



TOWER Limited
TOWER Capital Limited

Leading light

Half year report 2014



Investment *highlights*

For the *half year* ended 31 March 2014

+

Half year profit:

\$13.1m

+

General Insurance solvency:

\$43.3m

Current solvency position above regulatory minimum¹

+

Capital returned to shareholders:²

\$52.6m

+

Bond repaid on 15 April 2014:

\$81.8m

+

Declared unimputed dividend:

6.5c *per share*

+

Net promoter score: (NPS)³

+25

May 2014

¹ Totalling \$123.3 million less \$80 million RBNZ minimum solvency margin

² Ratio for return resulted in final amount paid to shareholders being \$52,577,437

³ A measure of customer satisfaction



TOWER Limited TOWER Capital Limited Half year reports

For the *half year* ended 31 March 2014

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TOWER strategy

starting to deliver results

TOWER is working to deliver attractive shareholder returns by growing a general insurance business that is seen as a leading light in New Zealand and the Pacific.



We are and will continue to be a customer focused Kiwi general insurer offering an attractive, independent alternative to the big foreign brands.

After a period of significant change, our new operating model has been implemented and the general insurance strategy is starting to deliver results.

During the half we made good progress on our strategic objectives and we are pleased to announce an improvement in first half year General Insurance net profit. This indicates the underlying strength of our business, which was impacted during the period by a number of severe weather events.

We are well advanced in the execution of our core strategy to deliver growth and sustainable shareholder returns.

Given our results, the Board has declared a dividend of 6.5 cents per share (unimputed), which is an increase of 30% and in line with our stated policy of aiming to pay 90-100% of reported profit as dividends.

The dividend comes on top of \$52.6 million returned to shareholders during the half year in a voluntary share buy back and the repayment of \$81.8 million in bonds in April.

Distribution of surplus capital is part of our approach to realising shareholder value and will remain a focus for this Board.

A number of shareholders have asked the company to consider a way for them to cost-effectively dispose of their small holdings. The Board is pleased to respond to this and has announced a share cancellation programme.

Key features of the result

- Solid result with General Insurance net profit up strongly on 1H13
- Gross written premium up 5% to \$139.2 million, supported by rate increases due to rising reinsurance costs
- Gross earned premiums of \$139.1 million, up from \$130.8 million (after adjusting for unearned amounts)
- First half dividend of 6.5 cents per share (unimputed), up 30% plus \$52.6 million returned to shareholders in 1H14 and \$81.8 million bonds redeemed in April 2014
- Good solvency, with capital above regulatory minimums of \$43.3 million in General Insurance and \$7.4 million in retained life business
- Reported NPAT of \$13.1 million, down from \$44.2 million in 1H13, which included profit from asset sales and divested businesses
- Investment in brand, product and service to support growth in direct and alliance channels
- Improved customer satisfaction reflected in rising Net Promoter Score and lower policy lapse rates
- Focus on staff engagement, efficiency and cost structure to support growth in multiple channels
- Pacific NPAT recovered to \$2.7 million, from a loss of \$0.6 million in 1H13 and identified path to growth through strong brands and alliances
- Canterbury rebuild supports progress toward capital release

+

“We are well advanced in the execution of our core strategy to *deliver growth and sustainable shareholder returns.*”

Michael Stiassny
Chairman



Solid half year result

TOWER Limited reported net profit after tax (NPAT) of \$13.1 million for the first half of financial year 2014. This compares to NPAT of \$44.2 million in the previous corresponding period (pcp), which included significant abnormal profit and earnings from divested businesses.

General Insurance NPAT of \$13 million from continuing operations, is an improvement from the pcp loss of \$8.8 million, which includes the Canterbury reserve strengthening.

Early shoots are visible from the execution of strategic priorities with customer retention, brand recognition and net promoter score, a key measure of customer satisfaction, improving during the half year.

TOWER made significant progress to leverage technology shifts to improve its direct business, launching new products and services and providing better value and service to customers.

In the Pacific, NPAT recovered to \$2.7 million in 1H14 from a loss of \$0.6 million in pcp. Earnings in 1H13 were affected by Cyclone Evan as well as increased withholding tax payments.

TOWER returned \$52.6 million to shareholders through a voluntary share buy back during 1H14 and has since repaid \$81.8 million in bonds. Total capital returned to shareholders in the last 13 months was \$171.8 million.

TOWER will pay a first half dividend of 6.5 cents per share (unimputed), up 30% on pcp. This is in line with the policy of a 90-100% payout ratio of NPAT attributable to shareholders.

Earnings per share (EPS)¹ were 4.96 cents, up from a loss of 3.50 cents in the pcp.

General Insurance

In General Insurance, gross written premium (GWP) increased 5.0% on the pcp, supported by rate growth to reflect earlier rises in reinsurance costs. Net earned premium (NEP) increased 7.7% to \$115.6 million primarily due to premium increases and improved retention. Excluding the pre-tax \$19.7 million Canterbury reserve strengthening booked in the 31 March 2013 half year, claims were \$4.2 million higher than the pcp (net of reinsurance).

Large claim events in New Zealand and the Pacific cost \$4.8 million before tax in the half year, compared to \$3.3 million in 1H13. The industry has seen a spike in weather events over the past two years, with recent events including the storms in October, as well as South Island floods and Cyclone Lusi in March.

Despite these pressures, key insurance ratios, including claims ratio, combined ratio and expense ratio, all improved against pcp on an underlying basis. TOWER invested in brand, new products and service during the half year. The Company has also focussed on staff engagement, efficiency and the ongoing cost structure to support future growth.

TOWER holds an estimated 4.6% share of the New Zealand general insurance market (based on Estimated GWP for 12 months to 31 December 2013 using ICNZ data), placing it 5th in the market. More important is TOWER's position in the key Personal Lines market, with shares of 10.5% in Home, 10.2% in Contents and 6.4% in Motor lines. This highlights the substantial opportunity available to TOWER in New Zealand.

The Company has more than 496,000 policies and 264,000 customers in New Zealand and seven Pacific territories through its own direct business and alliance partnerships.

TOWER made significant progress on the General Insurance strategy and strengthening its three core pillars of staff engagement, customer satisfaction and financial performance.

The Company moved forward with plans for the relocation of its Auckland office, which houses the majority of TOWER staff, to take place later in 2014. It has also progressed the introduction of the InsuranceFaces client management software to support productivity gains and improved customer service. InsuranceFaces is providing encouraging results in the FinTel business and wider



implementation with TOWER's direct customer database beginning by the end of the year.

TOWER continues to invest in its brand, service and positioning. The new lighthouse campaign has leveraged the brand's position as a New Zealand alternative to the foreign-owned insurers that dominate the New Zealand market.

There has been a strong response to the new multimedia campaign with customer "preference" (an indicator of the likelihood of a customer choosing TOWER) rising from 13% to 18%. Recall of the ads reached 40%, which is lifting brand awareness and providing an opportunity for new business.

TOWER has examined pricing on product bundling to drive value and retention for loyal customers and established a "save team" to directly address the lapse rate. The policy lapse rate improved modestly on pcp to 13.5% from 13.7%.

This investment in customer service and retention supported an increase in net promoter score (a key measure of customer satisfaction and loyalty) from +6 to +25 in just six months.

As part of the strategic priority to utilise technology to introduce new products and value-added services to customers, TOWER introduced the SmartDriver product in the motor segment of the business.

SmartDriver allows users to take advantage of a global trend in the utilisation of "telematics" data insights to access lower insurance premiums that are reflective of safe driving habits.

The SmartDriver app has proved an extremely popular innovation, with downloads far exceeding initial expectations. The app has received positive reviews from users and achieved significant media coverage that has supported the TOWER brand and positioning as innovative and customer-focused.

SmartDriver allows TOWER to leverage more tailored risk assessment to sharpen pricing as part of its strategy to lift representation in the motor segment.

TOWER has also significantly improved its online presence to further enhance brand and leverage the sales and service opportunity through direct channels.

A focus on growth through direct and alliances has also yielded encouraging results, although the run-off from a legacy alliance continues to affect customer and policy numbers in that segment.

Canterbury rebuild

TOWER continues to lead the industry in settling earthquake claims with 81% of all claims now settled and closed.

TOWER's construction programme for rebuilds and repairs is gaining momentum, with 87 rebuild and major repairs completed over the six month period.

Priorities for the next six months include:

- Ensuring all customers who want TOWER to manage the rebuild or repair of their house are in the construction programme
- Resolving the last of the EQC out of scope claims
- Working closely with builders and sub trades to ensure work is completed to schedule
- Ensuring multi-unit building (MUB) customers are clear on their settlement options.

TOWER continues to support the Residential Advisory Service (RAS) to resolve claims where customers need independent advice on their claim.

TOWER is on track to substantially settle and complete all Canterbury earthquake related claims by the end of 2015.

Pacific Islands

The Pacific Islands is a significant and important business, accounting for 18% of group GWP and 21% of reported NPAT in the six months to 31 March 2014. NPAT from the Pacific increased to \$2.7 million from a loss of \$0.6 million in the pcp.

The pcp was affected by the \$3.3 million pretax impact of the devastating Cyclone Evan in Fiji and Samoa as well as a \$2.4 million foreign withholding tax deduction from dividends paid by the Pacific Island subsidiaries during the period.

Cyclones in Tonga, \$1.8 million in pretax impact of suspected arson activity in the Cook Islands and adverse foreign currency movements in Papua New Guinea restricted earnings in 1H14.

Papua New Guinea, Fiji, Western Samoa and American Samoa together represent 78% of the Pacific business with Cook Islands, Solomon Islands and Tonga the remaining 22% of GWP in 1H14.

Economic activity supported growth in the PNG business in 1H14. In Fiji, where TOWER has operated for 140 years, the Company's first television and online campaign delivered encouraging results. The online strategy in Fiji is now driving up to 20% of direct lead generation.

The net promoter score in the Pacific region of +42 showed positive customer feedback. TOWER continued to benefit from strong banking alliances across the region to build its presence in commercial and personal lines insurance.

Consistent and careful underwriting allows attractive margins across the Pacific where TOWER's strong brand and expertise offers an opportunity for growth.

TOWER Life (N.Z.) Limited

Life insurance business, TOWER Life (N.Z.) Limited, reported NPAT of \$3.7 million, well above the full year plan of \$2.8 million due to one-off earnings improvements. The business has a closed book in run-off with no new business being written. Notwithstanding, TOWER Life (N.Z.) is a stable business with a focus on customer service and productivity. The business moved to new Wellington premises (with centralised support) to help improve its efficiency. An annual bonus was paid in the half year to policyholders for the 2013 financial year, in line with the 2012 bonus rate.

TOWER continues to receive approaches about its Life business and will continue to evaluate these. The book value of the business at 31 March 2014 was \$39.1 million.

Strategy

TOWER aims to deliver attractive shareholder returns by growing a general insurance business that is seen as a leading light in New Zealand and the Pacific Islands.

The Company has established three pillars of its New Zealand General Insurance strategy: staff engagement, customer satisfaction and financial performance.

TOWER seeks to:

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

The Company is investing in staff engagement and efficiency. The current expense ratio is high compared to its peers. New technology is expected to support an improvement in expense ratios in the next two years and top line growth should assist further.

TOWER intends to utilise technology to lower costs and improve the value proposition. The Company is seeking to grow its share of the motor market. TOWER is building a customer-focused culture and delivering on claims and risk management with industry-leading results in Canterbury.

The Company is establishing better products, sharper pricing, lower costs and better customer service to position for growth in General Insurance.

In the Pacific, TOWER is utilising its strong brand, alliances and experience to pursue growth opportunities.

TOWER continues to examine further capital returns for shareholders where possible.



“TOWER made significant progress on the General Insurance strategy and strengthening its three core pillars of *staff engagement, customer satisfaction and financial performance.*”

David Hancock

Chief Executive Officer



Outlook

The General Insurance industry continues to present both opportunities and challenges. TOWER has laid strong foundations and is well placed for growth.



For the industry, growth in reinsurance costs and premiums has eased post the Canterbury earthquakes but both the cost of compliance and capital requirements have increased.

Technological change will continue to have a significant impact on the industry with opportunities to improve service and offers. Customers are highly informed and mobile. Price and service will remain key drivers of choice.

Industry consolidation is likely to remain a trend in New Zealand insurance. TOWER will look to actively participate in this where there is benefit to shareholders. However, with industry concentration an increased risk of new entrants remains.

For TOWER, the revenue growth and cost containment focus continues in the second half.

New product development will remain a priority and the business is on track to go live with a new client management system, InsuranceFaces.

Weather events remain a concern with \$4.8 million in large event claims in April 2014.

TOWER expects to make further progress towards substantially settling and completing all Canterbury earthquake related claims by the end of 2015.

In the Pacific, a marketing reinvigoration will be ongoing.

Finally, capital management will remain a key driver of shareholder returns.

Michael Stiasny
Chairman

David Hancock
Chief Executive Officer

TOWER Limited Interim Financial Statements and Independent Review Report

For the *half year* ended 31 March 2014

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TOWER Limited Consolidated Income Statement

For the *half year* ended 31 March 2014

	Note	Half year ended	
		31 March 2014 Unaudited \$'000	31 March 2013 Unaudited \$'000
Revenue			
Premium revenue from insurance contracts	3	139,153	130,809
Less: Outwards reinsurance expense	3	(23,533)	(23,543)
Net premium revenue		115,620	107,265
Investment revenue	4	7,939	8,673
Fee and other revenue		1,299	998
Net operating revenue		124,858	116,937
Expenses			
Claims expense		98,209	133,057
Less: Reinsurance recoveries revenue		(29,135)	(48,496)
Net claims expense		69,074	84,561
Management and sales expenses		36,608	35,942
Net claims and operating expenses		105,682	120,503
Financing costs		3,894	3,974
Total expenses		109,576	124,477
Profit/(loss) attributed to shareholders before taxation		15,282	(7,540)
Tax expense attributed to shareholders' profits		(5,257)	(1,891)
Profit/(loss) for the half year from continuing operations		10,025	(9,431)
Profit for the half year from discontinued operations	15	2,519	2,279
Profit from disposal of subsidiaries	15	594	51,352
Profit for the half year		13,138	44,200
Profit/(loss) attributed to:			
Shareholders		12,930	44,213
Minority interests		208	(13)
		13,138	44,200
Basic and diluted earnings per share for continuing operations (cents)		4.96	(3.50)
Basic and diluted earnings per share for discontinued operations (cents)		1.57	19.93

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

TOWER Limited Consolidated Statement of Comprehensive Income

For the *half year* ended 31 March 2014

	Note	Half year ended	
		31 March 2014 Unaudited \$'000	31 March 2013 Unaudited \$'000
Profit for the half year		13,138	44,200
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Gain on asset revaluation		–	123
Deferred income tax relating to asset revaluation		–	(18)
Currency translation differences		(1,455)	(2,403)
Other comprehensive (loss) net of taxation		(1,455)	(2,298)
Total comprehensive income for the half year		11,683	41,902
Total comprehensive income attributed to:			
Shareholders		11,698	41,962
Minority interests		(15)	(60)
		11,683	41,902
Total comprehensive income/(loss) attributed to equity shareholders arises from:			
Continuing operations		8,570	(11,729)
Discontinued operations/disposal groups held for sale	15	3,113	53,631
		11,683	41,902

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

TOWER Limited Consolidated Balance Sheet

As at 31 March 2014

	Note	31 March 2014 Unaudited \$'000	30 September 2013 Audited \$'000
Assets			
Cash and cash equivalents		277,962	341,624
Receivables		322,396	380,957
Financial assets at fair value through profit or loss	9	133,379	147,437
Derivative financial assets	9	–	122
Property, plant and equipment		4,685	4,879
Current tax assets		12,781	10,713
Deferred acquisition costs		18,444	18,211
Deferred tax assets		13,868	23,652
Intangible assets		32,213	30,174
		815,728	957,769
Assets of disposal groups classified as held for sale	15	729,581	738,801
Total Assets		1,545,309	1,696,570
Liabilities			
Payables		37,057	45,036
Current tax liabilities		822	1,654
Provisions	5	7,990	12,213
Interest bearing liabilities	7	83,209	82,791
Insurance liabilities		397,897	451,905
Deferred tax liabilities		286	5,464
		527,261	599,063
Liabilities of disposal groups classified as held for sale	15	690,453	716,430
Total Liabilities		1,217,714	1,315,493
Net Assets		327,595	381,077
Equity			
Contributed equity		401,358	453,935
Accumulated profit		43,515	42,983
Reserves		(118,379)	(117,103)
Total equity attributed to shareholders		326,494	379,815
Minority interests		1,101	1,262
Total Equity		327,595	381,077

The interim financial statements were approved for issue by the Board on 26 May 2014.



Michael P Stiasny
Chairman



Graham R Stuart
Director

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

TOWER Limited Consolidated Statement of Changes in Equity

For the *half year* ended 31 March 2014

	Attributed to shareholders (unaudited)					
	Contributed equity \$'000	Accumulated profit/(loss) \$'000	Reserves \$'000	Total \$'000	Minority interests \$'000	Total equity \$'000
Half year ended 31 March 2014						
At the beginning of the half year	453,935	42,983	(117,103)	379,815	1,262	381,077
Comprehensive income for the period						
Profit for the half year	–	12,930	–	12,930	208	13,138
Other comprehensive income						
Currency translation differences	–	–	(1,232)	(1,232)	(223)	(1,455)
Total comprehensive income/(loss) for the period	–	12,930	(1,232)	11,698	(15)	11,683
Transactions with shareholders						
Capital repayment plan	(52,577)	–	–	(52,577)	–	(52,577)
Movement in share based payment reserve	–	44	(44)	–	–	–
Dividends paid	–	(12,432)	–	(12,432)	–	(12,432)
Minority interest dividend paid	–	–	–	–	(146)	(146)
Other	–	(10)	–	(10)	–	(10)
Total transactions with shareholders	(52,577)	(12,398)	(44)	(65,019)	(146)	(65,165)
At the end of the half year	401,358	43,515	(118,379)	326,494	1,101	327,595

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

TOWER Limited Consolidated Statement of Changes in Equity (cont.)

For the *half year* ended 31 March 2014

	Attributed to shareholders (unaudited)					
	Contributed equity \$000	Accumulated profit/(loss) \$000	Reserves \$000	Total \$000	Minority interests \$000	Total equity \$000
Half year ended 31 March 2013						
At the beginning of the half year	572,805	33,546	(109,005)	497,346	1,443	498,789
Comprehensive income for the period						
Profit/(loss) for the half year	–	44,213	–	44,213	(13)	44,200
Other comprehensive income						
Gains on asset revaluation	–	–	123	123	–	123
Deferred income tax relating to asset revaluation	–	–	(18)	(18)	–	(18)
Currency translation differences	–	–	(2,356)	(2,356)	(47)	(2,403)
Total comprehensive income/(loss) for the period	–	44,213	(2,251)	41,962	(60)	41,902
Transactions with shareholders						
Movement in share based payment reserve	–	1,455	(1,423)	32	–	32
Dividends paid	–	(16,148)	–	(16,148)	–	(16,148)
Minority interest dividend paid	–	–	–	–	(304)	(304)
Other	–	–	1	1	–	1
Total transactions with shareholders	–	(14,693)	(1,422)	(16,115)	(304)	(16,419)
At the end of the half year	572,805	63,066	(112,678)	523,193	1,079	524,272

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

TOWER Limited Consolidated Statement of Cash Flows

For the *half year* ended 31 March 2014

	Note	Half year ended	
		31 March 2014 Unaudited \$'000	31 March 2013 Unaudited \$'000
Cash flows from operating activities			
Premiums received		146,591	201,662
Interest received		19,520	20,256
Dividends received		734	1,449
Investment income		10,618	10,190
Non-life company fee income		1,306	15,917
Reinsurance received		85,838	72,035
Reinsurance paid		(28,863)	(41,229)
Claims expenses		(180,432)	(194,348)
Payments to suppliers and employees		(39,401)	(87,999)
Interest paid		(3,475)	(3,594)
Income tax paid		(2,221)	(2,405)
Net cash inflow/(outflow) from operating activities	10	10,215	(8,066)
Cash flows from investing activities			
Net receipts from financial assets		10,810	43,629
Net payments for purchase of property, plant and equipment and intangible assets		(3,130)	(6,003)
Cash disposed with sale of subsidiaries		–	(57,557)
Proceeds from sale of subsidiaries		(15,078)	102,346
Net cash (outflow)/inflow from investing activities		(7,398)	82,415
Cash flows from financing activities			
Capital repayment		(52,577)	–
Dividends paid		(12,441)	(16,148)
Payment of minority interest dividends		(146)	(304)
Net cash (outflow) from financing activities		(65,164)	(16,452)
Net (decrease)/increase in cash and cash equivalents		(62,347)	57,897
Foreign exchange movement in cash		(1,058)	(2,426)
Cash and cash equivalents at beginning of half year		341,624	186,477
Cash reclassified as held for sale at beginning of half year		8,399	13,257
Cash reclassified as held for sale at end of half year	15	(8,656)	–
Cash and cash equivalents at end of half year		277,962	255,205

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

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

1. Summary of significant accounting policies

Entities reporting

The interim financial statements presented are those of TOWER Limited (the Company) and its subsidiaries (the Group).

Statutory base

TOWER Limited is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges. The Company is an issuer under the Financial Reporting Act 1993.

Basis of preparation

These interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), as appropriate for profit oriented entities, International Accounting Standard 34, and New Zealand Equivalent to International Accounting Standard 34, Interim Financial Reporting.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2013, 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 2014 are unaudited.

Accounting policies

The principal accounting policies adopted in the preparation of these interim financial statements are consistent with those of the audited annual financial statements for the year ended 30 September 2013.

Cash flows

The consolidated statement of cash flows presents the net changes in cash flow for financial assets, property, plant and equipment and intangible assets. TOWER considers that knowledge of gross receipts and payments is not essential to understanding certain activities of TOWER and it is considered acceptable to report only the net changes in cash flow for these items. This is based on the fact that 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.

Discontinued operations and disposal groups

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

Assets and liabilities of a disposal group are measured at the lower of carrying amount and fair value less costs to sell and disclosed on the balance sheet. Items in the Income Statement and Statement of Comprehensive Income relating to the discontinued operations are shown separately on the face of the statements.

Cash flows associated with discontinued operations are disclosed in note 15.

On 30 November 2012, TOWER Limited sold its health insurance business, TOWER Medical Insurance Limited. The sale of TOWER Medical Insurance Limited has resulted in the health insurance business segment being treated as a discontinued operation, which was disclosed as a disposal group held for sale at 31 March 2013. The sale is disclosed in more detail in note 15(A).

On 26 February 2013, TOWER Limited announced the sale of its investment business comprising, TOWER Managed Funds Limited, TOWER Managed Funds Investments Limited, TOWER Employee Benefits Limited, TOWER Asset Management Limited and TOWER Investments Limited. The sale was completed on 2 April 2013 and resulted in the investment business segment being treated as a discontinued operation in these financial statements. The sale is disclosed in more detail in note 15(B).

On 10 May 2013, TOWER Limited announced the sale of most of its non-participating life insurance business and the resulted in the non-participating life business segment being treated as a disposal group held for sale in 31 March 2013 interim financial statements. The sale was completed on 1 August 2013. The sale is disclosed in more detail in note 15(C).

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

1. Summary of significant accounting policies (continued)

On 28 November 2013, TOWER Limited announced the approval by the Federal Court of Australia for the portfolio transfer of the runoff business underwritten by the Company's Australian branch. The transfer included disposing of all policies written or assumed by the branch and all the associated assets and liabilities under those policies. The sale completed on 5 December. The Australian branch runoff business was disclosed as a disposal group held for sale in the 31 March 2013 financial statements. The sale is disclosed in more detail in note 15(D).

On 3 January 2014, TOWER Limited advised that it was to retain the TOWER Life (N.Z.) Limited business comprising participating and non-participating life insurance policies, annuities and unit linked insurance policies. Since announcing this in January, TOWER has continued to receive interest from prospective purchasers. The Directors are satisfied that current levels of interest from prospective purchasers are sufficient to warrant the continued disclosure of TOWER Life (N.Z.) Limited as a discontinued operation held for sale. The Directors have reached this decision having regard to classification criteria described in NZ IFRS 5 *Non-current assets held for sale and discontinued operations*. As a result, this business remains disclosed as a discontinued operation held for sale in these 31 March 2014 interim financial statements. The proposed sale is disclosed in more detail in note 15(E).

2. Impact of amendments to NZ IFRS

The Company has adopted the following new and amended IFRS as of 1 October 2013:

- NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013). The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The standard has had no material impact on the financial statements.

3. Premium revenue

	Half year ended	
	31 March 2014 Unaudited \$000	31 March 2013 Unaudited \$000
General insurance premiums	139,153	130,809
	139,153	130,809
Less: Outwards reinsurance expense	(23,533)	(23,543)
Total net premium revenue	115,620	107,266

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

4. Investment revenue

	Half year ended	
	31 March 2014 Unaudited \$000	31 March 2013 Unaudited \$000
Fixed interest securities ⁽¹⁾		
Interest income	8,829	8,390
Net realised (loss)/gain	(1,830)	2,831
Net unrealised gain/(loss)	919	(3,739)
	7,918	7,482
Equity securities ⁽¹⁾		
Dividend income	14	77
Net realised gain	–	461
Net unrealised gain	–	196
	14	734
Property securities ⁽¹⁾		
Property income	4	82
Net realised gain	412	1,761
Net unrealised (loss)	(401)	(1,420)
	15	423
Other ⁽²⁾		
Other investment revenue	–	–
Net realised gain/(loss)	114	(32)
Net unrealised (loss)/gain	(122)	66
	(8)	34
Total investment revenue		
Total investment revenue	8,847	8,549
Total realised (loss)/gain	(1,304)	5,021
Total unrealised gain/(loss)	396	(4,897)
	7,939	8,673

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

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

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

5. Provisions

	31 March 2014 Unaudited \$'000	30 September 2013 Audited \$'000
Business separation	4,620	9,257
Employee benefits	3,370	2,956
Total provisions	7,990	12,213
Analysed as:		
Current	7,971	12,075
Non current	19	138
	7,990	12,213
Business separation		
Opening balance at 1 October	9,257	2
Additions	620	21,115
Amount utilised in the period	(3,237)	(11,860)
Reversal of unused amount	(2,020)	–
Closing balance at end of period	4,620	9,257

Health business

The balance of separation costs of \$372,000 on 30 September 2013 related directly to the sale of the health business. \$224,000 of the provision has been utilised for legal, consultancy and IT related costs. \$137,000 of the provision has been released. The remaining balance is expected to be fully utilised by April 2014.

Investments business

The balance of separation costs of \$1,444,000 on 30 September 2013 related directly to the sale of the investments business. \$1,026,000 of the provision has been utilised for legal, consultancy and IT related separation costs. \$285,000 of the provision has been released. The remaining balance is expected to be fully utilised by April 2014.

Non-participating life business

The balance of separation costs of \$4,561,000 on 30 September 2013 related directly to the sale of the non-participating life business. The provision increased by \$620,000 related to restructuring and utilised \$1,867,000 for legal, consultancy and IT related separation costs. \$1,316,000 of the provision has been released. The remaining is expected to be fully utilised by June 2015.

Remaining life business

Separation costs of \$2,880,000 relating directly to the sale of the remaining life business were provided for at 30 September 2013. \$120,000 of the provision has been utilised for legal, consultancy and IT related separation costs. \$282,000 of the provision has been released. The remaining balance is expected to be fully utilised by September 2014.

Further details of the discontinued operations to which these provisions relate are disclosed in note 15.

Employee benefits

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

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

6. Segmental reporting

The results from operations and related gains or losses on sales of the health, investments, non-participating life business, remaining life business and the Australian liabilities have been excluded from the disclosure below as the results, gains or losses on sales and assets of these segments are contained within note 15.

	New Zealand General Insurance Unaudited \$000	Pacific General Insurance Unaudited \$000	Holding companies and eliminations Unaudited \$000	Total Unaudited \$000
Half year ended 31 March 2014				
Revenue				
Revenue – external	104,192	18,725	1,941	124,858
Revenue – internal	–	–	–	–
Net operating revenue	104,192	18,725	1,941	124,858
Profit/(loss) before income tax	14,098	5,150	(3,966)	15,282
Income tax (expense)/credit	(3,835)	(2,437)	1,015	(5,257)
Profit/(loss) for the half year from continuing operations	10,263	2,713	(2,951)	10,025
Half year ended 31 March 2013⁽¹⁾				
Revenue				
Revenue – external	91,865	20,820	4,252	116,937
Revenue – internal	3	–	(3)	–
Net operating revenue	91,868	20,820	4,249	116,937
(Loss)/profit before income tax	(10,248)	3,848	(1,140)	(7,540)
Income tax (expense)/credit	2,028	(4,460)	541	(1,891)
(Loss) for the half year from continuing operations	(8,220)	(612)	(599)	(9,431)
Segment assets				
31 March 2014 (Unaudited)	610,911	69,899	136,615	817,425
30 September 2013 (Audited)	707,623	67,503	182,643	957,769
Segment liabilities				
31 March 2014 (Unaudited)	394,866	46,688	87,404	528,958
30 September 2013 (Audited)	471,045	45,282	82,736	599,063

Note:

(1) Comparatives are restated to show assets from continuing operations only. Refer note 15 for discontinued operations.

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

6. Segmental reporting (continued)

Description of segments

Operating segments are based on assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments.

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

New Zealand general insurance includes all fire and general insurance business written in New Zealand. Pacific general insurance includes all fire and general insurance business with customers in the Pacific Islands written by TOWER insurance subsidiaries and branch operations. Other includes head office expenses, financing costs and eliminations. The health, investments and life businesses have been excluded from the above disclosure as the results of these segments are contained within note 15.

TOWER Group operates predominantly in two geographical segments, New Zealand and the Pacific region. The general insurance business in run-off relating to the United Kingdom and the United States does not represent a significant part of the Group's operations or hold material non-current assets.

7. Interest bearing liabilities

	31 March 2014 Unaudited \$'000	30 September 2013 Audited \$'000
Fixed rate senior unsecured bonds	83,209	83,219
Unamortised capitalised costs	–	(428)
	83,209	82,791

Fixed rate senior unsecured bonds

On 24 March 2009, the Group issued \$81,759,000 of fixed rate senior unsecured bonds, bearing a fixed interest rate of 8.5% per annum. The bonds are carried at amortised cost using the effective interest method. The bonds mature on 15 April 2014.

The above total of \$83,209,000 includes \$1,450,000 of accrued interest (30 September 2013: \$1,460,000). The Group capitalised \$3,499,000 of costs associated with the issuance of the bonds. These costs are amortised over the five year term of the bonds using the effective interest rate method. The amortised costs during the period to 31 March 2014 were \$428,500 (30 September 2013: \$800,500).

The fair value of fixed rate senior unsecured bonds as at 31 March 2014 is \$83,496,379 (30 September 2013: \$83,692,000), this has been estimated by reference to the average quoted market price of the underlying debt securities at the end of the period.

Refer to note 14 for further details on the redemption of the bonds which occurred in accordance with the Trust Deed on 15 April 2014.

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

8. Net assets per share

	31 March 2014 Unaudited \$000	30 September 2013 Audited \$000
Net assets per share	1.84	1.84
Net tangible assets per share	1.58	1.53

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 reporting date.

Net tangible assets per share represent the net assets per share adjusted for the effect of intangible assets and deferred tax balances.

Assets from the disposal groups are included in the calculation.

9. Fair values of assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Refer below for details of valuation methods used for each category of assets and liabilities.

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

(i) Cash and cash equivalents

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

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current mid 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 TOWER specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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 2014, the level 3 category includes an investment in equity securities of \$1,496,000 (September 2013: \$1,685,000). Previously these investments were included in level 2 and were immaterial. This investment is unlisted and its fair value is calculated based on the net assets of the investment as presented in its most recently available financial information.

(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 2014

9. Fair values of assets and liabilities (continued)

(iv) Derivative financial liabilities

The fair value of derivative financial liabilities is determined by reference to the quoted market price of the underlying equity securities.

(v) Interest bearing liabilities

The fair value of senior unsecured bonds is determined by reference to the quoted market price of the underlying debt securities.

Assets and liabilities that are measured in the balance sheet at fair value (excluding short term amounts held at a reasonable approximation of fair value), are categorised by the following fair value measurement hierarchy levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – Inputs for that asset or liability that are not based on observable market data (i.e. unobservable inputs)

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

	Total \$000	Level 1 \$000	Level 2 \$000	Level 3 \$000
As at 31 March 2014				
Assets				
Investment in equity securities	1,496	–	–	1,496
Investments in fixed Interest securities	131,849	–	131,849	–
Investments in property securities	34	–	34	–
Total financial assets	133,379	–	131,883	1,496

As at 30 September 2013

Assets				
Derivative financial assets	122	–	122	–
Investment in equity securities	1,685	–	–	1,685
Investments in fixed Interest securities	144,897	–	144,897	–
Investments in property securities	855	–	855	–
Total financial assets	147,559	–	145,874	1,685

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

9. Fair values of assets and liabilities (continued)

The following table represents the changes in Level 3 instruments for the period ended 31 March 2014.

	Investment in equity securities	
	31 March 2014 Unaudited \$000	30 September 2013 Audited \$000
Opening balance	1,685	3,251
Total gains and losses recognised in profit and loss	–	(1,050)
Foreign currency movement	(189)	(516)
Closing balance	1,496	1,685

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

	Amount	changes of 10%	changes of 10%
As at 31 March 2014			
Investment in equity securities	1,496	150	(150)
As at 30 September 2013			
Investment in equity securities	1,685	169	(169)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for remaining financial instruments.

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

10. Note to consolidated statement of cash flows

	Half year ended	
	31 March 2014 Unaudited \$000	31 March 2013 Unaudited \$000
Reconciliation of profit for the half year to net cash flows from operating activities		
Net profit after tax for the half year	13,138	44,200
Add/(less) non-cash items		
Depreciation of property, plant and equipment	734	926
Amortisation of intangible assets	493	2,825
Change in insurance and life investment contract liabilities	(12,042)	(2,581)
Unrealised loss on financial assets	1,509	2,242
Share based payments expense	–	32
Accrued interest on borrowings	(10)	(9)
Increase/(decrease) in deferred tax	8,555	(220)
Intangible asset impairment net of tax	–	24,840
Gross gain on sale of subsidiaries	(674)	(96,814)
	(1,435)	(68,759)
Add/(less) movements in working capital (excluding the effects of exchange differences on consolidation)		
Decrease in receivables	65,177	11,071
(Decrease)/increase in payables	(64,223)	11,279
(Increase) in taxation	(2,870)	(6,246)
	(1,916)	16,104
Add other items classified as investing or financing activities		
Decrease in capitalised costs	428	389
Net cash inflows/(outflows) from operating activities	10,215	(8,066)

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

11. Distributions to shareholders

Dividend declared

On 26 November 2013 the Directors declared a final dividend for the 2013 financial year of 6 cents per share. The dividend was paid on 3 February 2014. The total amount payable was \$12,431,606. There were no imputation credits attached to the dividend and TOWER did not offer its Dividend Reinvestment Plan for this dividend.

Return of capital

On 25 November 2013 TOWER announced the acquisition of shares under a voluntary buyback offer for TOWER shares listed on the ASX and NZX exchanges and registered in the name of each TOWER ordinary shareholder. On 31 January 2014, this resulted in the acquisition for \$1.81 per share and subsequent cancellation of 29,048,308 shares for a total consideration of \$52,577,437. This left 178,145,130 shares on issue immediately following the buy back. Australian shareholders received approximately AUD\$1.64 per acquired share (based on a NZD/AUD exchange rate of 0.9050 as at the record date).

12. Solvency requirements

The minimum solvency capital required to be retained to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 are shown below. The actual solvency capital exceeds the minimum requirements for TOWER Insurance Limited general insurance group by \$123.3 million (September 2013: 117.2 million), and TOWER Life (N.Z.) Limited by \$22.4 million (September 2013: 23.7 million).

	TOWER Insurance \$'000	TOWER Life (NZ) \$'000
As at 31 March 2014		
Actual Solvency Capital	189,259	30,491
Minimum Solvency Capital	65,949	8,074
Solvency Margin	123,310	22,417
As at 30 September 2013		
Actual Solvency Capital	195,993	29,779
Minimum Solvency Capital	78,805	6,053
Solvency Margin	117,188	23,726

On 27 August 2013 the Reserve Bank of New Zealand imposed a condition of license requirement for TOWER Insurance Limited and TOWER Life (N.Z.) Limited to maintain a minimum solvency margin of \$80.0 million and \$15.0 million respectively.

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

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

13. Impact of Christchurch earthquakes

For the period ended 31 March 2014 there is no net impact on the income statement as a result of the Canterbury earthquake claims. Included in the prior period ended 31 March 2013 was pre tax net claims expenses of \$0.6 million and \$19.7 million for the 23 December 2011 and February 2011 earthquakes respectively.

The claims provisions for the four main events combined have increased by \$22.1 million during the six months to 31 March 2014. These claims are all covered by reinsurance. This compares to a gross increase in provisions of \$72.2 million for the year ended 30 September, which had a pre tax net impact of \$20.4 million after reinsurance recoveries.

14. Subsequent events

Bond redemption

In accordance with the Trust Deed for TOWER Fixed Rate Senior Unsecured Bonds dated 12 February 2009 (the 'Trust Deed'), the Group redeemed for cash on 15 April 2014 all of the bonds held by bondholders on the register at 5pm on the record date of 4 April 2014. Payment of the issue price of \$1.00 per bond plus accrued interest amounted to a return of \$83,496,379 to bondholders.

Following repayment of bond principal and accrued interest, TOWER Capital Limited requested to be delisted from the NZX Debt Market and has requested discharge from the Trust Deed.

Declaration of dividend

On 26 May 2014 the Directors declared an interim dividend of 6.5 cents per share. There will be no imputation credits attached to the dividend. The dividend will be paid on 30 June 2014 (Payment Date) to all shareholders on the register as at 5pm on Friday, 13 June 2014 (Record Date). The estimated dividend payable is \$11,579,433. TOWER will not be operating the Dividend Reinvestment Plan for the interim dividend. TOWER will withhold resident and non-resident withholding tax where applicable.

Small shareholder reduction

On 26 May 2014 the Directors approved a scheme for TOWER to sell shares of holders with less than 200 shares. The proposed scheme will be off market and provide shareholders the ability to retain their holdings should they wish. Shareholders will receive the volume weighted average price of the five trading days prior to announcement. Should all applicable shareholders choose to participate in the scheme, the maximum amount of capital returned would equate to approximately \$4.4 million.

There have been no subsequent events to 31 March 2014 other than those listed above.

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

15. Discontinued operations and disposal groups held for sale

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

	Half year ended	
	31 March 2014 Unaudited \$'000	31 March 2013 Unaudited \$'000
Profit for the half year from discontinued operations/disposal groups		
(Loss)/profit for the half year from discontinued operations:		
Health business ^(A)	–	940
Investments business ^(B)	–	4,007
Non-participating life business ^(C)	–	1,730
Australian liabilities ^(D)	(1,168)	(6,011)
Participating life business ^(E)	3,687	1,613
Profit from discontinued operations	2,519	2,279
Profit from disposal of subsidiaries		
Health business ^(A)	99	18,845
Investments business ^(B)	279	66,781
Non-participating life business ^(C)	13	(9,434)
Participating life business attributable costs ^(E)	203	–
Impairment of intangible assets ⁽¹⁾	–	(24,840)
Profit from disposal of subsidiaries⁽²⁾	594	51,352
Profit from discontinued operations/disposal groups	3,113	53,631
	31 March 2014 Unaudited \$'000	30 September 2013 Audited \$'000
Net assets/(liabilities) held for sale:		
Australian liabilities ^(D)	–	(17,068)
Participating life business ^(E)	39,128	39,439
Total net assets held for sale	39,128	22,371
Liabilities transferred on disposal of Australian operation	(16,628)	–

(1) At 31 March 2013 management reviewed the carrying value of intangible assets in light of business disposals. Following this review, an impairment of \$34.5 million (\$24.8 million net of tax) was recorded against the carrying value of Intangible assets – software. This impairment was expensed in the 31 March 2013 results reducing the Profit from discontinued operations/disposal groups.

(2) Profits from disposal of subsidiaries in the table above result from releases of provisions (net of tax) for the Health, Investments and Participating Life businesses.

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

15. Discontinued operations and disposal groups held for sale (continued)

(A) Sale of TOWER Medical Insurance Limited

On 30 November 2012, TOWER Limited sold its health insurance business, TOWER Medical Insurance Limited to Australian health insurer, nib holdings limited for approximately \$102 million. The sale followed a strategic review of TOWER Group's businesses announced earlier in 2012. The sale of TOWER Medical Insurance Limited has resulted in the health insurance business segment being treated as a discontinued operation of the Group.

Operating results for the two months prior to sale of TOWER Medical Insurance Limited have been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as a discontinued operation. A more detailed breakdown of the financial performance, position and cash flows of TOWER Medical Insurance Limited is presented below.

The results of the health business were as follows:

	Half year ended	
	31 March 2014 Unaudited \$000	31 March 2013 Unaudited \$000
Premium revenue from insurance contracts	–	24,812
Investment revenue	–	1,047
Net operating revenue	–	25,859
Claims expense	–	18,718
Net claims expense	–	18,718
Decrease in policy liabilities	–	(667)
Management and sales expenses	–	6,503
Net claims and operating expenses	–	24,554
Profit before taxation	–	1,305
Income tax expense	–	(365)
Profit after tax from discontinued operations	–	940
Cash flows of the health business:		
Operating cash inflow	–	3,068
Investing cash inflow	–	41,230
Total cash inflow	–	44,298

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

15. Discontinued operations and disposal groups held for sale (continued)

Profit on disposal

	As reported		
	31 March 2014 Unaudited \$'000	30 September 2013 Audited \$'000	31 March 2013 Unaudited \$'000
Cash consideration received	–	102,346	102,346
Net assets at 30 September 2012	–	76,955	76,955
Profit after tax to 30 November 2012	–	940	940
Net assets at 30 November 2012	–	77,895	77,895
Gross profit on disposal	–	24,451	24,451
Less directly attributable costs of sale	137	(7,235)	(6,285)
Tax directly attributable to costs of sale	(38)	337	679
	99	(6,898)	(5,606)
Profit on disposal	99	17,553	18,845

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

15. Discontinued operations and disposal groups held for sale (continued)

(B) Sale of TOWER Investments Business

On 26 February 2013, TOWER Limited announced the sale of its investments business comprising, TOWER Managed Funds Limited, TOWER Managed Funds Investments Limited, TOWER Employee Benefits Limited, TOWER Asset Management Limited and TOWER Investments Limited, to Fisher Funds Management Limited for approximately \$79 million. The sale followed a strategic review of TOWER Group's businesses announced in 2012. The sale has resulted in the investments business segment being treated as a discontinued operation of the Group. Completion of the sale occurred on 2 April 2013.

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

The results of the investments business were as follows:

	Half year ended	
	31 March 2014 Unaudited \$'000	31 March 2013 Unaudited \$'000
Investment revenue	–	123
Fee and other revenue	–	17,996
Net operating revenue	–	18,119
Management and sales expenses	–	12,517
Net claims and operating expenses	–	12,517
Profit before taxation	–	5,602
Income tax expense	–	(1,595)
Profit after tax from discontinued operations	–	4,007
Cash flows of disposal group held for sale:		
Operating cash inflow	–	246
Investing cash (outflow)	–	(63)
Financing cash (outflow)	–	(236)
Total cash (outflow)	–	(53)

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

15. Discontinued operations and disposal groups held for sale (continued)

Profit on disposal

	As reported		
	31 March 2014 Unaudited \$'000	30 September 2013 Audited \$'000	31 March 2013 Unaudited \$'000
Cash consideration receivable	–	79,708	79,000
Net assets at 1 April	–	6,714	7,023
Completion adjustments	–	–	(386)
Net assets on disposal	–	6,714	6,637
Gross profit on disposal	–	72,994	72,363
Less directly attributable costs of sale	279	(6,877)	(6,409)
Tax directly attributable to costs of sale	–	509	827
	279	(6,368)	(5,582)
Profit on disposal	279	66,626	66,781

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

15. Discontinued operations and disposal groups held for sale (continued)

(C) Sale of non-participating life business

On 10 May 2013, TOWER Limited announced the sale of most of its non-participating life insurance business to Fidelity Life Assurance Company Limited for the aggregate value to TOWER, including cash consideration and release of capital, of \$189 million. The sale followed a strategic review of TOWER Group's businesses announced in 2012. The sale has resulted in the non-participating life business segment being treated as a discontinued operation of the Group. Completion of the sale occurred on 1 August 2013.

As part of the sale of the non-participating life business, an amount was offset against the payment made by Fidelity Life Assurance Company Limited to TOWER for transfer of certain net insurance liabilities, which had not previously been deducted for tax purposes. TOWER is currently seeking a binding ruling from Inland Revenue on deductibility of this amount. With regard to the recognition criteria contained in NZ IAS12 income taxes the Company has not included any benefit that may arise from this tax deduction in our financial statements.

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

The results of the non-participating life business were as follows:

	Half year ended	
	31 March 2014 Unaudited \$000	31 March 2013 Unaudited \$000
Premium revenue from insurance contracts	–	41,967
Less: Outwards reinsurance expense	–	(11,493)
Net operating revenue	–	30,474
Claims expense	–	18,259
Less: reinsurance recoveries revenue	–	(5,887)
Net claims expense	–	12,372
Decrease in policy liabilities	–	(1,429)
Management and sales expenses	–	20,223
Net claims and operating expenses	–	31,166
(Loss) before taxation	–	(692)
Income tax credit	–	2,422
Profit after tax from discontinued operations	–	1,730
Cash flows of the health business:		
Operating cash (outflow)	–	(4,762)
Total cash (outflow)	–	(4,762)

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

15. Discontinued operations and disposal groups held for sale (continued)

Profit on disposal

	As reported		
	31 March 2014 Unaudited \$'000	30 September 2013 Audited \$'000	31 March 2013 Unaudited \$'000
Cash consideration received	1,550	71,841	–
Net assets as at 1 August 2013	–	73,230	–
Final adjustment to net assets	876	–	–
Tax on gain on disposal	5	–	–
Net Assets on disposal	881	73,230	–
Gross gain/(loss) on disposal	669	(1,389)	–
Less directly attributable costs of sale held in holding company	(795)	(12,696)	(11,322)
Tax directly attributable to costs of sale	139	1,602	1,888
	(656)	(11,094)	(9,434)
Profit/(loss) on disposal	13	(12,483)	(9,434)

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

15. Discontinued operations and disposal groups held for sale (continued)

(D) Disposal of Australian liabilities

On 28 November 2013, TOWER Limited announced the approval by the Federal Court of Australia for the portfolio transfer of the runoff business underwritten by the TOWER Insurance Limited's Australian branch. The transfer included disposing of all policies written or assumed by the branch and all the associated assets and liabilities under those policies. The sale completed on 5 December and resulted in the release of approximately \$20 million surplus capital to TOWER Insurance Limited. The Australian branch runoff business was disclosed as a disposal group held for sale in the 31 March 2013 financial statements.

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

The results associated with the Australian liabilities were as follows:

	Half year ended	
	31 March 2014 Unaudited \$000	31 March 2013 Unaudited \$000
Claims expense	68	6,031
Net claims expense	68	6,031
Management and sales expenses	1,948	(20)
Net claims and operating expenses	2,016	6,011
Loss before taxation	(2,016)	(6,011)
Income tax expense	848	–
Loss after tax from discontinued operations	(1,168)	(6,011)
Cash flows of Australian liabilities:		
Operating cash (outflow)	–	(568)
Total cash (outflow)	–	(568)

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

15. Discontinued operations and disposal groups held for sale (continued)

	31 March 2014 Unaudited \$000	30 September 2014 Audited \$000
Assets		
Reinsurance receivables	–	622
Total assets	–	622
Liabilities		
Insurance liabilities	–	17,690
Total liabilities	–	17,690
Net liabilities	–	(17,068)

Movements on disposal of branch operations

	5 December 2013 Unaudited \$000
Liabilities transferred on disposal	(16,628)
Currency movement on closure of branch operations	(1,912)
Net claim and management expenses prior to transfer of liabilities	(104)
Tax	848
Branch operations closure costs	(1,168)

Following the transfer of Australian branch insurance liabilities in run-off on 5 December 2013, the company was able to release approximately \$20 million of regulatory capital previously held in Australia. This contributed to an improved solvency position in the general insurance business in New Zealand.

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

15. Discontinued operations and disposal groups held for sale (continued)

(E) TOWER Life (N.Z.) Limited held for sale

On 3 January 2014, TOWER Limited advised that it was to retain the TOWER Life (N.Z.) Limited business comprising participating and non-participating life insurance policies, annuities and unit linked insurance policies. Since announcing this in January, TOWER has continued to receive interest from prospective purchasers. The Directors are satisfied that current levels of interest from prospective purchasers are sufficient to warrant the continued disclosure of TOWER Life (N.Z.) Limited as a discontinued operation held for sale. The Directors have reached this decision having regard to classification criteria described in NZ IFRS 5 *Non-current assets held for sale and discontinued operations*. As a result, this business remains disclosed as a discontinued operation held for sale in these 31 March 2014 interim financial statements.

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

The results of the remaining life business were as follows:

	Half year ended	
	31 March 2014 Unaudited \$'000	31 March 2013 Unaudited \$'000
Premium revenue from insurance contracts	4,580	4,791
Less: Outwards reinsurance expense	6	16
Net premium revenue	4,586	4,807
Investment revenue	21,381	19,574
Management fees	7	7
Net operating revenue	24,974	24,388
Claims expense	23,033	18,388
Less: reinsurance recoveries revenue	38	–
Net claims expense	23,071	18,388
Decrease in policy liabilities	(7,573)	(210)
Management and sales expenses	2,843	2,681
Net claims and operating expenses	18,341	20,859
Profit before taxation	7,633	3,529
Income tax credit	(3,946)	(1,916)
Profit after tax from discontinued operations	3,687	1,613
Cash flows of the health business:		
Operating cash inflow/(outflow)	25	(22,008)
Investing cash (outflow)/inflow	(3,210)	8,831
Financing cash inflow	2,494	14,091
Total cash (outflow)/inflow	(691)	914

TOWER Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

15. Discontinued operations and disposal groups held for sale (continued)

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

	31 March 2014 Unaudited \$'000	30 September 2013 Audited \$'000
Assets		
Cash and cash equivalents	8,656	8,399
Receivables	29,129	36,452
Financial assets at fair value through profit or loss	632,341	625,663
Derivative financial assets	43,910	48,082
Current tax asset	3,464	3,479
Deferred tax asset	12,081	16,104
Total assets	729,581	738,179
Liabilities		
Payables	5,112	1,971
Provisions	64	57
Insurance liabilities	6,613	7,008
Derivative financial liability	6,172	5,086
Deferred tax liabilities	–	84
Life insurance contract liabilities	652,289	660,945
Life investment contract liabilities	20,203	23,589
Total liabilities	690,453	698,740
Net assets	39,128	39,439

Costs of sale:

	31 March 2014 Unaudited \$'000	30 September 2013 Audited \$'000
Directly attributable costs of sale	282	(2,880)
Tax directly attributable to costs of sale	(79)	449
Total liabilities	203	(2,431)



Independent Review Report

To the shareholders of TOWER Limited

Report on the Interim Financial Statements

We have reviewed the interim condensed financial statements ("financial statements") of TOWER Limited on pages 10 to 38, which comprise the balance sheet as at 31 March 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the Company and entities it controlled at 31 March 2014 or from time to time during the period.

Directors' Responsibility for the Interim Financial Statements

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 31 March 2014, and its financial performance and cash flows for the period ended on that date.

Our Responsibility

We are responsible for reviewing the financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the period ended 31 March 2014 in accordance with the Review Engagement Standards issued in New Zealand.

We have no relationship with, or interests in, the Group other than in our capacities as auditors conducting this review and providers of other assurance (including audit), advisory and taxation services. These services have not impaired our independence as auditors of the Group.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 31 March 2014 and its financial performance and cash flows for the period ended on that date.

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 a 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 Company and the Company's shareholders, as a body, for our review procedures, for this report or for the opinions we have formed.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants
26 May 2014

Auckland

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

TOWER Capital Limited Interim Financial Statements and Independent Review Report

For the *half year* ended 31 March 2014

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TOWER Capital Limited Statement of Comprehensive Income

For the *half year* ended 31 March 2014

		Half year ended	
		31 March 2014 Unaudited \$'000	31 March 2013 Unaudited \$'000
	Note		
Investment revenue			
Interest income	2	4,077	4,077
Total investment revenue		4,077	4,077
Operating expenses			
Operating expenses		14	8
Total operating expenses		14	8
Financing costs			
Interest expense		3,465	3,465
Amortisation of capitalised costs		428	389
Total financing costs		3,893	3,854
Profit before tax		170	215
Income tax expense		(47)	(60)
Total profit and comprehensive income for the half year attributed to shareholders		123	155

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

TOWER Capital Limited Balance Sheet

As at 31 March 2014

	Note	31 March 2014 Unaudited \$'000	30 September 2013 Audited \$'000
Assets			
Cash and cash equivalents		684	461
Related party receivables		84,854	84,489
Deferred tax asset		–	2
Total assets		85,538	84,952
Liabilities			
Current tax liabilities		165	–
Interest bearing liabilities	3	83,209	82,791
Deferred tax liabilities		–	120
Total liabilities		83,374	82,911
Net assets		2,164	2,041
Equity			
Retained earnings		2,164	2,041
Total equity		2,164	2,041

The interim financial statements were approved for issue by the Board on 26 May 2014.



Michael P Stiasny
Chairman



Graham R Stuart
Director

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

TOWER Capital Limited Statement of Changes in Equity

For the *half year* ended 31 March 2014

	Total Equity Retained earnings	
	31 March 2014 Unaudited \$000	31 March 2013 Unaudited \$000
At beginning of the half year	2,041	1,749
Comprehensive income for the half year		
Profit for the half year	123	155
At end of the half year	2,164	1,904

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

TOWER Capital Limited Statement of Cash Flows

For the *half year* ended 31 March 2014

	Half year ended	
	31 March 2014 Unaudited \$'000	31 March 2013 Unaudited \$'000
Cash flows from operating activities		
Interest received	4,077	4,077
Interest paid	(3,475)	(3,475)
Payments to suppliers and employees	(14)	(8)
Net cash inflow from operating activities	588	594
Cash flows from (payments)/investing activities		
Net advances (to)/ from related parties	(365)	99
Net cash (outflow)/inflow from investing activities	(365)	99
Net increase in cash and cash equivalents	223	693
Cash and cash equivalents at the beginning of the period	461	(558)
Cash and cash equivalents at the end of the half year	684	135

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

TOWER Capital Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

1. Summary of significant accounting policies

Entity reporting

The interim financial statements presented are those of TOWER Capital Limited (the Company).

Statutory base

TOWER Capital Limited is domiciled in New Zealand, registered under the Companies Act 1993 and issues debt instruments that are listed on the New Zealand Debt Securities Market. The Company is an issuer under the Financial Reporting Act 1993. The Company was incorporated to undertake an issue of debt securities bonds with the purpose of on-lending the proceeds within the TOWER Limited consolidated Group (the TOWER Group).

Basis of preparation

These interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), as appropriate for profit oriented entities, International Accounting Standard 34, and New Zealand Equivalents to International Accounting Standard 34, Interim Financial Reporting.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2013, 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 2014 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 2013.

(A) Impact of amendments to NZ IFRS

The Company has adopted the following new and amended IFRS as of 1 October 2013:

- NZ IFRS 13 'Fair value measurement' (effective from 1 January 2013). The standard replaces the guidance on fair value measurement in existing IFRS literature with a single standard. The standard has had no material impact on the financial statements.

2. Interest income

	Half year ended	
	31 March 2014 Unaudited \$'000	31 March 2013 Unaudited \$'000
Interest income – TOWER Group companies	4,077	4,077
Total interest income	4,077	4,077

The Company issued a loan to TOWER Financial Services Group Limited (TFSG) of \$81,759,000 on 24 March 2009, bearing a fixed interest rate of 10% pa. This loan had an initial expiry date of 24 March 2014. The expiry date has been extended in accordance with the loan facility agreement and by mutual consent until 15 April 2014, to coincide with the expected date of redemption of the bonds.

TOWER Capital Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

3. Interest bearing liabilities

	31 March 2014 Unaudited \$000	30 September 2013 Audited \$000
Fixed rate senior unsecured bonds	83,209	83,219
Unamortised capitalised costs	–	(428)
	83,209	82,791

Fixed rate senior unsecured bonds

On 24 March 2009, the Company issued \$81,759,000 of fixed rate senior unsecured bonds, bearing a fixed interest rate of 8.5% per annum. The bonds are carried at amortised cost using the effective interest method. The bonds mature on 15 April 2014. Refer to note 6 Subsequent Events for further details on redemption of the bonds.

The above total of \$83,209,000 includes \$1,450,000 of accrued interest (30 September 2013: \$1,460,000). The Company capitalised \$3,499,000 of costs associated with the issuance of the bonds. These costs are amortised over the five year term of the bonds using the effective interest rate method. The amortised costs during the period to 31 March 2014 were \$428,500 (30 September 2013: \$800,500).

The fair value of fixed rate senior unsecured bonds as at 31 March 2014 is \$83,496,379 (30 September 2013: \$83,692,000), this has been estimated by reference to the average quoted market price of the underlying debt securities at the end of the period.

4. Segmental reporting

TOWER Capital Limited operates in one single business class having undertaken a bond issue to raise funds for use in the operations of the TOWER Group. The chief operating decision maker is considered to be the Board of Directors. The Board meet regularly with management to provide strategic guidance for the Company. The Company operates in one geographical segment, New Zealand.

5. Tangible assets value per bond

	Half year ended	
	31 March 2014 Unaudited \$	31 March 2013 Unaudited \$
Tangible assets per bond	1.05	1.05

Tangible assets per bond represents the value of the Company's total assets divided by the number of fixed rate senior unsecured bonds on issue as at 31 March.

TOWER Capital Limited Notes to the Interim Financial Statements

For the *half year* ended 31 March 2014

6. Subsequent events

Bond redemption

In accordance with the Trust Deed for TOWER Fixed Rate Senior Unsecured Bonds dated 12 February 2009 (the 'Trust Deed'), the Company redeemed for cash following repayment of the related party receivable by TOWER Financial Services Group Limited on 15 April 2014 all of the bonds held by bondholders on the register at 5pm on the record date of 4 April 2014. Payment of the issue price of \$1.00 per bond plus accrued interest amounted to a return of \$83,496,379 to bondholders.

Following repayment of bond principal and accrued interest, the Company requested to be delisted from the NZX Debt Market and has requested discharge from the Trust Deed.

Other than the bond redemption, subsequent delisting from the NZX Debt Market and request for discharge from the Trust Deed, there have been no other material events subsequent to 31 March 2014.



Independent Review Report

To the shareholders of TOWER Capital Limited

Report on the Interim Financial Statements

We have reviewed the interim condensed financial statements ("financial statements") of TOWER Capital Limited (the "Company") on pages 41 to 47, which comprise the balance sheet as at 31 March 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

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Chartered Accountants
26 May 2014

Auckland

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TOWER Directory

Board of Directors

Michael Stiassny (Chairman)
David Hancock (Chief Executive Officer)
Steve Smith
John Spencer CNZM
Graham Stuart

Management team

Michael Boggs
(Chief Financial Officer and Company Secretarial)
Vanessa Dudley (General Manager Customer Interaction)
Debbie Eyre (General Manager Service Enablement)
Mark Savage (General Manager Customer Proposition)

Registered office

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Sydney NSW 2000
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Auditor

PricewaterhouseCoopers

Banker

Westpac New Zealand Limited

Solicitor

DLA Phillips Fox

Enquiries

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

For investor enquiries:
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Company numbers

TOWER Limited
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NZ Incorporation 979635
NZBN 9429 0374 84576
ARBN 088 481 234

TOWER Capital Limited
NZ Incorporation 2198245
NZBN 9429 0324 41505

Stock exchanges

The Company's ordinary shares are listed on the NZSX
and the ASX.

Registrar

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Email: enquiry@computershare.co.nz

Website: www.investorcentre.com/nz

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

This website enables holders to view balances, change
addresses, view payment and tax information and update
payment instruction 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 and
TOWER Capital Limited
Investor Relations**

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Registrar

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