



TOWER Limited,
Level 14, 45 Queen Street,
Auckland 1142, New Zealand
ARBN 088 481 234
Incorporated in New Zealand

8 September 2016

Market Information
NZX Limited
Level 1, NZX Centre
11 Cable Street
Wellington
New Zealand

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

TOWER INCREASES ITS CLAIMS PROVISIONS FOR CANTERBURY

Tower Limited (NZX/ASX: TWR) today announced that it expects to strengthen its claims provisions for Canterbury.

- Deloitte, Tower's Appointed Actuary, has provided Tower with a draft of their latest actuarial review. This draft shows a need to increase provisions for the Canterbury earthquakes. This increase is expected to result in a \$16.2m impact on Tower's profit after tax. The Tower Board will consider the final report when it is delivered and will confirm the impact to the market.
- Tower has a commercial dispute with Peak Re, the provider of the Adverse Development Cover (ADC) entered into in April 2015. Tower remains confident in its position on the basis of strong legal advice. Tower will take every step to fully recover the amounts due.
- Tower Insurance maintains a strong balance sheet with a solvency ratio of 213% after the provision increase. This is above the long term operating range and Tower Insurance retains excess solvency of \$11.7m above minimum regulatory solvency requirements. In addition, Tower Limited has a further \$11.2m in excess cash available.

The Tower Board will review the company's dividend policy with the full year results.

Increase in Canterbury Claims Provisions

The Canterbury earthquakes continue to present a globally unprecedented challenge for the insurance industry and along with other NZ general insurers, Tower continues to manage this issue closely.

Deloitte, Tower's Appointed Actuary, in the process of conducting its latest review found a significant escalation in costs and the need to increase provisions. In line with others in the industry, two key issues account for the majority of the increase in costs:

- greater than anticipated new claims from EQC, and
- growth in the level of litigation and customer disputes.

Over the past 6 months, the insurance industry has received over 800 new claims as EQC accelerate their program. The average cost of the claims received has been greater than initially expected and, contrary to expectations, the EQC's projected slowdown in new claims has not materialised. Further, recent reports have shown there are potentially in excess of 6,000 EQC claims requiring remediation. It is expected that some of these will exceed the \$100,000 EQC threshold, resulting in the cost being borne by insurers. The EQC process continues to create significant uncertainty for the insurance industry.



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The general environment in Canterbury, 6 years after the event, has resulted in a greater number of disputes and extended time required to reach agreement with customers. This has been further exacerbated by opportunistic advocates who created unfounded fear in regards to application of the statute of limitations. This has resulted in a higher number of disputes and litigation than expected.

Tower has approximately 560 claims remaining of the almost 16,000 claims lodged and these claims are managed on a daily basis by a team of experienced claims handlers.

Capital position

The Board continues to assess the capital position of Tower Insurance Limited. Following this increase in provision, Tower Insurance Limited will have a solvency ratio of 213%, above the Board's long term operating range. Tower Insurance Limited retains excess solvency of \$11.7m, over and above the minimum regulatory position¹. Outside of the regulated insurance entity, Tower Limited holds \$11.2m of excess cash.

Taking into account the cash at Tower Limited, Tower Group has \$22.9m of capital available above the minimum regulatory requirement.

Additionally, Tower Limited has a \$50m standby credit facility which may be drawn at any time and can be used for general corporate purposes, including the support of Tower Insurance Limited should it be required.

The Tower Board has signaled its intention to review the dividend and dividend policy with the full year results.

ENDS

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

For media queries, please contact:
Nicholas Meseldzija
Head of Corporate Communications
Tower Limited
Mobile: +64 21 531 869
Email: nicholas.meseldzija@tower.co.nz

¹ Minimum regulatory capital position refers to current Minimum Solvency Capital of Tower Insurance (Parent) plus \$50m RBNZ Licence Condition