

**TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS**



FOR THE YEAR ENDED 30 SEPTEMBER 2015

TOWER INSURANCE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

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TOWER INSURANCE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

DIRECTORS' REPORT

The Directors of TOWER Insurance Limited present their report and consolidated financial statements of the Company and Group for the year ended 30 September 2015.

During the year the Company and Group undertook its principal activity of providing general 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 loss attributable to shareholders for the year was \$8,015,000 (2014: \$25,984,000 profit). Accumulated losses at the end of the year totalled \$26,344,000 (2014: \$15,071,000 profit). Shareholders' equity at the end of the period totalled \$161,938,000 (2014: \$200,468,000). The Directors consider the state of affairs of the Company and Group to be satisfactory. During the period the Directors recommended and paid dividends of \$33,400,000 (2014: \$78,000,000).

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 period and at the date of this report are Graham Stuart, Michael Stiasny, Steve Smith, Rebecca Dee-Bradbury, Warren Lee and David Hancock. John Spencer ceased his directorship on 11 February 2015.

The Board of Directors of TOWER Insurance Limited authorised the financial statements for issue on 24 November 2015.

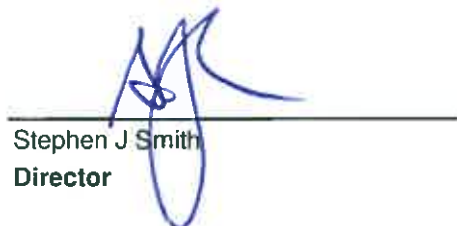
The Directors wish to thank all staff for their loyalty, application and support during the year.

For and on behalf of the Board



Graham R Stuart
Director

24 November 2015
Date



Stephen J Smith
Director

24 November 2015
Date

TOWER INSURANCE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

GOVERNANCE STATEMENT

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 24 November 2015. 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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

GOVERNANCE STATEMENT (continued)

Graham Stuart

BCom (Hons), MS, FCA

Chairman

Independent

Appointed Director: 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 Chartered Accountants Australia and New Zealand. 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

Non Executive Director

Independent

Appointed Director: 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, Chairman of Ngati Whatua Orakei Whai Rawa Limited, a Director of NZ Windfarms Limited, and is a director of a number of other companies. Michael is President and a Chartered Fellow of the 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 Director: 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 Chartered Accountants Australia and New Zealand and a Chartered Fellow of the Institute of Directors in New Zealand (Inc). Steve is Chairman of Hellaby Holdings Ltd, Spanbild Holdings Ltd and Pascaro Investments Ltd, and a Director of Fulton Hogan Ltd, Rimu S.A. (Chile), and the National Foundation for the Deaf Inc.

Steve resides in Auckland, New Zealand.

Rebecca Dee-Bradbury

BBus (Marketing), GAICD

Non Executive Director

Independent

Appointed Director: 15 August 2014

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

Rebecca resides in Melbourne, Australia.

TOWER INSURANCE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

GOVERNANCE STATEMENT (continued)

Warren Lee

BCom, CA

Non Executive Director

Independent

Appointed Director: 26 May 2015

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

Warren resides in Melbourne, Australia.

David Hancock

BBus, GAICD

Non Executive Director

Not Independent

Appointed Director: 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 Chief Executive Officer of TOWER from July 2013 to August 2015.

David resides in Sydney, 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: Steve Smith (Chairman), Michael Stiasny, Graham Stuart, Rebecca Dee-Bradbury and Warren Lee.

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.

GOVERNANCE STATEMENT (continued)

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

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 Risk & Compliance Framework Board 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 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.

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015



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 10 to 63, which comprise the balance sheets as at 30 September 2015, 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 2015 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of 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 preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 are independent of the Group. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Group.



Independent Auditors' Report

TOWER Insurance Limited

Opinion

In our opinion, the financial statements on pages 10 to 63 present fairly, in all material respects, the financial position of the Company and the Group as at 30 September 2015, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Restriction on Use of our Report

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

Private/limited

Chartered Accountants
24 November 2015

Auckland

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

CONSOLIDATED INCOME STATEMENT

\$ thousands		Group		Company	
For the year ended 30 September	Note	2015	2014	2015	2014
Revenue					
Premium revenue	4	304,730	285,113	252,531	241,959
Less: Outwards reinsurance expense		(56,765)	(48,197)	(41,491)	(34,655)
Net premium revenue		247,965	236,916	211,040	207,304
Investment revenue	5	12,783	11,578	24,129	15,149
Other revenue		2,984	3,725	1,289	2,403
Net operating revenue		263,732	252,219	236,458	224,856
Expenses					
Claims expense		252,244	258,855	232,546	232,922
Less: Reinsurance recoveries revenue		(64,907)	(119,746)	(60,484)	(107,924)
Net claims expense	6	187,337	139,109	172,062	124,998
Management and sales expenses	8	85,323	78,054	69,987	67,343
Total expenses		272,660	217,163	242,049	192,341
Profit (Loss) before taxation		(8,928)	35,056	(5,591)	32,515
Tax (benefit) expense attributed to shareholders' profits	9	1,260	(10,033)	3,812	(8,138)
Profit (Loss) for the year from continuing operations		(7,668)	25,023	(1,779)	24,377
Profit (loss) from discontinued operations	34	-	4,971	-	(711)
Profit (loss) from disposal of subsidiaries	34	-	(3,593)	-	8,438
Profit (Loss) for the year from discontinued operations		-	1,378	-	7,727
Profit (Loss) for the year		(7,668)	26,401	(1,779)	32,104
Profit (Loss) attributed to:					
Shareholders		(8,015)	25,984	(1,779)	32,104
Non-controlling interest		347	417	-	-
		(7,668)	26,401	(1,779)	32,104

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

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME


\$ thousands		Group		Company	
For the year ended 30 September	Note	2015	2014	2015	2014
Profit (Loss) for the year		(7,668)	26,401	(1,779)	32,104
Other comprehensive income					
Currency translation differences		3,516	2,582	653	1,117
Gain on asset revaluation	14	129	58	-	-
Deferred income tax relating to asset revaluation		(18)	(10)	-	-
Deferred income tax relating to asset sold		-	562	-	-
Business combinations under common control		-	(223)	-	(223)
Other comprehensive income net of taxation		3,627	2,969	653	894
Total comprehensive income (loss) for the year		(4,041)	29,370	(1,126)	32,998
Total comprehensive income (loss) attributed to:					
Shareholders		(5,130)	28,888	(1,126)	32,998
Non-controlling interest		1,089	482	-	-
		(4,041)	29,370	(1,126)	32,998
Total comprehensive income (loss) attributed to equity arises from:					
Continuing operations		(4,041)	27,992	(1,126)	25,271
Discontinued operations		-	1,378	-	7,727
		(4,041)	29,370	(1,126)	32,998

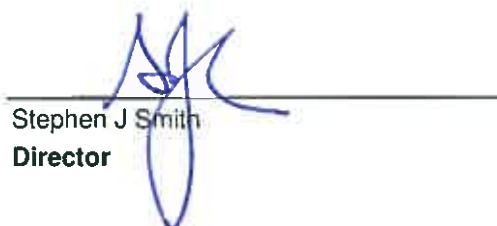
The above statements should be read in conjunction with the accompanying notes.

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015
CONSOLIDATED BALANCE SHEET

\$ thousands		Group		Company	
As at	Note	2015	2014	2015	2014
Assets					
Cash and cash equivalents	10	82,950	101,728	62,109	84,235
Receivables	13	300,073	335,267	280,952	314,996
Investments	26	213,593	212,407	186,887	182,982
Property, plant and equipment	14	10,221	2,976	6,945	80
Current tax assets		2,847	1,475	1,434	-
Deferred acquisition costs	12	20,277	20,028	17,522	17,569
Deferred tax assets	9	6,922	2,621	6,541	1,905
Intangible assets	15	14	4	-	-
Investments in subsidiaries	16	-	-	4,911	4,911
Total assets		636,897	676,506	567,301	606,678
Liabilities					
Payables	17	44,000	39,756	39,391	34,973
Current tax liabilities	9	568	1,981	419	1,668
Provisions	18	3,047	4,253	2,770	4,014
Derivative financial liabilities	26	-	46	-	46
Insurance liabilities	19	419,692	422,273	374,941	381,587
Deferred tax liabilities	9	6,008	6,131	5,683	5,767
Total liabilities		473,315	474,440	423,204	428,055
Net assets		163,582	202,066	144,097	178,623
Equity					
Contributed equity	20	174,990	174,990	174,990	174,990
Accumulated (losses) profits	21	(26,344)	15,071	(43,569)	(8,390)
Reserves	22	13,292	10,407	12,676	12,023
Total equity attributed to shareholders		161,938	200,468	144,097	178,623
Non-controlling interest		1,644	1,598	-	-
Total equity		163,582	202,066	144,097	178,623

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


 Graham R Stuart
 Director


 Stephen J Smith
 Director

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

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

STATEMENT OF CHANGES IN EQUITY

	Attributed to shareholders					
\$ thousands	Contributed equity	Accumulated profit	Reserves	Total	Non-controlling interest	Total Equity
Group						
Year Ended 30 September 2015						
At the beginning of year	174,990	15,071	10,407	200,468	1,598	202,066
Comprehensive income (loss)						
Profit (Loss) for the year	-	(8,015)	-	(8,015)	347	(7,668)
Currency translation differences	-	-	2,774	2,774	742	3,516
Gain on asset revaluation	-	-	129	129	-	129
Deferred income tax relating to asset revaluation	-	-	(18)	(18)	-	(18)
Total comprehensive income (loss)	-	(8,015)	2,885	(5,130)	1,089	(4,041)
Transactions with shareholders						
Dividends paid	-	(33,400)	-	(33,400)	(1,043)	(34,443)
Total transactions with shareholders	-	(33,400)	-	(33,400)	(1,043)	(34,443)
At the end of the year	174,990	(26,344)	13,292	161,938	1,644	163,582
Year Ended 30 September 2014						
At the beginning of year	174,990	67,872	7,280	250,142	1,262	251,404
Comprehensive income						
Profit for the year	-	25,984	-	25,984	417	26,401
Currency translation differences	-	-	2,517	2,517	65	2,582
Gain on asset revaluation	-	-	58	58	-	58
Deferred income tax relating to asset revaluation	-	-	(10)	(10)	-	(10)
Release of business combination reserve due to sale	-	(562)	562	-	-	-
Other movements	-	(223)	-	(223)	-	(223)
Total comprehensive income	-	25,199	3,127	28,326	482	28,808
Transactions with shareholders						
Dividends paid	-	(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

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

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

STATEMENT OF CHANGES IN EQUITY

\$ thousands	Contributed equity	Accumulated profit	Reserves	Total Equity
Company				
Year Ended 30 September 2015				
At the beginning of the year	174,990	(8,390)	12,023	178,623
Comprehensive income (loss)				
Loss for the year	-	(1,779)	-	(1,779)
Currency translation differences	-	-	653	653
Total comprehensive income (loss)	-	(1,779)	653	(1,126)
Transactions with shareholders				
Dividends paid	-	(33,400)	-	(33,400)
Total transactions with shareholders	-	(33,400)	-	(33,400)
At the end of the year	174,990	(43,569)	12,676	144,097
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	-	32,104	-	32,104
Currency translation differences	-	-	1,117	1,117
Other movements - Australian branch	-	(223)	-	(223)
Total comprehensive income	-	31,881	1,117	32,998
Transactions with shareholders				
Dividends paid	-	(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

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

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

CONSOLIDATED STATEMENT OF CASH FLOWS

\$ thousands		Group		Company	
For the year ended 30 September	Note	2015	2014	2015	2014
Cash flows from operating activities					
Premiums received		308,044	304,106	252,232	248,373
Interest received		12,922	33,399	11,714	12,223
Dividends received		25	1,734	12,579	4,000
Net realised investment (loss) gain		(1,077)	18,431	(1,077)	(2,275)
Commissions received		2,984	3,728	1,289	2,403
Reinsurance received		137,630	191,976	131,952	180,081
Reinsurance paid		(57,105)	(51,688)	(41,591)	(37,686)
Claims paid		(299,642)	(382,754)	(280,067)	(315,928)
Payments to suppliers and employees		(76,134)	(74,351)	(67,677)	(67,677)
Receipts from intercompany		-	-	5,987	2,379
Income tax paid		(5,665)	(11,015)	(3,467)	(6,680)
Net cash inflow (outflow) from operating activities	11	21,982	33,566	21,874	19,213
Cash flows from investing activities					
Net proceeds from (payments for) financial assets		1,141	(68,079)	(2,994)	(63,612)
Purchase of property, plant and equipment and intangible assets		(8,152)	(398)	(7,936)	(61)
Cash disposed with sale of property		-	(12,194)	-	-
Proceeds from sale of business		-	34,000	-	34,000
Net cash inflow (outflow) from investing activities		(7,011)	(46,671)	(10,930)	(29,673)
Cash flows from financing activities					
Dividends paid		(33,400)	(78,000)	(33,400)	(78,000)
Capital injection in subsidiary		-	-	-	(250)
Payment of minority interest dividends		(1,043)	(146)	-	-
Net advances from related parties		-	(3,032)	-	-
Net cash inflow (outflow) from financing activities		(34,443)	(81,178)	(33,400)	(78,250)
Net (decrease) in cash and cash equivalents		(19,472)	(94,283)	(22,456)	(88,710)
Effect of exchange rate changes		694	(1,482)	330	(1,802)
Cash and cash equivalents at the beginning of year		101,728	189,094	84,235	174,747
Cash reclassified as part of sale		-	8,399	-	-
Cash and cash equivalents at the end of year	10	82,950	101,728	62,109	84,235

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

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015
NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

TOWER Insurance Limited (the Company) is a profit-oriented company incorporated in New Zealand under the Companies Act 1993. The Company is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. 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 the Company's registered office is 45 Queen Street, Auckland, New Zealand.

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

The financial statements were authorised for issue by the Board of Directors on 24 November 2015. The entity's owners or others do not have power to amend the financial statements after issue.

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

The financial statements 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 at balance date and the results of all subsidiaries for the year.

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

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

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

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

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

C Foreign currency

(i) Functional and presentation currencies

The financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. The 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 New Zealand dollars using the exchange rates in effect at the transaction dates. Monetary items receivable or payable in a foreign currency are translated at reporting date at the closing exchange rate.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

D Cash flows

The statements of cash flows present 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 based on either; the turnover of these items is quick, the amounts are large, and the maturities are short, or the value of sales are immaterial.

E Comparatives

The following comparative information has been reclassified to achieve consistency with the current year's presentation. Changes relate to balance sheet reclassifications only. There is no change to net assets or the 2014 income statement.

In 2015, a receivable has been separately disclosed for amounts recoverable from EQC. Within note 13 Receivables – Other is \$57.4 million recoverable from EQC on Canterbury earthquake claims. In 2014, the \$17.7 million comparative amount recoverable from EQC was disclosed net within outstanding claims. To achieve consistent presentation, the 2014 comparatives for both Group and Parent have been adjusted as follows:

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

Within Note 13 Receivables, the 2014 balance for Other receivables has increased \$17.7 million, all of which has been classified as Non-current (the 2014 non-current balance has increased \$17.7 million). Within Note 19 Insurance liabilities, the 2014 balance for Outstanding claims has increased \$17.7 million, all of which has been classified as Non-current (the 2014 non-current balance has increased \$17.7 million). Note 24 Segmental reporting 2014 comparative balances for Total assets and Total liabilities have increased \$17.7 million reflecting the above reclassifications.

Within Note 25 Insurance business disclosures, 2014 comparative amounts for Outstanding claims have been increased by \$17.7 million throughout the note. Note 26 Financial instruments 2014 comparative balances for Receivables have been increased by \$17.7 million. The \$17.7 million comparative amount recoverable from EQC has been allocated to 'Other government agencies' in the credit risk concentration table of Note 27 (B) (i) and to 'Loans and receivables' in the maximum exposure to credit risk table of Note 27 (B) (ii). The \$17.7 million has been included as a 'Group 1' receivable balance in the credit quality table of Note 27 (B) (iii).

Within Note 11 Reconciliation of profit for the period to net cash flows from operating activities, the balances for 'Decrease in receivables' and 'Decrease in payables' have both been adjusted by \$17.7 million. The 'Decrease in receivables' balance has reduced \$17.7 million and the 'Decrease in payables' has increased \$17.7 million.

F Changes in accounting policies

There have been no changes in accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

3 IMPACT OF AMENDMENTS TO NZIFRS

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 adopted them early. The Group expects to adopt the following new standards on 1 October after the effective date.

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

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

B Standards, amendments and interpretations to existing standards effective 30 September 2015 or early adopted by the Group

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

4 PREMIUM REVENUE

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014
Gross written premiums		305,582	297,627	252,794	251,665
Less: Gross unearned premiums		(852)	(12,514)	(263)	(9,706)
Premium revenue		304,730	285,113	252,531	241,959

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014

5 INVESTMENT REVENUE					
Fixed interest securities					
Interest income		12,922	13,001	11,714	12,223
Net realised (loss)		(971)	(2,794)	(971)	(2,794)
Net unrealised gain		867	1,407	867	1,407
Total fixed interest securities		12,818	11,614	11,610	10,836
Equity securities					
Dividend income		25	14	12,579	4,364
Total equity securities		25	14	12,579	4,364
Property securities					
Property income		-	4	-	4
Net realised gain		-	413	-	412
Net unrealised (loss)		-	(402)	-	(402)
Total property securities		-	15	-	14
Other					
Net realised (loss) gain		(106)	103	(106)	103
Net unrealised gain (loss)		46	(168)	46	(168)
Total other		(60)	(65)	(60)	(65)
Total investment revenue		12,947	13,019	24,293	16,591
Total net realised (loss)		(1,077)	(2,278)	(1,077)	(2,279)
Total net unrealised gain		913	837	913	837
Total investment revenue		12,783	11,578	24,129	15,149

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.

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

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

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

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015
NOTES TO THE FINANCIAL STATEMENTS

6 CLAIMS EXPENSE

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

Critical accounting judgment and estimate - Claims liabilities under general insurance contracts

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

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

- changes in Group processes which might accelerate or slow down the development and (or) recording of paid or incurred claims, compared with statistics from previous periods;
- the effects of inflation; and
- the impact of large losses;

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

Provisions are calculated gross of any reinsurance recoveries except risk margin, which is net of reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based on the gross provisions. Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 25.

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

7 CANTERBURY EARTHQUAKES

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

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

NOTES TO THE FINANCIAL STATEMENTS

7 CANTERBURY EARTHQUAKES (continued)

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

Canterbury earthquake provisions

	Audited	Audited
\$ thousands	30-Sep-15	30-Sep-14
Insurance liabilities		
Outstanding claims	(206,815)	(197,854)
Receivables		
Reinsurance recovery receivables	103,215	164,787
Other receivables	57,400	17,700
	160,615	182,487
Net outstanding claims at 30 September	(46,200)	(15,367)

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

	Audited	Audited
\$ thousands	30-Sep-15	30-Sep-14
Cumulative expenses associated with Canterbury earthquakes:		
Earthquake claim estimate	(792,000)	(706,931)
Reinsurance recoveries	692,183	652,564
Claim expense net of reinsurance recoveries	(99,817)	(54,367)
Reinsurance expense	(25,045)	(20,220)
	(124,862)	(74,587)
Income tax	35,642	21,565
Cumulative impact of Canterbury earthquakes after tax	(89,220)	(53,022)
Recognised in current period (net of tax)	(36,198)	(191)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

7 CANTERBURY EARTHQUAKES (continued)

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

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

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

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

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

Sensitivity analysis - impact of changes in key variables

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

The impact of changes in significant assumptions on the net outstanding claims liabilities are shown in the table below for the Company and Group. Each change has been calculated in isolation to other changes.

Where TOWER is reinsured, the impact of a change to claims cost is borne by reinsurance, so the net impact is nil on the basis that there is no default on the part of the reinsurers. This is the situation for three of the four main earthquakes other than February 2011 event which has exceeded reinsurance cover.

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

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

The process used to determine assumptions and key elements of judgement within claims estimation is described in note 25 (B) (a) Insurance business disclosure.

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015
NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014

8 MANAGEMENT AND SALES EXPENSES					
Included in total management and sales expenses are the following:					
Employee benefits		49,367	48,557	45,591	45,027
Claims related expenses reclassified to claims expense		(21,352)	(18,564)	(18,925)	(16,427)
Commissions paid		22,760	20,037	17,850	16,303
Amortisation of deferred acquisition costs		20,028	18,211	17,569	16,123
Acquisition costs deferred		(20,277)	(20,028)	(17,522)	(17,569)
Administration		19,479	15,212	10,254	10,961
Marketing		7,304	7,761	7,059	7,464
Foreign exchange loss		(2,804)	111	(815)	63
Travel		1,727	1,153	1,118	772
Tenancy		3,978	4,230	3,115	3,469
Bad debts recovered		(205)	141	(76)	138
Auditor remuneration					
Audit of financial statements		349	353	349	320
Other assurance related services		33	68	33	68
Fees paid to subsidiaries auditors different to Group		39	-	-	-
Depreciation:					
Office equipment and furniture		377	62	306	5
Motor Vehicles		159	104	25	7
Computer equipment		759	19	747	3
Amortisation of software		3	-	-	-
Other		3,599	627	3,309	616
Total management and sales expenses		85,323	78,054	69,987	67,343

Auditor Remuneration

The audit of financial statements includes fees for both the annual audit of financial statements and the review of interim financial statements. Other assurance related services related to the solvency audit and regulatory returns plus Australian branch licence revocation in the prior year.

Other assurance related services related to the solvency audit and regulatory returns plus Australian branch licence revocation in the prior year.

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.

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014
9 TAX					
A CURRENT TAX EXPENSE					
Analysis of tax expense					
Current tax		4,223	10,475	1,922	8,377
Deferred tax		(4,444)	(198)	(4,720)	(119)
(Over) under provided in prior years		(1,039)	(244)	(1,014)	(120)
Total tax expense (benefit)		(1,260)	10,033	(3,812)	8,138

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

Profit (Loss) before tax from continuing operations	(8,928)	35,056	(5,591)	32,515
Income tax at the current rate of 28%	(2,500)	9,816	(1,565)	9,104
<i>Tax effect of:</i>				
Prior period adjustments	(963)	(244)	(929)	(120)
Non-deductible (income) losses from PIEs	-	(1)	-	(1)
Non-deductible expenditure/non-assessable income	248	(170)	(4)	(455)
Foreign tax credits written off	2,132	795	2,132	795
Non-taxable dividend from subsidiaries	-	-	(3,522)	(1,222)
Other	(177)	(163)	76	37
Total tax expense (benefit)	(1,260)	10,033	(3,812)	8,138

(i) *Current tax*

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

(ii) *Tax consolidation*

TOWER Insurance Limited exited the New Zealand tax consolidated group comprised of its ultimate parent company, TOWER Limited, and TOWER Limited's New Zealand wholly-owned subsidiaries as at 1 October 2013. Accordingly, the members of the tax consolidated group are no longer jointly and severally liable for the tax liabilities of TOWER Insurance Limited. This has had no impact on the common ownership of these entities meaning tax losses of the tax consolidated group continue to remain available to offset the tax liabilities of the wider New Zealand Group including TOWER Insurance Limited.

(iii) *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.

(iv) *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.

(v) *Tax cash flows*

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

NOTES TO THE FINANCIAL STATEMENTS

9 TAX (continued)

Critical accounting judgment and estimate - 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.

B CURRENT TAX LIABILITIES

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

C DEFERRED TAX ASSETS AND LIABILITIES

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

	Group			Closing balance at 30 September
	Opening balance at 1 October	(Charged) credited to income statement	(Charged) credited to comprehensive income	
\$ thousands				
For the Year Ended 30 September 2015				
Movement in deferred tax assets				
Provisions and accruals	2,452	(498)	-	1,954
Property, plant and equipment	21	1,033	-	1,054
Tax losses	148	3,766	-	3,914
Total deferred tax assets	2,621	4,301	-	6,922
Movement in deferred tax liabilities				
Deferred acquisition costs	(4,808)	(76)	-	(4,884)
Accrual for withholding tax on retained earnings	(1,036)	232	-	(804)
Other	(287)	(15)	(18)	(320)
Total deferred tax liabilities	(6,131)	141	(18)	(6,008)
Net deferred tax	(3,510)	4,442	(18)	914
For the Year Ended 30 September 2014				
Movement 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
Movement in deferred tax liabilities				
Deferred acquisition costs	(4,434)	(374)	-	(4,808)
Accrual for withholding tax 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)

NOTES TO THE FINANCIAL STATEMENTS

9 TAX (continued)

	Company			
	Opening balance at 1 October	(Charged) credited to income statement	(Charged) credited to comprehensive income	Closing balance at 30 September
\$ thousands				
For the Year Ended 30 September 2015				
Movement in deferred tax assets				
Provisions and accruals	1,898	(334)	-	1,564
Property, plant and equipment	7	1,056	-	1,063
Tax losses	-	3,914	-	3,914
Total deferred tax assets	1,905	4,636	-	6,541
Movement in deferred tax liabilities				
Deferred acquisition costs	(4,755)	(75)	-	(4,830)
Accrual for withholding tax on retained earnings	(1,036)	232	-	(804)
Other	24	(73)	-	(49)
Total deferred tax liabilities	(5,767)	84	-	(5,683)
Net deferred tax	(3,862)	4,720	-	858

For the Year Ended 30 September 2014

Movement in deferred tax assets				
Provisions and accruals	1,015	890	-	1,905
Tax losses	-	-	-	-
Total deferred tax assets	1,015	890	-	1,905
Movement in deferred tax liabilities				
Deferred acquisition costs	(4,424)	(331)	-	(4,755)
Accrual for withholding tax 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)

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

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014
Deferred tax assets to be recovered					
- within 12 months		4,028	115	3,964	53
- after more than 12 months		27	175	12	11
Total deferred tax assets		4,055	290	3,976	64
Deferred tax liabilities to be settled					
- within 12 months		(1,413)	(1,983)	(1,605)	(2,333)
- after more than 12 months		(1,729)	(1,818)	(1,514)	(1,595)
Total deferred tax liabilities		(3,142)	(3,801)	(3,119)	(3,928)

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014

9 TAX (continued)

Deferred tax liabilities of \$156,315 have not been recognised in respect of temporary differences associated with investments in subsidiaries (2014: liabilities of \$908,000).

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.

D IMPUTATION CREDITS

TOWER Insurance Limited has imputation credits available for use as at 30 September 2015 of nil (2014: nil). While TOWER Insurance Limited ceased to be a member of the tax consolidated group as at 1 October 2013, it elected to form a consolidated imputation group with the tax consolidated group as at the same date. Accordingly, it will generate and utilise imputation credits as part of the consolidated imputation group.

10 CASH AND CASH EQUIVALENTS

Cash at bank and in hand	23,467	19,119	12,891	12,147
Deposits at call	52,743	82,609	42,478	72,088
Restricted cash	6,740	-	6,740	-
Total cash and cash equivalents	82,950	101,728	62,109	84,235

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.

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

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

The effective interest rate at 30 September for deposits at call is 3.25% (2014: 4.00%). The balances mature within three months of balance date. There was no offsetting within cash and cash equivalents (2014: nil).

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014

11 RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Profit (Loss) for the year		(7,668)	26,401	(1,779)	32,104
Add (less) non-cash items					
Depreciation of property, plant and equipment		1,295	185	1,078	15
Amortisation of software		3	-	-	-
Change in life insurance and life investment contract liabilities		-	1,194	-	-
Unrealised (gain) loss on financial assets		(913)	(23,448)	(913)	(836)
Decrease in deferred tax		(4,426)	10,824	(4,720)	314
		(4,041)	(11,245)	(4,555)	(507)
Add (less) movements in working capital (excluding the effects of exchange differences on consolidation)					
Decrease in receivables		71,135	50,863	71,562	44,563
(Decrease) in payables		(34,945)	(47,519)	(40,795)	(51,871)
(Increase) in taxation		(2,499)	506	(2,559)	(166)
		33,691	3,850	28,208	(7,474)
Add (less) other items classifying as financing activities					
Gain (loss) on sale of subsidiaries		-	14,560	-	(4,910)
		-	14,560	-	(4,910)
Net cash inflows (outflows) from operating activities		21,982	33,566	21,874	19,213

12 DEFERRED ACQUISITION COSTS

Balance at the beginning of year	20,028	18,211	17,569	16,123
Acquisition costs during the year	20,277	20,028	17,522	17,569
Current period amortisation	(20,028)	(18,211)	(17,569)	(16,123)
Total deferred acquisition costs	20,277	20,028	17,522	17,569
Analysed as:				
Current	20,277	20,028	17,522	17,569
Non-current	-	-	-	-
Total deferred acquisition costs	20,277	20,028	17,522	17,569

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.

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014

13 RECEIVABLES					
Reinsurance recovery receivables		3,337	11,266	3,337	11,260
Reinsurance recoveries on outstanding claims		109,729	175,455	103,322	167,578
Outstanding premiums and trade receivables		124,658	121,648	107,061	105,602
Unsettled investment sales		-	-	-	-
Related party receivables		35	3,901	5,491	7,719
Prepayments		1,270	454	1,174	438
Other		61,044	22,543	60,567	22,399
Total receivables		300,073	335,267	280,952	314,996

Analysed as					
Current		220,985	282,605	202,706	263,421
Non current		79,088	52,662	78,246	51,575
Total receivables		300,073	335,267	280,952	314,996

The tables below include reconciliations of outstanding premiums and trade receivables, together with the provision for cancellation at the reporting date.

Outstanding premiums and trade receivables	125,969	123,009	107,537	106,111
Provision for cancellation	(1,311)	(1,361)	(476)	(509)
	124,658	121,648	107,061	105,602
Opening balance	(1,361)	(1,468)	(509)	(786)
Provisions added during the year	(1)	(32)	(1)	(16)
Provisions released during the year	32	146	16	295
Foreign exchange movements	19	(7)	18	(2)
Closing balance	(1,311)	(1,361)	(476)	(509)

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

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

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

Critical accounting judgment and estimate - 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.

TOWER INSURANCE LIMITED
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015
 NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Group				Total
	Land and buildings	Office equipment and furniture	Motor vehicles	Computer equipment	

14 PROPERTY, PLANT AND EQUIPMENT					
For the Year Ended 30 September 2015					
Cost					
Opening balance	2,363	1,650	1,043	342	5,398
Additions	-	199	101	178	478
Disposals	-	(103)	(246)	(16)	(365)
Transfer from related party	-	5,384	571	13,107	19,062
Revaluations	129	-	-	-	129
Foreign exchange movements	251	275	176	26	728
Closing balance	2,743	7,405	1,645	13,637	25,430
Accumulated depreciation					
Opening balance	-	(1,383)	(737)	(302)	(2,422)
Depreciation	-	(377)	(159)	(759)	(1,295)
Disposals	-	91	237	15	343
Transfer from related party	-	(199)	(526)	(10,707)	(11,432)
Foreign exchange movements	-	(295)	(83)	(25)	(403)
Closing balance	-	(2,163)	(1,268)	(11,778)	(15,209)
Closing balance					
Cost / revaluation	2,743	7,405	1,645	13,637	25,430
Accumulated depreciation	-	(2,163)	(1,268)	(11,778)	(15,209)
Net book value	2,743	5,242	377	1,859	10,221

For the Year Ended 30 September 2014					
Cost					
Opening balance	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
Closing balance	2,363	1,650	1,043	342	5,398
Accumulated depreciation					
Opening balance	-	(1,319)	(725)	(286)	(2,330)
Depreciation	-	(62)	(104)	(19)	(185)
Disposals	-	66	89	13	168
Foreign exchange movements	-	(68)	3	(10)	(75)
Closing balance	-	(1,383)	(737)	(302)	(2,422)
Closing balance					
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

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Company			Total
		Office equipment and furniture	Motor vehicles	Computer equipment	

14 PROPERTY, PLANT AND EQUIPMENT (continued)					
For the Year Ended 30 September 2015					
Cost					
Opening balance		39	107	34	180
Additions		143	-	163	306
Disposals		-	-	(1)	(1)
Transfer from related party		5,384	571	13,107	19,062
Foreign exchange movements		4	12	4	20
Closing balance		5,570	690	13,307	19,567
Accumulated depreciation					
Opening balance		(25)	(50)	(25)	(100)
Depreciation		(306)	(25)	(747)	(1,078)
Transfer from related party		(199)	(526)	(10,707)	(11,432)
Foreign exchange movements		(2)	(7)	(3)	(12)
Closing balance		(532)	(608)	(11,482)	(12,622)
Closing balance					
Cost / revaluation		5,570	690	13,307	19,567
Accumulated depreciation		(532)	(608)	(11,482)	(12,622)
Net book value		5,038	82	1,825	6,945
For the Year Ended 30 September 2014					
Cost					
Opening balance		35	45	36	116
Additions		7	56	2	65
Disposals		(5)	-	(6)	(11)
Foreign exchange movements		2	6	2	10
Closing balance		39	107	34	180
Accumulated depreciation					
Opening balance		(24)	(41)	(27)	(92)
Depreciation		(5)	(7)	(3)	(15)
Disposals		5	-	6	11
Foreign exchange movements		(1)	(2)	(1)	(4)
Closing balance		(25)	(50)	(25)	(100)
Closing balance					
Cost / revaluation		39	107	34	180
Accumulated depreciation		(25)	(50)	(25)	(100)
Net book value		14	57	9	80

NOTES TO THE FINANCIAL STATEMENTS

14 PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

Computer equipment	3-5 years
Furniture & fittings	5-9 years
Motor Vehicles	5 years
Buildings	50-100 years
Leasehold property improvements	3-12 years

Land and buildings are located in Fiji and Papua New Guinea 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 7 September 2015 by Rolle Associates, registered valuers in Fiji. There has been no material movement in the valuation between 7 September 2015 and 30 September 2015. Inputs to the valuation of the Fiji property are considered to be based on non-observable market data, thus classified as level 3 in the fair value hierarchy. 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% (2014: 7.5%)

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

On 31 March 2015 computer equipment, motor vehicles and furniture and fittings were transferred from TOWER NZ Limited to TOWER Insurance Limited. Assets were transferred at net book value.

Impairment of non financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group	
		Software	Total
15 INTANGIBLES			
For the year ended 30 September 2015			
Cost			
Opening balance		5	5
Additions		12	12
Disposals		(1)	(1)
Revaluations		-	-
Foreign exchange movements		5	5
Closing balance		21	21
Accumulated amortisation			
Opening balance		(1)	(1)
Amortisation charge		(3)	(3)
Disposals		1	1
Foreign exchange movements		(4)	(4)
Closing balance		(7)	(7)
Cost		21	21
Accumulated depreciation		(7)	(7)
Closing net book value		14	14
For the year ended 30 September 2014			
Cost			
Opening balance		3	3
Additions		2	2
Closing balance		5	5
Accumulated amortisation			
Opening balance		-	-
Amortisation charge		(1)	(1)
Closing balance		(1)	(1)
Cost		5	5
Accumulated depreciation		(1)	(1)
Closing net book value		4	4

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 of computer software

3-5 years

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014
16 SUBSIDIARIES					
Investments in controlled entities at cost		-	-	4,911	4,911
Investments in controlled entities at cost		-	-	4,911	4,911

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

Name of company	Incorporated	Holdings		Nature of business
		2015	2014	
TOWER Insurance (Cook Islands) Limited	Cook Islands	100%	100%	Fire and general insurance
TOWER Insurance (Fiji) Limited	Fiji	100%	100%	Fire and general insurance
TOWER Insurance (PNG) Limited	PNG	100%	100%	Fire and general insurance
TOWER Insurance (Vanuatu) Limited	Vanuatu	100%	-	Fire and general insurance
National Pacific Insurance Limited	Samoa	71%	71%	Fire and general insurance

17 PAYABLES

Trade payables		14,129	11,852	10,537	8,936
Reinsurance payables		2,612	2,967	2,947	3,052
GST payable		11,462	12,584	11,295	12,149
Other payables		12,316	12,257	10,968	10,836
Related party payables	33	-	96	163	-
Payable to other insurers		3,481	-	3,481	-
Total payables		44,000	39,756	39,391	34,973

Analysed as:

Current		44,000	39,756	39,391	34,973
Total payables		44,000	39,756	39,391	34,973

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.

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

At 30 September there was \$3.5 million recorded within Payables as funds held on behalf of other insurers in respect of SPP claims. Refer also note 10 for further details on cash held in respect of multi-unit claims as lead insurer.

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014
18 PROVISIONS					
Employee benefits		3,047	4,253	2,770	4,014
Total provisions		3,047	4,253	2,770	4,014
Analysed as:					
Current		3,047	4,253	2,770	4,014
Non-current		-	-	-	-
Total payables		3,047	4,253	2,770	4,014

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

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

19 INSURANCE LIABILITIES

Unearned premiums	155,677	150,504	128,861	127,729
Outstanding claims	264,015	271,769	246,080	253,858
Total insurance liabilities	419,692	422,273	374,941	381,587
Analysed as				
Current	381,313	365,675	338,625	327,131
Non current	38,379	56,598	36,316	54,456
Total insurance liabilities	419,692	422,273	374,941	381,587

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

Opening balance	150,504	136,915	127,729	117,256
Premiums written	290,780	283,314	238,410	237,466
Premiums earned	(286,376)	(270,804)	(237,358)	(227,296)
Foreign exchange movements	769	1,079	80	303
Closing balance	155,677	150,504	128,861	127,729

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.

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014

19 INSURANCE LIABILITIES (continued)

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.

20 CONTRIBUTED EQUITY

Ordinary share capital	174,990	174,990	174,990	174,990
Total contributed equity	174,990	174,990	174,990	174,990

Represented by:

Number of shares

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

Movement in ordinary shares

Opening balance	176,107,758	176,107,758	176,107,758	176,107,758
Closing balance	176,107,758	176,107,758	176,107,758	176,107,758

No shares (2014: nil) were issued during the 30 September 2015 year (2014: nil). 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.

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

21 ACCUMULATED PROFITS

Opening balance	15,071	67,872	(8,390)	37,729
Profit (loss) for the year attributable to shareholders	(8,015)	25,984	(1,779)	32,104
Less: Dividends paid	(33,400)	(78,000)	(33,400)	(78,000)
Release of business combination due to sale	-	(562)	-	-
Other movements - Australian branch	-	(223)	-	(223)
Closing balance	(26,344)	15,071	(43,569)	(8,390)

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014
22 RESERVES					
Foreign currency translation reserve (FCTR)					
Opening balance		(1,984)	(4,501)	364	(753)
Currency translation differences arising during the year		2,774	2,517	653	1,117
Closing balance		790	(1,984)	1,017	364
Capital Reserve					
Opening balance		11,990	11,990	11,659	11,659
Closing balance		11,990	11,990	11,659	11,659
Asset revaluation reserve					
Opening balance		401	353	-	-
Gain on revaluation		129	58	-	-
Gain transferred to income statement from assets sold		(18)	(10)	-	-
Closing balance		512	401	-	-
Business combination reserve					
Opening balance		-	(562)	-	-
Acquisition of TOWER Life (NZ) Limited		-	562	-	-
Closing balance		-	-	-	-
Total reserves		13,292	10,407	12,676	12,023

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

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

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

23 DISTRIBUTIONS TO SHAREHOLDERS

On 30 March 2015 the Directors declared a dividend of \$15,500,000 (\$0.09 per share). The dividend was paid on 30 March 2015.

On 29 September 2015 the Directors declared a dividend of \$17,900,000 (\$0.10 per share). The dividend was paid on 29 September 2015.

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

NOTES TO THE FINANCIAL STATEMENTS

\$ thousands	Note	Group				Total
		New Zealand	Pacific Islands	Other	Consolidation Adjustments	

24 SEGMENTAL REPORTING						
Year Ended 30 September 2015						
Revenue						
Revenue - external		216,812	46,919	1	-	263,732
Revenue - internal		15,914	-	-	(15,914)	-
Total revenue		232,726	46,919	1	(15,914)	263,732
Profit (loss) before interest, tax, depreciation and amortisation						
		(10,371)	14,844	120	(12,223)	(7,630)
Interest expense		-	-	-	-	-
Depreciation and amortisation		(1,059)	(239)	-	-	(1,298)
Profit (loss) before income tax		(11,430)	14,605	120	(12,223)	(8,928)
Income tax credit (expense)		6,249	(4,989)	-	-	1,260
Profit (loss) for the year from continuing operations		(5,181)	9,616	120	(12,223)	(7,668)
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						
		22,762	11,988	491	-	35,241
Interest expense		-	-	-	-	-
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 30 September 2015						
		549,449	86,651	1,047	(250)	636,897
Total assets 30 September 2014						
		589,987	82,609	4,160	(250)	676,506
Total liabilities 30 September 2015						
		418,144	54,266	905	-	473,315
Total liabilities 30 September 2014						
		422,562	50,380	1,498	-	474,440

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.

NOTES TO THE FINANCIAL STATEMENTS

24 SEGMENTAL REPORTING (continued)

New Zealand general insurance segment comprised general insurance business written in New Zealand. Pacific Islands general insurance segment includes general insurance business with customers in Pacific Islands written by TOWER Insurance Limited subsidiaries and branch operations. Other includes head office expenses, financing costs and eliminations.

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

25 INSURANCE BUSINESS DISCLOSURE

A NET CLAIMS EXPENSE

Group

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

Company

\$ thousands	2015			2014		
	Risks borne in current year	Risks borne in prior years	Total	Risks borne in current year	Risks borne in prior years	Total
Gross claims expense						
Direct claims - undiscounted	121,307	109,694	231,001	124,281	106,378	230,659
Movement in discount	57	1,488	1,545	(294)	2,557	2,263
Total gross claims expense	121,364	111,182	232,546	123,987	108,935	232,922
Reinsurance and other recoveries						
Reinsurance and other recoveries - undiscounted	(355)	(60,143)	(60,498)	(1,071)	(105,483)	(106,554)
Movement in discount	11	3	14	(1)	(1,369)	(1,370)
Total reinsurance recoveries	(344)	(60,140)	(60,484)	(1,072)	(106,852)	(107,924)
Net claims expense	121,020	51,042	172,062	122,915	2,083	124,998

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 7.

NOTES TO THE FINANCIAL STATEMENTS

25 INSURANCE BUSINESS DISCLOSURE (continued)

B OUTSTANDING CLAIMS

(a) Assumptions adopted in calculation of insurance liabilities

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

R. Shaw, B.Sc. (Hons), FIAA; and
P. Davies, B.Bus.Sc, FIA, FNZSA.

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

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

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

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

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

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

	2015	2014
Short tail claims within 1 year	within 1 year	within 1 year
Long tail claims in the Pacific Islands	0.9 to 1.8 years	1.0 to 1.6 years
Inwards reinsurance	greater than 10 years	greater than 10 years

Inflation rate

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

NOTES TO THE FINANCIAL STATEMENTS

25 INSURANCE BUSINESS DISCLOSURE (continued)

EQC recoveries

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

Apportionment

TOWER assesses claims and apportions damage between Canterbury earthquake events on an individual property basis. The allocation process uses a hierarchical approach based on the relative quality and number of claim assessments completed after each of the four main earthquakes. Results from the hierarchical approach are used as an input to the actuarial valuations which estimate the ultimate claims costs.

Claims handling expense

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

Risk margin

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

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

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

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

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

The following analysis is in respect of the insurance liabilities:

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014
Central estimate of expected present value of future payments for claims incurred		139,111	70,874	129,417	62,314
Risk margin		11,675	23,944	11,096	23,561
Claims handling costs		3,766	3,314	2,492	2,211
		154,552	98,132	143,005	88,086
Discount		(266)	(1,819)	(247)	(1,806)
Net outstanding claims		154,286	96,313	142,758	86,280

NOTES TO THE FINANCIAL STATEMENTS

25 INSURANCE BUSINESS DISCLOSURE (continued)

Group

\$ thousands	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Reconciliation of movements in discounted outstanding claim liabilities						
Balance brought forward	271,768	(175,455)	96,313	314,990	(238,375)	76,615
Effect of change in foreign exchange rates	2,210	(4,059)	(1,849)	1,943	(3,120)	(1,177)
Incurred claims recognised in the income statement	252,244	(64,907)	187,337	258,855	(119,746)	139,109
Claim (payment) recoveries during the year	(262,207)	134,692	(127,515)	(304,020)	185,786	(118,234)
Total outstanding claims	264,015	(109,729)	154,286	271,768	(175,455)	96,313
Reconciliation of movements in undiscounted claims to outstanding claim liabilities						
Outstanding claims undiscounted	2,200	(129)	2,071	4,654	(139)	4,515
Discount	(28)	7	(21)	(1,566)	70	(1,496)
Outstanding claims	2,172	(122)	2,050	3,088	(69)	3,019
Short tail outstanding claims			152,236			93,294
Total outstanding claims			154,286			96,313

Company

\$ thousands	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Reconciliation of movements in discounted outstanding claim liabilities						
Balance brought forward	253,859	(167,579)	86,280	301,145	(234,523)	66,622
Effect of change in foreign exchange rates	316	(3,852)	(3,536)	87	(1,864)	(1,777)
Incurred claims recognised in the income statement	232,546	(60,484)	172,062	232,922	(107,924)	124,998
Claim (payment) recoveries during the year	(240,641)	128,593	(112,048)	(280,295)	176,732	(103,563)
Total outstanding claims	246,080	(103,322)	142,758	253,859	(167,579)	86,280
Reconciliation of movements in undiscounted claims to outstanding claim liabilities						
Outstanding claims undiscounted	106	12	118	3,059	-	3,059
Discount	(2)	-	(2)	(1,481)	-	(1,481)
Outstanding claims	104	12	116	1,578	-	1,578
Short tail outstanding claims			142,642			84,702
Total outstanding claims			142,758			86,280

NOTES TO THE FINANCIAL STATEMENTS

25 INSURANCE BUSINESS DISCLOSURE (continued)

(b) Sensitivity analysis

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

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

(c) Future net cash out flows

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

\$ thousands	Note	Group		Company	
		2015	2014	2015	2014
Expected claim payments					
Within 3 months		51,307	26,248	43,621	20,124
3 to 6 months		22,982	9,000	21,400	7,486
6 to 12 months		6,063	6,002	4,934	4,874
After 12 months		73,934	55,063	72,803	53,796
Total outstanding claim liabilities		154,286	96,313	142,758	86,280

C 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 27). 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 risks arising from writing insurance contracts include:

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

(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

NOTES TO THE FINANCIAL STATEMENTS

25 INSURANCE BUSINESS DISCLOSURE (continued)

(c) Development of claims

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

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

NOTES TO THE FINANCIAL STATEMENTS

25 INSURANCE BUSINESS DISCLOSURE (continued)

Company		\$ thousands					
Ultimate claims cost estimate	Prior	2011	2012	2013	2014	2015	Total
At end of incident year		102,473	101,490	107,755	122,916	121,020	
One year later		102,570	101,490	109,979	123,345		
Two years later		102,570	101,224	111,292			
Three years later		102,984	102,299				
Four years later		149,307					
Current estimate of ultimate claims cost		149,307	102,299	111,292	123,345	121,020	
Cumulative payments		(38,450)	(102,192)	(111,189)	(122,987)	(106,650)	
Undiscounted central estimate							
	3,622	110,857	107	103	358	14,370	129,417
Discount to present value	-	-	-	1	(22)	(226)	(247)
Discounted central estimate	3,622	110,857	107	104	336	14,144	129,170
Claims handling expense							2,492
Risk margin							11,096
Net outstanding claim liabilities							142,758
Reinsurance recoveries on outstanding claim liabilities and other recoveries							103,322
Gross outstanding claim liabilities							246,080

D LIABILITY ADEQUACY TEST

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

25 INSURANCE BUSINESS DISCLOSURE (continued)

E 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 24 July 2015.

F REINSURANCE PROGRAMME

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

G SOLVENCY REQUIREMENTS

The minimum solvency capital required to be retained to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 is shown below. Actual solvency capital exceeds the minimum solvency capital requirement for the Group by \$86.9 million (2014: \$124.8 million) and \$75.5 million (2014: \$109.8 million) for the Company.

\$ thousands	Group		Company	
	2015	2014	2015	2014
Actual solvency capital	156,646	199,400	132,645	171,800
Minimum solvency capital	69,730	74,600	57,151	62,000
Solvency margin	86,916	124,800	75,494	109,800

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

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

H ASSETS BACKING INSURANCE BUSINESS

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

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

NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS

A FINANCIAL INSTRUMENT CATEGORIES

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

(i) Loans and receivables

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

(ii) Financial liabilities at amortised cost

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

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

Financial assets and liabilities at fair value through profit or loss 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.

Derivatives are categorised as held for trading unless they are designated as hedges. All derivatives entered into by the Group are classified as held for trading.

(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).

(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 10.

(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.

NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS (continued)

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

Group

			At amortised cost	At fair value through profit or loss		
\$ thousands	Note	Total	Loans and receivables	Financial liabilities	Designated	Held for trading
As at 30 September 2015						
Assets						
Cash and cash equivalents		82,950	82,950	-	-	-
Trade and other receivables		298,221	298,221	-	-	-
Investments		213,593	-	-	213,593	-
Total financial assets		594,764	381,171	-	213,593	-
Liabilities						
Trade and other payables		21,807	-	21,807	-	-
Total financial liabilities		21,807	-	21,807	-	-

Group

\$ thousands	Note	Total	At amortised cost		At fair value through profit or loss	
			Loans and receivables	Financial liabilities	Designated	Held for trading
As at 30 September 2014						
Assets						
Cash and cash equivalents		101,728	101,728	-	-	-
Trade and other receivables		335,267	335,267	-	-	-
Investments		212,407	-	-	212,407	-
Total financial assets		649,402	436,995	-	212,407	-
Liabilities						
Trade and other payables		24,925	-	24,925	-	-
Derivative financial liabilities		46	-	-	-	46
Total financial liabilities		24,971	-	24,925	-	46

NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS (continued)

Company

\$ thousands	Note	Total	At amortised cost		At fair value through profit or loss	
			Loans and receivables	Financial liabilities	Designated	Held for trading
As at 30 September 2015						
Assets						
Cash and cash equivalents		62,109	62,109	-	-	-
Trade and other receivables		279,675	279,675	-	-	-
Investments		186,887	-	-	186,887	-
Total financial assets		528,671	341,784	-	186,887	-
Liabilities						
Trade and other payables		18,713	-	18,713	-	-
Total financial liabilities		18,713	-	18,713	-	-

Company

\$ thousands	Note	Total	At amortised cost	At fair value through profit or loss		
			Loans and receivables	Financial liabilities	Designated	Held for trading
As at 30 September 2014						
Assets						
Cash and cash equivalents		84,235	84,235	-	-	-
Trade and other receivables		314,996	314,996	-	-	-
Investments		182,982	-	-	182,982	-
Total financial assets		582,213	399,231	-	182,982	-
Liabilities						
Trade and other payables		21,309	-	21,309	-	-
Derivative financial liabilities		46	-	-	-	46
Total financial liabilities		21,355	-	21,309	-	46

NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS (continued)

B FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

(i) Cash and cash equivalents

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

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

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

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

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

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

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

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

(iv) Derivative financial liabilities and assets

The fair value of derivative financial liabilities and assets is determined by reference to market accepted valuation techniques using observable market inputs. There have been no transfers between levels of the fair value hierarchy during the current financial period (30 September 2014: nil).

NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS (continued)

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

Group

\$ thousands	Note	Total	Level 1	Level 2	Level 3
As at 30 September 2015					
Assets					
Investment in equity securities		1,972	-	-	1,972
Investments in fixed interest securities		211,587	-	211,587	-
Investments in property securities		34	-	34	-
Total financial assets		213,593	-	211,621	1,972

As at 30 September 2014

Assets

Investment in equity securities		1,835	-	-	1,835
Investments in fixed interest securities		210,538	-	210,538	-
Investments in property securities		34	-	34	-
Total financial assets		212,407	-	210,572	1,835

Liabilities

Derivative financial liabilities		46	-	46	-
Total financial liabilities		46	-	46	-

The following table represents the changes in Level 3 instruments:

\$ thousands	Note	Investment in equity securities	
		2015	2014
As at			
Opening balance		1,835	1,685
Foreign currency movement		137	150
Closing balance		1,972	1,835

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

\$ thousands	Carrying Amount	Favourable changes of 10%	Unfavourable changes of 10%
As at 30 September 2015			
Investment in equity securities	1,972	197	(197)
As at 30 September 2014			
Investment in equity securities	1,835	184	(184)

NOTES TO THE FINANCIAL STATEMENTS

26 FINANCIAL INSTRUMENTS (continued)

Company					
\$ thousands	Note	Total	Level 1	Level 2	Level 3
As at 30 September 2015					
Assets					
Investments in fixed interest securities		186,853	-	186,853	-
Investments in property securities		34	-	34	-
Total financial assets		186,887	-	186,887	-
As at 30 September 2014					
Assets					
Investments in fixed interest securities		182,948	-	182,948	-
Investments in property securities		34	-	34	-
Total financial assets		182,982	-	182,982	-
Liabilities					
Derivative financial liabilities		46	-	46	-
Total financial liabilities		46	-	46	-

C 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 carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

27 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 25, 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 monthly to the Board and quarterly to the Audit and Risk Committee.

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

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

The Board has responsibility for:

- reviewing investment policies for TOWER Insurance shareholder and policyholder funds;
- reviewing the risk management policy and statements in respect of investment management, including the derivative policy;
- considering the establishment, adjustment or deletion of limits and counter-party approvals, and the scope of financial instruments to be used in the management of TOWER 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 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 insurance 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.

NOTES TO THE FINANCIAL STATEMENTS

27 RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (continued)*(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 claim liabilities and those outstanding claims. Interest rate risk is managed by matching the duration profiles of investment assets and outstanding claim liabilities. The exposure is not considered to be material.

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The exposure is not considered to be material. Refer to note F.

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 of 'A'. Independent ratings are used for customers that are rated by rating agencies. For customers with no external ratings, internally developed minimum credit quality requirements are applied, which take into account customers' financial position, past experience and other relevant factors. Overall exposure to credit risk is monitored on a Group basis in accordance with limits set by the Board. The Company has no significant exposure to credit risk.

(i) Credit risk concentration

Concentration of credit risk exists when the Group enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. TOWER 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		Company	
	Carrying value		Carrying value	
\$ thousands	2015	2014	2015	2014
New Zealand government	3,760	2,990	3,760	2,990
Other government agencies	72,152	31,128	67,705	27,478
Banks	258,695	277,000	218,207	235,896
Financial institutions	17,555	19,187	16,915	18,849
Other non-investment related receivables	240,562	313,327	216,559	289,281
Related party receivables	35	3,901	5,491	7,719
Total financial assets with credit exposure	592,759	647,533	528,637	582,213

NOTES TO THE FINANCIAL STATEMENTS

27 RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (continued)

(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:

\$ thousands	Group		Company	
	Carrying value		Carrying value	
	2015	2014	2015	2014
Cash and cash equivalents	82,950	101,728	62,109	84,235
Loans and receivables	298,187	331,366	274,184	307,311
Related party receivables	35	3,901	5,491	7,719
Financial assets at fair value through profit or loss	211,587	210,538	186,853	182,948
Total credit risk	592,759	647,533	528,637	582,213

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

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

\$ thousands	Group		Company	
	Carrying value		Carrying value	
	2015	2014	2015	2014
Credit exposure by credit rating				
AAA	92,119	85,549	92,119	85,549
AA	171,974	211,845	155,599	180,791
A	-	-	-	-
BBB	-	-	-	-
Below BBB	16,705	13,810	392	351
Total counterparties with external credit rating by Standard and Poor's	280,798	311,204	248,110	266,691
Group 1	290,361	322,029	271,635	303,813
Group 1a	35	3,901	5,491	7,719
Group 2	-	-	-	-
Group 3	13,965	1,402	1,077	823
Total counterparties with no external credit rating	304,361	327,332	278,203	312,355
Total financial assets neither past due nor impaired with credit exposure	585,159	638,536	526,313	579,046

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

TOWER INSURANCE LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015
NOTES TO THE FINANCIAL STATEMENTS

27 RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (continued)

(iv) *Financial assets that would otherwise be past due whose terms have been renegotiated*
 No financial assets have been renegotiated in the past year (2014: nil).

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

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

Group

\$ thousands	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
As at 30 September 2015					
Reinsurance recoveries receivable	243	28	2	196	469
Outstanding premiums and trade receivables	3,644	2,031	1,433	22	7,130
Total	3,887	2,059	1,435	218	7,599
As at 30 September 2014					
Reinsurance recoveries receivable	134	29	78	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

Company

\$ thousands	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
As at 30 September 2015					
Reinsurance recoveries receivable	243	28	2	196	469
Outstanding premiums and trade receivables	1,132	570	370	(218)	1,854
Total	1,375	598	372	(22)	2,323
As at 30 September 2014					
Reinsurance recoveries receivable	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

(iv) *Financial assets that are individually impaired*

\$ thousands	Group		Company	
	Carrying value		Carrying value	
	2015	2014	2015	2014
Outstanding premiums and trade receivables	1	32	1	16
Total	1	32	1	16

NOTES TO THE FINANCIAL STATEMENTS

27 RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (continued)

C FINANCING AND LIQUIDITY RISK

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

Financial liabilities and guarantees by contractual maturity

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

Group

\$ thousands	Carrying value	Total contractual cash flows	Less than one year	One to two years	Two to three years	Three to five years
As at 30 September 2015						
Financial liabilities						
Trade payables	17,610	17,610	17,610	-	-	-
Reinsurance payables	2,612	2,612	2,612	-	-	-
Other payables	1,585	1,585	1,585	-	-	-
Total	21,807	21,807	21,807	-	-	-

As at 30 September 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	24,971	25,015	24,980	31	4	-

Company**As at 30 September 2015****Financial liabilities**

Trade payables	14,018	14,018	14,018	-	-	-
Reinsurance payables	2,947	2,947	2,947	-	-	-
Related party payables	164	164	164	-	-	-
Other payables	1,584	1,584	1,584	-	-	-
Total	18,713	18,713	18,713	-	-	-

As at 30 September 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	21,355	21,399	21,364	31	4	-

NOTES TO THE FINANCIAL STATEMENTS

27 RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (continued)

D FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Refer to note 26.

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 are interest rate swaps. 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 the reporting date:

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

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

\$ thousands	2015		2014	
	Impact on:		Impact on:	
	Profit after tax	Equity	Profit after tax	Equity
Change in variables				
+ 50 basis points	(664)	(664)	(750)	(750)
- 50 basis points	660	660	544	544

NOTES TO THE FINANCIAL STATEMENTS

27 RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (continued)

Company

\$ thousands	2015		2014	
	Impact on:		Impact on:	
	Profit after tax	Equity	Profit after tax	Equity
Change in variables				
+ 50 basis points	(655)	(655)	(745)	(745)
- 50 basis points	644	644	536	536

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

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

(ii) Foreign currency

The 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

\$ thousands	2015		2014	
	Impact on:		Impact on:	
	Profit after tax	Equity	Profit after tax	Equity
Change in variables				
10% appreciation of New Zealand dollar	153	(6,010)	330	(6,160)
10% depreciation of New Zealand dollar	(187)	7,394	(403)	7,530

Company

\$ thousands	2015		2014	
	Impact on:		Impact on:	
	Profit after tax	Equity	Profit after tax	Equity
Change in variables				
10% appreciation of New Zealand dollar	563	(455)	564	(425)
10% depreciation of New Zealand dollar	(688)	556	(690)	519

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

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

(iii) Equity price

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

NOTES TO THE FINANCIAL STATEMENTS

27 RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (continued)

(iv) Other price

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

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

Group

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

Company

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

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

28 CAPITAL RISK MANAGEMENT

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

The Group's capital resources include shareholders' equity.

\$ thousands	2015	2014
TOWER Insurance shareholder equity	163,582	202,066
Total capital resources	163,582	202,066

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.

The Group is required by RBNZ to maintain a minimum solvency margin of no less than \$50.0 million (2014: \$50.0 million) in TOWER Insurance Limited. The actual solvency capital as determined under the solvency standards is required to exceed the minimum solvency capital level by at least this amount. The amount retained as minimum solvency capital is shown in note 25 (G).

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

NOTES TO THE FINANCIAL STATEMENTS

28 CAPITAL RISK MANAGEMENT (continued)

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

29 OPERATING LEASES

\$ thousands	Group		Company	
	2015	2014	2015	2014
As lessee				
Rent paid during the year	2,966	3,176	2,133	2,594
Rent payable to the end of the lease terms are:				
Not later than one year	628	546	120	30
Later than one year and not later than five years	684	731	83	-
Later than five years	-	-	-	-
	1,312	1,277	203	30

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

30 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 (2014: nil).

31 CAPITAL COMMITMENTS

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

32 SUBSEQUENT EVENTS

There have been no subsequent events after 30 September 2015.

TOWER INSURANCE LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2015

NOTES TO THE FINANCIAL STATEMENTS

33 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.

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

\$ thousands	2015	2014	Nature of relationship	Type of Transaction
National Pacific Insurance Limited	121	(96)	Subsidiary	Service fee, reinsurance premiums, & reinsurance claims
TOWER Insurance (Cook Islands) Limited	787	1,235	Subsidiary	Service fee & reinsurance premiums
TOWER Insurance (Fiji) Limited	1,792	2,668	Subsidiary	Service fee & reinsurance premiums
TOWER Insurance (PNG) Limited	2,593	(29)	Subsidiary	Service fee & reinsurance premiums
TOWER New Zealand Limited	21	3,901	Fellow subsidiary	Management expenses, loan and tax losses
TOWER Limited	14	14	Ultimate parent	Restructuring provision

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

\$ thousands	2015	2014	Nature of relationship	Type of Transaction
National Pacific Insurance Limited	709	592	Subsidiary	Service fee
National Pacific Insurance Limited	2,415	-	Subsidiary	Dividend
National Pacific Insurance Limited	8,335	1,257	Subsidiary	Reinsurance premiums
National Pacific Insurance Limited	(2,186)	(481)	Subsidiary	Reinsurance claims
TOWER Insurance (Cook Islands) Limited	282	237	Subsidiary	Service fee
TOWER Insurance (Cook Islands) Limited	487	470	Subsidiary	Reinsurance premiums
TOWER Insurance (Fiji) Limited	1,101	923	Subsidiary	Service fee
TOWER Insurance (Fiji) Limited	1,310	1,389	Subsidiary	Reinsurance premiums
TOWER Insurance (PNG) Limited	1,325	1,100	Subsidiary	Service fee
TOWER Insurance (PNG) Limited	1,074	1,156	Subsidiary	Reinsurance premiums
TOWER Insurance (PNG) Limited	7,680	-	Subsidiary	Dividend
TOWER New Zealand Limited	2,735	2,369	Fellow subsidiary	Management expenses
TOWER Limited	1,551	6,172	Ultimate parent	Group tax loss offset

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.

NOTES TO THE FINANCIAL STATEMENTS

33 TRANSACTIONS WITH RELATED PARTIES (continued)

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 (2014: 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.

34 DISCONTINUED OPERATIONS

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

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

Results of the discontinued operations / disposal groups are as follows:

\$ thousands	Group		Company	
	2015	2014	2015	2014
Profit (Loss) for the year from discontinued operations:				
Australian liabilities	-	(711)	-	(711)
Participating life business	-	5,682	-	-
Profit (Loss) from discontinued operations	-	4,971	-	(711)
Profit (Loss) for the year from disposal of subsidiaries:				
Participating life business	-	(3,593)	-	8,438
Profit (Loss) from disposal of subsidiaries	-	(3,593)	-	8,438
Profit from discontinued operations / disposal groups	-	1,378	-	7,727

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.

TOWER Insurance Limited – 30 September 2015

Appointed Actuary's Insurance (Prudential Supervision) Act 2010 Section 78 Report

This report has been prepared by Rick Shaw, the Appointed Actuary for purposes of Section 78 of the Insurance (Prudential Supervision) Act 2010 (IPSA), for use within the financial statements as at 30 September 2015 of TOWER Insurance Limited (TIL).

The purpose of this Section 78 report is to provide information to the Directors and Management of TIL on the Actuarial Information (under Section 77 of IPSA) contained in the TIL financial statements as at 30 September 2015 as well as an opinion on the appropriateness thereof.

Review of the Actuarial Information contained in the 30 September 2015 TOWER Insurance Limited Financial Statements

I, Rick Shaw, act as the Appointed Actuary to TIL (*the company*) under a contract for services.

The Directors are responsible for the preparation of the company's financial statements; TIL'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's 30 September 2015 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.

In preparing the Actuarial Information there were no limitations placed on me and all the data requested had been provided by TIL. Furthermore, all information and explanations which were deemed necessary to prepare the Actuarial Information had been obtained from TIL.

In my opinion, and from an actuarial perspective, the Actuarial Information contained in the financial statements has been appropriately included and used in the 30 September 2015 financial statements.

Appointed Actuary Review

The requirements of Section 78 review are outlined in the Insurance (Prudential Supervision) Act 2010 (IPSA) legislation, the Non-Life Solvency Standards issued by the Reserve Bank of New Zealand (RBNZ) and also a Guidance Note issued by RBNZ on the review and report.

I have obtained all information I requested and required and have been directly involved in the actuarial information used in the TIL financial statements.

This report outlines the basis of my review of Actuarial Information contained in the TIL 30 September 2015 financial statements. It confirms the information was appropriately included and used in the financial statements.

This extends to the *Deloitte – Canterbury Earthquakes: Ultimate Incurred Claims Estimate as at 30 September 2015* report.

I have reviewed the following:

- Components of the outstanding claims provisions, both gross and net of reinsurance recoveries.
- Premium liabilities and the deferred acquisition cost calculations.

Furthermore, I have been directly involved in the determination of solvency and solvency projections for TIL as at 30 September 2015 and am comfortable with them.

I have also reviewed the following reports which were prepared by the Company Actuary for Tower, Gary Chadwick:

- Valuation of Outstanding Claim Liabilities as at 31 August 2015
- Valuation of Outstanding Claim Liabilities Roll-Forward to 30 September 2015.

The liability adequacy test is included in the first report above.

Limitations:

I have reviewed but not directly determined the outstanding claims provisions for all operations of TIL (in particular, those relating to its island operations across Fiji, Papua New Guinea, Solomon Islands, Cook Islands, Samoa, Tonga and American Samoa). However, I am comfortable with the Actuarial Information presented in TIL's 30 September 2015 financial statements.

Conclusion

I have ascertained the technical provisions comprising premium liabilities and outstanding claims, reinsurance recoveries, deferred acquisition costs and associated taxation figures have been appropriately used in the financial statements.

In my opinion and from an actuarial perspective the actuarial information contained in the financial statements has been appropriately included and used in the TIL financial statements as at 30 September 2015.

TIL maintains a solvency margin as at 30 September 2015 which complies with the RBNZ Solvency Standards and any other licensing requirements with regards to its solvency position.



Rick Shaw

Fellow of the Institute of Actuaries of Australia

24 November 2015