Limited	562	(562)	-	-
At 30 September	-	(562)	-	-
Total reserves	**10,407**	**7,280**	**12,023**	**10,906**

Exchange differences arising on translation of foreign controlled entities and net investment of a foreign entity are taken to the FCTR as described in note 2(M). The reserve is recognised in profit and loss when the net investment is disposed of.

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

The business combinations reserve is used to recognise the difference between cost and net assets acquired upon the purchase of TOWER Life (N.Z.) Limited.

21. DISTRIBUTIONS TO SHAREHOLDERS

On 26 November 2013 the Directors declared a final dividend for the 2013 financial year of $14,000,000 ($0.08 per share). The dividend was paid on 29 January 2014.

On 31 March 2014 the Directors declared a dividend of $20,000,000 ($0.11 per share), represented the repatriation of Australian funds due to the closure of the Australian branch. The dividend was paid on 31 March 2014.

On 30 September 2014 the Directors declared a dividend of $44,000,000 ($0.23 per share). The dividend was paid on 30 September 2014.

No dividend was paid during the year ended 30 September 2013. This equates to $0 per share (2013: $nil).

22. FINANCIAL INSTRUMENTS CATEGORIES

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

Group	Total	Loans and Receivables	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2014				
Financial assets				
Cash and cash equivalents	101,728	101,728	-	-
Reinsurance recovery receivables	11,266	11,266	-	-
Reinsurance recoveries on outstanding claims	175,455	175,455	-	-
Outstanding premiums and trade receivables	121,648	121,648	-	-
Related party receivables	3,901	3,901	-	-
Other receivables	5,297	5,297	-	-
Investment in equity securities	1,835	-	1,835	-
Investment in fixed interest securities	210,538	-	210,538	-
Investment in property securities	34	-	34	-
Total financial assets	631,702	419,295	212,407	-

	Total	Loans and Receivables	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2013				
Financial assets				
Cash and cash equivalents	189,094	189,094	-	-
Reinsurance recovery receivables	16,118	16,118	-	-
Reinsurance recoveries on outstanding claims	238,375	238,375	-	-
Outstanding premiums and trade receivables	114,369	114,369	-	-
Unsettled investments sale	601	601	-	-
Related party receivables	1,533	1,533	-	-
Other receivables	1,211	1,211	-	-
Investment in equity securities	1,685	-	1,685	-
Investment in fixed interest securities	140,444	-	140,444	-
Investment in property securities	855	-	855	-
Derivative financial assets	122	-	-	122
Total financial assets	704,407	561,301	142,984	122

22. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

Group	Total	Financial liabilities at amortised cost	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2014				
Financial liabilities				
Trade payables	11,852	11,852	-	-
Reinsurance payables	2,967	2,967	-	-
Related party payables	96	96	-	-
Other payables	10,010	10,010	-	-
Derivative financial liabilities	46	-	-	46
Total financial liabilities	24,971	24,925	-	46

	Total	Financial liabilities at amortised cost	Fair value through profit or loss	
			Designated	Held for trading
2013	$000	$000	$000	$000
Financial liabilities				
Trade payables	9,986	9,986	-	-
Reinsurance payables	5,864	5,864	-	-
Other payables	454	454	-	-
Total financial liabilities	16,304	16,304	-	-

Company	Total	Loans and Receivables	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2014				
Financial assets				
Cash and cash equivalents	84,235	84,235	-	-
Reinsurance recovery receivables	11,260	11,260	-	-
Reinsurance recoveries on outstanding claims	167,578	167,578	-	-
Outstanding premiums and trade receivables	105,602	105,602	-	-
Related party receivables	7,719	7,719	-	-
Other receivables	5,137	5,137	-	-
Investments in fixed interest securities	182,948	-	182,948	-
Investments in property securities	34	-	34	-
Total financial assets	564,513	381,531	182,982	-

22. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

Company	Total	Loans and Receivables	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2013				
Financial assets				
Cash and cash equivalents	174,747	174,747	-	-
Reinsurance recovery receivables	15,918	15,918	-	-
Reinsurance recoveries on outstanding claims	234,523	234,523	-	-
Outstanding premiums and trade receivables	101,417	101,417	-	-
Unsettled investments sale	601	601	-	-
Related party receivables	4,452	4,452	-	-
Other receivables	616	616	-	-
Investments in fixed interest securities	116,996	-	116,996	-
Investments in property securities	855	-	855	-
Derivative financial assets	122	-	-	122
Total financial assets	650,247	532,274	117,851	122

Company	Total	Financial liabilities at amortised cost	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2014				
Financial liabilities				
Trade payables	8,936	8,936	-	-
Reinsurance payables	3,052	3,052	-	-
Other payables	9,321	9,321	-	-
Derivative financial liabilities	46	-	-	46
Total financial liabilities	21,355	21,309	-	46

	Total	Financial liabilities at amortised cost	Fair value through profit or loss	
			Designated	Held for trading
	$000	$000	$000	$000
2013				
Financial liabilities				
Trade payables	8,019	8,019	-	-
Reinsurance payables	6,082	6,082	-	-
Related party payables	573	573	-	-
Other payables	420	420	-	-
Total financial liabilities	15,094	15,094	-	-

23. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION

The financial condition and operating results of the Group are affected by a number of key financial and non-financial risks. Financial risks include market risk, credit risk, financing and liquidity risk. The non-financial risks include insurance risk, compliance risk and operational risk. The Group's objectives and policies in respect of insurance risks are disclosed in note 24, while the managing of financial and other non financial risks are set out in the remainder of this note.

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

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

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

The Board has responsibility for:
- reviewing the investment policy for TOWER Insurance shareholder and policyholder funds;
- reviewing the risk management policy and statements in respect of investment management;
- 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 Insurance's investments;
- reviewing the appointment of external investment managers;
- monitoring investment and fund manager performance; and
- monitoring compliance with investment policies and client mandates.

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

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

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

TOWER Insurance'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 business.

TOWER Insurance 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 Insurance does not hedge the currency risk arising from translation of the financial statements of foreign operations other than through net investment in foreign operations.

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

Interest rate and other market risks are managed by the Group through 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.

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

(iii) Price risk
Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. As at 30 September 2014 there was no exposure to price risk. TOWER's exposure to price risk as at 30 September 2013 was due to TOWER Life (N.Z.) Limited's investments in publicly traded equity securities and other unit trusts. Price risk was managed by diversification of the investment portfolio, which was done in accordance with the limits set by investment mandates and monitored by the Board. TOWER Life (N.Z.) Limited sold on 29 August 2014. Further details are disclosed in note 33.

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23. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(B) CREDIT RISK

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result in changes in credit risk of that instrument.

The Group's exposure to credit risk is limited to deposits and investments held with banks and other financial institutions as well as credit exposure to trade customers or other counterparties. Credit exposure in respect of the Company's cash deposit balances is limited to banks with minimum AA credit ratings. Investments held with banks and financial institutions that are managed by investment managers have a minimum credit rating accepted by the Group is 'A'. Independent ratings are used for customers that are rated by rating agencies. For customers with no external ratings, internally developed minimum credit quality requirements are applied, which take into account customers' financial position, past experience and other relevant factors. Overall exposure to credit risk is monitored on a group basis in accordance with limits set by the Board. The Company has no significant exposure to credit risk.

(i) Credit risk concentration

Concentration of credit risk exists when the Group enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. TOWER Insurance 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.

	Group Carrying value		Company Carrying value	
	2014 $000	2013 $000	2014 $000	2013 $000
New Zealand government	2,990	12,702	2,990	12,702
Other government agencies	13,428	23,635	9,778	18,005
Banks	277,000	291,880	235,896	260,044
Financial institutions	19,187	1,920	18,849	1,590
Other non-investment related receivables	313,327	369,596	289,281	351,999
Related party receivables	3,901	1,533	7,719	4,452
Total financial assets with credit exposure	**629,833**	**701,266**	**564,513**	**648,792**

(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:

Cash and cash equivalents	101,728	189,094	84,235	174,747
Loans and receivables	313,666	370,073	289,577	352,475
Related party receivables	3,901	1,533	7,719	4,452
Financial assets at fair value through profit or loss	210,538	140,444	182,948	116,996
Derivative financial assets	-	122	-	122
Total credit risk	**629,833**	**701,266**	**564,479**	**648,792**

23. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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

	Group		Company	
	Carrying value		Carrying value	
	2014	2013	2014	2013
	$000	$000	$000	$000
Credit exposure by credit rating				
AAA	85,549	56,220	85,549	56,220
AA	211,845	244,228	180,791	219,256
A	-	5,053	-	4,990
BBB	-	-	-	-
Below BBB	13,810	12,798	351	333
Total counterparties with external credit rating by Standard and Poor's	**311,204**	**318,299**	**266,691**	**280,799**
Group 1	304,329	358,441	286,113	347,068
Group 1A	3,901	1,533	7,719	4,452
Group 2	-	-	-	-
Group 3	1,402	11,836	823	11,542
Total counterparties with no external credit rating	309,632	371,810	294,655	363,062
Total financial assets neither past due nor impaired with credit exposure	**620,836**	**690,109**	**561,346**	**643,861**

Group 1 - trade debtors outstanding for less than 6 months
Group 1a - intercompany debtors outstanding for less than 6 months
Group 2 - trade debtors outstanding for more than 6 months with no defaults in the past
Group 3 - unrated investments

TOWER Insurance invests in a number of Pacific region investment markets through its Pacific Islands operations to comply with local statutory requirements and in accordance with TOWER Insurance investment policies. These investments generally have low credit ratings representing the majority of the value included in the 'Below BBB' and unrated categories in the table above.

(iv) Financial assets that would otherwise be past due whose terms have been renegotiated
No financial assets have been renegotiated in the past year (2013: nil).

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

Group	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**Over 90 days**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
2014					
Reinsurance recoveries receivable	134	29	78	251	492
Outstanding premiums and trade receivables	4,361	2,749	481	883	8,474
Total	**4,495**	**2,778**	**559**	**1,134**	**8,966**
2013					
Reinsurance recoveries receivable	80	102	318	1,365	1,865
Outstanding premiums and trade receivables	5,550	2,434	1,098	210	9,292
Total	**5,630**	**2,536**	**1,416**	**1,575**	**11,157**

23. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Company	Less than 30 days $000	31 to 60 days $000	61 to 90 days $000	Over 90 days $000	Total $000
2014					
Reinsurance recovery receivables	134	29	78	251	492
Outstanding premiums and trade receivables	1,824	1,412	(715)	104	2,625
Total	**1,958**	**1,441**	**(637)**	**355**	**3,117**
2013					
Reinsurance recovery receivables	80	102	318	1,230	1,730
Outstanding premiums and trade receivables	1,913	946	328	14	3,201
Total	**1,993**	**1,048**	**646**	**1,244**	**4,931**

In some situations TOWER Insurance Limited has become the lead insurer in reinstatement of multi-unit properties following the Canterbury earthquakes. Included in the 60-90 days aging of premium debtors is money received from other insurers for this purpose. As at 30 September 2014, receivables held on behalf of other insurers in relation to the reinstatements noted above is $1,243,000. This offsets $528,000 outstanding premiums and trade receivables providing a net payable amount of $715,000 (inclusive of GST).

(vi) Financial assets that are individually impaired

	Group Carrying value		Company Carrying value	
	2014 $000	2013 $000	2014 $000	2013 $000
Outstanding premiums and trade receivables	32	4	16	-
Total	32	4	16	-

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

Financial liabilities and guarantees by contractual maturity

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

Group	Carrying value $000	Total contractual cash flows $000	Less than one year $000	One to two years $000	Two to three years $000	Three to five years $000
2014						
Financial liabilities						
Trade payables	11,852	11,852	11,852	-	-	-
Reinsurance payables	2,967	2,967	2,967	-	-	-
Related party payables	96	96	96	-	-	-
Other payables	10,010	10,010	10,010	-	-	-
Derivative financial liabilities	46	90	55	31	4	-
Total financial liabilities	**24,971**	**25,015**	**24,980**	**31**	**4**	-
2013						
Financial liabilities						
Trade payables	9,986	9,986	9,986	-	-	-
Reinsurance payables	5,864	5,864	5,864	-	-	-
Other payables	454	454	454	-	-	-
Total financial liabilities	**16,304**	**16,304**	**16,304**	-	-	-

23. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

Company	Carrying value $000	Total contractual cash flows $000	Less than one year $000	One to two years $000	Two to three years $000	Three to five years $000
2014						
Financial liabilities						
Trade payables	8,936	8,936	8,936	-	-	-
Reinsurance payables	3,052	3,052	3,052	-	-	-
Other payables	9,321	9,321	9,321	-	-	-
Derivative financial liabilities	46	90	55	31	4	-
Total financial liabilities	**21,355**	**21,399**	**21,309**	**31**	**4**	-
2013						
Financial liabilities						
Trade payables	8,019	8,019	8,019	-	-	-
Reinsurance payables	6,082	6,082	6,082	-	-	-
Related party payables	573	573	573	-	-	-
Other payables	420	420	420	-	-	-
Total financial liabilities	**15,094**	**15,094**	**15,094**	-	-	-

(D) FAIR VALUES 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 reasonably approximate their fair values.

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

(i) Cash and cash equivalents
The carrying amount of cash and cash equivalents reasonably approximates its fair value.

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

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. At 30 September 2014, the level 3 category includes an investment in equity securities of $1,835,000 (2013: $1,685,000). This investment is in unlisted shares of a company which owns one building in which TOWER is a tenant. 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
The fair value of derivative financial liabilities and assets is determined by reference to market accepted valuation techniques using observable market inputs.

23. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

There have been no transfers between levels of the fair value hierarchy during the current financial year (2013: nil).

The following tables present the Group's assets categorised by fair value measurement hierarchy levels. There has been no designated financial liability held at fair value through the income statement (2013: nil).

The following tables present the Group's assets and liabilities categorised by fair value measurement hierarchy levels. There have been no designated liabilities held at fair value through the income statement (2013: nil).

Group	Total $000	Level 1 $000	Level 2 $000	Level 3 $000
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**
2013				
Assets				
Investment in equity securities	1,685	-	-	1,685
Investments in fixed Interest securities	140,444	-	140,444	-
Investments in property securities	855	-	855	-
Derivative financial assets	122	-	122	-
Total financial assets	**143,106**	**-**	**141,421**	**1,685**

Company	Total $000	Level 1 $000	Level 2 $000	Level 3 $000
2014				
Assets				
Investments in fixed Interest securities	182,948	-	182,948	-
Investments in property securities	34	-	34	-
Total financial assets	**182,982**	**-**	**182,982**	**-**
2013				
Assets				
Investments in fixed Interest securities	116,996	-	116,996	-
Investments in property securities	855	-	855	-
Derivative financial assets	122	-	122	-
Total financial assets	**117,973**	**-**	**117,973**	**-**

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

	2014 $000	2013 $000
Opening balance	1,685	3,251
Sale of investments	-	(1,050)
Foreign exchange movement	150	(516)
Closing balance	**1,835**	**1,685**

Increasing or decreasing the combined inputs used to determine the fair value of the investment by 10% would result in an increase or decrease in the fair value of the investment of $183,503 (2013: $168,535).

23. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(E) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

	Average contracted fixed interest		Notional principal amount		Fair value	
	2014 %	2013 %	2014 $000	2013 $000	2014 $000	2013 $000
Less than 1 year	0%	0%	-	-	-	-
1 to 2 years	0%	0%	-	-	-	-
2 to 5 years	5%	3%	21,000	10,400	(46)	34
over 5 years	0%	0%	-	-	-	-
			21,000	10,400	(46)	34

The Group has no foreign exchange forward contracts.

(F) SENSITIVITY ANALYSIS

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

(i) Interest rate

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

Group	2014 Impact on profit after tax $000	2014 Impact on equity $000	2013 Impact on profit after tax $000	2013 Impact on equity $000
Change in variables				
+50 basis points	(750)	(750)	(871)	(871)
-50 basis points	544	544	576	576

Company	2014 Impact on profit after tax $000	2014 Impact on equity $000	2013 Impact on profit after tax $000	2013 Impact on equity $000
Change in variables				
+50 basis points	(745)	(745)	(865)	(865)
-50 basis points	536	536	569	569

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.

23. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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

Group	2014		2013	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
	$000	$000	$000	$000
Change in variables				
10% appreciation of New Zealand dollar	330	(6,160)	291	(6,812)
10% depreciation of New Zealand dollar	(403)	7,530	(274)	8,408

Company	2014		2013	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
	$000	$000	$000	$000
Change in variables				
10% appreciation of New Zealand dollar	564	(425)	(80)	(2,796)
10% depreciation of New Zealand dollar	(690)	519	97	3,418

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

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

(iii) Equity price
Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The Group does not hold any equities at fair value through profit or loss (2013: nil).

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

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

Group	2014		2013	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
	$000	$000	$000	$000
Change in variables				
+10% property funds and other unit trusts	2	2	59	59
-10% property funds and other unit trusts	(2)	(2)	(59)	(59)

Company	2014		2013	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
	$000	$000	$000	$000
Change in variables				
+10% property funds and other unit trusts	2	2	59	59
-10% property funds and other unit trusts	(2)	(2)	(59)	(59)

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

24. GENERAL INSURANCE BUSINESS

(A) ANALYSIS OF OPERATING RESULT

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Premium revenue	285,113	267,160	241,959	222,203
Outward reinsurance expense	(48,197)	(48,617)	(34,655)	(35,560)
Net premium income	**236,916**	**218,543**	**207,304**	**186,643**
Claims expense	258,855	198,818	232,922	181,264
Reinsurance recoveries	(119,746)	(51,880)	(107,924)	(49,449)
Net claims incurred	**139,109**	**146,938**	**124,998**	**131,815**
Acquisition costs	38,691	36,281	32,703	31,310
Other underwriting expenses	39,363	35,226	34,640	28,657
Underwriting result	**19,753**	**98**	**14,963**	**(5,139)**
Investment revenue	**11,578**	**8,538**	**15,149**	**21,598**
Other revenue	**3,725**	**3,787**	**2,403**	**1,913**
Operating profit before taxation	**35,056**	**12,423**	**32,515**	**18,372**

(B) NET CLAIMS INCURRED
Group

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

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24. GENERAL INSURANCE BUSINESS (CONTINUED)

Company	2014			2013		
	Risks borne in current	Risks borne in prior years	Total	Risks borne in current	Risks borne in prior years	Total
	$000	$000	$000	$000	$000	$000
Gross claims expense						
Direct claims - undiscounted	124,281	106,378	230,659	110,022	69,974	179,996
Movement in discount	(294)	2,557	2,263	(356)	1,624	1,268
Gross claims expense	**123,987**	**108,935**	**232,922**	**109,666**	**71,598**	**181,264**
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	(1,071)	(105,483)	(106,554)	(1,911)	(47,538)	(49,449)
Movement in discount	(1)	(1,369)	(1,370)	-	-	-
Reinsurance recoveries	**(1,072)**	**(106,852)**	**(107,924)**	**(1,911)**	**(47,538)**	**(49,449)**
Net claims incurred	**122,915**	**2,083**	**124,998**	**107,755**	**24,060**	**131,815**

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 34.

(C) OUTSTANDING CLAIMS

	Group 2014	Group 2013	Company 2014	Company 2013
	$000	$000	$000	$000
Central estimate of expected present value of future payments for claims incurred	53,174	56,996	44,614	48,870
Risk margin	23,944	19,350	23,561	18,377
Claims handling costs	3,314	3,061	2,211	2,074
	80,432	79,407	70,386	69,321
Discount	(1,819)	(2,792)	(1,806)	(2,699)
Outstanding claims liability	**78,613**	**76,615**	**68,580**	**66,622**

(a) Assumptions adopted in calculation of insurance provisions

Estimates of the outstanding claims as at 30 September 2014 have been carried out by C. Hett, FIA, FNZSA, Head of Actuarial Services, Deloitte and P. Davies, B.Bus.Sc, FIA, FNZSA.

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

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

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

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

24. GENERAL INSURANCE BUSINESS (CONTINUED)

The weighted average expected term to settlement of outstanding claims (except for Canterbury earthquake claims, refer to note 34) based on historical trends is

	2014	2013
Short tail claims within 1 year	within 1 year	within 1 year
Long tail claims in the Pacific Islands	1.0 to 1.6 years	1.0 to 3.0 years
Inwards reinsurance	greater than 10 years	greater than 10 years

Inflation rate
Insurance costs are subject to inflationary pressures. Inflation assumptions for all 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
Outstanding claims liabilities are discounted to present value using a risk free rate relevant to the term of the liability and the jurisdiction.

Claims handling expense
The estimate of outstanding claims liabilities incorporates an allowance for the future cost of administrating the claims. This allowance is determined after analysing historical claim related expenses incurred by the classes of business.

Risk margin
The outstanding claim liability also includes a risk margin that relates to the inherent uncertainty in the central estimate of the future payments.

Risk margins are determined on a basis that reflects the business. Regard is given to the robustness of the valuation models, the reliability and volume of available data, past experience of the insurer and the industry and the characteristics of the classes of business written.

Uncertainty in claims is represented as a volatility measure in relation to the central estimate. The volatility measure is derived after consideration of statistical modelling and benchmarking to industry analysis. The measure of the volatility is referred to as the coefficient of variation (CoV), defined as the standard deviation of the distribution of future cash flows divided by the mean.

Risk margins are calculated by jurisdiction. The risk margin for all classes when aggregated is less than the sum of the individual risk margins. This reflects the benefit of diversification. The measure of the parameter used to derive the diversification benefit is referred to as correlation, which is adopted with regard to industry analysis, historical experience and actuarial judgement.

The risk margins applied to future claims payments are determined with the objective of achieving at least 75% probability of sufficiency for both the outstanding claims liability and the unexpired risk liability.

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

24. GENERAL INSURANCE BUSINESS (CONTINUED)

Company	2014 Gross $000	2014 Reinsurance $000	2014 Net $000	2013 Gross $000	2013 Reinsurance $000	2013 Net $000
Reconciliation of movements in discounted outstanding claims liability						
Balance brought forward	301,145	(234,523)	66,622	406,418	(346,181)	60,237
Effect of change in foreign exchange rates	87	(1,864)	(1,777)	647	1,233	1,880
Effect of changes in assumptions			-	-	-	-
Held for sale liabilities	-	-	-	(17,690)	271	(17,419)
Incurred claims recognised in the income statement	232,922	(107,924)	124,998	181,264	(49,449)	131,815
Claim (payment) / recoveries during the year	(297,995)	176,732	(121,263)	(269,494)	159,603	(109,891)
Balance carried forward	**236,159**	**(167,579)**	**68,580**	**301,145**	**(234,523)**	**66,622**

	2014 Gross $000	2014 Reinsurance $000	2014 Net $000	2013 Gross $000	2013 Reinsurance $000	2013 Net $000
Reconciliation of undiscounted claims to liability for outstanding claims						
Outstanding claims undiscounted	3,059	-	3,059	4,146	-	4,146
Discount	(1,481)	-	(1,481)	(2,324)	-	(2,324)
Outstanding claims	1,578	-	1,578	1,822	-	1,822
Short tail outstanding claims			67,002			64,800
Total outstanding claims as per balance sheet			**68,580**			**66,622**

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

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

(c) Future net cash out flows
The following table shows the expected run off pattern of net discounted outstanding claims.

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Within 3 months	26,248	23,588	20,124	17,520
3 to 6 months	9,000	7,596	7,486	6,096
6 to 12 months	6,002	5,627	4,874	4,508
After 12 months	37,363	39,804	36,096	38,498
Outstanding claims liability	**78,613**	**76,615**	**68,580**	**66,622**

(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 23. 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 policies 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.

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24. GENERAL INSURANCE BUSINESS (CONTINUED)

(b) Concentration of insurance risk

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

(c) Development of claims

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

Group

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

24. GENERAL INSURANCE BUSINESS (CONTINUED)

Company

Ultimate claims cost estimate	Prior $000	2010 $000	2011 $000	2012 $000	2013 $000	2014	Total $000
At end of incident year		96,409	102,473	101,490	107,755	122,916	
One year later		96,570	116,707	105,607	109,979		
Two years later		95,783	136,144	105,341			
Three years later		96,390	136,558				
Four years later		96,867					
Current estimate of ultimate claims cost		96,867	136,558	105,341	109,979	122,916	
Cumulative payments		(96,457)	(126,627)	(104,732)	(108,371)	(93,982)	
Undiscounted central estimate	3,122	410	9,931	609	1,608	28,934	44,614
Discount to present value	(1,481)	-	(12)	(2)	(17)	(294)	(1,806)
Discounted central estimate	1,641	410	9,919	607	1,591	28,640	42,808
Claims handling expense							2,211
Risk margin							23,561
Net outstanding claims liabilities							**68,580**
Reinsurance recoveries on outstanding claims liabilities and other recoveries							167,578
Gross outstanding claims liabilities							**236,158**

(E) LIABILITY ADEQUACY TEST

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

If the unearned premium liability less related deferred acquisition costs exceeds the present value of the expected future cash flows plus the additional risk margin to reflect the inherent uncertainty in the central estimate then the unearned premium liability is deemed to be sufficient. The risk margins applied to future claims were determined with the objective of achieving at least 75% probability of sufficiency of the unexpired risk liability using the same methodology as described above.

	2014	2013
Central estimate claim % of premium	42.5%	43.7%
Risk margin	13.6%	11.8%

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

(F) INSURER FINANCIAL STRENGTH RATING

TOWER Insurance Limited has an insurer financial strength rating of 'A-' (Excellent) issued by international rating agency AM Best Company Inc. with an effective date of 25 July 2014.

(G) REINSURANCE PROGRAMME

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

24. GENERAL INSURANCE BUSINESS (CONTINUED)

(H) SOLVENCY REQUIREMENTS

The minimum solvency capital required to be retained to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 are shown below. The actual solvency capital exceeds the minimum requirements for the general insurance group by $124.8 million (2013: $117.2 million) and $109.8 million (2013: $110.1 million) for the Company.

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Actual solvency capital	199,400	195,993	171,800	175,449
Minimum solvency capital	74,600	78,805	62,000	65,317
Solvency margin	**124,800**	**117,188**	**109,800**	**110,132**

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 (2013: $80.0 million) for the general insurance business.

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

25. CAPITAL RISK MANAGEMENT

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

The Group's capital resources include ordinary equity.

	Group	
	2014	2013
	$000	$000
TOWER Insurance shareholder equity	202,066	251,404
Total capital resources	**202,066**	**251,404**

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

From 22 August 2014 the Group is required to maintain a minimum solvency margin of no less than $50.0 million (2013: $80.0 million) in TOWER Insurance Limited. The actual solvency capital as determined under the solvency standards should exceed the minimum solvency capital level by at least this amount. The amount retained as minimum solvency capital is shown note 24 (H).

During the year ended 30 September 2014 the Group complied with all externally imposed capital requirements.

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

26. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
Net profit after tax for the year	26,401	7,634	32,104	5,870
Add / (less) non cash items				
Depreciation of property, plant and equipment	185	236	15	21
Unrealised (gain) / loss on financial assets	(23,448)	12,107	(836)	6,712
Change in life insurance and life investment contract liabilities	1,194	-	-	-
Decrease in deferred tax	10,824	(5,346)	314	603
	15,156	14,631	31,597	13,206
Add / (less) movements in working capital (excluding the effects of exchange differences on consolidation)				
Decrease in receivables	68,563	134,493	62,263	125,365
(Decrease) in payables	(65,219)	(129,451)	(69,571)	(102,741)
Decrease / (increase) in taxation	506	6,042	(166)	(8)
	3,850	11,084	(7,474)	22,616
Add / (less) other items classified as financing				
Gain / (loss) on sale of subsidiaries	14,560	(10,422)	(4,910)	-
Net cash inflows from operating activities	**33,566**	**15,293**	**19,213**	**35,822**

27. SEGMENTAL REPORTING

	New Zealand	Pacific Islands	Other	Consolidation Adjustments	Total
	$000	$000	$000	$000	$000
Year Ended 30 September 2014					
Revenue					
Revenue - external	213,565	38,792	(138)	-	252,219
Revenue - internal	3,081	-	-	(3,081)	-
Total revenue	**216,646**	**38,792**	**(138)**	**(3,081)**	**252,219**
Profit / (loss) before interest, tax, depreciation and amortisation	**10,805**	**11,193**	**242**	-	**22,240**
Interest revenue	11,957	795	249	-	13,001
Depreciation and amortisation	-	(185)	-	-	(185)
Profit / (loss) before income tax	**22,762**	**11,803**	**491**	-	**35,056**
Income tax credit / (expense)	(6,470)	(3,612)	49	-	(10,033)
Profit / (loss) for the year from continuing operations	**16,292**	**8,191**	**540**	-	**25,023**
Total assets excluding assets held for sale	572,287	82,609	4,160	(250)	658,806
Total liabilities excluding liabilities held for sale	404,862	50,380	1,498		456,740
Aquired property, plant and equipment, intangibles and other non current assets	250	384	-	(250)	384

27. SEGMENTAL REPORTING (CONTINUED)

	New Zealand	Pacific Islands	Other	Consolidation Adjustments	Total
	$000	$000	$000	$000	$000
Year Ended 30 September 2013					
Revenue					
Revenue - external	187,590	42,930	348	-	230,868
Revenue - internal	2,609	-	-	(2,609)	-
Total revenue	**190,199**	**42,930**	**348**	**(2,609)**	**230,868**
Profit before interest, tax, depreciation and amortisation	**(8,366)**	**12,604**	**(817)**	**434**	**3,855**
Interest revenue	6,419	976	1,409	-	8,804
Depreciation and amortisation	-	(236)	-	-	(236)
Profit before income tax	**(1,947)**	**13,344**	**592**	**434**	**12,423**
Income tax (expense)	466	(8,772)	(159)	(121)	(8,586)
Profit for the year from continuing operations	**(1,481)**	**4,572**	**433**	**313**	**3,837**
Total assets excluding assets held for sale	666,498	67,503	42,355	(48,407)	727,949
Total liabilities excluding liabilities held for sale	454,099	45,282	19,165	(19,629)	498,917
Aquired property, plant and equipment, intangibles and other non current assets	29,090	159	-	(29,090)	159

DESCRIPTION OF SEGMENTS AND OTHER SEGMENT INFORMATION
Operating segments are based on the assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments.

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

New Zealand includes all fire and general insurance business with customers in New Zealand written in New Zealand. Pacific Islands includes all fire and general insurance business with customers in the Pacific Islands written by the Company's subsidiaries and branch operations. Other includes run off business in the United Kingdom and the United States. The life business and Australian branch insurance liabilities and related assets have been excluded from the above disclosure as the results of these segments are contained within note 33.

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

The Group is domiciled in New Zealand. Revenue from external customers in New Zealand (excluding disposal group held for sale) is $213,427,000 (2013: $185,329,000) and total revenue from external customers from other countries is $38,792,000 (2013: $45,539,000).

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

28. OPERATING LEASES

	Group		Company	
	2014	2013	2014	2013
	$000	$000	$000	$000
As lessee				
Rent paid under non-cancellable operating leases during the year	3,176	675	2,594	61
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
– Not later than one year	546	420	30	43
– Later than one year and not later than five years	731	339	-	28
– Later than five years	-	-	-	-
	1,277	759	30	71

Operating lease payments represent the future rentals payable for office space under current leases. Leases are for a maximum of six years with rental rates reviewed on average every four years.

29. CONTINGENT LIABILITIES

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

The Group has no other contingent liabilities (2013: nil).

30. CAPITAL COMMITMENTS

The Group has no capital commitments at reporting date (2013: nil).

31. TRANSACTIONS WITH RELATED PARTIES

(A) TOWER LIMITED GROUP

During the year there have been transactions between TOWER Insurance Limited, its subsidiaries, its parent and entities within the parent's group. Balances outstanding are payable on demand and are interest free. None of TOWER Insurance Limited's subsidiaries have related party transactions or balances with entities outside of the TOWER Insurance Limited Group. All balances and transactions below relate to the parent only. TOWER Managed Funds Limited and TOWER Asset Management Limited ceased to be related parties on 2 April 2013 following the sale of TOWER's investment business.

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

Related party	2014 $000	2013 $000	Nature of Relationship	Type of Transaction
National Pacific Insurance Limited	(96)	(49)	Subsidiary	Service fee, reinsurance premiums & reinsurance claims
TOWER Operations Limited	-	1	Fellow subsidiary	Commission
TOWER Insurance (Cook Islands) Limited	1,235	729	Subsidiary	Service fee & reinsurance premiums
TOWER Insurance (Fiji) Limited	2,668	(524)	Subsidiary	Service fee & reinsurance premiums
TOWER Insurance (PNG) Limited	(29)	2,190	Subsidiary	Service fee & reinsurance premiums
TOWER New Zealand Limited	3,901	1,532	Fellow subsidiary	Management expenses, loan and tax losses

TOWER Insurance Limited enters into transactions with its related parties in the normal course of business. Transactions during the year are shown below

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31. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Related party	2014 $000	2013 $000	Nature of Relationship	Type of Transaction
National Pacific Insurance Limited	592	501	Subsidiary	Service Fee
National Pacific Insurance Limited	-	758	Subsidiary	Dividend
National Pacific Insurance Limited	1,257	1,911	Subsidiary	Reinsurance Premiums
National Pacific Insurance Limited	(481)	(933)	Subsidiary	Reinsurance Claims
TOWER Asset Management Limited	-	(204)	Fellow subsidiary	Investment management fees
TOWER Financial Services Group Limited	-	107,090	Parent	Issue of share capital
TOWER Operations Limited	-	5	Fellow subsidiary	Commission
TOWER Operations Limited	-	29,090	Fellow subsidiary	Purchase of TOWER Life (N.Z.) Limited
TOWER Insurance (Cook Islands) Limited	237	200	Subsidiary	Service Fee
TOWER Insurance (Cook Islands) Limited	-	2,600	Subsidiary	Dividend
TOWER Insurance (Cook Islands) Limited	470	505	Subsidiary	Reinsurance Premiums
TOWER Insurance (Fiji) Limited	923	779	Subsidiary	Service Fee
TOWER Insurance (Fiji) Limited	1,389	1,197	Subsidiary	Reinsurance Premiums
TOWER Insurance (Fiji) Limited	-	(35)	Subsidiary	Reinsurance Claims
TOWER Insurance (PNG) Limited	1,100	938	Subsidiary	Service Fee
TOWER Insurance (PNG) Limited	1,156	896	Subsidiary	Reinsurance Premiums
TOWER Insurance (PNG) Limited	-	11,525	Subsidiary	Dividend
TOWER Limited	14	-	Ultimate parent	Operating Expenses
TOWER Limited	6,172	2,785	Ultimate parent	Group tax loss offset
TOWER New Zealand Limited	2,369	(29,195)	Fellow subsidiary	Management expenses

(B) KEY MANAGEMENT PERSONNEL COMPENSATION
All key management personnel are employed by TOWER New Zealand Limited, a fellow subsidiary of TOWER Limited. As a result, TOWER Insurance Limited pays no key management personnel remuneration.

(C) LOANS TO KEY MANAGEMENT PERSONNEL
There have been no loans made to Directors of the Company and other key management personnel of the Group, including their personally related parties (2013: Nil).

(D) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL
Key management hold various policies and accounts with TOWER Insurance Limited. These are operated in the normal course of business on normal customer terms.

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32. BUSINESS COMBINATION

On 31 July 2013 the Company acquired TOWER Life (N.Z.) Limited from TOWER Operations Limited, a company under common control of the ultimate parent, TOWER Limited.

The assets, liabilities and reserves arising from the acquisition were as follows:

	2013 Acquiree's Carrying Amount $000
Cash and cash equivalents	8,101
Financial assets at fair value through profit or loss	618,736
Derivative financial assets	54,576
Current tax assets	9,737
Receivables	43,378
Deferred tax assets	9,968
Liabilities ceded under reinsurance	14,132
Total assets	758,628
Payables	4,200
Derivative financial liabilities	2,866
Provisions	98
Insurance liabilities	6,682
Life insurance contract liabilities	689,000
Life investment contract liabilities	27,254
Total liabilities	730,100
Net assets	**28,528**

Recognised amounts	2013 $000
Cash consideration	29,090
Net assets at 31 July 2013	28,528
Difference taken to equity (business combinations reserve)	562

33. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE

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

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Profit for the year from discontinued operations / disposal groups				
Profit / (loss) for the year from discontinued operations:				
Australian liabilities	(711)	(7,114)	(711)	(7,114)
Participating life business	5,682	10,911	-	-
Profit / (loss) from discontinued operations	**4,971**	**3,797**	**(711)**	**(7,114)**
Profit from disposal of subsidiaries				
Australian liabilities	-	-	-	-
Participating life business attributable cost	(3,593)	-	8,438	-
(Loss) / profit from discontinued operations	**(3,593)**	**-**	**8,438**	**-**
Profit / (loss) from discontinued operations / disposal groups	**1,378**	**3,797**	**7,727**	**(7,114)**

33. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE (CONTINUED)

	2014 $000	2013 $000	2014 $000	2013 $000
Net assets / (liabilities) held for sale:				
Australian liabilities	-	39,439	-	-
Participating life business	-	(17,067)	-	(17,067)
Total net assets held for sale	-	22,372	-	(17,067)
Liabilities transferred on disposal of Australian operation	(16,628)	-	(16,628)	-

(A) SALE OF NON PARTICIPATING GROUP RISK LIFE INSURANCE BUSINESS

On 1 of August 2013 the Company sold its non participating group risk life insurance business underwritten by TOWER Life (N.Z.) Limited to Fidelity Life Assurance Company Limited. The sale followed a strategic review of TOWER Group's businesses announced in 2012. The sale has resulted in the group risk life insurance business segment being treated as a discontinued operation of the Group.

The operating results and financial position of the group risk life insurance business have been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as a discontinued operation. The business had no operating results or cash flow during the period as the business was purchased on 31 of July 2013 and sold on 1 of August 2013 before trading commenced.

The financial position of the group risk life insurance business was as follows:

	Group		Company	
	2014 $000	2013 $000	2014 $000	2013 $000
Assets				
Liabilities ceded under reinsurance	-	14,132	-	-
Total assets	-	14,132	-	-
Liabilities				
Payables	-	1	-	-
Life insurance contract liabilities	-	24,553	-	-
Total liabilities	-	24,554	-	-
Net assets	-	(10,422)	-	-

	Group		Company	
	2014 $000	2013 $000	2014 $000	2013 $000
Gain on disposal				
Cash consideration	-	-	-	-
Net assets at 1 August 2013	-	(10,422)	-	-
Profit on disposal	-	10,422	-	-

(B) SALE OF TOWER LIFE (N.Z.) LIMITED

On 1 July 2014, TOWER Limited announced the sale of TOWER Life (N.Z.) Limited to Foundation Life (NZ) Holdings Limited for $36.0 million of which $2.0 million will be deferred for two years post settlement. The sale was subject to Overseas Investment Office and Reserve Bank of New Zealand approval, both of which were received in August 2014. The sale has resulted in the remaining life business segment being treated as a discontinued operation of the Group. Completion of the sale occurred on 29 August 2014 with a further $1.7 million receivable by the Group as a result of net asset statement completion adjustments in accordance with the sale and purchase agreement.

The operating results and financial position of the life business have been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as a discontinued operation and disposal group held for sale. A more detailed breakdown of the financial performance, position and cash flows of the remaining life business is presented below.

33. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE (CONTINUED)

The results of the remaining life business were as follows:

	Group 2014 $000	2013 $000
Premium revenue from insurance contracts	8,429	1,510
Less: Outwards reinsurance expense	100	5
Net premium revenue	8,529	1,515
Investment revenue	62,914	4,187
Other income	-	59
Gain on disposal	-	10,422
Management fees	95	3
Net operating revenue	71,538	16,186
Claims expense	44,854	5,188
Less: reinsurance recoveries revenue	185	-
Net claims expense	45,039	5,188
Decrease in policy liabilities	1,892	(1,210)
Management and sales expenses	5,270	870
Net claims and operating expenses	52,201	4,848
Profit before taxation	19,337	11,338
Income tax credit	(13,662)	(427)
Profit for the year from operations	5,675	10,911
Profit from disposal of non-participating life business	7	-
Profit for the year from discontinuing operations	5,682	10,911
Cash flows of the business:		
Operating cash inflow	8,977	(9,477)
Investing cash inflow/(outflow)	(1,737)	1,188
Financing cash (outflow)	(3,444)	8,587
Total cash inflow	3,796	298

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

Assets	2014 $000	2013 $000
Cash and cash equivalents	-	8,399
Receivables	-	37,574
Financial assets at fair value through profit or loss	-	625,663
Derivative financial assets	-	48,082
Current tax asset	-	3,479
Deferred tax asset	-	16,103
Total assets	-	739,300
Liabilities		
Payables	-	3,092
Provisions	-	57
Insurance liabilities	-	7,008
Derivative financial liability	-	5,086
Deferred tax liabilities	-	84
Life insurance contract liabilities	-	660,945
Life investment contract liabilities	-	23,589
Total liabilities	-	699,861
Net assets	-	39,439

33. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE (CONTINUED)

Profit on disposal	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Cash consideration received	34,000	-	34,000	-
Deferred consideration at NPV	1,846	-	1,846	-
Purchase price adjustment at completion	1,682	-	1,682	-
	37,528	-	**37,528**	-
Less inv in subsidiary at 29 August 2014	(41,121)	-	(29,090)	-
Gross (loss) / gain on disposal	**(3,593)**	-	**8,438**	-

(C) DISPOSAL OF AUSTRALIAN LIABILITIES

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

Operating results and financial position of the Australian branch runoff business have been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as a discontinued operation and disposal group held for sale. A more detailed breakdown of the financial performance, position and cash flows of the Australian branch runoff business is presented below.

The results associated with the Australian business held for sale were as follows:

	Group 2014 $000	Group 2013 $000	Company 2014 $000	Company 2013 $000
Increase in value of insurance liability to fair value	-	-	-	-
Claims expense	-	(6,718)	-	(6,718)
Less: reinsurance recoveries revenue	(43)	(340)	(43)	(340)
Net claims expense	**(43)**	**(7,058)**	**(43)**	**(7,058)**
Management and sales expenses	(1,978)	(56)	(1,978)	(56)
Net claims and operating expenses	**(2,021)**	**(7,114)**	**(2,021)**	**(7,114)**
Loss before taxation	**(2,021)**	**(7,114)**	**(2,021)**	**(7,114)**
Income tax expense	1,310	-	1,310	-
Loss after tax from discontinued operations	**(711)**	**(7,114)**	**(711)**	**(7,114)**

Cash flows of disposal group held for sale:

	2014 $000	2013 $000	2014 $000	2013 $000
Operating cash outflow	-	(3,006)	-	(3,006)
Total cash outflow	-	**(3,006)**	-	**(3,006)**

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

Assets	2014 $000	2013 $000	2014 $000	2013 $000
Reinsurance receivables	-	623	-	623
Total assets	-	**623**	-	**623**
Liabilities				
Insurance liabilities	-	17,690	-	17,690
Total liabilities	-	**17,690**	-	**17,690**
Net liabilities	-	**(17,067)**	-	**(17,067)**

33. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE (CONTINUED)

	2014 $000	2013 $000	2014 $000	2013 $000
Liabilities transferred on disposal	**(16,628)**	**-**	**(16,628)**	**-**
Currency movement on closure of branch operations	(1,912)	-	(1,912)	-
Net claims and management expenses prior to transfer of liabilities	(109)	-	(109)	-
Tax	1,310	-	1,310	-
Branch operations closure costs	**(711)**	**-**	**(711)**	**-**

34. IMPACT OF CANTERBURY EARTHQUAKES

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

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

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

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

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

35. SUBSEQUENT EVENTS

There have been no material events occur subsequent to balance date.

TOWER Insurance Limited - 30th September 2014
<u>Appointed Actuary's Insurance (Prudential Supervision) Act 2010 Section 78 Report</u>

The report prepared by the Charles Hett; MA, FNZSA Appointed Actuary for the purpose of Section 78 of Insurance (Prudential Supervision) Act 2010 ("IPSA") is included in the TOWER Insurance Limited ("TIL") financial statements.

The report provides information to the Directors of TIL (and management) regarding a review of the actuarial information (Section 77 of IPSA) contained in the TIL financial statements as at 30th September 2014 and provides an opinion as to its appropriateness.

This report has not been prepared with any other additional purposes in mind.

<u>Review of the Actuarial Information contained in the 30th September 2014 TOWER Insurance Limited Financial Statements</u>

I am the Appointed Actuary to TOWER Insurance Limited (TIL). I am Head of Actuarial Services at Deloitte and act as Appointed Actuary under a contract for services.

The directors are responsible for the preparation of the company's financial statements; TOWER's policy is to seek the advice of the appointed actuary in the preparation of the actuarial information contained in its financial statements. I have been directly involved in the preparation of TIL 2014 financial statements. I confirm the financial statements have been prepared in accordance with this policy, and as such this satisfies the requirements of the Act. Appropriate actuarial information has been used accurately and appropriately.

No limitations were placed on me in preparing the actuarial information and all data requested was provided by the company. All information and explanations that were necessary to prepare the actuarial information were obtained.

In my opinion and from an actuarial perspective the actuarial information contained in the financial statements has been appropriately included in the statements and the actuarial information used in the preparation of the financial statements has been used appropriately.

The company has maintained a solvency margin as at 30th September 2014 that complies with the Reserve Bank of New Zealand ("RBNZ") Solvency Standards and all other licensing requirements in regard to solvency.

Charles Hett; MA, FNZSA
Appointed Actuary
Fellow of the New Zealand Society of Actuaries

Date: 24th November 2014