

20 November 2015

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INCREASE IN CLAIMS PROVISIONS FOR CANTERBURY REBUILD

TOWER Limited (NZX/ASX: TWR) today announced that it expects to increase its provisions for Canterbury earthquakes for the second half year ended 30 September 2015 resulting in a \$13.6 million impact on TOWER's net profit after tax.

TOWER is currently completing its full year financial statements and audit, which it expects to finalise for release to the market on Tuesday 24 November 2015. After reviewing the actuarial analysis as part of its review of the draft unaudited financial statements, the Board considered it material to notify the market prior to the results announcement without delay.

When added to the first half provision increase for the Canterbury earthquakes, the total impact for the full year ended 30 September 2015 is \$36.2 million after tax. This results in an unaudited full year loss after tax of approximately \$7m.

TOWER expects its full year underlying earnings¹ will be approximately \$28 million after tax.

The gross increase in the second half provision for the February 2011² event is \$53.2 million before tax. The higher claims provision is driven by increased repair and rebuild costs for the remaining claims, and an increased risk margin.

TOWER maintains a strong balance sheet and will be well capitalised following the increase in provisions, holding excess capital above minimum solvency requirements of more than \$70 million at 30 September 2015. Consequently, the company expects the increase in provisions will not require an increase in its solvency reserves, nor result in any alteration to TOWER's capital management programme including the dividend policy or current on-market share buyback.

Canterbury claims provisions

Along with other general insurers, TOWER continues to work through the tail end of Canterbury claims, which are challenging and complex. TOWER has acted in the best interests of customers and shareholders by managing claims quickly and effectively, resulting in 95.6% of claims settled by number and 88% by value³ as at 30 September 2015.

¹ Underlying earnings excludes the impact of the Canterbury earthquakes and the discontinuation of previous businesses.

² The Canterbury earthquakes are made up of four separate events. The February 2011 event is the largest event and the only one in which TOWER has exceeded its reinsurance limits.

³ Claims settled by value is claims paid relative to total incurred. As at 31 March this was 83.4%.



Given the ongoing complexity and uncertainty surrounding the remaining Canterbury claims, the TOWER Board and management have taken steps to ensure they are closely managing the outstanding risk: EY was appointed to assist in undertaking a methodical file review of apportionment and in April 2015, an Adverse Development Cover (ADC) was put in place to protect the balance sheet from potential claims deterioration. Following the increased provision, the ADC is expected to be fully utilised.

TOWER has appropriately sought to measure and manage Canterbury risk under advice from its actuaries. Most recently, the Board requested that Deloitte – the Appointed Actuary – provide additional expertise in catastrophe and reinsurance claims to support the September year-end valuation.

Deloitte has now conducted a file-by-file claim analysis. This approach has resulted in a greater level of detail and understanding. When combined with our actual claims experience on repairs and multi-unit dwellings, this has also helped provide a clearer picture of the likely costs for these more complex claims.

TOWER remains focused on bringing resolution as quickly as possible to our customers' outstanding claims. Given the complexity of remaining claims some risk still remains. However, the detailed analysis undertaken by the actuaries to understand these claims, their significantly smaller number, and the pace of TOWER's claims resolution progress in resolving claims provides the Company with increasing confidence regarding the balance of the claims expense provision.

Earnings guidance

Following review of the company's unaudited financial statements for the year ending 30 September 2015, TOWER expects to report a full year loss after tax of approximately \$7m.

In making the announcement, the TOWER Board noted that the company has delivered a strong underlying performance in its first year as a pure general insurer, being an underlying net profit after tax, which excludes the impact of the Canterbury earthquakes, of approximately \$28 million.

Further details will be available when the audited full year results are released on 24 November 2015.

ENDS

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