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

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

24 May 2016

## TOWER Limited
## Half Year 2016 Results for Announcement to Market

In accordance with NZSX Listing Rule 10.3.1, I enclose the following for release to the market in relation to TOWER Limited's (NZE/ASX: TWR) Half Year 2016 Results:

| | |
|---|---|
| 1 | Media Release |
| 2 | Management Review |
| 3 | NZX Appendix 1 |
| 4 | NZX Appendix 7 |
| 5 | Financial Statements (including independent review report) |
| 6 | Results announcement presentation |

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

**ENDS**

David Callanan
Company Secretary
TOWER Limited
ARBN 088 481 234
Incorporated in New Zealand

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**Tower reports first half result loss**

TOWER Limited (NZX/ASX: TWR) Tower has today reported a net loss after tax of $8.7 million for the half year ended 31 March 2016, impacted by the impairment of intangible assets and adjustments to Canterbury provisions.

Against a market backdrop of flat premiums, an active storm season in the Pacific, increasing claims costs across the industry and low interest rates, Tower's underlying profit after tax was $7.6 million.

Tower Insurance's solvency position remains strong with $155 million of solvency capital and a solvency ratio of 234% of MSC. The Group also holds $23 million cash in Tower Limited.

Features of H1 2016 include:

- Half year loss of $8.7 million
- Underlying NPAT of $7.6 million
- Gross written premium (GWP) stable at $146.2 million
- Comprehensive IT review identified limitations; pre-tax impairment of $19.6 million on legacy platforms
- Further progress on Canterbury 249 property claims; pre-tax provision increase of $2.9 million
- Business improvement initiatives beginning to strengthen core business; retention focus delivering policy growth and cost focus reversed trend on expense growth
- Strong solvency maintained $155 million of solvency capital; 234% of MSC; $23 million cash
- Share buyback programme will not be renewed
- Dividend of 8.5 cps unimputed; intention to maintain the full year dividend at FY15 level

Tower Chairman Michael Stiassny said that the results reflected the effects of the current industry environment including higher claims costs and static premiums, and the decision taken to accelerate depreciation on existing IT assets.

"Following our first year as a general insurer, we have reached a pivot point: the business has now stabilised to the degree where it is clear that investment is required to realise Tower's potential.

"Tower has undertaken a detailed IT review and concluded that our current systems pose limitations to our high performance ambitions. We have therefore taken the decision to accelerate depreciation on our existing IT assets.

"Tower retains a strong and stable capital base which will allow us to invest in the business to drive high performance to deliver sustainable, long-term shareholder value," Mr Stiassny said.

Tower Chief Executive Richard Harding said that the company has made significant progress in the past nine months.

"The half year has been characterised by Tower focusing on the core of the business, ensuring we have the fundamentals in place to become a high performing insurer. Our focus on costs has resulted in a reduction in management expenses over the second half of 2015. Our retention initiatives have achieved the first positive policy growth for the core New Zealand book since the first half of 2014. These are small yet significant steps as they acknowledge our cost-out and retention initiatives are working and that we're gaining positive momentum ," Mr Harding said.

Mr Harding said that Tower continues to make solid progress settling claims in Canterbury. During the half, 249 property claims were finalised. As of 31 March 2016, 641 property claims remain outstanding. Provisions for Canterbury were adjusted by $2.9 million pre-tax.

"Tower will achieve further growth and expense reduction through strategic investment in business fundamentals. In the longer term, the results of our IT simplification, product rationalisation and customer experience programmes will strengthen our performance, unlock further opportunities and create long-term, sustainable shareholder value," Mr Harding said.

As Tower is transitioning into a business investment phase, the current on-market share buyback programme will not be renewed following this results announcement.

The half-year dividend of 8.5 cents per share will be paid on Thursday 30 June 2016 to shareholders on the register on Friday 10 June 2016. The Board also signalled its intention to maintain the full year dividend at FY2015 level.

**ENDS**

For investor queries, please contact:
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Incorporated in New Zealand

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## Tower Management Review – Half year to 31 March 2016

## Features of HY16

- Reported half year loss of $8.7 million impacted by intangible asset impairment and adjustments to Canterbury provisions
- Underlying profit after tax of $7.6 million impacted by the industry environment; higher claims costs (including Cyclone Winston), flat premium and a lower interest rate environment
- Comprehensive IT review has identified limitations in the current IT platform, resulting in impairment of $19.6 million on legacy platforms ($14.1 million post tax impact)
- Further progress on Canterbury; 249 property claims settled in the half; $2.9 million increase in provision ($2.1 million post tax impact)
- Gross written premium (GWP) stable at $146.2 million (H1 2015: $145.9 million), return to policy growth in core New Zealand book
- Business improvement initiatives beginning to strengthen core business; retention focus delivering policy growth and cost focus reversed trend on expense growth
- Strong solvency maintained with $155 million in solvency capital and a solvency ratio of 234% of MSC in TOWER Insurance Limited; additional $23 million cash at TOWER Limited
- 7.1 million shares purchased through the share buyback; programme will not be renewed
- Dividend of 8.5 cents per share (unimputed); intention to maintain full year dividend at FY15 level

## Half year summary

Tower reported a net loss after tax of $8.7 million for the half year ended 31 March 2016 (H1 2016) compared to a loss of $4.9 million for the half year ended 31 March 2015 (H1 2015). The result was impacted by impairments on IT assets and adjustments to Canterbury provisions.

Against a market backdrop of static premiums, an active storm season in the Pacific, increasing claims costs across the industry and low interest rates impacting on investment income, Tower's underlying profit after tax was $7.6 million.

During the half year, Tower completed a thorough review of the current IT infrastructure to determine whether the existing platforms would support Tower's ambitions to become a high performing general insurer. This review identified shortcomings that would limit Tower's potential performance.

Tower is currently identifying IT options that would enable the business to increase productivity, reduce expenses and provide a better customer experience.

This has created the need to accelerate depreciation on existing IT assets, resulting in an impairment of $19.6 million ($14.1 million post tax).

Tower continues to make solid progress settling claims in Canterbury. During the half, 249 property claims were finalised. Tower added 155 new property claims in the half mainly relating to new over cap properties as well as temporary accommodation and DFPP (Driveways, Fences, Pools and Pathways) claims, as the EQC finalised the repairs on their under cap properties. As of 31 March 2016, 641 property claims remain outstanding. Provisions for Canterbury were adjusted by $2.9 million ($2.1 million post tax impact).

A number of initiatives were launched in the half year to enhance business performance in the short term. A focus on costs has resulted in a reduction in management expenses on the second half of 2015, while retention initiatives have resulted in positive policy growth for the core New Zealand book, the first positive policy movement since H1 2014.

These small yet significant steps acknowledge Tower's cost-out and retention initiatives are working and that the business is gaining positive momentum.

Tower Insurance's solvency position remains strong with $155 million of solvency capital and a solvency ratio of 234% of MSC, plus $23 million additional cash in Tower Limited.

Having completed its first year as a general insurer, Tower has reached a pivot point: the business has now stabilised to the degree where it is clear that investment is required to realise its potential.

Consistent with the need to invest in the business to drive high performance and deliver shareholder value over the long term, Tower and its appointed actuary have completed a dynamic financial analysis to determine appropriate capital levels. Tower will adjust its capital strategy accordingly and move from a specific target of 175% of MSC to a target range of 180% to 200%.

The current on-market share buyback programme, which has repurchased 7 million shares at a value of $14.5 million, will not be renewed following this results announcement.

The Board announced a half year dividend of 8.5 cents per share (unimputed) and its intention to maintain the full year dividend at FY2015 levels. The half year dividend will be paid on 30 June 2016 to shareholders on the register on Friday 10th June 2016.

## Financial performance

| $ million | H1 16 | H1 15 | Movement % |
|---|---|---|---|
| **Gross written premium** | **146.2** | **145.9** | **0.2%** |
| **Total underlying profit after tax** [1] | **7.6** | **17.5** | **(56.9%)** |
| Canterbury impact | (2.1) | (22.6) | n/a |
| Impairment of intangibles | (14.1) | - | n/a |
| Profit on discontinued businesses | - | 0.2 | n/a |
| **Reported profit after tax** | **(8.7)** | **(4.9)** | n/a |
| | | | |
| **Key ratios** | | | |
| Underlying EPS (c) [2] | 4.5 | 10.0 | (55.2%) |
| DPS (c) | 8.5 | 8.5 | |
| Claims ratio | 52.1% | 44.5% | |
| Expense ratio | 42.2% | 40.9% | |
| Combined ratio | 94.3% | 85.4% | |

**Notes:**
1. Underlying profit excludes the impact of Canterbury earthquakes, IT impairments and profit on discontinued businesses
2. Refers to underlying profit rather than reported profit

Tower has reported flat gross written premium (GWP) and underlying profit after tax of $7.6 million, representing a significant reduction on a particularly strong 2015 first half performance, which had no weather related events, fewer claims and lower management expenses.

Along with other general insurers, Tower has regularly reiterated that the dynamic nature of the tail end of Canterbury earthquake claims could result in further provision adjustments. The provision increase of $2.9 million pre-tax should be viewed in this context.

Asset impairments of $19.6 million reflect the limitations of existing IT assets following a comprehensive review of IT requirements needed to drive Tower's business performance. Tower is currently identifying IT options that would enable the business to increase productivity, reduce expenses and provide a better customer experience.

Deterioration in the claims ratio to 52.1% and combined ratio to 94.3% reflect the effects of the current industry environment with regard to higher claims costs, and the impact of an active storm season in the Pacific, especially when compared with the benign weather environment experienced in H1 2015. Tower has a range of initiatives underway to address claims performance and anticipate benefits from these will flow through into the second half.

Tower's market leading position in the Pacific continues to deliver a solid performance. Gross written premium growth of 4.6% to $29.9 million was driven by the launch of Vanuatu, and underlying growth in Tonga, Samoa and American Samoa and Fiji. This was offset by a deliberate de-risking in Papua New Guinea. Pacific NPAT of $2.1 million was impacted by a single large claim in Vanuatu and Cyclone Winston, which also affected the underlying claims ratio.

Underlying earnings per share (EPS) was 4.5 cents, compared to 10 cents in H1 2015.

The half year dividend of 8.5 cents per share reflects the Board's continued confidence in Tower's capital position and earnings potential.

The Board has signalled its intention to maintain the full year dividend at FY2015 level.

## Underlying earnings performance

| $ million | H1 16 | H1 15 | Movement % |
|---|---|---|---|
| Gross written premium | 146.2 | 145.9 | 0.2% |
| Gross earned premium | 151.5 | 150.4 | 0.7% |
| Reinsurance costs | (24.5) | (25.7) | (4.5%) |
| **Net earned premium** | **127.0** | **124.7** | **1.8%** |
| Net incurred claims | (62.9) | (55.5) | 13.4% |
| Large events claims[1] | (3.3) | - | n/a |
| Management and sales expenses | (50.8) | (49.2) | 3.4% |
| Depreciation and amortisation | (2.7) | (1.8) | |
| **Underwriting profit** | **7.2** | **18.3** | **(60.5%)** |
| Investment revenue | 4.4 | 7.3 | (39.8%) |
| Financing costs | - | - | n/a |
| Underlying profit before tax | 11.6 | 25.6 | (54.6%) |
| Income tax expense | (4.0) | (8.0) | (49.7%) |
| **Underlying profit after tax[2]** | **7.6** | **17.5** | **(56.9%)** |

**Notes:**
1. Large event claims refer to events with cumulative claims costs greater than $1m
2. Underlying profit excludes the impact of Canterbury earthquakes, IT impairments and profit on discontinued businesses

Underlying profit after tax was $7.6 million. This was largely attributable to higher business as usual (BAU) claims and events in the Pacific.

Gross written premiums were stable at $146.2 million, reflecting the flat New Zealand premium environment and the ongoing impact of the run off of the ANZ portfolio. The Pacific continues to deliver strongly with GWP growth of 4.6% on the previous corresponding period. Tower is pleased that the core New Zealand book has returned to positive policy growth for the first time since March 2014.

Reinsurance costs have fallen slightly to $24.5 million, despite the higher levels of cover purchased. This reflects continued price weakness in reinsurance markets. Tower will continue to explore options to reduce volatility and risk where appropriate.

Business as usual claims costs reached $62.9 million in the half year, growth of 13.4% versus the prior half. Increases in claims costs were attributable to:

- The higher overall costs in the Pacific – when compared to the corresponding period – due to an active storm season in the Pacific and a large loss in Vanuatu
- Falling exchange rates that drive up costs for parts, impacting motor claims
- Labour shortages in the building sector, which increase the average cost of house claims
- The higher frequency of claims as a result of underwriting and risk selection

As discussed below, managing claims costs is a top priority and Tower has a number of initiatives underway to address this.

The Pacific was impacted by Cyclone Winston, which incurred a cost of $3.3 million, less than originally anticipated. This cost has contributed toward the excess of Tower's aggregate reinsurance cover.

Management expenses (including depreciation) have increased 4.8% to $53.6m versus H1 2015 although were lower than H2 2015. This is due to the flow through of costs associated with the launch of Trade Me Insurance and investment in service levels in the second half of 2015.

Recently launched cost out initiatives have reversed this trend and have successfully reduced management expenses in the half. As a result of the focus on costs, Tower expects further improvement in the expense base in the second half.

Investment revenue was $4.4 million, a decrease of 39.8% as a result of lower balances and falling interest rates.

**Strong balance sheet maintained**

| $ million | H1 16 | H1 15 | Movement % |
|---|---|---|---|
| Cash & call deposits | 94.7 | 152.3 | (37.9%) |
| Investment assets | 201.3 | 215.7 | (6.7%) |
| Deferred acquisition costs | 19.8 | 19.9 | (0.7%) |
| Intangible assets | 29.1 | 42.7 | (30.7%) |
| Other operational assets/(liabilities)[1] | 324.8 | 296.6 | 9.4% |
| **Total assets** | **669.8** | **727.2** | **(7.9%)** |
| Policy liabilities & insurance provisions | (355.8) | (357.7) | (0.5%) |
| External debt | 0.0 | 0.0 | 0.0% |
| Other operational (liabilities)/assets[1] | (60.6) | (63.1) | (3.9%) |
| **Total liabilities** | **(416.4)** | **(420.8)** | **(1.0%)** |
| **Total equity** | **253.4** | **306.4** | **(17.3%)** |

Tower maintains a strong balance sheet, which supports future growth opportunities.

Payment of Canterbury claims will continue to impact both the reinsurance receivables and cash balances.

The half year cash balance is $94.7 million, down 37.9% as a result of cash being used in the share buyback, and payment of Canterbury claims over reinsurance caps.

Extended reinsurance cover continues to protect the Tower balance sheet ensuring the company has options to both manage risk and invest for growth.

## Strategic imperatives

Tower has strengthened its management team with further insurance capability and outlined three strategic imperatives at the February ASM, each of which is critical to the future success and growth of the business.

In this management review, the focus is on those initiatives underway with short to medium term horizons. Further details regarding these and all other initiatives will be provided at a Tower Investor Day to be held in Auckland in late July.

Tower is focused on strengthening its core insurance business. This means investing in initiatives to reduce costs and complexity, and improve performance.

Already, initiatives designed to reduce management expenses and improve retention rates are showing positive results

The three strategic imperatives, together with a selection of supporting initiatives, are outlined as follows:

1. ***High performance customer service culture***
   - retention focus to drive growth
   - review of customer service
   - continued strong Pacific performance

For the first time since March 2014, Tower has delivered positive policy growth on its core New Zealand book (that excludes the ANZ book in run off). This has been achieved primarily through targeted retention initiatives that have been rolled out across the business. In the half year, Tower has:

- created a specialist inbound retention team
- started actively targeting current customers with marketing campaigns
- improved pricing in motor and house portfolios
- improved payments processes

Preference and consideration metrics are steadily improving, signalling the recent brand repositioning is showing positive results. Tower expects these improvements to increasingly flow through to new business sales.

The new partnership with Trade Me Insurance was launched in August and it is early days. Tower is committed to its alliance with Trade Me and remains confident that this channel will deliver on its potential.

The Pacific continues to provide Tower with further opportunities to drive growth in the short term. The Vanuatu market launch in November 2015 was met with strong interest from the local community. Tower is confident that further growth opportunities in the Pacific can be leveraged as the markets continue to develop.

2. ***Operational excellence***
   - focus on costs
   - IT simplification
   - claims management improvement

Tower recognises that management expenses represent a key growth constraint. Over the past half, Tower has strengthened its focus on non-personnel related costs and now has a broader programme of cost-reduction work underway, including strict vendor management, moving increasingly to digital customer communication and updating internal policies and processes where savings are possible.

There has been a decrease in the cost base relative to the second half 2015, which reflects the benefits of these programmes. Tower expects this to continue to reduce in the second half.

This is a small, yet significant step as it acknowledges that Tower's cost-out initiatives are working and that the business is gaining positive momentum.

The recent IT review identified that the current systems have limitations.

The current environment has multiple core platforms and a large number of ancillary systems. These systems are difficult for our service people to navigate, particularly in 'real time' while talking to customers. They also lack flexibility to price at a granular level or change products and pricing with ease.

The review has resulted in Tower reducing the expected life of its IT assets resulting in a pre-tax impairment of $19.6 million.

These issues will need to be addressed to enable Tower to compete as a modern high performing insurer.

Tower is currently identifying options that would enable it to increase productivity, reduce expenses and provide a better customer experience.

Across the insurance industry, claims costs have risen sharply over the past two years. However, Tower also acknowledges the need to better manage its claims processes and risk selection, Tower is taking action to improve claims performance.

Key initiatives launched include a change in delegation at the Customer Services Officer level; updating of underwriting criteria and products; realignment of claims teams to products and the creation of preferred supplier networks for motor and homes.

Positive indications are already evident as a result of these initiatives, with a slow down in claims costs growth in the past half. Tower anticipates further benefits from these initiatives will flow through in the second half.

***3. Accurate pricing of risk***

- improvement in risk selection
- risk-based pricing
- product rationalisation

Tower's third strategic imperative is delivering accurate pricing of risk.

In the short term, Tower is implementing risk-based pricing for house and motor portfolios. Based on detailed analysis, Tower has identified a number of segments where the market price is higher than the technical cost base, which allows pricing for growth. Tower also identified a number of areas where its price is below the market rate. These will be repriced to improve margin.

Tower is also updating external data on a regular basis to ensure the most up to date prices and reference information is on hand for customers, claims handlers and sales agents.

In the longer term as Tower invests in the business, pricing accuracy will continue to improve. Tower will be able to price at a more granular level and update products and prices more frequently. This is critical to enable Tower to meet the market and become more competitive.

## Outlook

The insurance industry is experiencing challenges – a flat market; increasing claims costs; increased competition from new entrants; continued progress on Canterbury; and a low interest rate environment – and we expect these dynamics to continue in the short-term.

However, Tower is confident it can perform in this environment by continuing its focus on business fundamentals that will deliver incremental improvement in the short term.

Tower expects retention improvement to build GWP, and anticipates further reductions in both operational and claims' expenses in the second half.

In the longer term, the results of IT simplification, product rationalisation and customer experience programmes will strengthen performance, unlock further opportunities and create long term, sustainable shareholder value.

Tower remains committed to delivering solid shareholder returns in the form of reliable dividends that reflect continued prudent capital management.

The management team looks forward to welcoming investors to an Investor Day in late July. The company recognises the need for investors to have greater insight into the drivers of the business. Tower intends to provide further detail about the insurance industry, Tower's place in it and the various initiatives underpinning its three strategic imperatives.

**ENDS**

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

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

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APPENDIX 1

## HALF YEAR PRELIMINARY ANNOUNCEMENTS AND HALF YEAR RESULTS

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

| TOWER LIMITED | |
|---|---|
| Reporting Period | 6 months to 31 March 2016 |
| Previous Reporting Period | 6 months to 31 March 2015 |

| | **Amounts (000s)** | **Percentage change** |
|---|---|---|
| Revenue from ordinary activities | NZ$ 157,488 | 1.3% decrease |
| Loss from ordinary activities after tax attributable to shareholders | (NZ$ 8,679) | 70.6% increase |
| Net loss attributable to shareholders | (NZ$ 8,679) | 78.1% increase |

| Interim Dividend | Amount per security | Imputed amount per security |
|---|---|---|
| | NZ 8.5 cents | Nil |
| Record Date | Friday, 10 June 2016 | |
| Dividend Payment Date | Thursday, 30 June 2016 | |

| | |
|---|---|
| Comments | For the half year to 31 March 2016, TOWER Limited's reported loss from ordinary activities after tax was ($8.7) million (due to the recognition of an impairment charge of $14.1 million after tax and an increase in earthquake provisioning after tax of $2.1 million). The loss is an increase of 70.6% from the prior comparable period, when a loss of $5.1 million was reported. Net loss after tax for the six month period to 31 March 2016 was ($8.7) million, including non-controlling interest profit of $0.5 million. This is up 78.1% from the prior comparable period. |

| | |
|---|---|
| Additional Information | TOWER's dividend reinvestment plan will not apply for the interim dividend. |

**Refer attached 31 March 2016 unaudited Financial Statements for TOWER Limited and its subsidiaries and Presentation for more detailed analysis and explanation.**

**APPENDIX 7 – NZSX Listing Rules**

**EMAIL: announce@nzx.com**

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

# Notice of event affecting securities

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

| | |
|---|---|
| Full name of Issuer | Tower Limited |
| Name of officer authorised to make this notice | Brett Wilson |
| Authority for event, e.g. Directors' resolution | Directors' resolution |
| Contact phone number | (09) 369 2202 |
| Contact fax number | |
| Date | 24 / 05 / 2016 |

**Nature of event**
Tick as appropriate

| | |
|---|---|
| Bonus Issue | ☐ |
| If ticked, state whether: Taxable | ☐ |
| / Non Taxable | ☐ |
| Conversion | ☐ |
| Interest | ☐ |
| Rights Issue Renouncable | ☐ |
| Rights Issue non-renouncable | ☐ |
| Capital change | ☐ |
| Call | ☐ |
| Dividend | √ |
| If ticked, state whether: Interim | √ |
| Full Year | ☐ |
| Special | ☐ |
| DRP Applies | ☐ |

**EXISTING securities affected by this**

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

| | |
|---|---|
| Description of the class of securities | Ordinary shares |
| ISIN (If unknown, contact NZX) | NZTWRE0011S2 |

**Details of securities issued pursuant to this event**

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

| | |
|---|---|
| Description of the class of securities | |
| ISIN (If unknown, contact NZX) | |
| Number of Securities to be issued following event | |
| Minimum Entitlement | |
| Ratio, e.g 1 for 2 | for |
| Conversion, Maturity, Call Payable or Exercise Date (Enter N/A if not applicable) | |
| Treatment of Fractions | |
| Tick if pari passu | ☐ |
| OR provide an explanation of the ranking | |
| Strike price per security for any issue in lieu or date Strike Price available. | |

**Monies Associated with Event**

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

In dollars and cents

| | |
|---|---|
| Amount per security (does not include any excluded income) | $0.08500 |
| Excluded income per security (only applicable to listed PIEs) | $0.00000 |
| Currency | NZD |
| Total monies | $0.08500 |
| Source of Payment | Retained Profits |

Supplementary dividend details - NZSX Listing Rule 7.12.7

| | |
|---|---|
| Amount per security in dollars and cents | $0.000000 |
| **Date Payable** | |

**Taxation**

Amount per Security in Dollars and cents to six decimal places

| | |
|---|---|
| In the case of a taxable bonus issue state strike price | $ |
| Resident Withholding Tax | $0.028050 |
| Imputation Credits (Give details) | $0.000000 |
| Foreign Withholding Tax | $ |
| FWP Credits (Give details) | N/A |

**Timing** (Refer Appendix 8 in the NZSX Listing Rules)

| | |
|---|---|
| **Record Date 5pm** For calculation of entitlements - | 10 June, 2016 |
| **Application Date** Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week. | 30 June, 2016 |
| **Notice Date** Entitlement letters, call notices, conversion notices mailed | |
| **Allotment Date** For the issue of new securities. Must be within 5 business days of application closing date. | |

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

Security Code:

Security Code:

NZX

# TOWER LIMITED
# INTERIM FINANCIAL STATEMENTS

**FOR THE HALF YEAR ENDED 31 MARCH 2016**

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**TOWER LIMITED**

**INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 MARCH 2016**

## CONSOLIDATED INCOME STATEMENT

| $ thousands | | **Unaudited** | Unaudited |
|---|---|---|---|
| For the half year ended | Note | **31-Mar-16** | 31-Mar-15 |
| **Revenue** | | | |
| Premium revenue | 2 | **151,452** | 150,398 |
| Less: Outwards reinsurance expense | | **(24,500)** | (25,664) |
| **Net premium revenue** | | **126,952** | 124,734 |
| Investment revenue | 3 | **4,748** | 7,667 |
| Fee and other revenue | | **1,288** | 1,450 |
| **Net operating revenue** | | **132,988** | 133,851 |
| | | | |
| **Expenses** | | | |
| Claims expense | | **116,220** | 107,376 |
| Less: Reinsurance recoveries revenue | | **(36,549)** | (8,791) |
| **Net claims expense** | 4 | **79,671** | 98,585 |
| | | | |
| Management and sales expenses | | **44,611** | 41,097 |
| Impairment expense | 5 | **19,649** | - |
| **Total expenses** | | **143,931** | 139,682 |
| | | | |
| **Loss attributed to shareholders before tax** | | **(10,943)** | (5,831) |
| Tax benefit attributed to shareholders' profits | | **2,264** | 743 |
| **Loss for the half year from continuing operations** | | **(8,679)** | (5,088) |
| | | | |
| Profit from disposal of subsidiaries | | **-** | 216 |
| **Profit for the half year from discontinued operations** | | **-** | 216 |
| | | | |
| **Loss for the half year** | | **(8,679)** | (4,872) |
| | | | |
| **Loss attributed to:** | | | |
| Shareholders | | **(9,187)** | (5,262) |
| Non-controlling interest | | **508** | 390 |
| | | **(8,679)** | (4,872) |
| | | | |
| Basic and diluted (loss) per share for continuing operations (cents) | | **(5.42)** | (2.99) |
| Basic and diluted earnings per share for discontinued operations (cents) | | **-** | 0.12 |

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| $ thousands | | **Unaudited** | Unaudited |
|---|---|---|---|
| For the half year ended | Note | **31-Mar-16** | 31-Mar-15 |
| **Loss for the half year** | | **(8,679)** | (4,872) |
| **Other comprehensive income** | | | |
| Currency translation differences | | **(3,774)** | (275) |
| **Other comprehensive loss net of tax** | | **(3,774)** | (275) |
| **Total comprehensive loss for the half year** | | **(12,453)** | (5,147) |
| **Total comprehensive loss attributed to:** | | | |
| Shareholders | | **(12,284)** | (5,723) |
| Non-controlling interest | | **(169)** | 576 |
| | | **(12,453)** | (5,147) |
| **Total comprehensive loss attributed to equity arises from:** | | | |
| Continuing operations | | **(12,453)** | (5,363) |
| Discontinued operations | | **-** | 216 |
| | | **(12,453)** | (5,147) |

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

## CONSOLIDATED BALANCE SHEET

| $ thousands<br>As at | Note | Unaudited<br>31-Mar-16 | Audited<br>30-Sep-15 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | **94,665** | 125,113 |
| Receivables | | **271,453** | 257,851 |
| Investments | 13 | **200,919** | 213,593 |
| Derivative financial assets | 13 | **404** | - |
| Deferred acquisition costs | | **19,758** | 20,277 |
| Current tax assets | | **13,040** | 14,893 |
| Property, plant and equipment | | **10,136** | 10,221 |
| Intangible assets | 5 | **29,182** | 48,373 |
| Deferred tax assets | | **30,208** | 24,786 |
| **Total assets** | | **669,765** | 715,107 |
| **Liabilities** | | | |
| Payables | | **50,471** | 48,472 |
| Current tax liabilities | | **587** | 568 |
| Provisions | 7 | **3,691** | 3,273 |
| Derivative financial liabilities | 13 | **147** | - |
| Insurance liabilities | | **355,776** | 375,877 |
| Deferred tax liabilities | | **5,741** | 6,008 |
| **Total liabilities** | | **416,413** | 434,198 |
| **Net assets** | | **253,352** | 280,909 |
| **Equity** | | | |
| Contributed equity | | **382,172** | 384,585 |
| Accumulated (losses) profit | | **(15,502)** | 6,376 |
| Reserves | | **(114,793)** | (111,696) |
| **Total equity attributed to shareholders** | | **251,877** | 279,265 |
| Non-controlling interest | | **1,475** | 1,644 |
| **Total equity** | | **253,352** | 280,909 |

**The interim financial statements were approved for issue by the Board on 24 May 2016.**

Michael P Stiassny
**Chairman**

Graham R Stuart
**Director**

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Unaudited | | | | | |
|---|---|---|---|---|---|---|
| | Attributed to shareholders | | | | | |
| $ thousands | Contributed equity | Accumulated loss | Reserves | Total | Non-controlling interest | Total Equity |
| **Half year ended 31 March 2016** | | | | | | |
| At the beginning of half year | **384,585** | **6,376** | **(111,696)** | **279,265** | **1,644** | **280,909** |
| **Comprehensive income** | | | | | | |
| (Loss) Profit for the half year | - | (9,187) | - | (9,187) | 508 | **(8,679)** |
| Currency translation differences | - | - | (3,097) | (3,097) | (677) | **(3,774)** |
| **Total comprehensive loss** | **-** | **(9,187)** | **(3,097)** | **(12,284)** | **(169)** | **(12,453)** |
| **Transactions with shareholders** | | | | | | |
| Capital repayment plan | (2,413) | - | - | (2,413) | - | **(2,413)** |
| Dividends paid | - | (12,691) | - | (12,691) | - | **(12,691)** |
| **Total transactions with shareholders** | **(2,413)** | **(12,691)** | **-** | **(15,104)** | **-** | **(15,104)** |
| **At the end of the half year** | **382,172** | **(15,502)** | **(114,793)** | **251,877** | **1,475** | **253,352** |
| **Half year ended 31 March 2015** | | | | | | |
| At the beginning of half year | 396,819 | 42,174 | (114,583) | 324,410 | 1,599 | 326,009 |
| **Comprehensive income** | | | | | | |
| Profit (Loss) for the half year | - | (5,262) | - | (5,262) | 390 | (4,872) |
| Currency translation differences | - | - | (461) | (461) | 186 | (275) |
| **Total comprehensive income (loss)** | - | (5,262) | (461) | (5,723) | 576 | (5,147) |
| **Transactions with shareholders** | | | | | | |
| Capital repayment plan | (82) | - | - | (82) | - | (82) |
| Dividends paid | - | (14,060) | - | (14,060) | (500) | (14,560) |
| Other | - | 193 | - | 193 | - | 193 |
| **Total transactions with shareholders** | (82) | (13,867) | - | (13,949) | (500) | (14,449) |
| **At the end of the half year** | 396,737 | 23,045 | (115,044) | 304,738 | 1,675 | 306,413 |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

| $ thousands | | **Unaudited** | Unaudited |
|---|---|---|---|
| For the half year ended | Note | **31-Mar-16** | 31-Mar-15 |
| **Cash flows from operating activities** | | | |
| Premiums received | | **146,072** | 148,831 |
| Interest received | | **5,469** | 8,060 |
| Dividends received | | **-** | 5 |
| Net realised investment (loss) gain | | **852** | (1,010) |
| Fee and other income received | | **1,288** | 1,450 |
| Reinsurance received | | **45,758** | 73,166 |
| Reinsurance paid | | **(23,183)** | (24,575) |
| Claims paid | | **(154,660)** | (151,059) |
| Payments to suppliers and employees | | **(39,756)** | (38,868) |
| Income tax paid | | **(1,624)** | (1,002) |
| **Net cash (outflow) inflow from operating activities** | 10 | **(19,784)** | 14,998 |
| **Cash flows from investing activities** | | | |
| Net proceeds from (payments for) financial assets | | **8,231** | (2,656) |
| Disposal of property, plant and equipment and intangible assets | | **-** | 13 |
| Purchase of property, plant and equipment and intangible assets | | **(3,217)** | (13,178) |
| **Net cash inflow (outflow) from investing activities** | | **5,014** | (15,821) |
| **Cash flows from financing activities** | | | |
| Capital repayment | | **(2,413)** | (82) |
| Dividends paid | | **(12,691)** | (14,060) |
| Payment of non-controlling interest dividends | | **-** | (500) |
| **Net cash outflow from financing activities** | | **(15,104)** | (14,642) |
| **Net decrease in cash and cash equivalents** | | **(29,874)** | (15,465) |
| Foreign exchange movement in cash | | **(573)** | (264) |
| Cash and cash equivalents at the beginning of half year | | **125,113** | 168,062 |
| **Cash and cash equivalents at the end of half year** | | **94,666** | 152,333 |

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

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 1 SUMMARY OF GENERAL ACCOUNTING POLICIES

**Entities reporting**

The interim financial statements presented are those of TOWER Limited (the Company) and its subsidiaries (the Group). The Company and its subsidiaries together are referred to in this financial report as TOWER or the Group.

**Statutory base**

TOWER Limited is a company incorporated in New Zealand under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges. The Company is a Financial Markets Conduct Act 2013 reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

**Basis of preparation**

The interim financial statements of the Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and consequently, include a lower level of disclosure than is required for annual financial statements.

The interim financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013, the NZX Main Board Listing Rules and the ASX Listing Rules.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2015, which have been prepared in accordance with International Financial Reporting Standards and New Zealand Equivalents to International Financial Reporting Standards.

The interim financial statements for the six months ended 31 March 2016 are unaudited.

**Accounting policies**

The principal accounting policies adopted in the preparation of the interim financial statements are consistent with those of the audited annual financial statements for the year ended 30 September 2015.

**Cash flows**

The consolidated statement of cash flows presents the net changes in cash flow for financial assets. TOWER considers that knowledge of gross receipts and payments is not essential to understanding certain activities of TOWER based on either: the turnover of these items is quick, the amounts are large, and the maturities are short or the value of the sales are immaterial.

**Comparatives**

The 30 September 2015 comparative information has been restated to correct the presentation of receivables and insurance liabilities, each by $43.8 million. On the balance sheet, receivables has been reduced by $43.8 million to $257.8 million and insurance liabilities has reduced by $43.8 million to $375.9 million. Total assets and total liabilities have reduced accordingly. There is no change to net assets. For further details, refer to note 4A. On the basis the impact on the opening balance sheet is not deemed material for users of financial statements the opening balances have not been represented.

**Impact of amendments to NZ IFRS**

The application of new or amended accounting standards as of 1 October 2015 has not had a material impact on the financial statements.

## 2 PREMIUM REVENUE

| $ thousands | | **Unaudited** | Unaudited |
|---|---|---|---|
| For the half year ended 31 March | Note | **2016** | 2015 |
| Gross written premiums | | **146,165** | 145,884 |
| Less: Gross unearned premiums | | **5,287** | 4,514 |
| **Premium revenue** | | **151,452** | 150,398 |

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 3 INVESTMENT REVENUE

| $ thousands<br>For the half year ended 31 March | Note | **Unaudited**<br>**2016** | Unaudited<br>2015 |
|---|---|---|---|
| **Fixed interest securities** | | | |
| Interest income | | **5,470** | 8,060 |
| Net realised gain (loss) | | **620** | (883) |
| Net unrealised gain (loss) | | **(1,302)** | 645 |
| **Total fixed interest securities** | | **4,788** | 7,822 |
| **Equity securities** | | | |
| Dividend income | | **-** | 5 |
| Net unrealised gain (loss) | | **(163)** | - |
| **Total equity securities** | | **(163)** | 5 |
| **Other** | | | |
| Net realised gain (loss) | | **232** | (127) |
| Net unrealised gain (loss) | | **(109)** | (33) |
| **Total other** | | **123** | (160) |
| Total investment revenue | | **5,470** | 8,065 |
| Total net realised gain (loss) | | **852** | (1,010) |
| Total net unrealised gain (loss) | | **(1,574)** | 612 |
| **Total investment revenue** | | **4,748** | 7,667 |

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.

## 4 NET CLAIMS EXPENSE

Net claims expense comprises:

| $ thousands<br>For the half year ended 31 March | Note | **Unaudited**<br>**2016** | Unaudited<br>2015 |
|---|---|---|---|
| Canterbury earthquake claims (4 key events) | 4A | **2,900** | 31,387 |
| Other claims | | **76,771** | 67,198 |
| **Total net claims expense** | | **79,671** | 98,585 |

### 4A CANTERBURY EARTHQUAKES

TOWER has received over 15,900 individual claims from customers as a result of earthquakes impacting the Canterbury region during 2010 and 2011. Like other industry participants, TOWER continues to receive 'over-cap' claims from EQC. Of all claims received, TOWER has settled over 15,260 claims at 31 March 2016, representing a 96% settlement rate by number of claims and 89% by value. To date, TOWER has paid out more than $705 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 31 March 2016, TOWER has estimated gross ultimate incurred claims of $822.3 million in respect of the four main Canterbury earthquake events (30 September 2015: $792.0 million).

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 4A CANTERBURY EARTHQUAKES (continued)

The table below presents a financial representation of TOWER's net outstanding claims provision at 31 March 2016 in relation to the four main earthquake events.

**Canterbury earthquake provisions**

| | **Unaudited** | Audited |
|---|---|---|
| $ thousands | **31-Mar-16** | 30-Sep-15 |
| **Insurance liabilities** | | |
| Outstanding claims | **(145,481)** | (163,000) |
| **Receivables** | | |
| Reinsurance recovery receivables | **52,100** | 59,400 |
| Other receivables | **58,200** | 57,400 |
| | **110,300** | 116,800 |
| **Net outstanding claims** | **(35,181)** | (46,200) |

At September 2015, an element of EQC contributions ($43.8 million) had been included within outstanding claims and reinsurance recovery receivables. This amount did not represent a liability for TOWER nor a related reinsurance receivable. Accordingly, both outstanding claims and reinsurance recovery receivables have been reduced. There is no change to net outstanding claims.

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

| | **Unaudited** | Audited |
|---|---|---|
| $ thousands | **31-Mar-16** | 30-Sep-15 |
| **Cumulative expenses associated with Canterbury earthquakes:** | | |
| Earthquake claim estimate | **(822,300)** | (792,000) |
| Reinsurance recoveries | **719,583** | 692,183 |
| **Claim expense net of reinsurance recoveries** | **(102,717)** | (99,817) |
| Reinsurance expense | **(25,045)** | (25,045) |
| | **(127,762)** | (124,862) |
| Income tax | **36,454** | 35,642 |
| **Cumulative impact of Canterbury earthquakes after tax** | **(91,308)** | (89,220) |
| **Recognised in current period (net of tax)** | **(2,088)** | (36,198) |

The Group's Appointed Actuary continues to be directly involved with the assessment of earthquake ultimate incurred claims estimates and the derivation of estimated outcomes. The estimated ultimate incurred claims cost of the most significant earthquake event in February 2011 ("February 2011 event") totals $449.8 million. TOWER has reinsurance for $375.35 million on this event including catastrophe cover, proportional reinsurance and adverse development cover. During the half year ended 31 March 2016, TOWER expensed $2.9 million in relation to the February 2011 event (2015: $45.5 million, split $31.4 million in the first half year to 31 March and $14.1 million in the second half year).

TOWER's actuarial review at 31 March 2016 identified the following as key contributors to the increase in expected earthquake claims costs:

- Development of claim costs (in particular, multi-unit claims) as they progress through the claims life cycle;
- Impact of cash settled claims not subject to observed development patterns as for repairs and rebuilds; and
- Refinement of actuarial assumptions incorporating claims incurred but not reported and apportionment.

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 included in the table on the following page.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 4A CANTERBURY EARTHQUAKES (continued)

| Date of event | Catastrophe reinsurance cover remaining |
|---|---|
| September 2010 | $17.1 million |
| June 2011 | $261.8 million |
| December 2011 | $487.7 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 events
- 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 31 March 2016. Any further changes to estimates will be recorded in the accounting period when they become known.

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

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

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

The changes in the table below therefore relate to February 2011 event to the extent that claim costs change. If cumulative costs were to reduce by more than $11.3 million, then the impact on TOWER is muted by adverse development reinsurance at the rate of 87.5%.

| | Impact on February 2011 event provision | | |
|---|---|---|---|
| $ thousands | **Change variable** | **31-Mar-16** | 30-Sep-15 |
| Outstanding claims: | | | |
| Change to costs and quantity of expected claim estimates including building costs and other impacts | + 5% | **4,600** | 6,500 |
| | - 5% | **(4,600)** | (6,500) |
| Change in apportionment of claim costs to / from February 2011 event | + 1% | **(7,000)** | (6,800) |
| | - 1% | **7,000** | 6,800 |
| Other receivables: | | | |
| Recoveries from EQC in respect of land damage | + 10% | **(860)** | (850) |
| | - 10% | **860** | 850 |
| Recoveries from EQC in respect of building costs | + 10% | **(430)** | (450) |
| | - 10% | **430** | 450 |

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 5 INTANGIBLE ASSETS

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

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

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

Following the impairment review discussed below, the Group has reduced the estimated useful economic life and amortisation period of the core operating system software to 3 years from 1 April 2016.

**IMPAIRMENT**

The Group has reviewed the carrying value of software intangible assets (both internally developed and under development) for indicators of impairment as at 31 March 2016. Assessment of impairment indicators included reviewing the technical feasibility of completing the software development so it would be available for use; the intention to complete the software development; and whether the software would generate probable future economic benefits. The review was undertaken in light of revised expectations for future technology platforms required to support growth in the New Zealand and Pacific insurance businesses.

As a result of this review, the Directors concluded that impairment of certain software intangible assets was required as at 31 March 2016. An impairment charge of $19.65 million has been recognised in these financial statements (2015: nil) relating to Internally developed software and Software under development categories:

| | | Software | | | |
|---|---|---|---|---|---|
| $ thousands | Goodwill | Acquired | Internally developed | Under development | Total |
| **Half year ended 31 March 2016** | | | | | |
| **Unaudited** | | | | | |
| **Cost:** | | | | | |
| Opening balance | **17,744** | **4,223** | **34,861** | **14,279** | **71,107** |
| Additions | **-** | **-** | **106** | **2,594** | **2,700** |
| Transfers | **-** | **-** | **-** | **(106)** | **(106)** |
| Foreign exchange movements | **-** | **(2)** | **-** | **-** | **(2)** |
| Transfers to Property, plant and equipment | **-** | **-** | **-** | **(639)** | **(639)** |
| **Closing balance** | **17,744** | **4,221** | **34,967** | **16,128** | **73,060** |
| | | | | | |
| **Accumulated amortisation:** | | | | | |
| Opening balance | **-** | **(4,047)** | **(18,687)** | **-** | **(22,734)** |
| Amortisation charge | **-** | **(96)** | **(1,400)** | **-** | **(1,496)** |
| Foreign exchange movements | **-** | **1** | **-** | **-** | **1** |
| Impairment expense | **-** | **-** | **(3,895)** | **(15,754)** | **(19,649)** |
| **Closing balance** | **-** | **(4,142)** | **(23,982)** | **(15,754)** | **(43,878)** |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### 5 INTANGIBLE ASSETS (continued)

| | | Software | | | |
|---|---|---|---|---|---|
| $ thousands | Goodwill | Acquired | Internally developed | Under development | Total |
| **Half year ended 31 March 2016** | | | | | |
| **Unaudited** | | | | | |
| **Net book value** | | | | | |
| At cost | **17,744** | **4,221** | **34,967** | **16,128** | **73,060** |
| Accumulated amortisation | **-** | **(4,142)** | **(23,982)** | **(15,754)** | **(43,878)** |
| **Closing net book value** | **17,744** | **79** | **10,985** | **374** | **29,182** |

| | | Software | | | |
|---|---|---|---|---|---|
| $ thousands | Goodwill | Acquired | Internally developed | Under development | Total |
| **Year Ended 30 September 2015** | | | | | |
| Audited | | | | | |
| **Cost:** | | | | | |
| Opening balance | 17,744 | 4,186 | 25,063 | 9,563 | 56,556 |
| Additions | - | 33 | 9,798 | 15,349 | 25,180 |
| Disposals | - | (1) | - | (109) | (110) |
| Transfers | - | - | - | (9,819) | (9,819) |
| Foreign exchange movements | - | 5 | - | - | 5 |
| Transfers to Property, plant and equipment | - | - | - | (705) | (705) |
| **Closing balance** | 17,744 | 4,223 | 34,861 | 14,279 | 71,107 |
| **Accumulated amortisation:** | | | | | |
| Opening balance | - | (3,745) | (17,328) | - | (21,073) |
| Amortisation charge | - | (301) | (1,359) | - | (1,660) |
| Amortisation on disposals | - | 1 | - | - | 1 |
| Foreign exchange movements | - | (2) | - | - | (2) |
| **Closing balance** | - | (4,047) | (18,687) | - | (22,734) |
| **Net book value** | | | | | |
| At cost | 17,744 | 4,223 | 34,861 | 14,279 | 71,107 |
| Accumulated amortisation | - | (4,047) | (18,687) | - | (22,734) |
| **Closing net book value** | 17,744 | 176 | 16,174 | 14,279 | 48,373 |

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

| | Unaudited | | | |
|---|---|---|---|---|
| $ thousands | New Zealand | Pacific Islands | Other (Holding companies & eliminations) | Total |
| **6 SEGMENTAL REPORTING** | | | | |
| **Half year ended 31 March 2016** | | | | |
| **Revenue** | | | | |
| Revenue - external | 108,947 | 23,277 | 764 | 132,988 |
| Revenue - internal | 2,401 | - | (2,401) | - |
| **Total revenue** | **111,348** | **23,277** | **(1,637)** | **132,988** |
| **Profit (Loss) before income tax** | 5,877 | 3,716 | (20,536) | (10,943) |
| Income tax credit (expense) | (1,799) | (1,636) | 5,699 | 2,264 |
| **Profit (Loss) for the half year** | **4,078** | **2,080** | **(14,837)** | **(8,679)** |
| **Half year ended 31 March 2015** | | | | |
| **Revenue** | | | | |
| Revenue - external | 108,675 | 24,135 | 1,041 | 133,851 |
| Revenue - internal | 1,776 | (1,776) | - | - |
| **Total revenue** | 110,451 | 22,359 | 1,041 | 133,851 |
| **Profit (Loss) before income tax** | (11,628) | 6,290 | (493) | (5,831) |
| Income tax credit (expense) | 3,602 | (2,993) | 134 | 743 |
| **Profit (Loss) for the half year** | (8,026) | 3,297 | (359) | (5,088) |
| **Total assets 31 March 2016 (Unaudited)** | **493,807** | **85,822** | **90,136** | **669,765** |
| Total assets 30 September 2015 (Audited) | 555,041 | 86,651 | 73,415 | 715,107 |
| **Total liabilities 31 March 2016 (Unaudited)** | **358,409** | **53,646** | **4,358** | **416,413** |
| Total liabilities 30 September 2015 (Audited) | 375,235 | 54,266 | 4,697 | 434,198 |

**Description of segments and other segment information**

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance. The chief operating decision-maker has been identified as the Company's Board of Directors.
New Zealand general insurance 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 subsidiaries and branch operations. Other includes head office expenses, financing costs and eliminations.

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

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 7 PROVISIONS

| | | **Unaudited** | Audited |
|---|---|---|---|
| $ thousands | Note | **31-Mar-16** | 30-Sep-15 |
| Business separation | | **8** | 209 |
| Employee benefits | | **3,683** | 3,064 |
| **Total provisions** | | **3,691** | 3,273 |
| | | | |
| **Analysed as:** | | | |
| Current | | **3,691** | 3,273 |
| Non current | | **-** | - |
| **Total provisions** | | **3,691** | 3,273 |

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

## 8 DISTRIBUTIONS TO SHAREHOLDERS

### DIVIDEND PAYMENTS

On 24 November 2015 the Directors declared a final dividend for the 2015 financial year of 7.5 cents per share. The dividend was paid on 3 February 2016. The total amount paid was $12,687,553. There were no imputation credits attached to the dividend and TOWER did not offer its Dividend Reinvestment Plan for this dividend.

### RETURN OF CAPITAL

TOWER commenced on market share buyback of up to $34 million following the Company's half year results announcement on 26 May 2015. $14.6 million of capital has been bought back and cancelled during the 10 months to 31 March 2016. Capital of $2.4 million was bought back in the half year to 31 March 2016.

## 9 SOLVENCY REQUIREMENTS

| | | **Unaudited** | Audited |
|---|---|---|---|
| $ thousands | Note | **31-Mar-16** | 30-Sep-15 |
| Actual solvency capital | | **155,223** | 156,646 |
| Minimum solvency capital | | **66,465** | 69,730 |
| **Solvency margin** | | **88,758** | 86,916 |
| **Solvency ratio** | | **234%** | 225% |

The minimum solvency capital required to be retained by TOWER Insurance Limited Group to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 is shown above. Actual solvency capital exceeds the minimum solvency capital requirement for the TOWER Insurance Limited Group by $88.8 million (2015: $86.9 million).

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.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 10 RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| $ thousands | | **Unaudited** | Unaudited |
|---|---|---|---|
| For the half year ended 31 March | Note | **2016** | 2015 |
| **Loss for the year** | | **(8,679)** | (4,872) |
| **Add (less) non-cash items** | | | |
| Depreciation of property, plant and equipment | | **1,228** | 1,224 |
| Amortisation of software | | **1,496** | 577 |
| Impairment of software | | **19,649** | - |
| Unrealised (gain) loss on financial assets | | **1,574** | (612) |
| Gain on disposal of property, plant and equipment | | **-** | (13) |
| Decrease in deferred tax | | **(5,636)** | (3,724) |
| | | **18,311** | (2,548) |
| **Add (less) movements in working capital (excluding the effects of exchange differences on consolidation)** | | | |
| Decrease in receivables | | **12,056** | 65,061 |
| Decrease in payables | | **(43,220)** | (44,397) |
| Increase in taxation | | **1,748** | 1,754 |
| | | **(29,416)** | 22,418 |
| **Net cash inflows (outflows) from operating activities** | | **(19,784)** | 14,998 |

## 11 NET ASSETS PER SHARE

| | | **Unaudited** | Audited |
|---|---|---|---|
| $ dollars | Note | **31-Mar-16** | 30-Sep-15 |
| Net assets per share | | **1.50** | 1.65 |
| Net tangible assets per share | | **1.18** | 1.26 |

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

## 12 SUBSEQUENT EVENTS

**Declaration of dividend**

On 19 May 2016 the Directors declared an interim dividend of 8.5 cents per share. There will be no imputation credits attached to the dividend. The dividend will be paid on 30 June 2016 (Payment Date) to all shareholders on the register as at 5pm on Friday, 12 June 2016 (Record Date). The estimated dividend payable is $14,336,283. TOWER will not be operating the Dividend Reinvestment Plan for the interim dividend. TOWER will withhold resident and non-resident withholding tax where applicable.

**Return of capital**

On 24 May 2016 the Directors announced the voluntary on-market share buyback would stop with immediate effect.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 13 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

| $ thousands | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **As at 31 March 2016** | | | | |
| **Unaudited** | | | | |
| **Assets** | | | | |
| Investment in equity securities | **1,573** | **-** | **-** | **1,573** |
| Investments in fixed Interest securities | **199,312** | **-** | **199,312** | **-** |
| Investments in property securities | **34** | **-** | **34** | **-** |
| Investments | **200,919** | **-** | **199,346** | **1,573** |
| Derivative financial assets | **404** | **-** | **404** | **-** |
| **Total financial assets** | **201,323** | **-** | **199,750** | **1,573** |
| **Liabilities** | | | | |
| Derivative financial liabilities | **147** | **-** | **147** | **-** |
| **Total financial liabilities** | **147** | **-** | **147** | **-** |
| As at 30 September 2015 | | | | |
| Audited | | | | |
| **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 |

The following table represents the changes in Level 3 instruments:

| | Investment in equity securities | |
|---|---|---|
| $ thousands | **Unaudited** | Audited |
| As at | **31-Mar-16** | 30-Sep-15 |
| **Opening balance** | **1,972** | 1,835 |
| Total gains and losses recognised in profit and loss | **(168)** | - |
| Foreign currency movement | **(231)** | 137 |
| **Closing balance** | **1,573** | 1,972 |

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 31 March 2016** | | | |
| Investment in equity securities | **1,573** | **157** | **(157)** |
| As at 30 September 2015 | | | |
| Investment in equity securities | 1,972 | 197 | (197) |

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

## 13 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

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 31 March 2016, the Level 3 category includes investment in equity securities of $1,573,000 (September 2015: $1,972,000). These investments are in unlisted shares of a company which provides reinsurance to TOWER and a company which owns a building used by TOWER. The fair value is calculated based on the net assets of the company from the most recently available financial information. In the case of the property owing company, 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 2015: nil).

# *Independent Review Report*

to the shareholders of TOWER Limited

## *Report on the Interim Financial Statements*

We have reviewed the accompanying group financial statements of TOWER Limited (the "Group") on pages 2 to 17, which comprise the condensed balance sheet as at 31 March 2016, and the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six months ended on that date, and selected explanatory notes.

### *Director's Responsibility for the Financial Statements*

The Directors of TOWER Limited are responsible for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and International Accounting Standard 34 Interim Financial Reporting (IAS 34) 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.

### *Our Responsibility*

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34 and IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of assurance and consulting. The provision of these other services has not impaired our independence.

*PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand*
*T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz*

***Conclusion***
Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34.

## ***Restriction on Use of Our Report***

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review 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 shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

PricewaterhouseCoopers

Chartered Accountants
24 May 2016

Auckland

TOWER

Tower Limited

# Half Year Results to 31 March 2016

24 May 2016

TOWER

# Results overview

**Michael Stiassny**

Chairman

# Results overview

- **Underlying profit of $7.6m reflecting weather and current industry environment**
- **Reported loss of $8.7m**
  - $14.1m post tax impact from IT impairments
  - $2.1m post tax impact from adjustments to Canterbury provisions
- **Key indicators responding to improvement initiatives**
  - return to policy growth in the core New Zealand book
  - reduction in management expenses
- **Investment required to deliver on opportunity**
  - comprehensive IT review identified platform limitations
- **Strong solvency position**
  - $155m of solvency capital, 234% solvency ratio
- **Dividend of 8.5cps, intention to maintain full year dividend**

> **"Our core business is general insurance in New Zealand and the Pacific.**
>
> **Investment in the business will drive high performance to deliver shareholder value."**

Michael Stiassny
Chairman

# Performance summary

**Richard Harding**
Chief Executive Officer

# Focusing on the core

## Our strategic imperatives will drive high performance

- Growth delivered through retention
- Ongoing Pacific growth
- Customer service delivery


- Improvement in risk selection
- Risk based pricing
- Product rationalisation

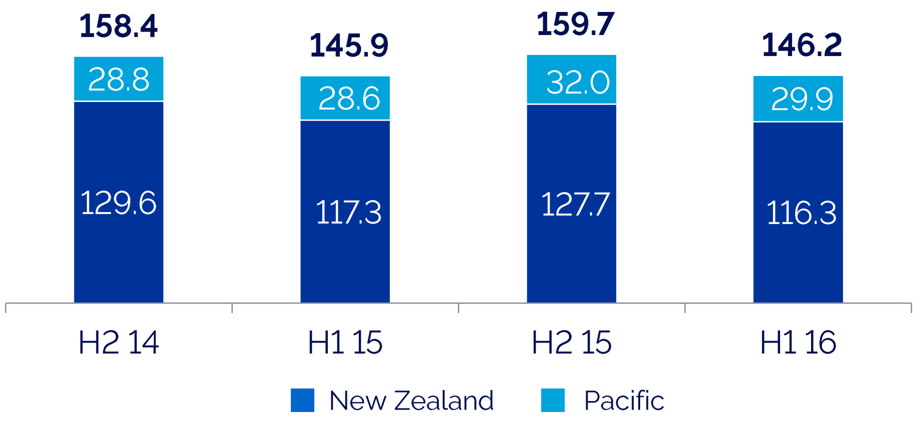
- Focus on costs reduces expenses
- IT platform review underway
- Claims costs controlled through improved claims management

# First half performance summary

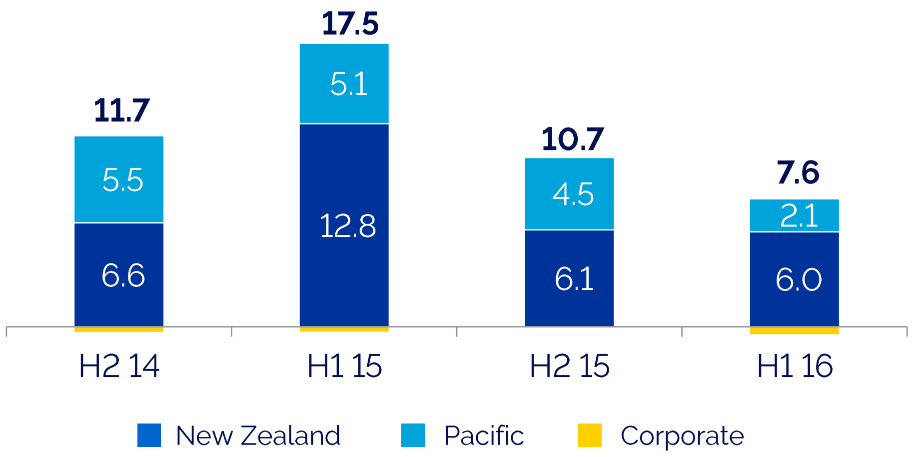
## Underlying earnings impacted by current environment and weather events

- Industry environment affects underlying profit of $7.6m
- Reported loss of $8.7m due to non-recurring costs
- Strong Pacific GWP performance
- Further progress on Canterbury claims

**GWP** (NZ$m)




**UNDERLYING PROFIT** (NZ$m)



# Financial Performance

**Brett Wilson**
Chief Financial Officer

# Financial performance

## Reported loss of $8.7m; half year dividend of 8.5 cps

**GROUP PROFIT SUMMARY** (NZ$m)

| $ million | H1 16 | H1 15 | Movement $ | Movement % |
|---|---|---|---|---|
| Gross written premium | 146.2 | 145.9 | 0.3 | 0.2% |
| **Net earned premium** | **127.0** | **124.7** | **2.3** | **1.8%** |
| BAU claims cost | (62.9) | (55.5) | (7.4) | (13.4%) |
| Large events claims[1] | (3.3) | - | (3.3) | n/a |
| Expenses | (53.6) | (51.0) | (2.6) | (4.8%) |
| Investment income | 4.4 | 7.3 | (2.9) | (39.8%) |
| Tax | (4.0) | (8.0) | 4.0 | (49.7%) |
| **Underlying profit**[2] | **7.6** | **17.5** | **(10.1)** | **(56.9%)** |
| Canterbury impact | (2.1) | (22.6) | 20.5 | n/a |
| IT Impairment | (14.1) | - | (14.1) | n/a |
| Profit on discontinued businesses | - | 0.2 | (0.2) | n/a |
| **Reported loss** | **(8.7)** | **(4.9)** | **(3.8)** | **78.2%** |
| Underlying EPS (c)[3] | **4.5** | 10.0 | | |
| DPS (c) | **8.5** | 8.5 | | |
| **Key ratios** | | | | |
| Claims ratio | 52.1% | 44.5% | | |
| Expense ratio | 42.2% | 40.9% | | |
| Combined ratio | 94.3% | 85.4% | | |

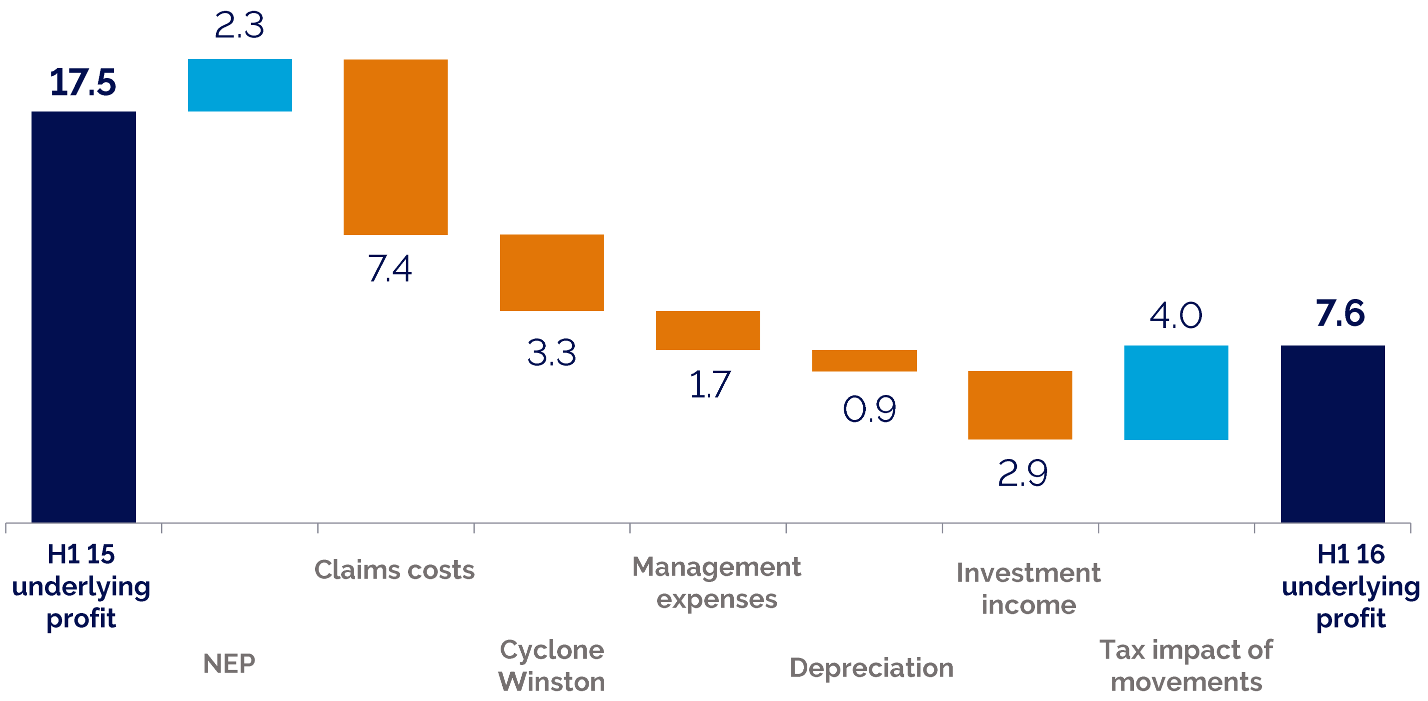
- Reported profit reflects :
  - $2.1m impact from movement in Canterbury provisions ($2.9m pre-tax)
  - $14.1m impact from intangible asset impairment ($19.6m pre-tax)
- Cost of Cyclone Winston lower than initially anticipated at $3.3m
- Reduced investment income due to lower interest rates

Notes:
1. Reflects events greater than $1m
2. Underlying profit excludes the impact of Canterbury earthquakes, IT impairments and profit on discontinued businesses in H1 15
3. Reflects underlying profit rather than reported profit

# Change in underlying profit

## Higher claims cost due to adverse weather conditions and claims inflation in New Zealand and the Pacific

**MOVEMENT IN UNDERLYING PROFIT** (NZ$m)




- Higher NEP due to flow through of GWP growth
- Increased BAU claims costs
  - weather events in the Pacific
  - higher industry costs
  - legacy policy structure and underwriting
- Lower interest rate environment impacted investment income
- Expenses and depreciation increased following go live of Trade Me Insurance and investment in service levels

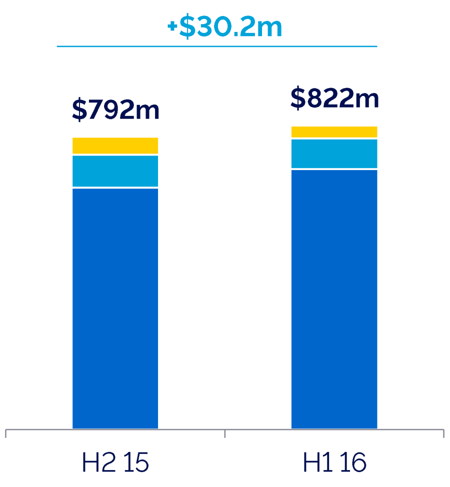
# Canterbury progress

## Ongoing progress in Canterbury improves confidence

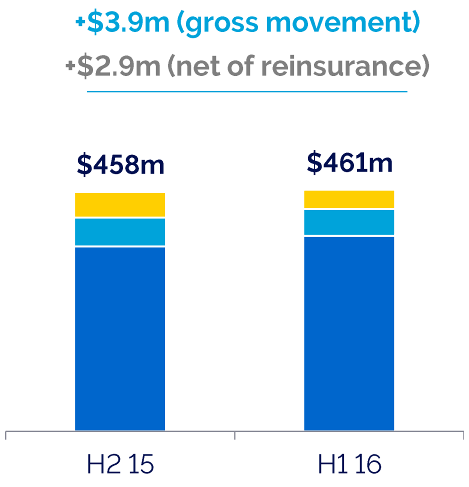
**MOVEMENT IN PROPERTIES**


- New and reopened claims due to
  - EQC over cap claims (industry wide issue)
  - additional DFPP and accommodation claims as EQC finalise under cap properties
- Good understanding of potential future EQC claims

**TOTAL CANTERBURY CLAIMS COSTS** (NZ$m)




**FEB 11 EVENT CLAIMS COSTS** (NZ$m)



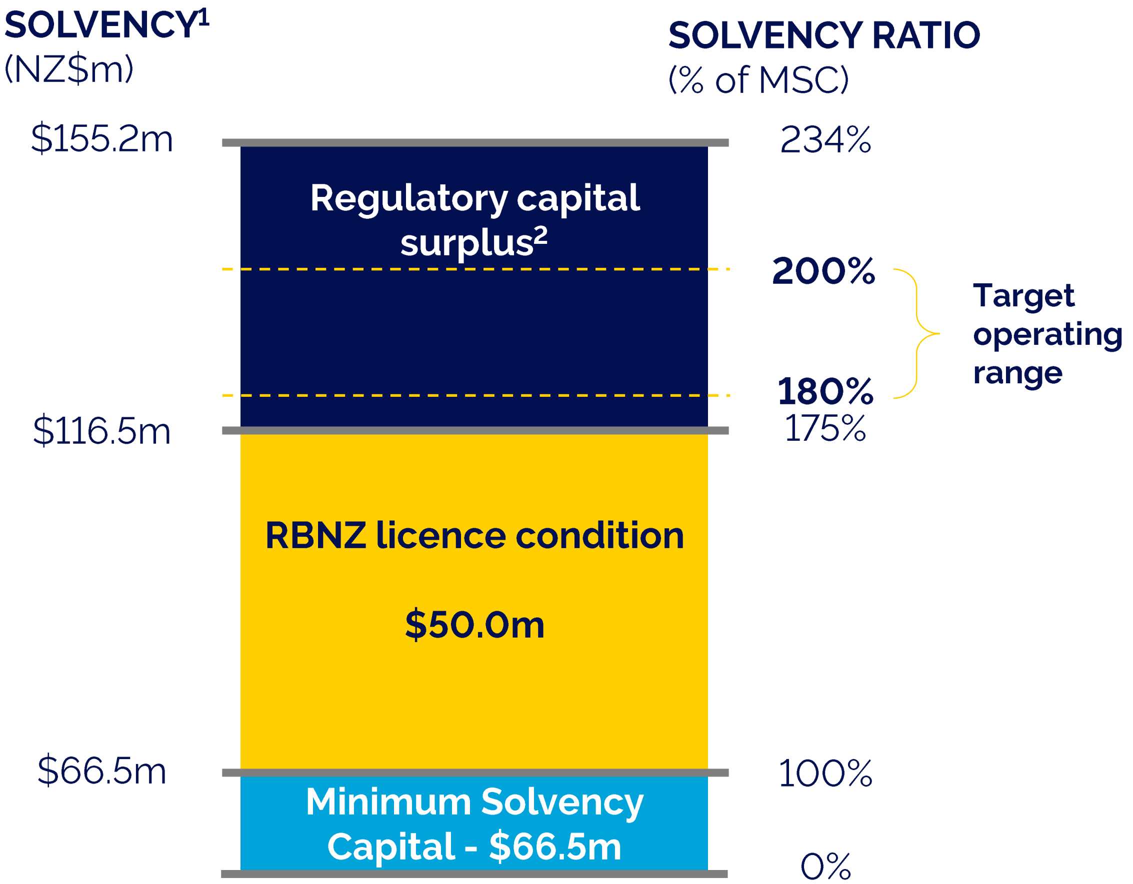

Paid claims | Case estimates | IBNR / Other

- Reduction in outstanding payments and IBNR
- Modest provision increases in context of complexity and tail end of claims
- Tower only impacted by Feb 11 event, of $30.2m total increase, only $2.9m will impact Tower

Note:
1. Overcap claims refer to claims lodged with EQC above their repair threshold of over $100,000
2. DFPP refers to Driveways, Fences, Pools and Pathways, all of which sit outside scope of EQC

# Strong solvency position

## Target solvency operating range revised to 180 – 200% of MSC



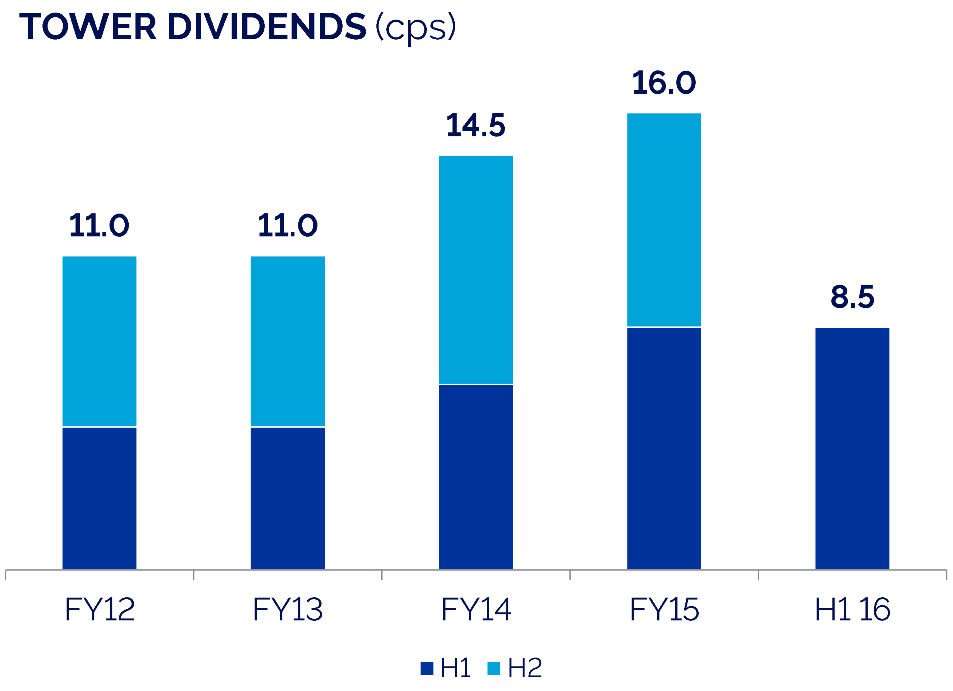

- Strong capital position with solvency of 234% of MSC in Tower Insurance Group
  - Additional $23m of cash held in Tower Limited[3]
- We have completed a detailed financial analysis with our appointed actuary to determine an updated target capital operating range (180 – 200%)

Note:
1. Solvency position for Tower Insurance Group
2. Tower Insurance Limited has surplus solvency of $27.6m. Tower Insurance Group has surplus solvency of $38.8m
3. Before payment of interim dividend of $14.3m

# Capital and dividends

## Maintaining solid dividends for shareholders

- $300m returned to shareholders over the past five years through dividends and capital returns
- Capital surplus
  - $23m solvency above target operating range in Tower Insurance Limited
  - $23m of cash at Tower Limited before dividend
- Capital policy to support investment
  - buyback programme will not be renewed
  - intention to maintain full year dividend at FY15 levels



# Operational update & outlook

**Richard Harding**

Chief Executive Officer

# Focusing on the core

## Our strategic imperatives will drive high performance

- Growth delivered through retention
- Ongoing Pacific growth
- Customer service delivery


- Improvement in risk selection
- Risk based pricing
- Product rationalisation

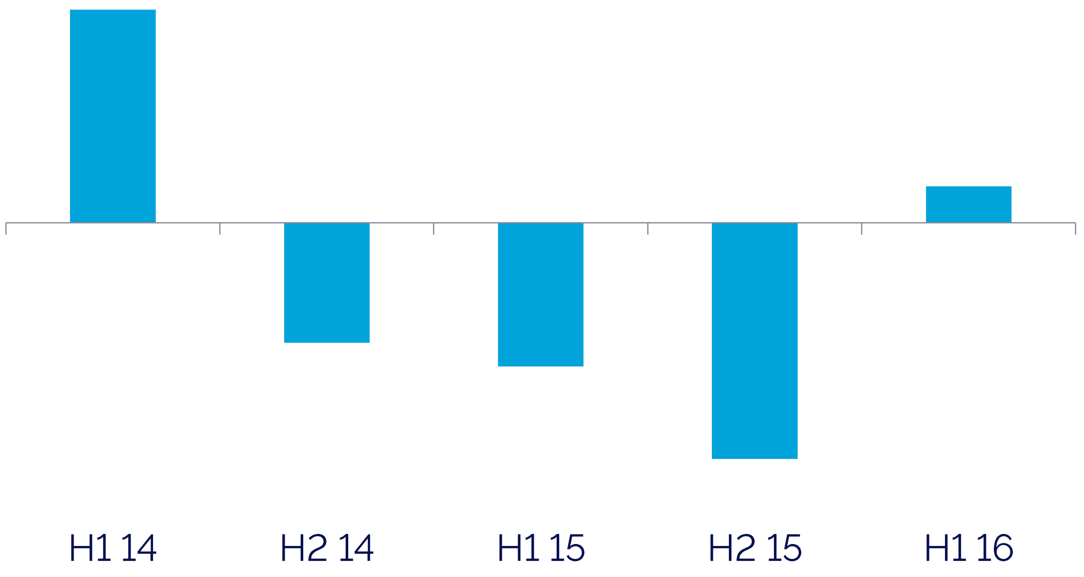
- Focus on costs reduces expenses
- IT platform review
- Claims costs controlled through improved claims management

# Core policy growth

## Focus on retention has delivered policy growth


- First half of positive policy growth in core New Zealand book since March 2014 due to retention initiatives
  – focus on driving profitable growth
- Brand repositioning showing positive signs, preference and consideration metrics improving
- Trade Me Insurance still in its infancy, confident in future potential

**CORE [1] NEW ZEALAND POLICY MOVEMENT**
(policies)



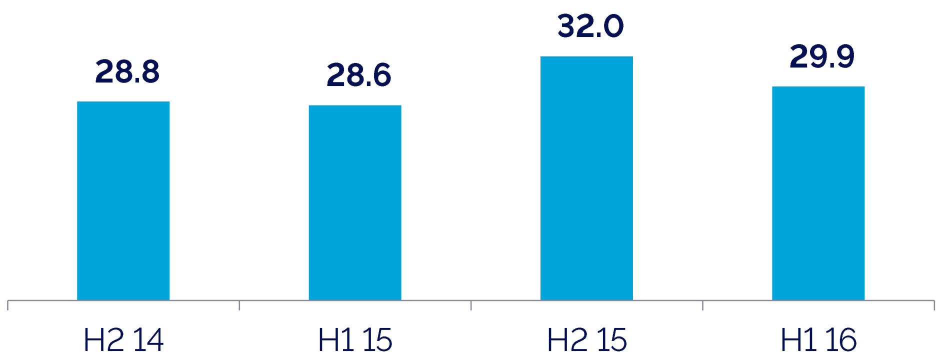

Notes:
1. Core portfolio excludes legacy ANZ portfolio

# Unique position in the Pacific

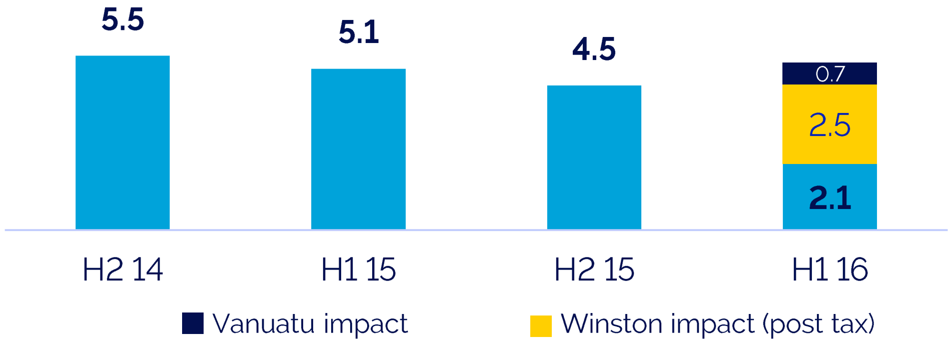
## The Pacific continues to deliver growth


- Strong H1 16 performance
  - GWP growth driven by Vanuatu, American Samoa, Samoa and Fiji
  - increase in underlying claims ratio due to active storm season
  - NPAT impacted by Vanuatu launch and Cyclone Winston
- Further growth expected as markets continue to develop
- Vanuatu opened in November, strong interest from local community

**PACIFIC GWP** (NZ$m)




**PACIFIC UNDERLYING NPAT** (NZ$m)

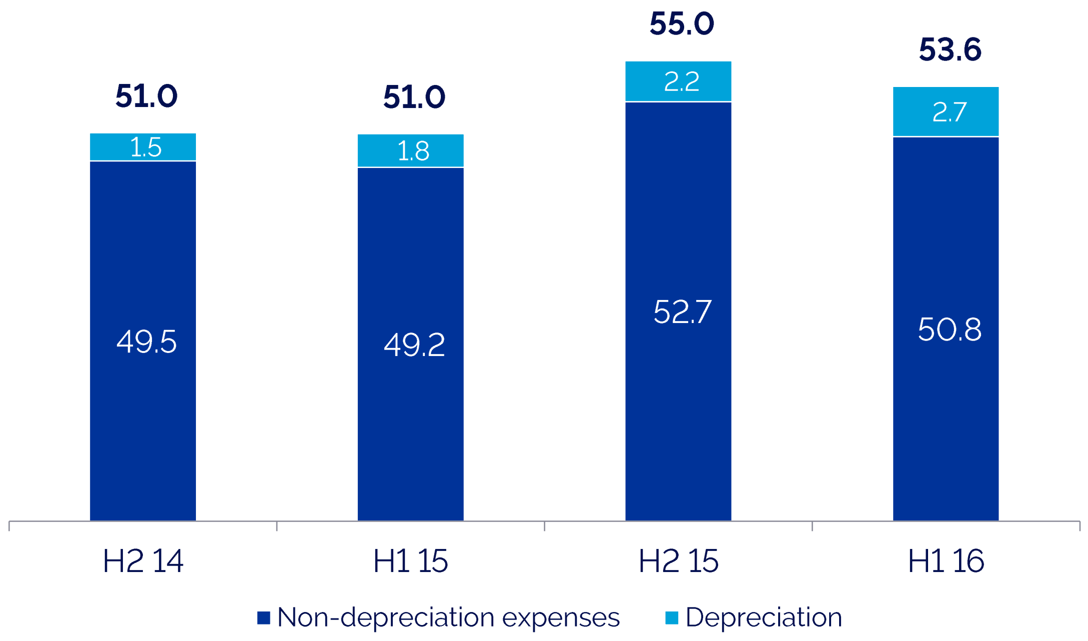


# Focus on costs


## Reduced management expenses through targeted initiatives

- We currently have a programme of work underway to reduce non-personnel expenses
- Examples of short-term initiatives include:
  - vendor management
  - customer communications to email
  - update of internal policies and processes
- Significant improvement in expense base will be possible through longer term change initiatives (IT simplification and product rationalisation)

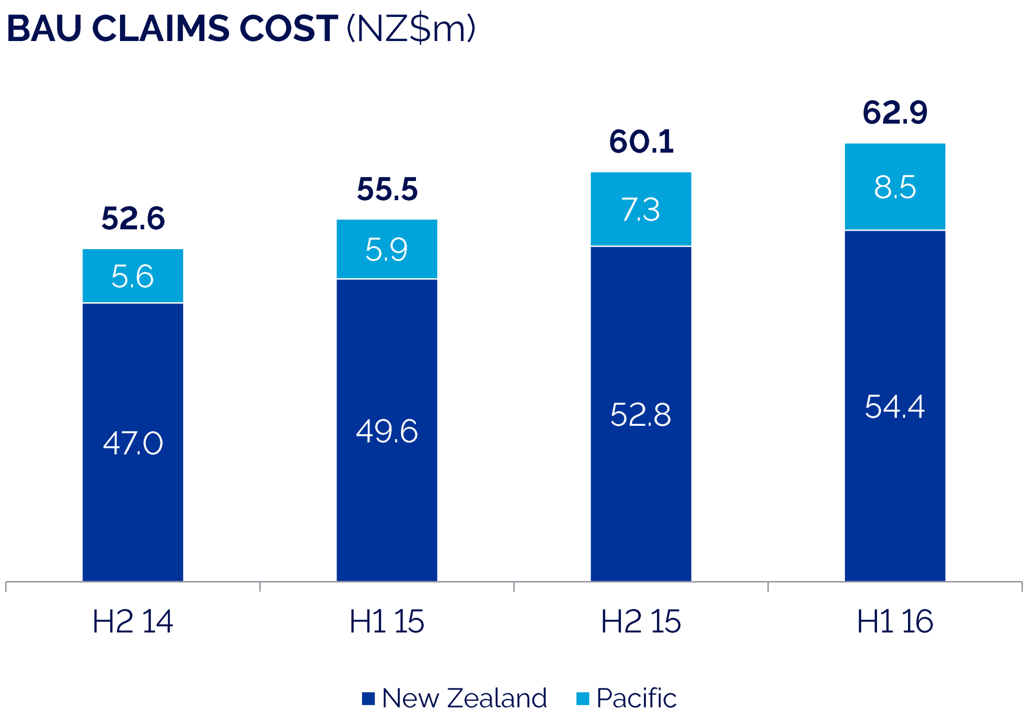
**MANAGEMENT EXPENSES** (NZ$m)



# Claims management is a top priority

## We are taking significant action to reduce claims costs

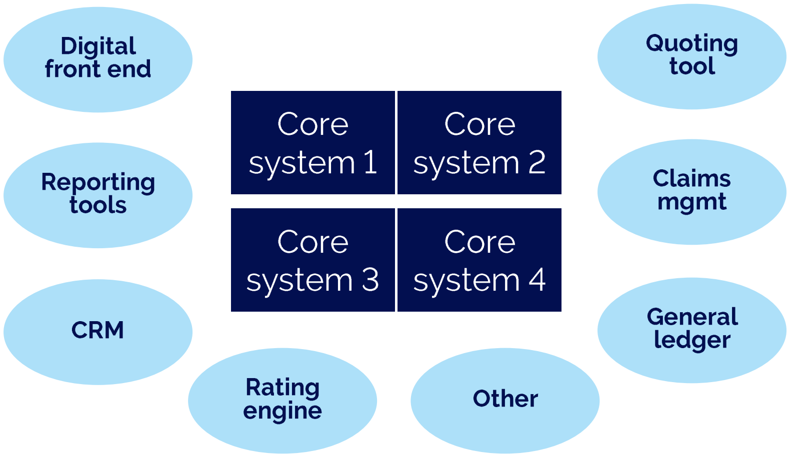

- As with others in the industry, we have seen growth in claims costs due to:
  - weather events in the Pacific
  - large loss in Vanuatu
  - higher industry costs
  - legacy policy structure and underwriting
- We have initiated a number of proactive steps to address increased claims costs
  - realignment to product-based teams
  - creation of preferred supplier networks for motor and home
  - updating of underwriting criteria and products with a focus on claims leakage




# IT simplification

## Simplifying our IT environment will reduce costs and drive growth

### CURRENT STATE




- ✗ Unstable - resulting in significant down time
- ✗ Inflexible - difficult to update products and prices
- ✗ Significant cost to maintain
- ✗ Operational complexity for staff
- ✗ Legacy rating engine
- ✗ Limited digital capability

### FUTURE STATE


- ✓ Modern rating engine allows granular pricing
- ✓ System flexibility makes it easy to update products and prices
- ✓ Reduction in systems significantly reduces costs and improves stability
- ✓ Digital capability

**Further detail to be provided at Tower investor day in July**

# Risk based pricing

## We will continue to enhance pricing to improve underwriting performance and competitiveness


### ACTIVITIES TO ENHANCE PRICING

***Immediate***

- Product reviews
- Additional updates of external data
- Improved underwriting criteria

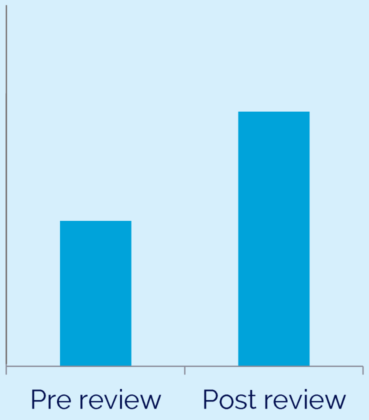
***Ongoing***

- New rating engine
- New data sources integrated into rating
- Product rationalisation

### RECENT HOUSE PRICE REVIEW

- Review of pricing segments to analyse loss ratio vs market position
- Reduced cross subsidisation will improve the portfolio mix
- Results allow us to optimise margin and drive growth
- Updated excess options to address claims issues
- Price review expected to drive incremental growth and improve claims cost

**Competitiveness:**
***Percentage of quotes where Tower is most competitive***



# Outlook

## Investment in the business will drive high performance, building shareholder value over the long term

### INDUSTRY DYNAMICS

- Flat premiums
- Increasing claims costs
- Increased competition
- Continued Canterbury claims progress
- Low interest rate environment

### TOWER DYNAMICS

***Short term***

- Improvement through focus on
  - retention
  - management expense initiatives
  - claims management initiatives

***Medium term***

- Significant improvements in productivity, cost and competitiveness driven by:
  - IT simplification
  - product rationalisation
  - customer experience

# Appendices

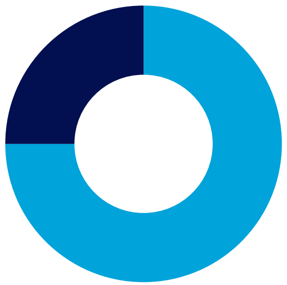
# A New Zealand and Pacific general insurer

TOWER

HY16

**$7.6m**

UNDERLYING **NPAT** [1]

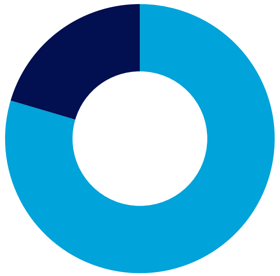


- New Zealand 74%[2]
- Pacific Islands 26%[2]

HY16

**$146.2m**

**GWP**

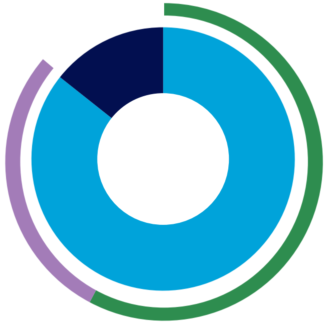


- New Zealand 80%
- Pacific Islands 20%

As at 31 March 2016

**477k**

**INFORCE POLICIES**



- New Zealand 86%
- Pacific Islands 14%

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- New Zealand - Direct 67%
- New Zealand - Alliances 33%

As at 31 March 2016

**Personal lines focus**

**GWP breakdown**

- House 35.4%
- Contents 16.3%
- Motor 30.6%
- Other 17.7%

Notes:
1. Excludes impact of the Canterbury earthquakes and IT impairment
2. Represents percentage of General Insurance underlying profit, excluding Corporate

# Underlying performance
# **Tower Group**

| $ million | H1 16 | H2 15 | H1 15 | H2 14 |
|---|---|---|---|---|
| Gross Written Premium | 146.2 | 159.7 | 145.9 | 158.4 |
| Gross Earned Premium | 151.5 | 154.3 | 150.4 | 146.0 |
| Reinsurance Costs | (24.5) | (26.3) | (25.7) | (24.5) |
| **Net earned premium** | **127.0** | **128.1** | **124.7** | **121.5** |
| Net incurred claims | (62.9) | (60.1) | (55.5) | (52.6) |
| Large events claims[1] | (3.3) | (4.9) | 0.0 | (9.6) |
| Management and sales expenses | (50.8) | (52.7) | (49.2) | (49.5) |
| Depreciation and amortisation | (2.7) | (2.2) | (1.8) | (1.5) |
| **Underwriting profit** | **7.2** | **8.1** | **18.3** | **8.3** |
| Investment revenue | 4.4 | 6.7 | 7.3 | 6.7 |
| Financing costs | - | - | - | (0.2) |
| Underlying Profit before tax[2] | 11.6 | 14.8 | 25.6 | 14.7 |
| Income tax expense | (4.0) | (4.1) | (8.0) | (3.0) |
| **Underlying profit after tax** | **7.6** | **10.7** | **17.5** | **11.7** |

Notes:
1. Large event claims refer to events with cumulative claims cost greater than $1m
2. Underlying profit excludes the impact of Canterbury earthquakes, IT impairments and profit on discontinued businesses.

# Underlying performance
# General Insurance

| $ million | Mar-16 | Sep-15 | Mar-15 | Sep-14 | Mar-14 | Sep-13 | Mar-13 | Sep-12 | Mar-12 |
|---|---|---|---|---|---|---|---|---|---|
| Gross earned premiums | 151.5 | 154.3 | 150.4 | 146.0 | 139.1 | 136.4 | 130.8 | 125.0 | 113.9 |
| Reinsurance | (24.5) | (26.2) | (25.7) | (24.5) | (23.5) | (24.4) | (23.5) | (21.2) | (20.0) |
| Net premiums | 127.0 | 128.1 | 124.7 | 121.5 | 115.6 | 112.0 | 107.3 | 103.8 | 93.9 |
| Net incurred claims | (62.9) | (60.0) | (55.5) | (52.7) | (53.4) | (48.7) | (52.6) | (46.4) | (44.9) |
| Large claim events[1] | (3.3) | (4.9) | 0.0 | (9.6) | (4.8) | (6.2) | (3.3) | (0.2) | (1.1) |
| Management and sales expenses | (52.0) | (53.5) | (49.5) | (49.0) | (43.9) | (41.3) | (41.7) | (40.0) | (38.8) |
| **Underwriting profit** | **8.7** | **9.6** | **19.7** | **10.2** | **13.5** | **15.7** | **9.7** | **17.2** | **9.1** |
| Investment revenue | 3.6 | 5.8 | 6.3 | 5.8 | 5.7 | 3.9 | 4.2 | 7.9 | 4.5 |
| **Underlying Profit before tax** | **12.3** | **15.5** | **26.0** | **16.0** | **19.2** | **19.6** | **13.9** | **25.1** | **13.6** |
| Income tax expense | (4.2) | (4.6) | (8.2) | (4.0) | (6.1) | (6.5) | (8.0) | (6.9) | (5.0) |
| **Underlying Profit (loss) after tax before impact of Canterbury earthquakes and revaluation of Australian liabilities** | **8.1** | **10.8** | **17.8** | **12.0** | **13.1** | **13.1** | **5.9** | **18.3** | **8.6** |
| (Loss) on disposal of subsidiaries | 0.0 | 0.0 | | (3.6) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Impact of Canterbury earthquakes | (2.1) | (13.6) | (22.6) | 0.0 | (0.1) | (0.5) | (14.7) | (10.4) | (3.2) |
| Revaluation of Australia liabilities and FX loss[2] | 0.0 | 0.0 | 0.0 | 0.5 | (1.2) | (1.1) | (6.0) | 0.0 | 0.0 |
| **Profit (loss) after tax [3]** | **6.0** | **(2.8)** | **(4.8)** | **12.5** | **11.8** | **11.5** | **(14.8)** | **7.8** | **5.4** |

| Underlying ratios | Mar-16 | Sep-15 | Mar-15 | Sep-14 | Mar-14 | Sep-13 | Mar-13 | Sep-12 | Mar-12 |
|---|---|---|---|---|---|---|---|---|---|
| Combined ratio | 93.1% | 92.5% | 84.2% | 91.7% | 88.3% | 85.9% | 90.9% | 83.4% | 90.3% |
| Claims ratio | 52.1% | 50.7% | 44.5% | 51.3% | 50.4% | 49.0% | 52.1% | 44.9% | 49.0% |
| Expense ratio | 40.9% | 41.8% | 39.7% | 40.4% | 37.9% | 36.9% | 38.8% | 38.5% | 41.3% |

Notes:
1. Large event claims refer to events with cumulative claims cost greater than $1m
2. The impacts of the Canterbury earthquakes and the discontinuation of the Australian business are classified differently in the Group financial statements
3. Excludes profit for the part year and loss on sale of TLNZ

# Balance sheet
# **Tower Group**

| $ million | H1 16 | H1 15 | Movement $ | Movement % |
|---|---|---|---|---|
| Cash & call deposits | 94.7 | 152.3 | (57.7) | (37.9%) |
| Investment assets | 201.3 | 215.7 | (14.4) | (6.7%) |
| Deferred acquisition costs | 19.8 | 19.9 | (0.1) | (0.7%) |
| Intangible assets | 29.1 | 42.7 | (13.1) | (30.7%) |
| Other operational assets/(liabilities) | 324.8 | 296.6 | 27.8 | 9.4% |
| **Total assets** | **669.8** | **727.2** | **(57.5)** | **(7.9%)** |
| Policy liabilities & insurance provisions | (355.8) | (357.7) | 1.9 | (0.5%) |
| External debt | 0.0 | 0.0 | 0.0 | 0.0% |
| Other operational (liabilities)/assets | (60.6) | (63.1) | 2.5 | (3.9%) |
| **Total liabilities** | **(416.4)** | **(420.8)** | **4.4** | **(1.0%)** |
| **Total equity** | **253.4** | **306.4** | **(53.1)** | **(17.3%)** |

# General Insurance
# **New Zealand**

| $ million | H1 16 | H2 15 | H1 15 | H2 14 |
|---|---|---|---|---|
| **Key financial metrics** | | | | |
| Gross written premium | 116.3 | 127.7 | 117.3 | 129.6 |
| BAU claims | 54.4 | 52.8 | 49.6 | 47.0 |
| Large event claims[1] | (0.1) | 4.9 | (0.0) | 9.6 |
| Underwriting profit | 5.4 | 4.6 | 11.4 | 3.8 |
| Underlying NPAT[2] | 6.0 | 6.1 | 12.8 | 6.5 |
| | | | | |
| **Key operating metrics** | | | | |
| BAU loss ratio | 52% | 50% | 48% | 45% |
| Total loss ratio | 52% | 55% | 48% | 55% |
| | | | | |
| Core policies inforce (000's) | 339.9 | 339.5 | 342.7 | |
| ANZ inforce policies (000's) | 69.1 | 72.8 | 77.5 | |
| Total policies inforce (000's) | 409.0 | 412.4 | 420.2 | 426.2 |

Notes:
1. Large event claims refer to events with cumulative claims cost greater than $1m
2. Underlying profit excludes the impact of Canterbury earthquakes, IT impairments and profit on discontinued businesses.

# General Insurance
## Pacific

| $ million | H1 16 | H2 15 | H1 15 | H2 14 |
|---|---|---|---|---|
| **Key financial metrics** | | | | |
| Gross Written Premium | 29.9 | 32.0 | 28.6 | 28.8 |
| BAU claims | 8.5 | 7.3 | 5.9 | 5.6 |
| Large event claims[1] | 3.3 | - | - | - |
| Underwriting profit | 3.2 | 6.1 | 7.1 | 6.2 |
| Underlying NPAT | 2.1 | 4.5 | 5.1 | 5.5 |
| **Key operating metrics** | | | | |
| BAU loss ratio | 39% | 32% | 28% | 31% |
| Total loss ratio | 54% | 32% | 28% | 31% |
| Policies outstanding (000's) | 68.4 | 68.7 | 68.2 | 65.7 |

Notes:
1. Large event claims refer to events with cumulative claims cost greater than $1m

# Impact of Canterbury claims

TOWER

| ($m) | Feb 11 event | | | Total Canterbury | | |
|---|---|---|---|---|---|---|
| | H1 16 | H2 15 | H1 15 | H1 16 | H2 15 | H1 15 |
| **Balances outstanding** | | | | | | |
| Customer Claims | 461.4 | 457.5 | 404.4 | 822.3 | 792.0 | 748.4 |
| Reinsurance recoveries | (375.4) | (374.4) | (335.3) | (719.7) | (692.2) | (662.6) |
| **Net claims cost to Tower** | **86.0** | **83.2** | **69.1** | **102.7** | **99.8** | **85.8** |
| **Intra period movements** | | | | | | |
| Movements in claims costs | 3.9 | 53.1 | 35.6 | 30.3 | 43.6 | 41.5 |
| Reinsurance recoveries | (1.0) | (39.0) | (4.3) | (27.5) | (29.5) | (10.1) |
| Cost of the ADC | - | 4.8 | - | - | 4.8 | - |
| Net provision increase | 2.9 | 18.9 | 31.4 | 2.9 | 18.9 | 31.4 |
| Tax benefit | (0.8) | (5.3) | (8.8) | (0.8) | (5.3) | (8.8) |
| **Net impact** | **2.1** | **13.6** | **22.6** | **2.1** | **13.6** | **22.6** |