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2000 Australia



24 September 2019

Tower Limited

Tower to acquire Youi NZ insurance portfolio and raise capital

Please find enclosed the following for release to the market in relation to Tower Limited's (NZX: TWR; ASX: TWR) acquisition of Youi NZ insurance portfolio and capital raise:

1	Media Release
2	Presentation

ENDS

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Company Secretary
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ARBN 088 481 234
Incorporated in New Zealand

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Tower to acquire Youi NZ insurance portfolio and raise capital

Acquisition of Youi NZ portfolio

Tower Limited today announced that Tower Insurance Limited has signed a Portfolio Transfer Agreement for the purchase of Youi NZ Pty Ltd's insurance portfolio, subject to regulatory approvals.

Under this agreement, Tower Insurance will acquire Youi NZ's approximately 34,000 in-force policies for a total purchase price of NZ\$13 million, with Tower policy renewals to be offered as current Youi NZ policies expire.

The purchase price of \$13 million represents an 8% increase on Tower's current NZ GWP.

Tower CEO, Richard Harding, says this acquisition will further accelerate the company's growth ambitions and drive shareholder value.

"The purchase of Youi's portfolio will assist us to accelerate our growth and we are now firmly positioned as a challenger brand focused on delivering good customer outcomes and value for our shareholders.

"Together with the successful implementation of the IT simplification programme currently underway, this investment will deliver growth, build scale and leverage the investment in IT," said Harding.

The agreement is subject to conditions, including approvals from the Reserve Bank of New Zealand, which are being sought to ensure completion before the end of 2019.

Tower notes that if the purchase proceeds, Youi customers will remain covered under their existing terms for the remainder of their contract. Youi customers will then receive the benefits of Tower Insurance's award-winning, plain English policies, commitment to trust-both-ways and its risk-based approach to pricing.

Changing capital requirements and capital raise

Tower Insurance has consulted with RBNZ throughout to understand likely capital requirements to support the acquisition and on-going business of Youi NZ

Dialogue with RBNZ also included discussion of Tower Insurance's existing solvency capital, with particular focus on Tower Insurance's EQC receivable, which currently forms part of Tower Insurance's solvency capital



Tower Insurance's intention is to pursue the collection of the EQC receivable to the maximum extent possible.

Tower CEO, Richard Harding, says that given the status of discussions and the nature of the EQC receivable, it is likely that the dispute will proceed to litigation.

"We continue to be confident in the recovery of this receivable and while we have entered an alternative dispute resolution process, we are firmly committed to collection of the EQC receivable to the maximum extent possible," said Harding.

Given the increased likelihood of litigation and associated delay in receiving funds, it is appropriate to exclude the EQC receivable from Tower Insurance's solvency calculations. Accordingly, the RBNZ has modified Tower Insurance's licence conditions to remove the receivable from its solvency calculations with effect from 31 October 2019.

To facilitate the change in licence condition and the acquisition of the Youi NZ portfolio, Tower Limited will raise \$47.2m capital via a pro-rata renounceable entitlement offer.

Capital will be raised via pro-rata renounceable entitlement offer at a ratio of 1 New Share for every 4 Existing Shares held at an issue price of NZ\$0.56 (or AUD\$0.54 for Eligible Australian Shareholders).

Business performance update for the 11 months to 31 August 2019

Tower advises that the ongoing transformation of the business is progressing well, with continued solid growth and positive trends being seen in key areas.

As a result of this solid performance, Tower has upgraded its FY19 guidance and is now expecting full year underlying NPAT¹ to be approximately \$28m, subject to normal volatility in its claims expense, and no further large events occurring.

Given the acquisition of Youi NZ, and accompanying capital raise, no dividend will be paid in 2019. Tower's Board remains committed to resuming dividends, at 50-70% of Reported NPAT, where prudent to do so.

Solid growth continues

Ongoing efforts to simplify insurance and make things easier for customers is seeing Tower continue to achieve solid growth, with digital performance remaining elevated and retention levels stable.

In the 11 months to 31 August 2019, Gross Written Premium (GWP) in Tower's core New Zealand book has grown at 9.6%, resulting in total GWP increasing to \$325.8 million, compared to \$306.8m in the same period last year.

Claims ratio favourable

Relatively benign weather, along with a continued focus on underwriting excellence has seen Tower's claims expense ratio for the 11 months to 31 August 2019 decrease 8%, to 48.6%, from 56.6% in the same period last year.



As previously signaled, management expenses have trended slightly higher in the second half of the 2019 financial year. This slight increase is a result of finalisation of Tower's technology upgrade and broader transformation activity.

Tower is pleased to advise that it has secured its 2020 reinsurance programme on good terms, with an increase in cover, at rates in line with the prior year.

Major technology upgrade progressing well

The first phase of Tower's technology upgrade has launched with new business being sold on the new platform. Launch of the first phase has confirmed initial assumptions, with improved outcomes being delivered for customers and will result in increased efficiency.

Tower remains on track to deliver the second phase before the end of the 2019 calendar year, as previously advised. Phase two includes self-service, increased digital capability and the commencement of migration of customers to the new platform.

As the programme enters its final stages, there is some pressure on costs with total investment in its technology upgrade expected to be within 5-7% of the previously disclosed figure of \$45m.

Further information about the Portfolio Transfer Agreement and capital raise will be made available on www.tower.co.nz/investor-centre.

ENDS

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

To arrange media interviews, please contact in the first instance:

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Notes

1. Underlying NPAT is Tower's preferred measure of Tower's underlying performance. It does not have a standardised meaning under Generally Accepted Accounting Practice (GAAP), and is not the same as Reported NPAT, which is calculated and presented in accordance with GAAP. Tower has applied a consistent approach to measuring Underlying NPAT in the current and comparative periods. In its first half results, Tower disclosed \$7.5m, after tax, of non-underlying expenses in Reported NPAT - Tower expects non-underlying expenses to increase in the second half due to the portion of the IT transformation costs that is unable to be capitalised, and any other changes to provisions

Acquisition of Youi NZ portfolio and capital raise

24 September 2019
Tower Limited

Disclaimer



Disclaimer

This presentation has been prepared by Tower Limited (the "Company"). This presentation has been prepared to provide information on Tower's business and in relation to the proposed rights offer of fully paid ordinary shares (the "New Shares") in the Company to eligible shareholders under clause 19 of Schedule 1 of the Financial Markets Conduct Act 2013 and ASIC Instrument 16-0218 (the "Offer").

Information

This presentation contains summary information about the Company and its activities which is current as at the date of this presentation. The information in this presentation is of a general nature and does not purport to be complete nor does it contain all the information which a prospective investor may require in evaluating a possible investment in the Company or that would be required in a product disclosure statement for the purposes of the Financial Markets Conduct Act 2013. The historical information in this presentation is, or is based upon, information that has been released to NZX Limited ("NZX"). This presentation should be read in conjunction with the Company's other periodic and continuous disclosure announcements, which are available at www.nzx.com.

NZX and ASX

The new Shares have been accepted for quotation by NZX and will be quoted on the NZX Main Board upon completion of allotment procedures. The NZX Main Board is a licensed market under the Financial Markets Conduct Act 2013. However, NZX accepts no responsibility for any statement in this presentation.

Application will be made to quote the new shares on ASX and Tower expects the new Shares will be quoted upon completion of allotment procedures. However, ASX accepts no responsibility for any statement in this presentation.

Not financial product advice

This presentation is for information purposes only and is not financial or investment advice or a recommendation to acquire the Company's securities, and has been prepared without taking into account the objectives, financial situation or needs of individuals. Before making an investment decision, prospective investors should consider the appropriateness of the information having regard to their own objectives, financial situation and needs and consult an NZX Participant, or solicitor, accountant or other professional adviser if necessary.

Past performance

Any past performance information given in this presentation is given for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance.

Future performance

This presentation may contain certain "forward-looking statements" such as indications of, and guidance on, future earnings and financial position and performance. Forward-looking information is inherently uncertain and no assurance can be given that actual outcomes will not differ materially from the forward looking statements.

Disclaimer: To the maximum extent permitted by law, the Company and its officers, advisers and affiliates will not be liable (whether in tort (including negligence) or otherwise) to you or any other person in relation to this presentation.

Executive summary



Accelerating growth through acquisition

- Tower Insurance to purchase Youi NZ's ~34,000 in-force policies for NZ\$13m through portfolio transfer
- Transaction subject to approval from the RBNZ
- Youi NZ's portfolio is well underwritten, with the acquisition delivering additional growth, building scale and leveraging IT upgrade investment
- Tower sees potential for further similar 'bolt on' acquisitions in an evolving industry landscape

Changing capital requirements and capital raise

- Discussion and consultation with RBNZ has resulted in changes to Tower Insurance's licence condition and capital requirements, including removal of EQC receivable from solvency capital
- Tower Limited to raise \$47.2m capital to inject into Tower Insurance Limited ("TIL") to fund purchase of the Youi NZ portfolio and associated capital requirements for new policies, and strengthen capital position

Tower's transformation and strong performance continues

- Continued GWP and policy growth in core NZ book with digital performing well
- Major technology upgrade progressing well with second phase to be delivered before end of 2019
- Tower Limited expects its FY19 Underlying NPAT to be approximately \$28m, subject to normal volatility in its claims expense, and no further large events occurring



Acquisition of Youi NZ

The Youi opportunity



1. Delivers growth

- Provides immediate access to customers and GWP growth, representing an 8% increase on Tower Insurance's current NZ GWP
- Youi portfolio is well underwritten, with a risk-based approach to pricing and in line with Tower's underwriting excellence approach
- Net claims ratio of 57% in FY19 demonstrates strong underwriting and performance of the Youi NZ portfolio
- Solidifies Tower's challenger position in the market and provides cross-sell opportunity

2. Realising scale to deliver shareholder value

- Purchase price of \$13 million represents 0.5x GWP generated by Youi NZ in its 2019 financial year
- Drives shareholder value through realisation of scale benefits with reinsurance and management expenses at marginal cost

3. The transaction

- Tower Insurance is purchasing Youi's in-force New Zealand policies by way of a portfolio transfer agreement
- Agreement is subject to conditions, including approval from the RBNZ
- Tower Insurance is currently working with the RBNZ in the lead up to lodgement of a formal application, with the acquisition expected to settle prior to the end of the 2019 calendar year

About Youi New Zealand



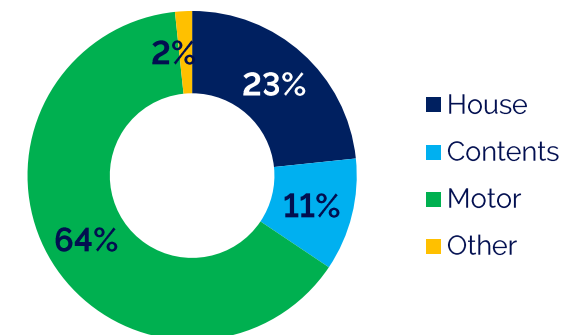
Tower sees retention and cross-sell opportunity with customer-focussed offering for Youi customers

- Portfolio underwritten in line with Tower's risk-based approach, with low exposure to high-risk areas
- Youi NZ's existing policies well priced and a loss ratio in line with industry averages
- Youi NZ portfolio biased towards Motor, which is complementary to Tower's portfolio
- Youi NZ portfolio aligns with Tower's focus, improves mix of portfolio and mix of customer demographics, and enables cross-sell opportunities
- Tower sees upside retention opportunity with customer-focussed offering and service
- Portfolio builds scale and leverages recent investment in new technology system

GWP
\$24m

NUMBER OF POLICIES
~34,000

**MIX OF BUSINESS BY PRODUCT
(GWP)**





Capital, governance and conduct

Capital, governance and conduct

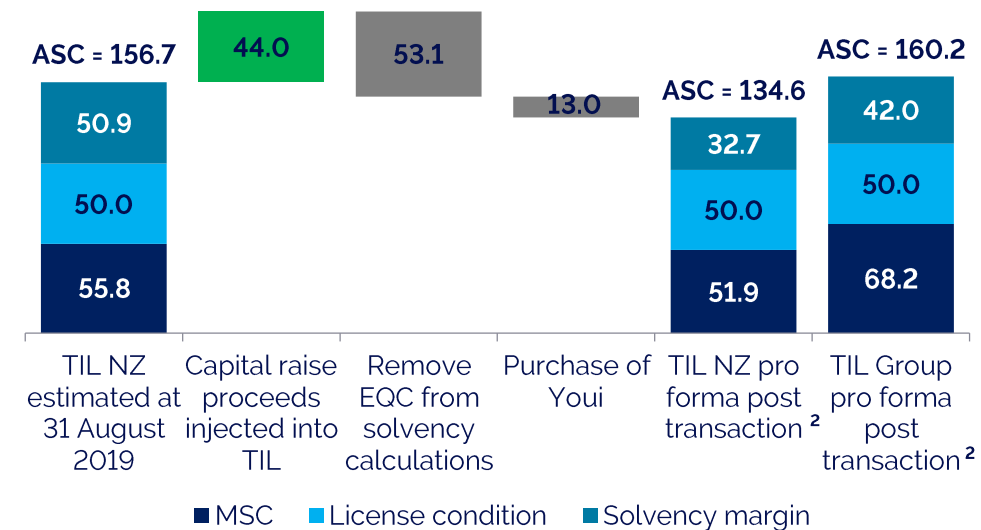
Changing capital requirements

- Tower Insurance has consulted with RBNZ throughout to understand likely capital requirements to support the acquisition and on-going business of Youi NZ
- Dialogue with RBNZ also included discussion of Tower Insurance's existing solvency capital, with particular focus on Tower Insurance's EQC receivable, which currently forms part of Tower Insurance's solvency capital
- Tower Insurance's intention is to pursue the collection of the EQC receivable to the maximum extent possible.
- Given the increased likelihood of litigation and associated delay in receiving funds, it is appropriate to exclude the EQC receivable from its solvency calculations. Accordingly, the RBNZ has modified Tower Insurance's licence conditions to remove the receivable from its solvency calculations with effect from 31 October 2019.
- While the EQC receivable is excluded from the solvency calculations, it remains on the Tower Insurance balance sheet unchanged at net \$53.1m

Focus on governance, risk, conduct and culture

- Tower Insurance is giving active consideration to simplifying its corporate structure to make Tower Insurance the listed parent
- If this is not feasible Tower has agreed with RBNZ that Tower Insurance Limited will have a majority of directors independent of the listed parent company
- Confirmed appointment of new Chief Risk Officer, Gavin Pearce, to lead and drive Tower's risk, governance, conduct and culture work

TIL NZ and Group solvency position¹



1. Shows estimated pro forma solvency calculation for TIL's New Zealand business, after addition of Youi business and with the net proceeds of the capital raise injected into TIL. TIL Group includes additional regulatory capital in its Pacific subsidiaries.
2. Change in MSC includes reduction recognising the additional risk margin of \$5m that has not been applied to date

Trading update and outlook

Tower trading update



Tower continues to show good revenue growth with a significant improvement in the claims ratio on the prior year

Solid growth continues

- ✓ Continued GWP and policy growth in core NZ book
- ✓ Growth through digital remains elevated
- ✓ Retention levels are stable

Claims ratio favourable

- ✓ Claims ratio favourable, supported by benign weather
 - Christchurch gas explosion recorded as large event, reserved at \$2m
- ✓ As previously signalled, management expense ratio slightly higher due to finalisation of technology upgrade and broader transformation

Key metrics	11 months to 31 August 2019 (unaudited)	11 months to 31 August 2018 (unaudited)
Gross written premium (GWP)	\$325.8m	\$306.8m
GWP growth in core NZ portfolio ¹	9.6%	12.3%
Claims expense ratio	48.6%	56.6%
Management expense ratio	39.9%	39.1%

Notes

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

Canterbury update



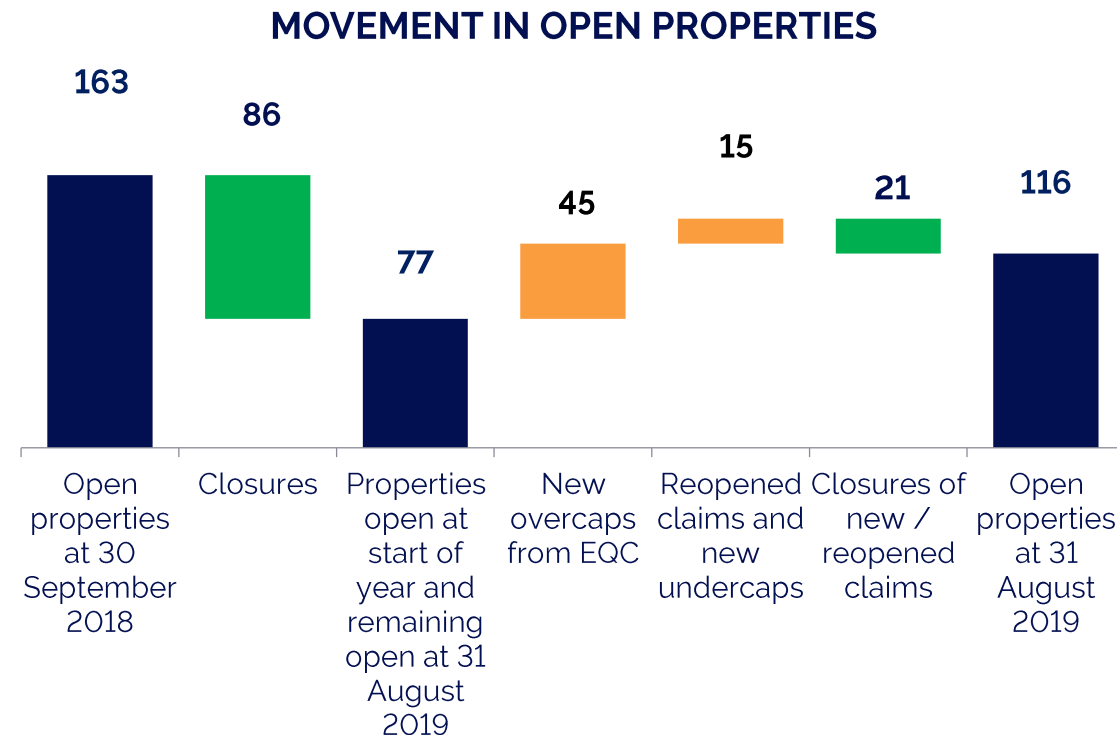
CEQ claims close to conclusion, with positive momentum hampered by unacceptable and on-going receipt of over-cap claims

Update on Canterbury Earthquake claims

- Tower continues to receive higher than expected new over-cap claims from the EQC as a result of past performance, poor workmanship and faulty repairs
- While the number of Canterbury earthquake claims continues to reduce steadily, new over-cap claims from the EQC continue to be a source of upward pressure on valuation
- Remainder of open claims are performing in line with expectations

Update on EQC receivable

- Tower currently holds a receivable from the EQC with a book value of \$70m as at 31 March 2019. \$16.9m of this receivable is payable to reinsurers, resulting in a net asset of \$53.1m
- Tower continues to be confident in the recovery of this receivable, and Tower's Board and management remain firmly committed to collection of the EQC receivable to the maximum extent possible
- Tower is currently engaged with EQC in an alternative dispute resolution process, however, it is more likely that the dispute will proceed to litigation, which may cause the timing of the recovery to be delayed, depending on court processes and timeframes



Strong full-year profit benefiting from underwriting excellence and benign weather

Upgraded forecast

- ✓ Tower expects its FY19 Underlying NPAT¹ to be approximately \$28m, subject to normal volatility in its claims expense, and no further large events occurring

Major technology upgrade progressing well

- ✓ First phase of major technology upgrade is operational with new business being written on the platform
- ✓ The upgrade is delivering improved outcomes for customers and leading towards increased efficiency
- ✓ Second phase will be delivered during 2019 calendar year, including commencement of migration, self service and increased digital capability
- As we enter the final stages, there is some pressure on costs with total investment expected to be within 5-7% of previously disclosed amounts

Second-half dividend

- Given the acquisition of Youi NZ, and accompanying capital raise, no dividend will be paid in 2019
- The Board remains committed to resuming dividends, at 50-70% of Reported NPAT, where prudent to do so

Notes

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Rights offer

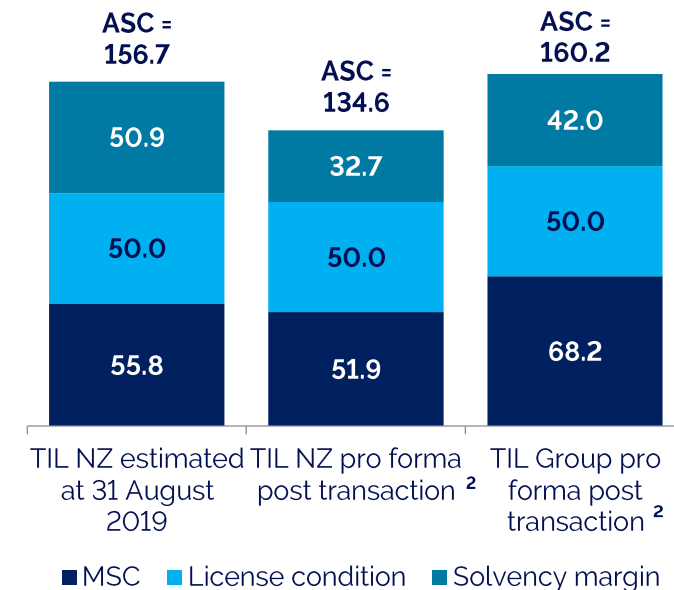
Capital raise



Rights offer will fund the acquisition and reinforce Tower's balance sheet

- Tower Limited to raise \$47.2m capital to:
 - fund purchase of the Youi NZ portfolio
 - provide approximately \$5m capital required to support the newly acquired Youi NZ policies
 - strengthen capital position and reinforce Tower's balance sheet
- Capital to be raised via pro-rata renounceable entitlement offer at an issue price of NZ\$0.56 representing an ~23% discount to the theoretical ex-rights price
- Tower Limited will inject the net proceeds from the capital raise into Tower Insurance Limited
- Tower Limited has drawn \$15m on its \$30m external debt facility to fund technology transformation, with \$15m remaining for additional investment / liquidity

TIL NZ and Group solvency position¹



1. Shows estimated pro forma solvency calculation for TIL's New Zealand business, after addition of Youi business and with the net proceeds of the capital raise injected into TIL. TIL Group includes additional regulatory capital in its Pacific subsidiaries.
2. Change in MSC includes reduction recognising the additional risk margin of \$5m that has not been applied to date

Equity raising terms and shareholder options



Equity raising terms

Entitlement ratio	<ul style="list-style-type: none">• 1 New Share for every 4 Existing Shares held
Offer size	<ul style="list-style-type: none">• \$47.2m
Maximum New Shares to be issued	<ul style="list-style-type: none">• 84,331,075
Issue price	<ul style="list-style-type: none">• NZ\$0.56 per Share
Offer discount	<ul style="list-style-type: none">• ~23% to TERP¹
Eligibility	<ul style="list-style-type: none">• Available to persons recorded on Tower's share register at 7:00pm on 2 October 2019, with a registered address in New Zealand or Australia
Ranking	<ul style="list-style-type: none">• New shares issued on completion of the Rights Offer will rank equally with Existing shares and will be quoted on the NZX and ASX
Structure	<ul style="list-style-type: none">• Pro rata renounceable Rights Offer provides all Eligible Shareholders with the opportunity to participate
Underwriting	<ul style="list-style-type: none">• The Offer is underwritten by Goldman Sachs New Zealand Limited

Shareholder options

Take up all or some Rights	<ul style="list-style-type: none">• You will be able to acquire Shares at the Issue Price of NZ\$0.56 which is at a discount to the market price immediately prior to the announcement of the Rights Offer.• If you take up all your rights you will maintain your proportional ownership of Tower after the Rights Offer
Sell all or some Rights	<ul style="list-style-type: none">• If you wish to sell your Rights, you should contact an NZX Broker• You will receive value for any Rights sold on-market• You may be required to pay brokerage on the sale of your Rights
Let Rights lapse	<ul style="list-style-type: none">• If you do nothing, your Rights will lapse and you will not be able to subscribe for any New Shares

If you do nothing, your Rights will lapse and you will not be able to subscribe for any New Shares or realise any other value for your Rights.

The Tower Board encourages you to either take up your Rights in full or sell your Rights on market

Notes:

1. TERP is the theoretical ex rights price of NZ\$0.73 which is equal to the average price of 1 New Share at the Issue Price of NZ\$0.56 and 4 Existing Shares at NZ\$0.77 being the last traded price as at 23 September 2019

Key risks to Tower



- Tower is subject to risk factors that are specific to its business activities and those of a more general nature. Any, or a combination, of these risk factors may have a material impact on Tower's business, operating and financial performance. These impacts can be negative or positive. This page describes some of the potential risks associated with Tower's business and an investment in its Shares. It does not purport to list every risk that may be associated with an investment in Shares now or in the future. The occurrence of consequences of some of the risks described on this page are partially or completely outside the control of Tower, its Directors and management team.
- The selection of risks has been based on an assessment of the probability of the risk occurring and impact of the risk if it did occur. The assessment is based on the knowledge of the Directors as at the date of this document, but there is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.
- Before applying for Shares, you should satisfy yourself that you have a sufficient understanding of these matters and should consider whether Shares are a suitable investment for you, having regard to your own investment objectives, financial situation and particular needs (including financial and taxation issues). If you do not understand any part of this presentation or are in any doubt as to whether to invest in Shares, it is recommended that you seek professional guidance from your accountant, share broker, financial adviser, lawyer or other professional adviser before deciding whether to invest.

<i>Risk</i>	<i>Description</i>
EQC Recoveries	<ul style="list-style-type: none">• Tower has an on-going dispute with the Earthquake Commission (EQC) in relation to a net receivable of \$53.1m. While Tower is currently seeking to settle the dispute using an alternative dispute resolution process, there remains a prospect of continued (land recoveries) and new (building recoveries) litigation against the EQC which would take time and may not result in full recovery of the receivable.
Regulatory environment	<ul style="list-style-type: none">• The New Zealand insurance industry is operating in an environment of heightened regulatory scrutiny with potential changes to the capital regime. The RBNZ has signalled to the market that New Zealand is in a capital strengthening environment. There is potential for substantial regulatory change and an intense focus on good customer outcomes.• This is being addressed through regulatory change projects, enhancement of governance and compliance processes, as well as a strategy and culture with a strong focus on good customer outcomes. An industry-wide conduct and culture review has been initiated by the RBNZ and FMA, which includes review of prior periods.• The additional costs and implications arising from this environment are difficult to predict.
Canterbury earthquake claims	<ul style="list-style-type: none">• While the number of Canterbury earthquake claims continues to reduce steadily, new over-cap claims from the EQC continue to be a source of upward pressure on valuation.
Business transformation	<ul style="list-style-type: none">• Tower is continuing to implement an IT simplification plan which, if unsuccessful, may result in increased costs, failure or delay to achieve desired operational performance improvements and medium term financial targets.
Insurance industry environment	<ul style="list-style-type: none">• The insurance industry that Tower operates within involves the assumption of risk. Changes in frequency and severity of customer claims, which may result from inflation, natural disasters or other events, can affect Tower's capital position, consistency of earnings and the achievement of targets.

Offer timetable



Key dates¹ for the rights offer are outlined below

Shares quoted “ex-rights” and Rights Trading commences on the NZX Main Board	Tuesday 1 October
Record date	Wednesday 2 October
Offer documents sent and Offer opens for acceptance	Thursday 3 October
Rights trading ceases	Wednesday 9 October
Rights offer closes (and last date for receipt of renunciations)	Tuesday 15 October
New Shares allotted and commence trading	Friday 23 October

Notes:

1. These dates are subject to change. Tower reserves the right to amend the dates and times without prior notice, subject to applicable legal and regulatory requirements.