2017 full year results and announcement of entitlement offer

Tower Limited investor presentation

14 November 2017

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Executive summary

Michael Stiassny
Chairman

Executive summary

Vero strategic discussions

- After considering various structural options in late 2016, Tower received two unsolicited offers for 100% of the company's shares
- Tower's Board accepted Vero's offer, however, the Commerce Commission declined approval
- The Scheme Implementation Agreement (SIA) has passed its end date and was terminated by Tower on 6 November 2017
- Vero and Tower have since withdrawn their Commerce Commission appeals

Validated balance sheet and capital structure

- An extensive, independent review of Tower's solvency capital has been conducted
- Tower's Board has determined that an additional $70.8 million capital is required to enable investment in the business and manage inherent balance sheet risks
- Tower's Board has elected to create an additional risk margin for Canterbury claims of $10m over and above the provision of the Appointed Actuary. This is currently equivalent to a probability of sufficiency between the 80-85th percentile and will be released as Canterbury outstanding claims run off

Equity raise

- $70.8 million capital to be raised via pro-rata renounceable entitlement offer
- Issue price of NZ$0.42 representing a 29% discount to the theoretical ex-rights price
- Ratio of 1 New share for every 1 Existing share held
- Vero has committed to take up its full entitlement under the Offer

Positive trends continue in FY17

TOWER

Momentum picks up pace in FY17

- Significant improvements achieved in core metrics, including policy and premium growth, claims control and expense reduction, however, an unprecedented number of large natural events have affected underlying result
- Tower has reported a full year loss of $8m, a $13.5m improvement on the prior year

Solid progress in finalising Canterbury earthquake claims

- The number of open Canterbury Earthquake claims reduced by 241 in FY17
- Tower's Board has elected to create an additional risk margin for Canterbury claims of $10m.

Positive short-term and medium-term outlook

- Investment in digital and IT required to accelerate the solid progress made in transforming into a challenger brand

Committed to efficient capital management and payment of dividend

- Tower's Board and management team are strongly committed to paying dividends and to the efficient management of capital
- Tower's Board will review the dividend policy and look to recommence dividends in FY18

Overview of Tower

Richard Harding
Chief Executive Officer

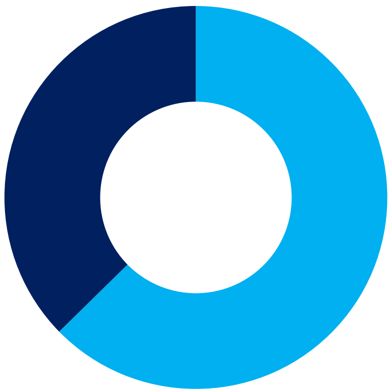
A New Zealand and Pacific general insurer

TOWER

Powerful platform for future growth as the #3 general insurer in New Zealand and one of the leading insurers in the Pacific

$18 m

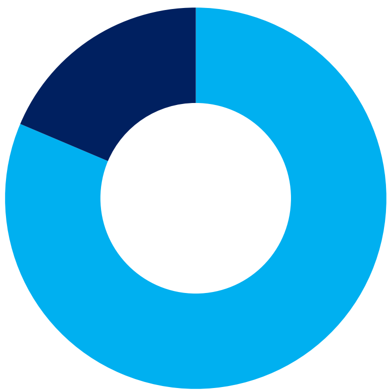
UNDERLYING **NPAT**[1]



- New Zealand 63%[2]
- Pacific Islands 37%[2]

$312.4m

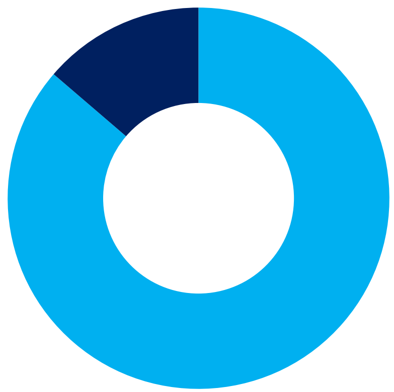
GWP



- New Zealand 81%
- Pacific Islands 19%

479k

INFORCE POLICIES



- New Zealand 86%
- Pacific Islands 14%

Personal lines

GWP breakdown

- House 38%
- Contents 16%
- Motor 31%
- Other 15%

Notes:

1. Excludes impact of the Canterbury and Kaikoura earthquakes, foreign tax credits lost and corporate transaction costs
2. Represents percentage of General Insurance underlying profit, excluding Corporate

Clear strategic plan to grow Tower as the leading digital challenger brand

TOWER

Traditional insurance

- Product and price transparency
- Simplification of policies and processes
- Underwriting refinement and capability build
- Claims process efficiency
- IT refresh, security, and regulatory requirements

Digital distribution

- Digital self-service and engagement tools
- Partnerships through extended ecosystem
- Pacific operating model & growth plan
- Product and underwriting experimentation
- Data-driven insights for risk and decision-making

Customer experience

- Setting it right at the moment of truth
- Predictive modelling and data analytics
- Simple and easy underwriting and claims experiences
- Automation and technology to accelerate claims
- Sophisticated pricing and risk understanding

Challenger brand

- Personalised price, cover, and service
- Power to choose when and how to pay
- Community of loyalists and vocal advocates
- Innovative leadership (i.e. instant claims)
- Challenger culture, capability, and leadership

Solid foundations in place

To achieve high performance, investment is required

Transformation will deliver step change in results

SIGNIFICANT BENEFITS

- ✓ Simple, customer focussed products
- ✓ Easy product experimentation and development
- ✓ Granular, automated pricing and underwriting
- ✓ Improved access and use of internal and external data
- ✓ Improved claims management
- ✓ Significant operational efficiencies and reduced costs
- ✓ Highly engaged employee group

MEDIUM TERM TARGETS

Challenger brand delivering:

- **GWP growth of 4 – 6%**
- **Expense ratio <35%**
- **ROE of 12 – 14% through the cycle**

Improving business performance

Positive momentum in GWP growth with effective claims management and ongoing expense reduction

ACHIEVEMENTS

- ✓ GWP growth of 5.8% achieved in core NZ portfolio
- ✓ Maintained claims discipline despite challenging environment
- ✓ $3.9m improvement in management expenses
- ✓ Solid progress being made in Canterbury with a further reduction of 241 open claims

Key metrics	FY17	FY16
Total GWP	**$312.4m**	$303.2m
GWP growth in core NZ portfolio[1]	**5.8%**	1.9%
Growth in policies in core NZ portfolio[1]	**12,441**	2,509
Claims expenses	**$131.6m**	$127.7m
Management and sales expenses	**$102.4m**	$106.3m
Underlying profit[2]	**$18m**	$20.1m
Reported loss after tax[3]	**$8m**	$21.5m
Open Canterbury earthquake claims	**323**	564

1. Core portfolio is the NZ business and excludes ANZ legacy portfolio
2. "Underlying profit" does not have a standardised meaning prescribed by Generally Accepted Accounting Practice (GAAP) and may not be comparable to similar measures presented by other entities. While Tower has applied a consistent approach to measuring underlying profit in the current and comparative periods, it is not subject to audit or independent review. Tower uses underlying profit as an internal reporting measure as management believes it provides a better measure of Tower's underlying performance than reported profit, as it excludes large or non-recurring items that may obscure trends in the underlying performance of the Tower group. Tower considers that underlying profit is useful to investors as it makes it easier to compare the underlying financial performance of Tower between periods.
3. "Reported loss after tax" is calculated and presented in accordance with GAAP and is taken from Tower Limited's audited financial statements for the year ended 30 September 2017.

Focus on customers delivers growth

Core book growing as a result of digital growth and strong retention

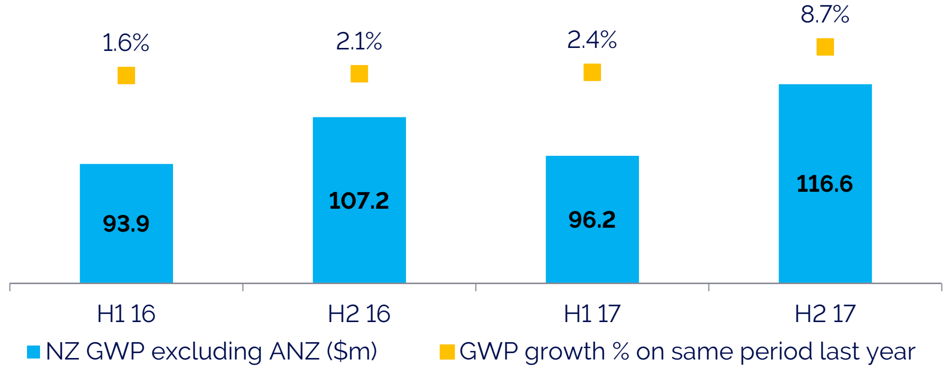
ACHIEVEMENTS

- ✓ New digital program supporting core GWP growth in second half of 8.7% on prior year
- ✓ Tower Direct retention improved 2.0% points on prior year[2]
- ✓ New, simple and easy products improving lead conversion – currently 4% points above target

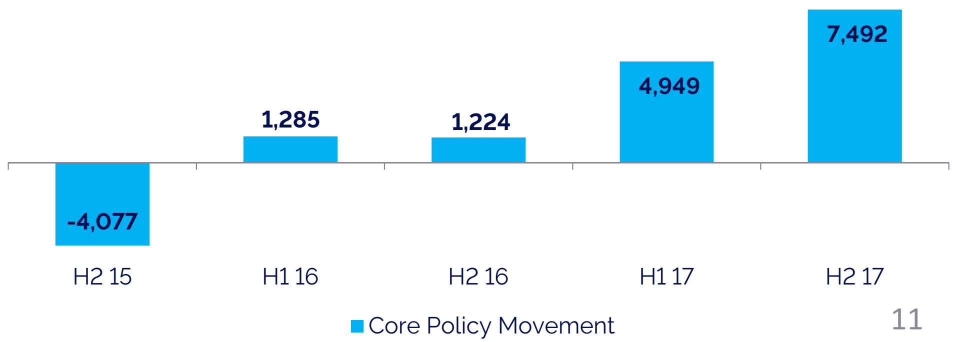
INVESTMENT WILL ACCELERATE TRAJECTORY

- Unique customer experience
- Leverage new and existing partnerships to drive retention
- Innovative new offerings delivered through partners

CORE[1] NEW ZEALAND GWP GROWTH



POLICY GROWTH IN CORE[1] NEW ZEALAND PORTFOLIO



1. Core portfolio is the NZ business and excludes ANZ legacy portfolio
2. During 2017, Tower has changed its methodology for calculating retention rates. Using the previous methodology, retention for Tower Direct would be 81.7%, up 1.0% point on prior year.

Digital continues to deliver

Continued focus on digital capability and partnership delivers more customers

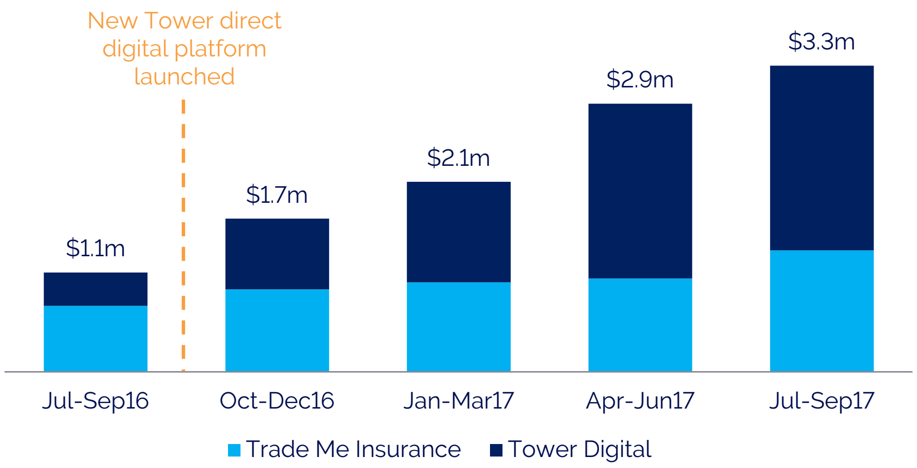
ACHIEVEMENTS

- ✓ Online sales increased from 9% of new business transactions in March 2016, to 30% in September 2017
- ✓ Relaunch of new Trade Me Insurance platform, more than tripling net earned premium on prior year
- ✓ Tailored, targeted insurance offers available for customers using digital channels

INVESTMENT WILL ACCELERATE TRAJECTORY

- Online conversion rate optimisation and improvement
- Digital self-service, policy management and claims lodgement

QUARTERLY NEW BUSINESS GWP ACROSS DIGITAL CHANNELS



Claims and underwriting update

Improvements in pricing, underwriting controlling claims costs despite industry wide inflation

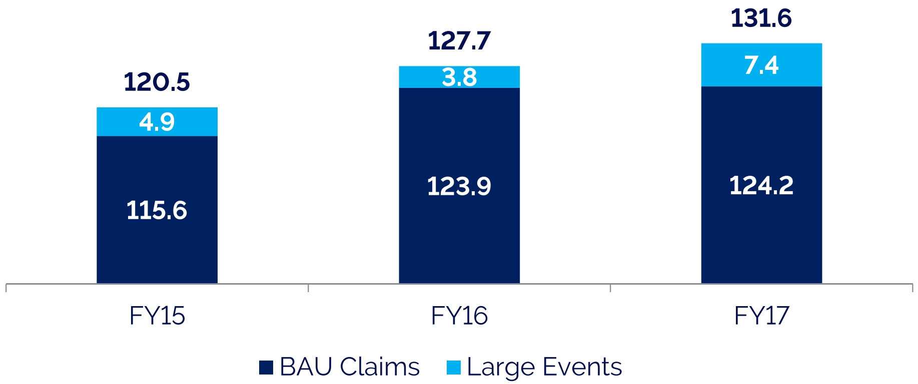
ACHIEVEMENTS

- ✓ Over 30 product updates, pricing reviews and targeted rate changes across all New Zealand portfolios
- ✓ Supply chain and preferred supplier initiatives delivered material savings
- ✓ New vehicle risk ratings further reducing claims frequency
- ✓ Excess changes significantly improved average claims costs

INVESTMENT WILL ACCELERATE TRAJECTORY

- Sophisticated pricing and underwriting to offset claims inflation and improve long-term profitability
- Advanced rating algorithms and address based pricing
- Improved supply chain management and focus on fraud and claims leakage

TOWER CLAIMS EXPENSES ($m)



Note: Claims costs includes BAU and large storm events, but excludes Christchurch and Kaikoura movements

Kaikoura earthquake and storm events

Highest number of natural event losses in over 25 years for Tower, excluding the Canterbury quakes

IMPROVEMENTS IN FINANCIAL OUTCOMES

- ✓ Aggregate reinsurance cover helping to absorb large storm volatility
- ✓ $3.1m reduction of after tax impact of Kaikoura earthquakes from H1, from $7.2m to $4.1m
- ✓ $1.5m reduction of after tax impact of Ex-Cyclone Debbie and associated flooding in Edgecumbe since April 2017, from $3.6m to $2.1m

KAIKOURA EARTHQUAKE

- ✓ 100% of Tower motor claims, 97% of contents and 79% of over-cap and other house claims finalised
- ✓ 99% of EQC contents claims and 82% of EQC home claims that relate to Tower's Kaikoura customers closed

Tower has experienced five large loss events during the year and has set up dedicated teams to help affected customers

Event	Date	Incurred to Date	Ultimate Estimate + Risk Margin	Net of Reinsurance (before tax)	# of claims	Percentage finalised
Port Hills fire[1]	Feb-17	$1.0m	$1.2m	$1.2m	19	89%
Tasman Tempest	Mar-17	$3.9m	$4.2m	$3.8m	721	88%
Ex-Cyclone Debbie[2]	Apr-17	$5.7m	$7.4m	$2.4m	412	78%
Winter storm	Jul-17	$1.3m	$1.6m	-	232	49%
Total storms and other		**$11.9m**	**$14.4m**	**$7.4m**	**1,384**	
Kaikoura earthquake	Nov-16	$3.1m	$5.7m	$5.7m	347	81%

Notes:
1. All claims have had settlement offers presented to customers
2. There are 15 open claims in Edgecumbe. Whakatane Council is aiming for 90% of all people to be back in their properties by Christmas, and Tower is well on track to achieve this.

Focus on costs

Cost saving initiatives continue to deliver a reduction in expense base

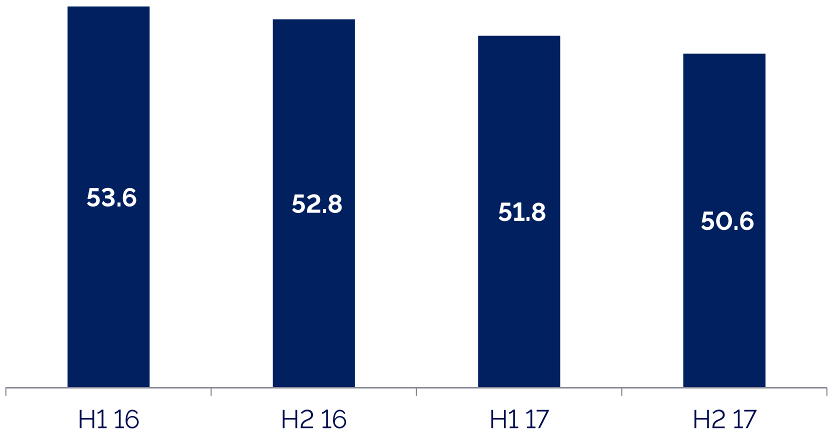
ACHIEVEMENTS

- ✓ Increased focus on efficiency and productivity
- ✓ Significant saving through in-housing IT service desk and other key support functions
- ✓ Whole of business procurement review and close management of contract negotiations
- ✓ Some costs deferred as a result of acquisition and separation activity

INVESTMENT WILL ACCELERATE TRAJECTORY

- IT simplification will deliver significant productivity gains and step-change in expense reduction
- Savings expected in FY18 to be reinvested in stabilising legacy systems and meeting compliance requirements

MANAGEMENT EXPENSES



Note: Management expenses include commission cost, depreciation and amortisation and excludes corporate transaction costs.

IT simplification

Following the pause due to ownership, focus is now on delivery of IT simplification to drive growth and productivity

ACHIEVEMENTS

- ✓ Delivery of Tower digital solution
- ✓ Enhanced Trade Me Insurance platform
- ✓ Legacy IT systems stabilised

INVESTMENT WILL ACCELERATE TRAJECTORY

- Full digital and self service functionality
- Flexibility to update products and enable targeted, granular pricing
- Improved access and use of internal and external data
- Improved claims management and operational efficiencies

NEXT STEPS

- ✓ Selection of EIS to complete formal scoping and costing following comprehensive tender process
- ✓ Staged execution planned to enable Board to protect shareholder value
- ✓ EIS offer a modern insurance system that will improve productivity and customer experience
- ✓ Scoping and costing phase has commenced
- ✓ Board approval for appointment of EIS to undertake project will be sought once costs and timeline confirmed

Financial performance

Jeff Wright
Chief Financial Officer

FY17 Financial update

Business performance remains in line with expectations. Results impacted by larger than usual number of natural events

GROUP PROFIT SUMMARY (NZ$m)

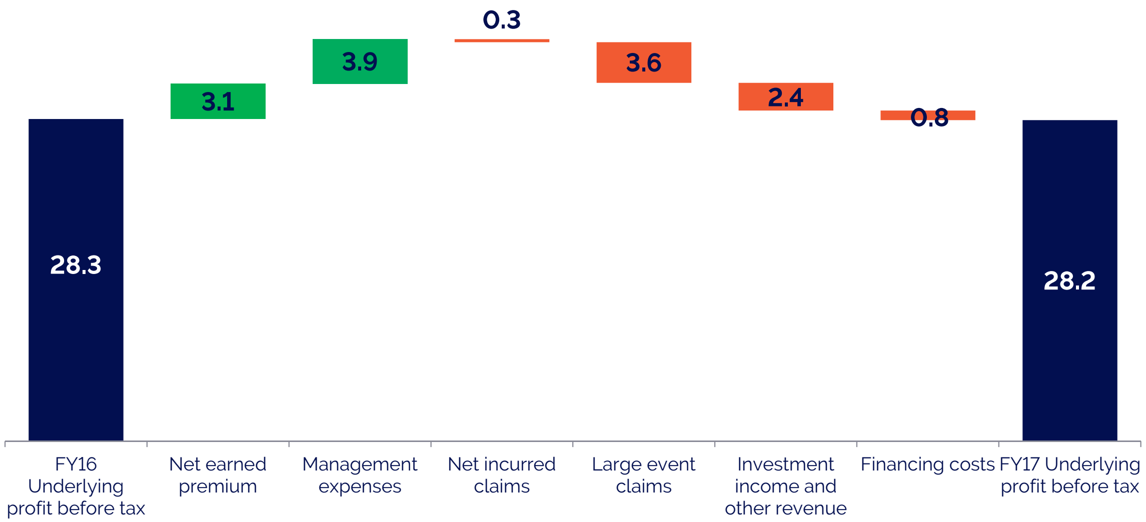
$ million		FY17	FY16
Gross written premium		312.4	303.2
Gross earned premium		306.8	302.9
Reinsurance costs		(49.8)	(49.1)
Net earned premium		**256.9**	**253.8**
Net claims expense		(131.6)	(127.7)
Management and sales expenses		(102.4)	(106.3)
Underwriting profit		**22.9**	**19.8**
Investment revenue and other revenue		6.1	8.5
Financing costs		(0.8)	-
Underlying profit before tax		28.2	28.3
Income tax expense		(10.2)	(8.2)
Underlying profit after tax		**18.0**	**20.1**
Canterbury impact	- Increase in outstanding claims	(11.4)	(25.3)
	- Additional risk margin	(7.2)	-
Kaikoura impact		(4.1)	-
Impairment of intangibles		-	(14.1)
Business in runoff		1.7	-
Corporate transaction costs		(3.1)	-
Foreign tax credits written off		(1.9)	(2.2)
Reported loss after tax		**(8.0)**	**(21.5)**
Key ratios			
Loss ratio		51.2%	50.3%
Expense ratio		39.9%	41.9%
Combined ratio		91.1%	92.2%

- Reported loss after tax reflects:
  - $11.4m impact from movement in Canterbury provisions
    - $9.8m increase in March
    - $1.6m increase in September
  - $7.2m impact from additional risk margin for Canterbury
  - $4.1m impact from Kaikoura earthquake
  - $3.1m impact from corporate transaction activity
- Underlying profit after tax of $18m affected by storm activity vs FY16 underlying profit after tax of $20.1m
  - $0.9m impact from Port Hills Fires
  - $2.7m impact from Tasman Tempest
  - $1.8m impact from Ex-Cyclone Debbie
- Pacific NPAT stable and in line with prior periods, excluding impact of Cyclone Winston in FY16
  - Reported profit in Pacific of $7.2m, compared to $5.5m for the prior year
- 2018 reinsurance program has been finalised on favourable premium terms, with limit of $790m and aggregate excess increased from $5m to $7m

Movement in underlying profit

Growth in premiums and lower management expenses offset by large events and lower investment income

MOVEMENT IN UNDERLYING PROFIT BEFORE TAX (NZ$m)



- Net earned premium higher due to growth in core book and improved retention
- Focus on costs has reduced management expenses
- Net incurred claims were flat, as initiatives to manage cost inflation have largely offset increasing claims frequency
- More large events this year compared to last year resulting in higher large events claims expense
- Reduced balances and lower interest rate environment has reduced investment income

Pacific business remains steady

The Pacific offers a solid platform with significant potential for Tower

PACIFIC PROFIT SUMMARY (NZ$m)

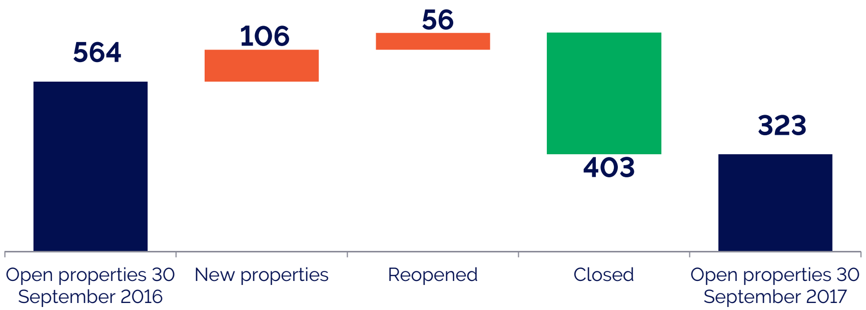
$ million	FY17	FY16
Gross written premium	58.2	59.3
Gross earned premium	57.6	58.6
Reinsurance costs	(15.5)	(15.6)
Net earned premium	**42.1**	**43.1**
Net claims expense	(15.3)	(20.1)
Management and sales expenses	(15.6)	(15.0)
Underwriting profit	**11.3**	**8.0**
Investment revenue and other revenue	0.9	1.2
Underlying profit before tax	12.2	9.2
Income tax expense	(5.0)	(3.7)
Underlying profit after tax	**7.2**	**5.5**

- YTD NPAT stable and in line with prior periods, excluding impact of Cyclone Winston in FY16
- Growth in Fiji, Vanuatu and Samoa offset by softening market and tightened approach to risk in Papua New Guinea
- Repricing of portfolios underway and enhanced underwriting capability in local teams

Canterbury update

Open claims and numbers of new over-cap claims are reducing, but uncertainty still remains

MOVEMENT IN PROPERTIES (since Sep 2016)



- Reduction in new and reopened claims
  - 56 claims currently under litigation
  - 56 "Protocol 1" claims[3]
  - 211 claims moving towards settlement
- Additional claims continue to be received due to:
  - New EQC over-cap claims
  - Additional DFPP and accommodation claims as EQC finalise under-cap properties
- Reopened claims for additional payments and litigation

RESERVING UPDATE

(NZ$m)	Sep-17	% of case estimates[2]	Mar-17	% of case estimates[2]	Sep-16	% of case estimates[2]
Case estimates	58.9		73.9		93.2	
IBNR/IBNER[1]	34.4		47.4		44.0	
Risk margin	13.9		18.2		11.9	
Additional risk margin	10.0		-		-	
Combined IBNR/IBNER/risk margin	58.3	99%	65.6	89%	55.9	60%
Gross outstanding claims	**117.2**		**139.5**		**149.1**	

- Challenging environment remains, with New Zealand insurers continuing to face ongoing risks as a result of Canterbury earthquakes
- Appointed Actuary recommended a further $1.6m after-tax strengthening in second half, bringing the full after tax impact to $11.4 million for the year
- Since March, case estimates have fallen as a result of closing claims. IBNR/IBNER/risk margin have also reduced as we obtain more certainty about outstanding claims

Notes:
1. IBNR / IBNER includes claims handling expenses
2. Ratio of IBNR / IBNER plus risk margin to case estimates
3. Protocol 1 claims are where EQC are managing repairs yet the total cost is over the EQC cap.

Update on Peak Re and EQC

Tower remains confident of recovery from Peak Re and EQC

PEAK RE DISPUTE

- Tower is party to an arbitration process with Peak Re regarding an adverse development cover policy entered into in 2015 valued at $43.75m.
- Currently Tower anticipates the arbitration will take place in March 2018 with a decision by mid-2018.
- Tower remains confident that it will be successful but both the process and the hearing hold risk and collection of the owed amount is not certain. An adverse outcome could lead to a nil recovery due to the binary nature of the process.

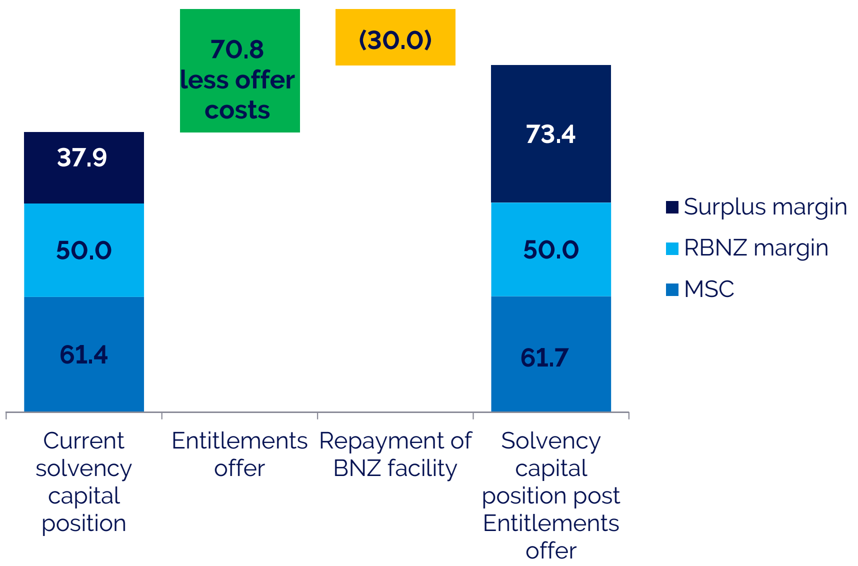
EQC RECOVERIES

- Tower in consultation with its reinsurers is progressing its recovery program against the Earthquake Commission (EQC) in relation to the costs incurred due to building and land work following the 2010 and 2011 Canterbury earthquakes.
- Tower estimates the gross amount receivable due from EQC is significantly higher than $65.1 million ($13.5m for land and $51.6m for buildings), but has adopted this amount, which is the actuarial valuation of the Appointed Actuary. The method by which the actuarial valuation is completed recognises the inherent risk and uncertainty with recovery of the full gross amount. If the amount of $65.1m is received from EQC, an amount of $17.7 million (2016: $20.7 million) will be payable to reinsurers.
- To date, Tower along with IAG, have issued proceedings against the EQC seeking compensation for remediation of land damage with a court hearing expected in late 2018. Further litigation in regards to land is expected. Tower is also applying significant resources to the EQC building recovery program. Based on legal advice to date Tower is confident in its position in regards to its recovery program.
- Due to the nature of the claims and the potential for litigation or an alternate dispute resolution process, the actual recoveries may be higher or lower than anticipated.

Capital requirement review

Entitlement offer will strengthen solvency position to a long-term sustainable level

TOWER INSURANCE LIMITED SOLVENCY POSITION ($m)



Note: Solvency capital calculation based on $70.8m entitlement offer less offer costs

MEDIUM-TERM CAPITAL REQUIREMENT

- Tower's Board and management have confidently determined to invest in a sustainable future while recognising the inherent uncertainty faced by the industry relating to the Canterbury earthquakes
- Tower has undertaken a detailed review to determine the amount of capital required to strengthen its solvency capital position and enable investment for the future
- Tower has determined that additional capital of $70.8m is required, to address the inherent uncertainty faced by the business and to permit the signaled and ongoing reinvestment in Tower's NZ business
- In reaching this conclusion, the Board has engaged with Tower's Appointed Actuary, and independent, external advisers

LONG-TERM CAPITAL VIEW

- Historically, Tower has paid consistent dividends, reflecting the strength of Tower's underlying business and its inherently strong cash flow
- Tower's Board recognise the need for capital in the medium-term
  - Tower's Board and management team are strongly committed to paying dividends and to the efficient management of capital
  - Tower's Board will review the dividend policy and look to recommence dividends in FY18

FY18 outlook

Richard Harding
Chief Executive Officer

Tower outlook for FY18

Expect continuing gross written premium growth in NZ core book	• Improving retention rates and current marketing campaign resulting in strong lead enquiry • Positive momentum in digital distribution channel • Continued pricing and product refinement to offset claims inflation and improve profitability
Pacific offers significant potential	• New operating model to improve risk management and underwriting discipline in key Pacific markets • Repricing of portfolios to improve profitability
Management expenses maintained	• Maintain current expense level, with all savings expected in FY18 to be reinvested in stabilising legacy systems and meeting compliance requirements • Step-change in expense reduction and productivity gains to be realised following implementation of new technology systems which is expected to yield benefits from FY19
Claims management improvements expected	• Industry wide claims inflation expected to be offset by product updates, targeted rate/pricing changes and supply chain initiatives
Investment in simplification will accelerate improvements in FY19 and beyond	• Significant management focus will go into IT simplification and EIS implementation in FY18 • Expected to yield benefits from FY19
Intention to review dividend policy following capital raise	• Tower's Board and management team are strongly committed to paying dividends and to the efficient management of capital • Tower's Board will review the dividend policy and look to recommence dividends in FY18
Enhanced capital position	• Completion of capital raise, along with continuing resolution of other legacy issues (Peak arbitration, EQC receivable and finalisation of Canterbury earthquake claims), will enable management to focus on execution of business plan

Entitlement offer

Richard Harding
Chief Executive Officer

Equity raising terms and shareholder options

Equity raising terms

Entitlement ratio	• 1 New Share for every 1 Existing Share held
Offer size	• $70.8m
Maximum New Shares to be issued	• 168,662,150
Issue price	• NZ$0.42
Offer discount	• 29% to TERP[1]
Eligibility	• Available to persons recorded on Tower's share register at 7:00pm on 22 November 2017, with a registered address in New Zealand or Australia
Ranking	• 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	• Pro rata renounceable Rights Offer provides all Eligible Shareholders with the opportunity to participate
Underwriting	• The Offer is underwritten by Goldman Sachs New Zealand Limited

Shareholder options

Take up all or some Rights	• You will be able to acquire Shares at the Issue Price of NZ$0.42 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	• 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	• 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 $0.59 which is equal to the average price of 1 New Share at the Issue Price of $0.42 and 1 Existing Share at $0.76 being the last traded price as at 13 November 2017.

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, and 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 a combination 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.

Risk	*Description*
Tower business performance	• 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. • The insurance industry is competitive, which may impact Tower's ability to acquire and retain business. Concentrations of risk occur due to relationships with partners, who may choose to put their business with other insurers. Kiwibank domestic general insurance business will transition into runoff in April 2018. ASB conducted a tender process for their credit card and retail travel insurance portfolios that Tower were not successful in retaining, this relationship will cease in April 2018. Tower is currently participating in a competitive RFI process with TSB to retain their domestic general insurance business and secure their retail travel insurance program. • Risks exist around the implementation of Tower's IT simplification plan which, if not successful, may result in failure to achieve desired operational performance improvements and medium term financial targets.
Canterbury earthquake claims	• The scale and impact of the Canterbury Earthquakes is unprecedented for all affected general insurers in New Zealand and has led to Tower alone receiving over 16,000 claims. • Tower has increased its ultimate incurred claims liabilities in respect of the four main Canterbury earthquakes that occurred on 4 September 2010; 22 February 2011; 13 June 2011 and 23 December 2011 from \$792.0 million in September 2015 to \$897.4 million in September 2017. • Whilst Tower and its appointed actuary have conducted a comprehensive review in order to assess its Canterbury claims liabilities as accurately as possible, to a conservative statistical standard, the impact of further Canterbury claims, and the cost to close existing claims or re-opening of claims, remain a risk for the Tower business. • Reinsurance relating to September 2010 and February 2011 Canterbury earthquakes has been exhausted, meaning Tower could be directly exposed to further developments. Reinsurance for the June 2011 and December 2011 events is unlikely to be fully utilised.

• *Continued on next page*

Key risks to Tower

- *Continued from prior page*

Risk	*Description*
PeakRe arbitration outcome	• Tower is party to an arbitration process with Peak Re regarding an adverse development cover policy entered into in 2015 valued at $43.75m. • Currently Tower anticipates the arbitration will take place in March 2018 with a decision by mid-2018. Tower remains confident that it will be successful but both the process and the hearing hold risk and collection of the owed amount is not certain. An adverse outcome could lead to a nil recovery due to the binary nature of the process.
EQC Recoveries Program	• Tower in consultation with its reinsurers is progressing its recovery program against the Earthquake Commission (EQC) in relation to the costs incurred due to building and land work following the 2010 and 2011 Canterbury earthquakes. Tower estimates the gross amount receivable due from EQC is significantly higher than $65.1 million ($13.5m for land and $51.6m for buildings), but has adopted this amount, which is the actuarial valuation of the Appointed Actuary. The method by which the actuarial valuation is completed recognises the inherent risk and uncertainty with recovery of the full gross amount. If the amount of $65.1m is received from EQC, an amount of $17.7 million (2016: $20.7 million) will be payable to reinsurers. • To date, Tower along with IAG, have issued proceedings against the EQC seeking compensation for remediation of land damage with a court hearing expected in late 2018. Further litigation in regards to land is expected. Tower is also applying significant resources to the EQC building recovery program. Based on legal advice to date Tower is confident in its position in regards to its recovery program. Due to the nature of the claims and the potential for litigation or an alternate dispute resolution process, the actual recoveries may be higher or lower than anticipated.
Potential strategic discussions	• Tower and Vero Insurance New Zealand Limited entered into a scheme implementation agreement in June 2017 for the purchase by Vero of all Tower shares it did not already hold. In July 2017, the Commerce Commission declined Vero's clearance application. Vero and Tower each separately appealed that decision. Vero and Tower have since withdrawn their Commerce Commission appeals • In addition, the Commerce Commission has made public comments in relation to its potential investigation under Section 47 of the New Zealand Commerce Act to review potential competition issues caused by Vero's acquisition of a 19.9% stake in Tower. • The scheme implementation agreement (SIA) has passed its end date and was terminated by Tower on 6 November 2017. • Shareholders should be aware that Tower may remain as a standalone listed NZ insurer or that Tower may be acquired by a third party. • Vero has committed to take up its full entitlement under the Offer. In the event Vero sells its shares, it has agreed to procure any person acquiring its shareholding to take up its rights issue participation commitment

Offer timetable

Key dates[1] for the rights offer are outlined below

Shares quoted "ex-rights" and Rights Trading commences on the NZX Main Board	Tuesday 21 November
Record date	Wednesday 22 November
Offer documents sent by	Monday 27 November
Right trading ceases	Thursday 7 December
Rights offer closes (and last date for receipt of renunciations)	Wednesday 13 December
New Shares allotted and commence trading	Wednesday 20 December

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.

Appendices

New Zealand business improving

Improvements in key focus areas offset by storm activity and large events

NEW ZEALAND PROFIT SUMMARY (NZ$m)

$ million	FY17	FY16
Gross written premium	254.2	243.9
Gross earned premium	249.1	244.3
Reinsurance costs	(34.3)	(33.6)
Net earned premium	**214.8**	**210.8**
Net claims expense	(116.3)	(107.6)
Management and sales expenses	(85.2)	(88.5)
Underwriting profit	**13.2**	**14.7**
Investment revenue and other revenue	4.6	5.7
Underlying profit before tax	17.8	20.4
Income tax expense	(5.7)	(4.9)
Underlying profit after tax	**12.1**	**15.6**

- Improvements in underlying business offset by natural events
- Increase in GWP on back of better growth in digital and retention initiatives
- Claims costs remain flat despite industry wide inflation
- Savings in management expenses

Balance sheet
Tower Group

TOWER

$ million	30 September 17	30 September 16	Movement $	Movement %
Cash & call deposits	102.9	92.2	10.6	11.5%
Investment assets	167.9	188.6	(20.6)	(10.9%)
Deferred acquisition costs	21.0	20.0	1.0	4.9%
Intangible assets	31.3	32.0	(0.6)	(2.0%)
Other operational assets	316.4	307.5	8.8	2.9%
Total assets	**639.5**	**640.3**	**(0.8)**	**(0.1%)**
Policy liabilities & insurance provisions	(336.0)	(361.0)	25.0	(6.9%)
External debt	(29.9)	0.0	(29.9)	100.0%
Other operational liabilities	(57.8)	(55.3)	(2.5)	4.5%
Total liabilities	**(423.7)**	**(416.3)**	**(7.4)**	**1.8%**
Total equity	**215.7**	**224.0**	**(8.2)**	**(3.7%)**

Reconciliation between underlying profit after tax and net profit after tax

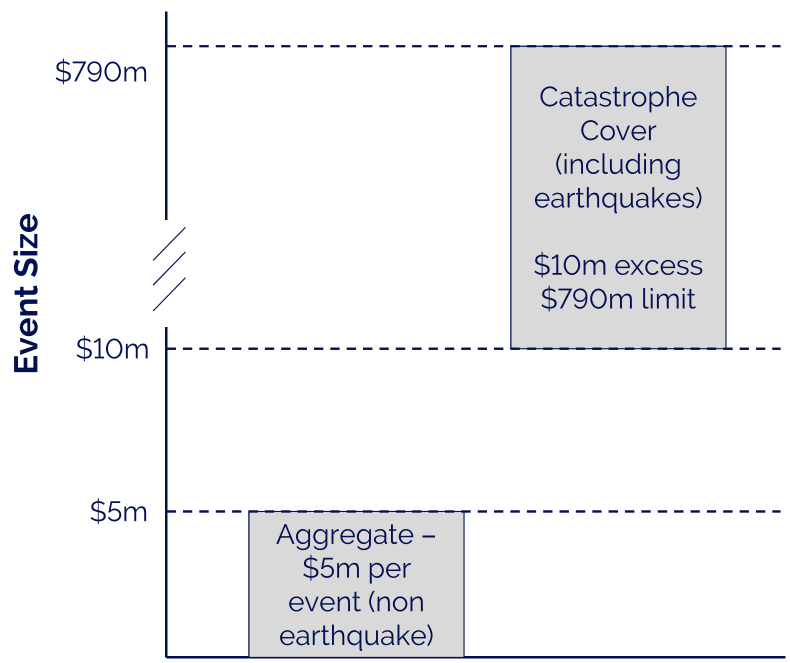
$ million	FY17 underlying profit	Non-underlying items (1)	Claims handling expenses (2)	Other items (3)	FY17 reported profit
Gross written premium	312.4				312.4
Gross earned premium	306.8				306.8
Reinsurance costs	(49.8)				(49.8)
Net earned premium	**256.9**	**0.0**	**0.0**	**0.0**	**256.9**
Net claims expense	(131.6)	(30.0)	(26.0)		(187.6)
Management and sales expenses	(102.4)	(4.3)	26.0	(4.5)	(85.2)
Underwriting profit	**22.9**	**(34.2)**	**0.0**	**(4.5)**	**(15.8)**
Investment revenue and other revenue	6.1			4.5	10.7
Financing costs	(0.8)				(0.8)
Underlying profit before tax	28.2	(34.2)	0.0	0.0	(6.0)
Income tax expense	(10.2)	8.2			(2.0)
Underlying profit after tax	**18.0**	**(26.0)**	**0.0**	**0.0**	
Canterbury impact - Increase in outstanding claims	(11.4)	11.4			
- Additional risk margin	(7.2)	7.2			
Kaikoura impact	(4.1)	4.1			
Business in runoff	1.7	(1.7)			
Corporate transaction costs	(3.1)	3.1			
Foreign tax credits written off	(1.9)	1.9			
Reported loss after tax	**(8.0)**	**0.0**	**0.0**	**0.0**	**(8.0)**

1. Non-underlying items are shown separately in Tower's management reporting, yet included within 'net claims expense', 'management and sales expenses' and 'tax expense' (depending on the nature of the item) in the financial statements.
2. In Tower's management reporting, claims handling expenses are reported within 'management and sales expenses'. In the financial statements, claims handling expenses are reclassified to 'net claims expense'.
3. Certain items of revenue are netted off 'management and sales expenses' in Tower's management reporting, and are reclassified to 'other revenue' in the financial statements. This primarily relates to commission received by Tower.

Reinsurance structure overview

The excess on the aggregate cover has increased to $7m and the limit on catastrophe cover increased to $790m

STRUCTURE OVERVIEW (per event)



AGGREGATE COVER OVERVIEW FOR FY18

- Minimum event size of $1m to qualify, max of $5m per event coverage
- $10m cover once $7m excess filled
- No coverage for earthquake in New Zealand