



Tower Limited

2019
half year
report



Tower Limited **report**

For the **half year** ended
31 March 2019

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Tower Management **Review**

Half year to 31 March 2019

Features of half year 2019

- Transformation of business progressing well with solid growth driving \$23.5m turnaround
- Reported half year profit of \$11.9 million after tax
 - \$19.4m underlying profit after tax, a \$12.1m improvement on H1 18
 - Adjustments to CEQ provisions of \$4.7m after tax
- Solid GWP growth in the core New Zealand portfolio¹ of 8.9% on prior year, including volume growth, with 9,383 risks added
- Significant improvement in claims costs due to underwriting and pricing enhancements, with claims expense ratio reducing to 44.5% in H1 19, down from 55.5% in H1 18
- Pacific business has returned to historic norms with reduction in claims cost achieved and return to profitable growth
- Major technology upgrade set to launch in coming weeks, with majority of work for first phase complete and now in final stages of testing
- Continued positive progress closing Canterbury earthquake claims, with open claims down to 132 on March 31 2019, from 163 on October 1 2018

Half year summary

The first half of the 2019 Financial Year has seen Tower return to profit, evidence that Tower's strategy to fix and grow the business is paying off.

Tower's reported profit after tax of \$11.9 million for the half year ended 31 March 2019 (H1 19), demonstrates a turnaround of \$23.5 million from the half year ended 31 March 2018 (H1 18).

This result is the culmination of four years' work to turnaround Tower by fixing the foundations and challenging industry norms. Simplifying and improving all aspects of our business to differentiate the company has led to strong growth in GWP and customer numbers, reduced claims costs and contained expenses.

The continued focus on customers and improvements in digital channels added 9,383 new risks to Tower's core New Zealand portfolio, seeing core NZ GWP for the year grow 8.9% contributing to total GWP of \$169.7 million.

Implementation of risk-based pricing along with improved underwriting and pricing activity has significantly reduced claims costs. Over the last half, the claims ratio has reduced by 11 points to 44.5%, from 55.5% in H1 18.

Our Pacific business has rebounded due to solid growth, improved underwriting and a benign weather environment. The claims ratio has reduced to 27.8% for H1 19.

Tower's Pacific premium has also returned to historic norms, and along with the improvement in claims costs, has resulted in a \$4m improvement in underlying profit to \$4.2 million.

While making necessary and significant investment in our business, a continued

1. Core NZ portfolio is the NZ business, excluding the ANZ and Kiwibank legacy portfolio.

focus on costs allowed us to maintain our expense ratio at 38.7%. This investment will accelerate our growth and the first phase of our major technology upgrade will launch in the coming weeks.

Tower continues to settle claims in Canterbury, reducing open claims by 31, to 132 open claims. The CEQ portfolio is performing well and in line with expectations, with the exception of new over-cap claims from the EQC, which has resulted in a \$4.7m after tax impact on profit.

Tower's transformation is progressing well. These results demonstrate the Tower Board and management team's long held belief that Tower offers an exciting platform for growth. The next phase of our transformation strategy is to leverage our exciting proposition to deliver growth and realise Tower's full potential.

Group profit summary (NZ\$M)

NZ\$m	H1 19	H1 18	Change
Gross written premium	169.7	161.0	8.7
Gross earned premium	168.7	159.6	9.1
Reinsurance expense	(26.5)	(25.5)	(1.0)
Net earned premium	142.2	134.1	8.1
Net claims expense	(63.1)	(67.9)	4.8
Large events claims expense	(0.2)	(6.5)	6.3
Management and sales expenses	(55.1)	(52.1)	(2.9)
Underwriting profit	23.9	7.6	16.3
Investment revenue and other revenue	3.4	3.8	(0.4)
Financing costs	(0.2)	(0.4)	0.2
Underlying profit before tax	27.1	11.0	16.1
Income tax expense	(7.7)	(3.7)	(4.0)
Underlying profit after tax	19.4	7.3	12.1
PeakRe settlement	0.0	(16.2)	16.2
Canterbury impact	(4.7)	(2.3)	(2.4)
Foreign tax credits write-off	(1.0)	0.0	(1.0)
Simplification programme opex	(0.4)	0.0	(0.4)
Other non-underlying costs	(1.4)	(0.4)	(1.0)
Reported profit/(loss) after tax	11.9	(11.6)	23.5

Transformation progressing well

Tower holds a unique position in the New Zealand insurance market, with a solid existing customer base and a clear strategic plan for growth by delivering a compelling, challenger proposition to the market. A belief that customers deserve better will see Tower turn industry norms upside down and revolutionise the way customers interact with the company.

The achievements to date show that there is a powerful platform for future growth with progress seen in crucial areas:

- Focus on customers has delivered strong growth
- Improved NZ claims ratio
- Improvements in the Pacific
- Management expenses controlled while investing and building capability
- Major technology upgrade set to launch

Focus on customers driving growth

Overview

- Solid GWP growth of 8.9% in core NZ portfolio with total GWP growing at 5.4%
- Growth in risks in core New Zealand book increased significantly by 9,383

- 46% of new business sales online in March 2019, up from less than 10% in FY16
- New approach to pricing combined with simple and easy products driving customer growth and improved mix

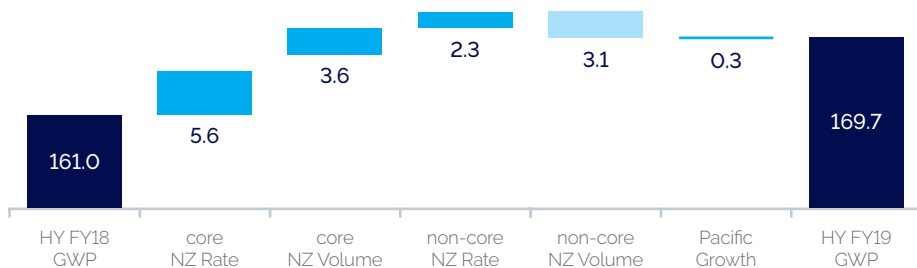
Tower continues to offer customers simpler insurance at a fair price. Through this approach we are realising the potential that exists in the Tower brand, with more customers choosing to insure with Tower.

Core GWP is growing above industry averages, with GWP in:

- NZ House growing 7.8%, with the majority being attributable to rating
- NZ Contents growing 2.9% split between rating and volume, and
- NZ Motor growing 12.3%, with the majority being attributable to volume

We continue to see solid growth through our digital channels, with almost 50% of new business sales online in March 2019, up from 39% in March 2018. Combined with the fact that 18% of claims were lodged online in March 2019, this is further proof that our investment in digital channels is warranted.

Growth in GWP (NZ\$m)



In the Pacific, Tonga, Samoa, Vanuatu, American Samoa and the Cook Islands have returned to growth thanks to additional underwriting, pricing and marketing support for local teams. Following a number of years of remediation, we are now well placed for sustainable growth in the region.

Tower's growth is being achieved through a combination of factors, including:

- a new, fairer risk-based approach to pricing and simpler policy documents
- constant refinement of underwriting criteria enabling more granular assessment
- attracting new, profitable customers with improved and targeted offerings
- the creation of the Pacific operations centre, centralising back office functions, ensuring that the pricing and underwriting approach is consistent and minimises claims leakage.

Improved NZ claims ratio

Overview

- Underwriting and pricing initiatives have delivered significant improvements
- Core insurance activity is offsetting inflation

New Zealand claims expenses have decreased significantly in the first half of the 2019 financial year with a number of

underwriting and pricing initiatives helping to offset inflation.

A one-off adjustment relating to the 2017 financial year increased our base claims ratio in H1 18, this was a one-off issue for FY2018.

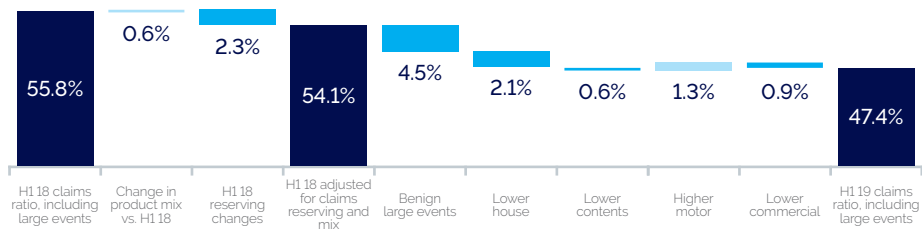
While in prior years, we've borne the brunt of severe weather, this year we've benefited from improved weather conditions with no large events to date. This has resulted in a 4.5% decrease in the NZ claims ratio.

Tower's new, simpler products and fairer, risk-based pricing approach have contributed to a reduction in NZ House and Contents claim frequency. Following a period in 2017 and 2018 of a higher number of large house fires, trends have returned to more normalised levels.

Good weather has seen more people out exploring New Zealand and as a result, in our motor portfolio, there has been an increase in claims frequency. This is mainly due to more windscreen damage as a result of increased traffic and roadworks around the country.

While this result is pleasing and significant improvements have been delivered, there is a continuing focus on refining products and pricing approaches to ensure we continue addressing claims costs.

Change in Claims Ratio vs. Prior Year



Improvements in the Pacific

Overview

- Improved pricing, underwriting and risk selection is delivering results
- Vanuatu, Tonga, Samoa, American Samoa and the Cook Islands have returned to growth
- Key markets of Papua New Guinea and Fiji returning to profitability following completion of remediation activities
- Benign weather has contributed to improvement

Tower's Pacific business remains strong and after being impacted by a number of severe weather events over the past few years, contributions have now returned to historic levels.

Vanuatu, Tonga, Samoa, American Samoa and the Cook Islands have returned to growth thanks to additional underwriting, pricing and marketing support for local teams.

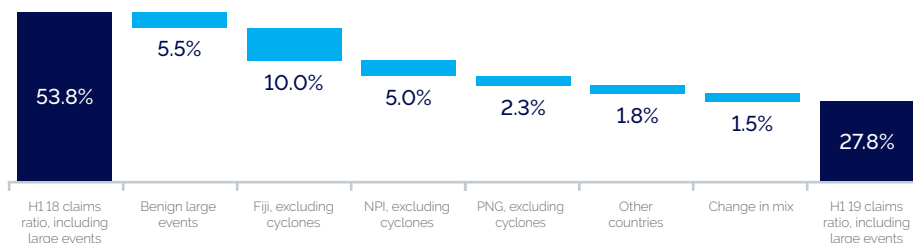
Remediation of the Papua New Guinea portfolio to reduce risk and exposure is now complete and this portfolio is returning to profitability.

Fiji is another key market that has seen improved profitability thanks to the continued repricing of the Fiji motor book. Although growth in Fiji is slightly softer than we have previously seen, this was an important step to ensure future growth remains sustainable.

Improvements in claims costs have been delivered through targeted underwriting and pricing initiatives across key markets, and, combined with a benign weather environment, have resulted in a 26% decrease in our Pacific claims ratio.

The recently launched centralised operation centre in the Pacific has helped bring greater discipline and consistency across the region ensuring growth is within our risk appetite. We remain confident that there is strong growth potential in our Pacific markets and that it will continue to make a significant contribution to Tower in the coming years.

Change in Claims Ratio vs. Prior Year



Management expenses controlled while investing and building capability

Achievements

- Management expense ratio stable while investment is made in new platform
- Additional spend directed towards growth and reducing risk

Tower has stabilised its costs, despite continuing to significantly invest. The management expense ratio stabilising at 38.7% in H1 19, compared to 39% in FY18.

Investment is being made to grow the business, as well as backfilling project roles, and working to mitigate any risks associated with the implementation of the new technology platform.

Tower anticipates a slight uplift in management expenses in the second half due to the increased focus on the migration of customers onto the new platform. However, once fully operational, expenses will reduce significantly.

Major technology upgrade underway

The key to accelerating Tower's transformation is a new IT platform that enables the simplification of products and processes. This will remove complexity for frontline teams and enable the delivery of Tower's strategy.

Combined with Tower's push to move 50 - 70% of all transactions online, removing complexity from the business will deliver significant cost savings and productivity gains.

A phased implementation approach has been developed to mitigate risk and minimise any impact on customers. The launch of the first phase will occur in the

coming weeks, before the end of first half of the 2019 calendar year.

Development and build of phase one is complete with the final stages of testing underway. The new system will be deployed through phone channels first, followed closely by digital channels. Completion of phase one will enable the sale of new simplified products to customers and is the core foundation piece of this programme.

Delivery of phase two components will occur in the second half of the 2019 calendar year and includes:

1. Rationalisation of products
2. Commencing the 12 month migration of existing customers to the new platform
3. Launching a customer self-service portal, allowing customers to manage their insurance online
4. Implementing streamlined claims management modules

Moving hundreds of thousands of customers to a core set of just 12 products will deliver significant benefits to our customers and efficiencies in our business. A migration of this size can pose risk if not properly managed and there is a stringent focus on managing and retaining customers through the change to minimise this risk.

Costs for the programme are developing in line with previously advised amounts and at this stage, there are no material changes to the estimated total cost.

Key benefits to be seen from Tower's new IT platform include the ability to:

- Create and deliver a unique customer experience
- Quickly deliver simple, customer focussed products
- Target specific, profitable customer segments through granular, and automated pricing and underwriting

- Charge more accurate premiums through improved access to, and use of, internal and external data
- Easily trial new products and pricing
- Rationalise products and reduce claims costs by improving the customer claims journey and overall claims management
- Significantly reduce our cost base and realise large productivity gains by moving low value transactions online
- Add value through improved employee engagement

Tower's approach to implementing this new IT platform is designed to deliver on a dual purpose – accelerate transformation and realise shareholder value.

Robust governance controls are in place for this programme, with a focus on managing delivery risk and cost trade-off. It is expected that benefits will start being realised over the 2020 financial year, with a step change expected as the customer migration is finalised and existing legacy systems decommissioned.

Canterbury update

The CEQ portfolio is performing well and in line with expectations, with the exception of new over-cap claims from the EQC.

Open litigated claims are settling favourably and there has been a considerable reduction in new litigated claims. Tower's non-litigated claims are also settling in line with expectations.

In the past six months 65 claims have been closed, while 24 completely new over-cap claims from the EQC have been received.

While progress continues to be made in closing claims in Canterbury, the continued receipt of over-cap claims from the EQC is

frustrating and has hampered efforts to close out claims once and for all.

It is not Tower's role – nor its shareholders' responsibility – to resolve and pay for situations arising from EQC's past incompetence and the negligence of its repair providers.

So while Tower will continue to treat customers fairly, it will now seek to recoup any costs incurred from settling over-cap claims from EQC where past incompetence and negligence has contributed to the claim going over-cap.

As a result of new over-cap claims from the EQC, Tower has increased provisions for the potential receipt of further over-caps. Further increases to provisions resulted in a \$4.7m after-tax P&L impact and relative to case estimates, provisions now sit at 115%.

NZ\$m	Mar-19	Sep-18	Mar-18
Case estimates	29.7	37.4	48.0
IBNR/IBNER ¹	20.3	21.4	22.0
Risk margin	9.0	9.0	10.8
Additional risk margin	5.0	5.0	10.0
Actuarial provisions	34.3	35.4	42.8
Gross outstanding claims	64.0	72.9	90.8
Ratio of provisions to case estimates ²	115%	95%	89%

Tower provisions to the 75th percentile for all claims. For CEQ provisions that increases to just above the 80th percentile with the \$5m additional risk margin.

1. IBNR ("Incurred but not reported") / IBNER ("Incurred but not enough reported") includes claims handling expenses

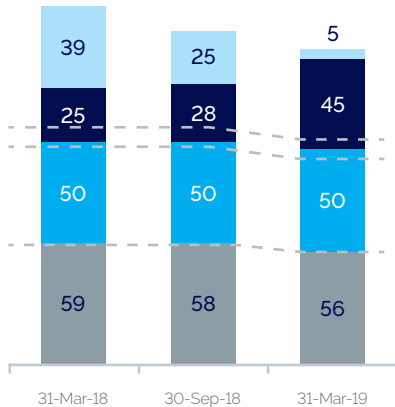
2. Ratio of IBNR / IBNER plus risk margin to case estimates

Solvency position

Tower holds significant capital over and above the minimum regulatory requirement.

As at 31 March 2019, Tower Insurance Limited held approximately \$95 million of solvency margin, \$45 million above RBNZ requirements and equivalent to 271% of minimum solvency capital. An additional \$5 million in corporate cash was also held by Tower Limited as at 31 March 2019.

Tower Limited has negotiated a new cash advance facility, maturing in March 2023, and will utilise this facility to fund remaining IT investment



Tower Insurance Limited Solvency Position Plus Net Corporate Cash (NZ\$M)

- Net cash held in corporate
- TIL's solvency margin above RBNZ minimum
- TIL's RBNZ minimum solvency margin
- TIL's MSC

Outlook

Tower is focussed on progressing transformation initiatives that will continue to accelerate momentum and deliver long-term shareholder value.

Tower is confident in the strength of its strategy and the performance of its underlying business. Following the pleasing performance in the first half, Tower increased its one-off guidance for FY19, to an underlying NPAT in excess of \$26 million.

This includes the following assumptions:

- A \$5m allowance for severe weather and large events in the second half
- Loss ratios will return to more normalised levels in the second half as we enter the winter storm period
- A minor uplift in management expenses as our transformation activity culminates.

As previously advised, no dividend will be paid in the first half of the financial year. The Board's intention is to pay between 50% and 70% of second half 2019 NPAT, if prudent to do so in the circumstance.

Tower's reported profit demonstrates the strength and opportunity that exists in the business and the strategic plan that will create a challenger brand that delivers significant long-term value.



Tower Limited **Interim Financial Statements** and Independent Review Report

For the **half year** ended
31 March 2019

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Tower Limited

Consolidated **Income** Statement

For the **half year** ended 31 March 2019

	NOTE	FOR THE HALF YEAR ENDED	
		31 MARCH 2019 UNAUDITED \$000	31 MARCH 2018 UNAUDITED \$000
Revenue			
Premium revenue	B1	168,729	159,615
Less: Outwards reinsurance expense		(26,480)	(25,476)
Net premium revenue		142,249	134,139
Investment revenue	C1	3,726	2,939
Fee and other revenue		2,768	1,418
Net operating revenue		148,743	138,496
Expenses			
Claims expense		90,123	98,640
Less: Reinsurance and other recoveries revenue		(7,504)	(9,745)
Net claims expense	B2, B3	82,619	88,895
Management and sales expenses		48,270	41,389
Acquisition proposal expenses		-	302
Impairment of reinsurance receivables		-	22,508
Financing expenses		209	440
Total expenses		131,098	153,534
Profit (loss) attributed to shareholders before tax		17,645	(15,038)
Tax benefit (expense) attributed to shareholders' profits		(5,736)	3,418
Profit (loss) for the half year		11,909	(11,620)
Profit (loss) profit attributed to:			
Shareholders		11,594	(11,535)
Non-controlling interest		315	(85)
		11,909	(11,620)
Basic and diluted profit (loss) per share (cents)		3.4	(4.1)

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

Tower Limited

Consolidated Statement of **Comprehensive Income**

For the **half year** ended 31 March 2019

	FOR THE HALF YEAR ENDED	
	31 MARCH 2019 UNAUDITED \$000	31 MARCH 2018 UNAUDITED \$000
	NOTE	
Profit (loss) for the half year	11,909	(11,620)
Other comprehensive profit (loss)		
Currency translation differences	(1,001)	(1,491)
Other comprehensive loss net of tax	(1,001)	(1,491)
Total comprehensive profit (loss) for the half year	10,908	(13,111)
Total comprehensive profit (loss) attributed to:		
Shareholders	10,626	(12,996)
Non-controlling interest	282	(115)
	10,908	(13,111)

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

Tower Limited

Consolidated Balance Sheet

For the half year ended 31 March 2019

		AS AT	
	NOTE	31 MARCH 2019 UNAUDITED \$'000	30 SEPTEMBER 2018 AUDITED \$'000
Assets			
Cash and cash equivalents		66,969	102,001
Receivables	D1	245,974	259,607
Investments	C2	220,515	198,000
Derivative financial assets		-	271
Deferred acquisition costs		22,870	22,595
Property, plant and equipment		8,456	8,510
Intangible assets	D2	61,888	45,042
Current tax assets		13,376	13,831
Deferred tax assets		31,909	36,376
Total assets		671,957	686,233
Liabilities			
Payables		71,367	80,375
Provisions		4,166	5,789
Unearned premiums		175,606	175,551
Outstanding claims & additional risk margin		134,305	148,976
Borrowings	C3	-	-
Current tax liabilities		300	174
Deferred tax liabilities		532	589
Total liabilities		386,276	411,454
Net assets		285,681	274,779
Equity			
Contributed equity	E1	447,543	447,543
Accumulated losses		(46,489)	(58,077)
Reserves		(117,123)	(116,155)
Total equity attributed to shareholders		283,931	273,311
Non-controlling interest		1,750	1,468
Total equity		285,681	274,779

The interim financial statements were approved for issue by the Board on 21 May 2019.



Michael P Stiasny
Chairman



Graham R Stuart
Director

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

Tower Limited

Consolidated Statement of **Changes in Equity**

For the **half year** ended 31 March 2019

ATTRIBUTED TO SHAREHOLDERS
UNAUDITED

NOTE	CONTRIBUTED EQUITY \$000	ACCUMULATED LOSS \$000	RESERVES \$000	TOTAL \$000	NON- CONTROLLING INTEREST \$000	TOTAL EQUITY \$000
Half year ended 31 March 2019						
At the beginning of the half year	447,543	(58,077)	(116,155)	273,311	1,468	274,779
Comprehensive income						
Profit (loss) for the half year	-	11,594	-	11,594	315	11,909
Currency translation differences	-	-	(968)	(968)	(33)	(1,001)
Total comprehensive income	-	11,594	(968)	10,626	282	10,908
Transactions with shareholders						
Other	-	(6)	-	(6)	-	(6)
Total transactions with shareholders	-	(6)	-	(6)	-	(6)
At the end of the half year	447,543	(46,489)	(117,123)	283,931	1,750	285,681
Half year ended 31 March 2018						
At the beginning of the half year	382,172	(51,299)	(116,454)	214,419	1,325	215,744
Comprehensive income						
Profit (loss) for the half year	-	(11,535)	-	(11,535)	(85)	(11,620)
Currency translation differences	-	-	(1,461)	(1,461)	(30)	(1,491)
Total comprehensive loss	-	(11,535)	(1,461)	(12,996)	(115)	(13,111)
Transactions with shareholders						
Net proceeds of capital raise	E1 65,375	-	-	65,375	-	65,375
Other	-	(3)	-	(3)	-	(3)
Total transactions with shareholders	65,375	(3)	-	65,372	-	65,372
At the end of the half year	447,547	(62,837)	(117,915)	266,795	1,210	268,005

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

Tower Limited

Consolidated Statement of Cash Flows

For the **half year** ended 31 March 2019

	NOTE	FOR THE HALF YEAR ENDED	
		31 MARCH 2019 UNAUDITED \$000	31 MARCH 2018 UNAUDITED \$000
Cash flows from operating activities			
Premiums received		169,819	152,721
Interest received		3,981	3,723
Net realised investment gains		97	321
Fee and other income received		1,889	1,418
Reinsurance received		14,828	27,402
Reinsurance paid		(29,890)	(28,369)
Claims paid		(98,422)	(111,281)
Payments to suppliers and employees		(47,899)	(44,129)
Income tax paid		(744)	(1,688)
Net cash inflow from operating activities	C4	13,659	118
Cash flows from investing activities			
Net (payments) proceeds from financial assets		(27,695)	4,510
Purchase of property, plant and equipment and intangible assets		(20,299)	(2,954)
Net cash (outflow) inflow from investing activities		(47,994)	1,556
Cash flows from financing activities			
Share issue net of costs	E1	-	65,775
Financing expenses		(209)	(609)
Repayment of borrowings		-	(30,000)
Net cash (outflow) inflow from financing activities		(209)	35,166
Net (decrease) increase in cash and cash equivalents		(34,544)	36,840
Foreign exchange movement in cash		(488)	(588)
Cash and cash equivalents at the beginning of the half year		102,001	83,876
Cash and cash equivalents at the end of the half year		66,969	120,128

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

Tower Limited

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2019

PART A - INTRODUCTION

This section provides introductory information that is helpful to an overall understanding of the financial statements and the areas of critical accounting judgements and estimates included in the financial statements. It also includes a summary of Tower's financial performance by operating segment.

A1. Summary of general accounting policies

Entities reporting

The interim financial statements presented are those of Tower Limited (the Company) and its subsidiaries. The Company and its subsidiaries together are referred to in this financial report as Tower or the Group. The address of the Company's registered office is 45 Queen Street, Auckland, New Zealand.

Statutory base

Tower Limited is a company incorporated in New Zealand under the Companies Act 1993 and listed on the NZX Main Board and the Australian Securities Exchange. The Company is a 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), and for the purposes of NZ GAAP, the Group is a for-profit entity. 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 financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2018, 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 2019 are unaudited.

Accounting policies

Refer to Note F4 for the impact of amendments to accounting standards. Other than this, 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 2018.

Changes in comparatives

Refer to Note F3 for details of change in comparatives. Changes relate to income statement reclassification, balance sheet reclassification and presentation of notes. There is no change to net assets or the 2018 profit.

Notes to the Interim Financial Statements

For the half year ended 31 March 2019

A2. Critical Accounting Judgements And Estimates

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

Claims estimation

The valuation of net outstanding claims is an area of significant judgement and estimation. Key elements of judgement included within claims estimations are: the rate of claims closure; the quantum of closed claims reopening; the level of future increases in building and other claims costs; future claim management expenses; and assessments of risk margin. With regards to the Canterbury earthquake claims, additional key elements of judgement include: apportionment of claims costs between the four main earthquake events; and the quantum of new claims being received from EQC and the average cost of these claims.

Key elements of judgement included within recoveries estimations are: the collectability of reinsurance recoveries; recoveries from EQC in respect of land damage and building costs; and the assessments of risk margin. The nature of estimation uncertainties, including from those factors listed above, mean that actual claims experience may deviate from reported results.

Refer to Note B3 for further detail on the Canterbury Earthquakes.

EQC recoveries

Valuation of additional EQC recoveries in respect of building costs and land damage is an area of significant judgement and estimation. Areas of judgement and subjectivity exist in assessments of: claim file review of earthquake event allocation; the quality of assessment information; litigation risk factors; and portfolio conservatism. Tower has filed a statement of claim against EQC in respect of land damage recoveries.

Refer to Note B3 for further detail on EQC recoveries for Canterbury earthquakes.

Deferred taxation

Deferred tax assets are recognised for all unused tax losses to the extent it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likely timing and quantum of future taxable profits.

This assessment is completed on the basis of Tower's approved strategic plans. If future profits do not occur as expected, or there is a significant change in ownership, Tower may not be able to utilise all of these tax losses.

Capitalised IT development costs

Capitalisation of IT development costs is an area of judgement and estimation. The application of NZ IAS 38 *Intangible Assets* includes accounting considerations required for capitalisation of IT projects. When applying NZ IAS 38, areas of judgement include consideration of recognition, impairment indicators, economic useful life, and previous Board impairment decisions.

Refer to Note D2 for further detail on the intangible assets.

Tower Limited

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2019

A3. Segmental reporting

	NEW ZEALAND GENERAL INSURANCE \$000	PACIFIC ISLANDS GENERAL INSURANCE \$000	OTHER \$000	TOTAL \$000
Half year ended 31 March 2019 (Unaudited)				
Revenue				
Revenue – external	125,613	22,024	1,106	148,743
Net Operating Revenue	125,613	22,024	1,106	148,743
Profit (loss) before tax	12,270	6,302	(927)	17,645
Tax benefit (expense)	(4,185)	(2,080)	529	(5,736)
Profit (loss) for the half year	8,085	4,222	(398)	11,909
Half year ended 31 March 2018 (Unaudited)				
Revenue				
Revenue – external	117,013	21,069	414	138,496
Net Operating Revenue	117,013	21,069	414	138,496
Profit (loss) before tax	(14,859)	508	(687)	(15,038)
Tax benefit (expense)	4,235	(1,010)	193	3,418
Loss for the half year	(10,624)	(502)	(494)	(11,620)
Total assets 31 March 2019 (Unaudited)	472,600	90,537	108,820	671,957
Total assets 30 September 2018 (Audited)	480,664	95,072	110,497	686,233
Total liabilities 31 March 2019 (Unaudited)	328,746	55,980	1,550	386,276
Total liabilities 30 September 2018 (Audited)	345,406	63,224	2,824	411,454

Description of segments and other segment information

Tower operates predominantly in two geographical segments, New Zealand and the Pacific region. The New Zealand segment comprises general insurance business written in New Zealand. The Pacific Islands segment includes general insurance business with customers in Pacific Islands written by Tower subsidiaries and branch operations. Other includes head office expenses, financing costs and eliminations.

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2019**PART B - REVENUE AND CLAIMS**

This section provides information about Tower's insurance related financial performance. Tower operates as a general insurance company and its insurance operations drive its performance and financial position.

Tower collects premiums from customers in exchange for providing insurance coverage over their assets and activities. These premiums are recognised as revenue when they are earned by Tower, with a liability for unearned premiums recognised on the balance sheet.

When customers suffer a loss that is covered by their policy, Tower will make payments to customers or suppliers, which it recognises as claims expenses. To ensure that Tower's obligations to customers are properly recorded within the financial statements, Tower recognises provisions for outstanding claims.

To manage Tower's risk and optimise its returns, Tower reinsures some of its exposure with reinsurance companies. The premiums paid to reinsurers are recognised as an expense, while recoveries from reinsurers are recognised as revenue.

B1. Premium revenue

	FOR THE HALF YEAR ENDED	
	31 MARCH 2019 UNAUDITED \$000	31 MARCH 2018 UNAUDITED \$000
Gross written premiums	169,665	160,980
Less: Gross unearned premiums	(936)	(1,365)
Premium revenue	168,729	159,615

B2. Net claims expense

		FOR THE HALF YEAR ENDED	
	NOTE	31 MARCH 2019 UNAUDITED \$000	31 MARCH 2018 UNAUDITED \$000
Canterbury earthquake claims (4 key events)	B3	6,500	3,200
Other claims		76,119	85,695
Total net claims expense		82,619	88,895

B3. Canterbury earthquakes

As at 31 March 2019 Tower has 132 claims remaining to settle (30 September 2018: 163 claims) as a result of earthquakes impacting the Canterbury region during 2010 and 2011.

The table opposite presents a financial representation of Tower's outstanding claims provision at 31 March 2019 in relation to the four main earthquake events.

Tower Limited

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2019

B3. Canterbury earthquakes (continued)

Canterbury earthquakes insurance liability provision

	31 MARCH 2019 UNAUDITED \$'000	30 SEPTEMBER 2018 AUDITED \$'000
Insurance liabilities		
Gross outstanding claims	(59,000)	(67,900)
Additional risk margin	(5,000)	(5,000)
	(64,000)	(72,900)

Additional risk margin

As at 31 March 2019, the Board has maintained an additional risk margin of \$5.0 million (30 September 2018: \$5.0 million) over and above the provision of the Appointed Actuary, which is set at the 75th percentile probability of sufficiency. The Board will continue to review this additional risk margin each half year and the \$5.0 million is expected to be released once the Canterbury outstanding claims liability has sufficiently run off.

The table below presents a financial representation of Tower's outstanding reinsurance receivables at 31 March 2019 in relation to the four main earthquake events.

Canterbury earthquakes receivables

	31 MARCH 2019 UNAUDITED \$'000	30 SEPTEMBER 2018 AUDITED \$'000
Reinsurance recovery receivables	6,100	7,100
Reinsurance recoveries on risk margin	900	800
Receivable from reinsurers	7,000	7,900
EQC related to closed claims	76,200	74,000
EQC related to open claims	2,600	4,500
Risk margin on EQC receivable	(8,800)	(10,100)
Receivable from EQC	70,000	68,400
EQC payable to reinsurers on closed claims	(18,400)	(17,900)
EQC payable to reinsurers on open claims	(700)	(1,000)
Risk margin on EQC payable to reinsurers receivable	2,200	2,500
EQC payable to reinsurers	(16,900)	(16,400)
Receivable from EQC net of reinsurance	53,100	52,000
Receivable from EQC and reinsurers	60,100	59,900

EQC recovery receivable

Tower has one significant receivable amount related to Canterbury earthquake claims, being \$70.0 million from EQC (30 September 2018: \$68.4 million). \$16.9 million of this EQC amount is payable to reinsurers which has been allowed for in payables (30 September 2018: \$16.4 million). The amount payable to reinsurers may vary depending on the balance collected from EQC. A risk margin of \$8.8 million has been allowed for on the receivable from EQC (30 September 2018: \$10.1 million).

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2019**B3. Canterbury earthquakes** (continued)

Tower estimates the gross amount receivable due from EQC is significantly higher than the \$70.0 million, but has adopted this amount, which is the actuarial valuation of the Appointed Actuary. The method by which the actuarial valuation is completed recognises the inherent risk and uncertainty with recovery of the full gross amount.

Tower acknowledges that the EQC recoveries relating to Canterbury earthquakes are an area of significant accounting estimation and judgement, including earthquake event allocation, litigation risk factors and other actuarial assumptions.

The table below presents the cumulative impact of the four main Canterbury earthquake events on the income statement.

	NOTE	31 MARCH 2019 UNAUDITED \$000	30 SEPTEMBER 2018 AUDITED \$000	31 MARCH 2018 UNAUDITED \$000
Cumulative expenses associated with Canterbury earthquakes:				
Earthquake claims estimate		(913,690)	(905,840)	(897,640)
Reinsurance recoveries		724,523	723,173	721,873
Claim expense net of reinsurance recoveries		(189,167)	(182,667)	(175,767)
Reinsurance expense		(25,045)	(25,045)	(25,045)
Additional risk margin		(5,000)	(5,000)	(10,000)
Cumulative impact of Canterbury earthquakes before tax		(219,212)	(212,712)	(210,812)
Income tax benefit		61,379	60,228	59,696
Cumulative impact of Canterbury earthquakes after tax		(157,833)	(152,484)	(151,116)
Recognised in current period (net of tax)				
Net claims expense	B2	(4,680)	(7,272)	(2,304)
Additional risk margin	B2		3,600	-
Impairment of receivables		-	(15,660)	(15,660)
		(4,680)	(19,332)	(17,964)

The Board is actively engaged in monitoring Canterbury earthquake developments. Board process relies on the Appointed Actuary's determination of earthquake ultimate incurred claims estimates and the derivation of estimated outcomes. Recognising relative complexities which exist within remaining open claims, the Appointed Actuary has reviewed each remaining property file with Tower claims staff. This individual claim methodology included review of the latest specialist assessment reports and scope of works to repair or rebuild properties to determine the propensity for future costs to vary. In addition, further provision was made for claims re-opening; claims moving over the EQC cap of \$100,000; claims in litigation and other claim categories.

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 2019. Any further changes to estimates will be recorded in the accounting period when they become known.

Tower Limited

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2019

B3. Canterbury earthquakes (continued)

The catastrophe reinsurance cover headroom remaining is included in the table opposite.

	CATASTROPHE REINSURANCE COVER REMAINING	
	31 MARCH 2019 UNAUDITED \$000	30 SEPTEMBER 2018 AUDITED \$000
Date of event		
June 2011	254,700	255,700
December 2011	486,700	486,900

Tower has exceeded its catastrophe reinsurance limit in relation to the September 2010 and February 2011 events.

PART C - FINANCIAL INSTRUMENTS AND LIQUIDITY

Funds provided by shareholders and collected as premiums are invested by Tower, providing a financial return and also ensuring that Tower's obligations to pay claims and expenses can be met.

This section provides information about Tower's financial instruments, including information about the cash and investments that Tower holds, its approach to managing risk for these financial instruments, and its cash flows.

C1. Investment revenue

	NOTE	31 MARCH 2019 UNAUDITED \$000	31 MARCH 2018 UNAUDITED \$000
Fixed interest securities			
Interest income		3,981	3,723
Net realised loss		(207)	(160)
Net unrealised loss		(21)	(187)
Total fixed interest securities		3,753	3,376
Equity securities			
Net unrealised (loss) gain	C5	-	(745)
Total equity securities		-	(745)
Other			
Net realised gain		304	481
Net unrealised loss		(331)	(173)
Total other		(27)	308
Total interest and dividend income		3,981	3,723
Total net realised gain		97	321
Total net unrealised loss		(352)	(1,105)
Total investment revenue		3,726	2,939

Tower Limited

Notes to the Interim Financial Statements

For the half year ended 31 March 2019

C2. Investment assets

	31 MARCH 2019 UNAUDITED \$000	30 SEPTEMBER 2018 AUDITED \$000
Fixed interest securities	219,906	197,367
Equity securities	575	599
Property securities	34	34
Total investments	220,515	198,000

C3. Borrowings

	CURRENCY	INTEREST RATE	ROLLOVER DATE (DRAWN) / MATURITY DATE (UNDRAWN)	FACE VALUE \$000	UNAMORTISED COSTS \$000	CARRYING VALUE \$000	FAIR VALUE \$000
As at 31 March 2019 (Unaudited)							
Bank facility (undrawn)	NZD	Variable	27-Mar-23	30,000	-	-	-
Total borrowings					-	-	-
As at 30 September 2018 (Audited)							
Bank facility (undrawn)	NZD	Variable	9-Sep-19	50,000	-	-	-
Total borrowings					-	-	-

Cash advance facilities

During March 2019, the Company entered into a new \$30.0 million cash advance facility with Bank of New Zealand, which replaced an existing \$50.0 million cash advance facility that was due to expire in September 2019. This new general facility is primarily for the development and acquisition of Tower's information technology platforms, software and related assets. The facility limit will decrease from the initial \$30.0 million: to \$25.0 million on 1 July 2020; to \$20.0 million on 1 July 2021; and to \$15.0 million on 1 July 2022.

All borrowings are subject to normal terms and conditions for facilities of this nature, including financial covenants and are unsecured. The Company has fully complied with all covenants during the half year ended 31 March 2019.

Tower Limited

Notes to the Interim Financial Statements

For the half year ended 31 March 2019

C4. Reconciliation of profit (loss) for the half year to net cash flows from operating activities

	FOR THE HALF YEAR ENDED	
	31 MARCH 2019 UNAUDITED \$000	31 MARCH 2018 UNAUDITED \$000
Profit (loss) for the half year	11,909	(11,620)
Adjusted for non-cash items		
Depreciation of property, plant and equipment	694	761
Amortisation of software	2,813	2,579
Impairment of reinsurance receivables	-	21,750
Unrealised loss on financial assets	352	1,104
Gain on disposal of property, plant and equipment	-	(19)
Change in deferred tax	4,410	(4,187)
	8,269	21,988
Adjusted for movements in working capital (excluding the effects of exchange differences on consolidation)		
Change in receivables	12,852	6,527
Change in payables	(20,161)	(16,467)
Change in taxation	581	(919)
	(6,728)	(10,859)
Adjusted for other items classified as investing / financing activities		
Financing expenses	209	609
	209	609
Net cash inflows from operating activities	13,659	118

Notes to the Interim Financial Statements

For the half year ended 31 March 2019

C5. Fair value of financial assets and liabilities

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

(i) Cash and cash equivalents

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

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

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

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

(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.

Tower Limited

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2019

C5. Fair value of financial assets and liabilities (continued)

The following tables present the Group's assets and liabilities categorised by fair value measurement hierarchy levels. There have been no transfers between levels of the fair value hierarchy during the current financial period (30 September 2018: nil)

	TOTAL \$000	LEVEL 1 \$000	LEVEL 2 \$000	LEVEL 3 \$000
As at 31 March 2019 (Unaudited)				
Assets				
Investment in equity securities	575	-	-	575
Investments in fixed Interest securities	219,906	-	219,906	-
Investments in property securities	34	-	34	-
Investments	220,515	-	219,940	575
Derivative financial assets	-	-	-	-
Total financial assets	220,515	-	219,940	575

As at 30 September 2018 (Audited)

Assets				
Investment in equity securities	599	-	-	599
Investments in fixed Interest securities	197,367	-	197,367	-
Investments in property securities	34	-	34	-
Investments	198,000	-	197,401	599
Derivative financial assets	271	-	271	-
Total financial assets	198,271	-	197,672	599

At 31 March 2019, the Level 3 category includes investment in equity securities of \$575,000 (30 September 2018: \$599,000). This investment is in unlisted shares of a company which provides reinsurance to Tower. The fair value is calculated based on the net assets of the company from the most recently available financial information, adjusted for market conditions. The following table represents the changes in Level 3 instruments:

INVESTMENT IN EQUITY SECURITIES

	AS AT 31 MARCH 2019 UNAUDITED \$000	AS AT 30 SEPTEMBER 2018 AUDITED \$000
Opening balance	599	1,412
Total gains and losses recognised in profit and loss	-	(745)
Foreign currency movement	(24)	(46)
Disposals	-	(22)
Closing balance	575	599

Tower Limited

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2019

C5. Fair value of financial assets and liabilities (continued)

The following table shows the impact of increasing or decreasing the combined inputs used to determine the fair value of the level 3 investments by 10%:

	CARRYING AMOUNT \$000	FAVOURABLE CHANGES OF 10% \$000	UNFAVOURABLE CHANGES OF 10% \$000
As at 31 March 2019			
Investment in equity securities (Unaudited)	575	58	(58)
As at 30 September 2018			
Investment in equity securities (Audited)	599	60	(60)

PART D - OTHER BALANCE SHEET ITEMS

This section provides information about assets and liabilities not included elsewhere.

D1. Receivables

	AS AT 31 MARCH 2019 UNAUDITED \$000	AS AT 30 SEPTEMBER 2018 AUDITED \$000
Premium receivables	140,029	141,578
Reinsurance recovery receivables	18,905	32,600
Claim recoveries and unearned reinsurance premiums	11,345	11,616
Trade receivables	170,279	185,794
EQC receivables	70,541	69,272
Other	5,154	4,541
Total receivables	245,974	259,607

D2. Intangible assets

Impairment testing for software under development

Software under development includes expenditure relating to the development of a new core IT platform, digital enhancements, communications technology and work to extend the useful life of other IT assets. Software under development is subject to impairment testing and no impairment loss has been recognised in 2019 (30 September 2018: Nil). In assessing the recoverable amount for software under development, Management has based its assumptions on the five year projections covered by Tower's 2019-2023 operating plans, including an assessment of additional revenue and expense savings expected to be generated by each asset. These assumptions are determined from a variety of sources, including Management's past experience, comparison of key metrics to industry baselines, sensitivity of revenues to changes in drivers and analysis of current expenditure that can be reduced. Management has not put any value on projected cash flows beyond a five year period. A discount rate of 12% has been used in the valuation (30 September 2018: 12%).

Tower Limited

Notes to the Interim Financial Statements

For the half year ended 31 March 2019

D2. Intangible assets (continued)

HALF YEAR ENDED 31 MARCH 2019 (UNAUDITED)	SOFTWARE				TOTAL
	GOODWILL	ACQUIRED	INTERNALLY DEVELOPED	UNDER DEVELOPMENT	
Cost					
Opening balance	17,744	5,382	37,645	22,502	83,273
Additions	-	-	-	19,659	19,659
Transfers	-	179	6,229	(6,408)	-
Closing balance	17,744	5,561	43,874	35,753	102,932
Accumulated amortisation:					
Opening balance	-	(4,698)	(33,533)	-	(38,231)
Amortisation charge	-	(117)	(2,696)	-	(2,813)
Closing balance	-	(4,815)	(36,229)	-	(41,044)
Net book value					
Cost	17,744	5,561	43,874	35,753	102,932
Accumulated amortisation	-	(4,815)	(36,229)	-	(41,044)
Closing net book value	17,744	746	7,645	35,753	61,888

YEAR ENDED 30 SEPTEMBER 2018 (AUDITED)	SOFTWARE				TOTAL
	GOODWILL	ACQUIRED	INTERNALLY DEVELOPED	UNDER DEVELOPMENT	
Cost					
Opening balance	17,744	5,097	37,045	4,484	64,370
Additions	-	-	-	19,026	19,026
Disposals	-	-	-	(74)	(74)
Transfers	-	285	600	(885)	-
Transfers to property, plant and equipment	-	-	-	(49)	(49)
Closing balance	17,744	5,382	37,645	22,502	83,273
Accumulated amortisation:					
Opening balance	-	(4,501)	(28,535)	-	(33,036)
Amortisation charge	-	(197)	(4,998)	-	(5,195)
Closing balance	-	(4,698)	(33,533)	-	(38,231)
Net book value					
Cost	17,744	5,382	37,645	22,502	83,273
Accumulated amortisation	-	(4,698)	(33,533)	-	(38,231)
Closing net book value	17,744	684	4,112	22,502	45,042

Tower Limited

Notes to the Interim Financial Statements

For the half year ended 31 March 2019

PART E - CAPITAL

This section provides information about Tower's capital structure.

E1. Contributed equity

	31 MARCH 2019 UNAUDITED \$000	30 SEPTEMBER 2018 AUDITED \$000
Opening balance	447,543	382,172
Issue of share capital	-	70,838
Costs of capital raise	-	(5,467)
Total contributed equity	447,543	447,543

On 14 November 2017 the Company invited its eligible shareholders to subscribe to a rights issue of 1 new share for every 1 existing share held at the record date on 22 November 2017 at a price of NZD0.42 (or AUD0.39) for each new share. The issue was fully subscribed on 20 December 2017.

Represented by:

	31 MARCH 2019 UNAUDITED NUMBER OF SHARES	30 SEPTEMBER 2018 AUDITED NUMBER OF SHARES
Opening balance	337,324,300	168,662,150
Issued shares	-	168,662,150
Total shares on issue	337,324,300	337,324,300

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

E2. Solvency requirements

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. 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 below. Actual solvency capital exceeds the minimum solvency capital requirement for the Tower Insurance Limited Group and Tower Insurance Limited, refer below.

	TOWER INSURANCE LIMITED		TOWER INSURANCE LIMITED GROUP	
	31 MARCH 2019 UNAUDITED \$000	30 SEPTEMBER 2018 UNAUDITED \$000	31 MARCH 2019 UNAUDITED \$000	30 SEPTEMBER 2018 AUDITED \$000
Actual solvency capital	150,800	136,476	173,067	156,765
Minimum solvency capital	55,569	58,298	70,841	74,344
Solvency margin	95,231	78,178	102,226	82,421
Solvency ratio	271%	234%	244%	211%

Tower Limited

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2019

E2. Solvency requirements (continued)

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. At 31 March 2019 the reported solvency margin was higher than this minimum amount for both Tower Insurance Limited and Tower Insurance Limited Group.

E3. Net assets per share

	31 MARCH 2019 UNAUDITED \$	30 SEPTEMBER 2018 AUDITED \$
Net assets per share	0.85	0.81
Net tangible assets per share	0.57	0.57

PART F - OTHER DISCLOSURES

This section includes additional disclosures which are required by financial reporting standards.

F1. Contingent liabilities

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

The Group has no other contingent liabilities.

F2. Subsequent events

There were no other subsequent events after balance date.

F3. Change in comparatives

Comparative information has been reclassified to achieve consistency with the current year presentation. Changes relate to income statement reclassification. There is no change to net assets or the 2018 profit.

Income Statement - corrections of claims expense and reinsurance recoveries revenue

Claims expense and reinsurance and other recoveries revenue in the Income Statement have each been adjusted by \$30.6m, reducing claims expense to \$98.6m and reinsurance and other recoveries revenue to \$9.7m. This change corrects adjustments that were made in the comparative period to record the claims provisions relating to the Canterbury earthquakes and more accurately reflects the apportionment of the movement in claims provisions between claims expense and reinsurance recoveries. There is no change to net claims expense. The changes in the Canterbury earthquakes provisions were correctly reflected in financial statements for the year ended 30 September 2018. Changes for consistency have also been made to the Statement of Cash Flows.

Statement of Cash Flows - reclassification between cash and cash equivalents and investments

In the Statement of Cash Flows comparative period, the cash and cash equivalents balance at the beginning of the half year has been reduced by \$19.0m and cash and cash equivalents balance at the end of the half year has been reduced by \$22.5m to reflect a reclassification of term deposits with maturity dates greater than 3 months but less than 12 months from cash and cash equivalents to investments. The difference between these amounts has resulted in a decrease to the net proceeds for financial assets of \$3.5m.

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2019**F3. Change in comparatives** (continued)**Statement of Cash Flows - reclassification between premiums received and reinsurance paid**

Premiums received and reinsurance paid in the Cash Flow Statement have each been adjusted by \$0.2m, reducing premiums received to \$152.7m and reinsurance paid to \$28.4m. This change is a result of reclassifications between insurance liabilities and other receivables.

F4. Impact of amendments to accounting standards

The following new Accounting Standards, the adoption of which had no material financial impact on the Group, are applicable for the current reporting period.

ACCOUNTING STANDARD	DESCRIPTION
NZ IFRS 9	<i>Financial Instruments</i>
NZ IFRS 15	<i>Revenue from contracts with customers</i>

NZ IFRS 9 *Financial Instruments*

For Tower, NZ IFRS 9 *Financial Instruments* became effective for the period beginning on 1 October 2018, replacing the existing accounting requirements for financial instruments under IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IFRS 9 introduces changes to the classification and measurement of financial instruments, replaces the 'incurred loss' impairment model with a new 'expected loss' model when recognising expected credit losses on financial assets, and imposes new general hedge accounting requirements. NZ IFRS 9 specifically excludes from its scope the rights and obligations arising from insurance contracts, as defined under NZ IFRS 4 *Insurance Contracts*.

Tower has applied NZ IFRS 9 retrospectively, with no material change to the carrying amount of its financial instruments when measured under the requirements of NZ IFRS 9.

Tower's financial instruments that are classified at fair value through profit or loss on initial recognition, and which are subsequently re-measured to fair value at each reporting date, are classified on this basis because they back general insurance liabilities and measuring them at fair value significantly reduces a potential measurement inconsistency which would arise if the assets were measured at amortised cost or fair value through other comprehensive income.

For debt instruments carried at amortised cost, Tower assesses the expected credit losses on a forward looking basis, and have amended the impairment methodology for subsequent measurement depending on whether there has been a significant increase in credit risk. Financial assets that are held for collection of contractual cashflows where those cashflows represent solely payments of principal and interest are measured at amortised cost.

The measurement bases of Tower's financial assets and liabilities under NZ IAS 39 and NZ IFRS 9, showing changes in classification of Tower's financial instruments, are as opposite.

Tower Limited

Notes to the Interim Financial Statements

For the half year ended 31 March 2019

F4. Impact of amendments to accounting standards (continued)

ASSET/LIABILITY	MEASUREMENT BASIS UNDER NZ IAS 39	MEASUREMENT BASIS UNDER NZ IFRS 9	CARRYING AMOUNT UNDER NZ IAS 39 AND NZ IFRS9* \$'000
Cash and cash equivalents held by corporate entities	Amortised cost	Amortised cost	7,296
Cash and cash equivalents held by insurance companies	Amortised cost	Fair value through profit or loss	59,673
Investments	Fair value through profit or loss	Fair value through profit or loss	220,515
Claim recoveries	Amortised cost	Amortised cost	3,141
Derivative financial assets	Fair value through profit or loss	Fair value through profit or loss	-
Trade and other payables	Amortised cost	Amortised cost	71,367
Borrowings	Amortised cost	Amortised cost	-

* The reclassifications of the financial instruments on adoption of NZ IFRS 9 did not result in any material changes to carrying amounts.

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 *Revenue from Contracts with Customers* became effective for the period beginning on 1 October 2018, with no material impact to Tower. NZ IFRS 15 introduces a single model for the recognition of revenue based on when an entity satisfies the contractual performance obligations by transferring a promised good and service to a customer. It does not apply to insurance contracts and financial instruments. Hence the majority of Tower's revenue is not impacted by this change. Revenue from contracts with customers, as defined by NZ IFRS 15, is disclosed as 'Fee and other income' in the consolidated income statement. There has been no material change in the measurement of 'Fee and other income' on implementation of NZ IFRS 15 as the existing recognition and measurement of revenue under the applicable contracts meets the requirements under the new standard.



Independent review report

To the shareholders of Tower Limited

Report on the consolidated interim financial statements

We have reviewed the accompanying consolidated interim financial statements of Tower Limited (the "Group") on pages 12 to 33 which comprise the consolidated balance sheet as at 31 March 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half year ended on that date, and selected explanatory notes.

Directors' responsibility for the consolidated interim financial statements

The Directors are responsible on behalf of the Group for the preparation and presentation of these consolidated interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of consolidated interim 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 consolidated interim 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 consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs 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 consolidated interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group. These services are assurance services in respect of solvency and insurance returns and agreed upon procedures in respect of voting at the Annual Shareholders Meeting and an insurance return. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence. We have no other interests in the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 March 2019, and its financial performance and cash flows for the half year then ended, in accordance with IAS 34 and NZ IAS 34.

*PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
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Who we report to

This report is made solely to Tower Limited's shareholders, as a body. Our review work has been undertaken so that we might state to Tower Limited'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.

For and on behalf of:

A handwritten signature in black ink, appearing to read 'Priyanka Haselopoulos'.

Chartered Accountants
21 May 2019

Auckland

Tower Directory

Board of Directors

Michael Stiasny (Chairman)
Warren Lee
Steve Smith
Graham Stuart
Wendy Thorpe
Marcus Nagel

Chief Executive Officer

Richard Harding

Company Secretary

Hannah Snelling

Executive leadership team

Richard Harding
Tony Antonucci
Michelle James
Jane Hardy
Peter Muggleston
Jeff Wright
Michelle McBride

Registered Office

New Zealand

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Australia

C/- PricewaterhouseCoopers
Nominees (N.S.W) Pty Ltd
PricewaterhouseCoopers
One International Towers Sydney
Watermans Quay
Barangaroo
Sydney NSW 2000
Australia

Auditor

PricewaterhouseCoopers

Banker

Westpac New Zealand Limited

Enquiries

For customer enquiries, call Tower on 0800 808 808 or visit tower.co.nz
For investor enquiries:
Telephone: +64 9 369 2000
Email: investor.relations@tower.co.nz
Website: tower.co.nz

Company numbers

Tower Limited (Incorporated in New Zealand)

NZ Incorporation 979635
NZBN 9429 0374 84576
ARBN 088 481 234

Stock exchanges

The Company's ordinary shares are listed on the NZSX and the ASX. On Wednesday 18 May 2016, Tower's ASX admission category changed to "ASX Foreign Exempt Listing".

Registrar

New Zealand

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Freephone within New Zealand: 0800 222 065
Telephone New Zealand: +64 9 488 8777
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Melbourne Vic 3000
Freephone within Australia: 1800 501 366
Telephone Australia: +61 3 9415 4083
Facsimile Australia: +61 3 9473 2500
Email: enquiry@computershare.co.nz
Website: investorcentre.com/nz

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

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

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

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



Tower Limited Investor Relations

Telephone: **+64 9 369 2000**

Email: **investor.relations@tower.co.nz**

Website: **tower.co.nz**

Registrar

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