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

11 February 2016

Market Information
NZX Limited
Level 2, NZX Centre
11 Cable Street
Wellington
New Zealand

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

TOWER Limited – Annual Meeting Address

Attached is a copy of the address to TOWER's annual meeting of shareholders, held today at 10.00am.

Brett Wilson
Chief Financial Officer
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ADDRESSES TO THE TOWER ANNUAL SHAREHOLDER MEETING
11 FEBRUARY 2016

Chairman's Address

2015 marked TOWER's first year as a pure general insurer.

There is no question – it was a disappointing year, with the company reporting a net loss after tax of $6.6 million as a result of increasing provisions for Canterbury.

This headline figure somewhat overshadowed the strength of TOWER's underlying performance which saw underlying profit after tax increase by 29.6% to $28.2 million.

TOWER's gross written premium (GWP) reached $305.6 million, reflecting modest growth of 2.7%.

Our Pacific business remains very strong, recording a net profit increase of 17.4% to $9.6 million.

These metrics provide an indication of the true health and underlying strength of our business.

Irrespective of industry or sector, disruption to traditional business models is a global phenomenon, and the insurance sector in New Zealand is no exception.

Therefore, we are constantly developing new ways of doing business and providing our customers with what they want, when they want it.

The launch of Trade Me Insurance in New Zealand late last year is just one such example. Another is TOWER's expansion of distribution alliances in the Pacific. I will let Richard talk in more detail about the importance of these initiatives shortly.

In the years since the Canterbury earthquake events, the Board has regularly reminded shareholders that it is a unique and complex situation and that successfully managing the claims is challenging. Our progress is very good – as of the end of September, 96% of claims by number have been settled and closed.

And, lest we lose sight of what that means in real terms, that's homes restored and lives back on track.

However, after this length of time, the remaining claims comprise those that are the most difficult to address.

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At each juncture, the Board has sought to ensure it has the best possible understanding of the risks and likely costs outstanding.

In 2015, we chose to further strengthen our actuarial process by adding expertise in catastrophe and reinsurance claims. Our appointed actuary – Deloitte – conducted a file-by-file analysis of all remaining claims. This analysis identified the need to increase provisioning for Canterbury claims, which resulted in an impact of $36.2 million after tax.

As disappointing as the increased provisioning is, this analysis has ensured the Board has greater confidence in the likely costs and risks faced in resolving the remaining claims.

Indeed, despite the impact of the increased provisioning for Canterbury, TOWER still delivered an unimputed annual dividend of 16.0 cents per share in 2015, an increase of over 10%. The Board will continue to maintain its dividend policy at 90% to 100% of underlying net profit after tax where it is prudent to do so.

As noted earlier, TOWER continues to maintain a strong capital position – currently $73 million above target levels – which we consider essential for our future growth and success.

The on-market share buyback programme instigated in July 2015 resulted in $12 million of TOWER's issued capital being acquired by 30 September 2015 and is ongoing.

On behalf of your Board, I wish to thank former CEO, David Hancock, and acknowledge his dedication and leadership as TOWER transitioned to a pure general insurer over the past two years.

We welcome Richard Harding and look forward to the next phase of TOWER's evolution and growth under his leadership. Richard's depth of insurance experience, proven focus on operational excellence and passion to deliver a high performance customer service culture will help drive TOWER's growth prospects in the coming year.

Every day TOWER's team strives to build this business and assist our customers. They are a great team and on behalf of my fellow directors, I thank them for their efforts.

And a final thank you to our customers, business partners and you – our shareholders – for your support of TOWER.

I will now hand over to Richard to go over the 2015 performance in more detail, and to describe TOWER's path ahead.

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Chief Executive Officer's Address

Good morning everyone.

Thank you Michael. My thanks also to the Board, the Executive and the wider team for welcoming me warmly to TOWER. It's great to be here.

After five months in the role, I am pleased to finally have the opportunity to meet so many shareholders today.

TOWER has now completed its first year as a pure general insurer:

- We are a strongly capitalised company;
- We have more than 480,000 policies in place on behalf of almost 265,000 customers in New Zealand and the Pacific;
- We have improving scores in relation to customer satisfaction;
- And, with a 4.7% market share in New Zealand, we remain competitive and well positioned to drive growth.

In short, we have a solid foundation on which to further build. I look forward to bringing my experience to bear in realising TOWER's significant potential. I believe we have a promising road ahead of us. But, before looking forward, let's look at how we did last year.

In November 2015 we announced our annual results.

As the Chairman noted, TOWER reported a net loss after tax of $6.6 million due to the impact of increased provisions for Canterbury – amounting to $36.2 million after tax. The impact was markedly reduced by the Adverse Development Cover TOWER had taken out in April 2015.

Nonetheless, the result was particularly frustrating given the underlying profit after tax was $28.2 million, an increase of almost a third over the previous year after taking into account profit from the divested businesses.

Other key metrics also improved:

- Gross written premiums (GWP) increased to $305.6 million.
- Gross earned premiums (GEP) rose to $304.7 million.

These increases were influenced by slowing premium growth in New Zealand and robust policy growth across the Pacific.

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I will talk shortly about our plans to address premium growth and customer retention, which are strategic priorities for TOWER.

- Our loss ratio - the ratio of claims to net earned premiums (NEP) - across New Zealand and the Pacific declined to 47.7% from 50.8%.

This improvement reflects the fact that storm expenses were reduced as a result of the new aggregate cover taken in FY15.

- Pacific net profit was up 17.4% to $9.6 million (accounting for 34% of underlying profit after tax in the 2015 year).

The Pacific result was due to policy and premium growth, exchange conditions and a benign weather environment.

- Underlying earnings per share increased 41.6% to 16.0 cents.

Underlying EPS is now aligned with the pure general insurance operating model and increased at a higher rate than underlying net profit due to the share buyback programme and other capital management initiatives.

- TOWER declared a final dividend for FY2015 of 7.5 cents per share unimputed, bringing the full year dividend to 16 cents, a payout ratio of 100% of underlying profit.

Finally, TOWER currently holds $73 million in capital above target levels, comprised of $35 million in general insurance solvency and $38 million at corporate level.

This gives us comfort that TOWER can work through the balance of Canterbury claims to deliver good outcomes for our customers, while continuing to invest in growth and providing our shareholders with solid returns.

From an operational perspective, TOWER has continued to make progress towards achieving its strategic goals.

There were four key operational priorities in 2015:

- Making it easier for customers to do business with us;
- Unlocking the power of the TOWER brand;
- Identifying growth opportunities via new alliances, distribution channels and markets; and
- Leveraging our Pacific strength.

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Firstly turning to customers. Customer satisfaction is at the very heart of our business. Understanding how they want to engage with TOWER – and what they want from us – is crucial. In 2015, we introduced a new service model that sees one cohesive team helping customers to buy, renew and amend policies, rather than having separate teams for each of these interactions.

The merging of sales and service functions not only improves revenue and operating efficiencies, but most importantly it makes it easier for our customers to do business with us.

TOWER also continued to migrate customers to the Insurance Faces IT platform. With 100% of direct personal lines customers now transitioned, migration is underway for our customers via alliance partners.

Simplification of our business and systems remains a core focus in 2016 to ensure we grow and can efficiently leverage business trends and manage threats.

From a brand perspective, in 2015 TOWER sought to develop a marketing approach capable of translating its high level of brand awareness and recognition into market share.

A new campaign "Confidence. Get it back with TOWER Insurance" was designed to build a stronger connection with customers, create increased confidence in our policies and preference for our products.

Confidence can also be achieved by listening and responding to customer concerns: during the 2015 financial year, we released a full replacement fire benefit for New Zealand homes, which was well received by customers.

To date, the results have been promising and we will continue to build our connection with customers, leveraging the strength and values attributed to the TOWER brand in 2016.

In terms of new markets and channels, alliances are not only a key source of revenue for TOWER; they are an important part of our growth strategy in 2016.

Currently TOWER has three categories of alliance partnerships:

- With major banks (allowing them to sell our products on their platforms);
- With major networks of financial planners (customer referrals); and
- As an underwriter of specialist insurance agencies.

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And, as technology continues to disrupt every business model in every sector, TOWER is embracing the opportunities the internet and mobile apps provide to improve sales, service and cost for our direct and alliance customers.

SmartDriver was our first successful foray into this area and in mid August, TOWER and Trade Me launched Trade Me Insurance, a fully online end-to-end service model. It is early days and it is just one channel. The majority of policies sold have been in motor insurance where TOWER has historically been under-represented.

From an operational perspective, Trade Me Insurance should not be viewed in isolation but in the context of "doing things differently" to benefit our customers; of leveraging new technology to make it easier and more convenient to do business with us; and to harness technology to simplify and improve, convenience, cost and service.

TOWER is the leader in many Pacific markets. We have a long history of being an integral part of their communities. This is an important factor in doing business in the Pacific.

In 2015, we entered into new alliance partnerships in Fiji and Papua New Guinea, launched a new operation in Vanuatu, and strengthened our online presence across all our Pacific Island businesses.

We will look to expand our distribution alliances in the Islands to further strengthen those bonds and are confident that the Pacific will continue to contribute strongly to TOWER's future success.

Before I talk about our strategic priorities for the 2016 year, I would like to show you a brief video that illustrates the power of insurance in the community.

Those of you joining us on today's webcast can access the video outside of this presentation via the TOWER website.

Our relationship with our customers is cemented in time of crisis – from a broken window or a motorway nose-to-tail, to the extreme floods in Whanganui, and all points in between.

We talk about products and policies, but what we really do in insurance is sell our customers a promise – a set of words that are only brought to life by the actions of our people.

The TOWER team should be exceptionally proud of the difference they made in our customers' lives. They delivered on a promise made - in the best possible way - as this video illustrates.

There's also a deeper significance that resonates… that by being an integral part of the community, TOWER can understand how best to allay customers' concerns and fears and give them confidence that their insurance needs will be met, swiftly and efficiently.

It is also about taking a more active interest in the role of insurance in the community: understanding the risks a community as a whole faces – rather than simply an individual. This can assist TOWER to price and manage those risks, benefiting both our customers and our shareholders.

In the simplest terms it means less claims / less losses and a better outcome for shareholders.

There are no better lessons for our team than hearing directly from our customers about what works and what actions make the biggest difference.

When the chips are really down, what customers have paid for their policy is far from their thoughts – but by caring about what they're going through, keeping them informed and working as quickly as possible to get their homes restored… that's priceless.

With an approach and service like this, you make customers for life.

Our focus in 2016 is to emulate the values and empathy exhibited by those team members who helped our customers in Whanganui. Because, we know by doing so, customer loyalty will follow.

So, how do we plan to achieve what we know TOWER is capable of?

For a start, we must now draw a line under our transition journey.

TOWER is a general insurance company, but is still some way off being a high performing general insurance company.

That's our mission, that's the new journey we are on. And, we know we have work to do to make that happen.

TOWER's fundamental financial success is predicated on growing and retaining our customers.

To date we haven't done this as well as we could have. To become a high performing insurer, that has to – and will – change.

My career has been dedicated to the insurance industry and since I joined TOWER, I have drawn on that experience to conduct a thorough review of the business.

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Having led a similar transformation of the TIO business in Northern Territory, that review has clearly identified where our focus needs to be: It has also confirmed what I already knew – that there is so much potential here, at TOWER.

We have instigated a number of projects with short and longer term horizons to address the challenges we face.

This review has made clear – and as a team, we know – that together, we must deliver incremental improvement in the short term, while working towards results that reflect a high performance business.

With regard to growing and retaining customers, there are three key areas where a concerted focus will deliver both short and long term benefits.

At a high level, we have three key priorities to focus on:

- A high performance customer service culture,
- Operational excellence; and
- Accurate pricing of risk.

Each of these factors will contribute to a stronger financial performance and therefore, shareholder returns.

So, what do each of these entail?

New customer leads will come from building our own direct business and pursuing new alliances and partnerships both in New Zealand and the Pacific. Conversion of those leads – and even more importantly – ensuring customer retention – is based on delivering exceptional customer service.

Of course, economic interests also play a part, but a good experience when making a claim; feeling supported in times of crisis; and having your insurance company do what it says it will do – these actions give customers reasons to stay, not to go.

Establishing a high performance customer service culture is a non-negotiable in achieving financial success as it translates into higher profits.

To deliver a high performance customer service culture, you need high performing people.

As we saw demonstrated in the video, the TOWER team are more than ready to excel in this area, provided they have the right products, processes and tools. We will continue to develop our frontline staff to ensure they also have the skills and attitude required for success.

There is still a way to go in getting the basics right – including simplifying the number and complexity of our systems, products and policies. And I will talk more on this shortly.

However, each day our unwavering focus will be on making it easy for our customers and giving them every confidence in their decision to come to – and stay with – TOWER.

To this end, we have already established specialist teams to proactively engage with customers and lift service, build the brand and improve customer retention. These teams are proactively approaching customers in the renewal cycle to answer questions, solve any issues and offer better solutions. In short, these teams are making it easier to stay with TOWER.

Our second priority when it comes to growing and retaining customers is to achieve operational excellence.

Operational excellence fits hand-in-glove with developing a high performance customer service culture. We need to make it easy for our team to deliver stellar customer service.

In focusing on operational excellence, we have initiatives with both short and longer term horizons that will ensure we can achieve our goals efficiently, and at a manageable cost.

We have initiated two key actions that will support improvements in operational excellence:

- Product rationalisation, and
- Addressing our cost base.

TOWER is going to fundamentally overhaul and rationalise products and processes. We currently have 350 different policy versions and 150 different on-sale products across three different IT platforms. This has a significant impact on our cost base.

Our frontline staff do an amazing job navigating this maze, but it takes time and is certainly not conducive to developing a high performance customer service culture.

We are going to progressively reduce the number of on-sale products to approximately 20. There are no short-cuts to this programme – it is complex work and it is going to take time. What you can expect is cumulative improvement.

For example, within the claims process, the immediate benefits of product rationalisation will include reduced call times, staff training, auditing, and claims leakage. In the longer term, as call processing times reduce, there will be significant productivity improvements – and commensurate cost savings.

And, these are just the benefits associated with the claims process; there are a raft of other benefits affecting sales relating to customer retention and cross-selling potential.

We expect to begin to see the benefits of incremental product rationalisation in FY2017 as we move through the product renewal cycle.

When complete, not only will customers have a better service experience and genuine policy wording clarity, significant costs will also be stripped out of the business.

With regard to immediate cost reduction measures, we have completed a bottom up review of discretionary spending within the business. This has identified a number of easy-to-implement measures including simplification of processes, better procurement policies, reducing costs by increasing online communication, better claims management including being tough on fraudulent claims, which will all collectively – and quickly – strip out unnecessary costs from the business.

These actions are designed to ensure we achieve a cost ratio appropriate for our business, more closely aligned to that of our competitors and resulting in better value products for our customers. The end game, as I said earlier, is all about growing and retaining our customer base, and cost reduction is a vital part of that story.

Our third priority is to further sharpen our focus on underwriting and pricing.

I talked earlier about disruption. In insurance, one of the key disrupters is the increasing ability to more accurately price risk. In the US and Europe, we are seeing tailored – high, medium and low risk – policy developed. For example, car insurance that takes into account how often you drive, how far you drive, and the areas in which you drive.

In insurance, the 'holy grail' is pricing risk accurately, so these developments are welcome.

When it comes to insurance pricing there is an inherent natural cross subsidisation between low risk customers and those with higher risk. The increased use of data to more accurately price risk reduces this subsidisation and ensures that each customer – as far possible – pays their own way.

Creating more accurate pricing has two benefits: Firstly, it affects customers' behaviour and ensures that they have the right incentives to reduce their risk – for example where they live, how they live and mitigations including whether they lock their doors, have a security system, drive safely and so forth.

Secondly, lower risk customers are less likely to be vulnerable to 'cherry picking' offers from other insurers where cross subsidisation may be less.

TOWER will continue to harness new technology – as we have with the Smart Driver app – and develop products around those innovations that will deliver the sort of experience our customers value.

And the silver lining is pricing risk accurately rewards – and therefore encourages – better behaviour. Again, less claims / less losses and better profits for the business.

The TOWER brand has a history of dependability, of innovation and of doing right by the communities it serves. By successfully implementing the strategic priorities I have outlined today, we will be building on that legacy.

I'm here because TOWER is a business full of opportunities – and inevitably some will be realised more quickly than others. However, I have absolute confidence in the future success of this business.

I look forward to realising those opportunities and sharing the journey with you.

Finally, I would like to thank you, our shareholders and customers for the confidence you place in TOWER and to acknowledge the dedicated efforts of the TOWER team who work hard each day to ensure that confidence is deserved.

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Chairman's response to questions

I would now like to take the opportunity to answer some questions that have been submitted to us in advance:

- Our exposure to the Australian insurance market would be very small. Why, therefore, is it necessary to appoint non-resident directors to our board? Their participation in Board operations would involve unnecessary travel and accommodation costs to attend meetings in New Zealand. I have voted against the appointment of Messrs Hancock & Lee.

  TOWER has a diverse and highly capable board of directors, in line with best governance practice. General Insurance is a complex diversified business with developments in the global financial markets having significant influence on future performance. Therefore, given New Zealand is a small market; it is particularly useful to have a broad range of experience and insights to draw on.

- Are the travel and accommodation expenses paid for the directors when they attend meetings?

  Yes, travel and accommodation expenses are paid when directors attend meetings [note: generally just the Australian directors, the New Zealand directors make their own way to meetings].

- Can shareholders and policyholders get a cheaper premium for house/car insurance? Many companies offer shareholder discounts. i.e. if a shareholder were to purchase TOWER insurance might a discount be offered? All my insurance requirements I get from competitors as they are slightly cheaper. Surely this needs to be addressed.

  I think it is worth noting that TOWER has to be even handed with all shareholders, irrespective of whether they hold policies with TOWER or not.

  Therefore, we believe the appropriate focus is to ensure the overall financial health of the business so that ALL shareholders share equally in solid dividends. More importantly, benefits in the form of discounts are likely to be taxable as dividends – which could lead to an administrative burden for both the company and shareholders that would outweigh the benefits offered.

  With regard to the slight cost difference you refer to, I would hope that the presentation Richard gave reinforces the TOWER position. We believe that customers – shareholders included – are interested in benefits such as customer service, product features, and efficient claims settlement as well as price and make their insurance decisions accordingly.

- Who is being held to account for the disastrous "under estimation" of the costs for the CHCH earthquake and will they lose any bonuses or incentives in their "package" and or their employment terminated? In the absence of management team being "held to account" will the Chair resign?

  Before I answer this question directly, it is important to remind everyone that the Canterbury earthquakes were a unique set of events for the insurance industry, not just in the New Zealand context but globally.

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Every insurance company with exposure to Canterbury has been forced to increase its provisioning more than once. It wasn't just as a result of the scale of the claims, but the manner in which those claims evolved over time.

The question of provisioning for Canterbury has fluctuated and your board has been transparent about the ongoing risk that Canterbury poses. Together with the management team, we have been diligent in doing everything possible to ensure accurate forecasts.

The significant increase in provisioning late last year was extremely disappointing – we do not resile from that. But no one has failed in his or her duty of care to our shareholders.

- What exactly is the complexity of the outstanding Christchurch claims – that requires an increase of $22.6 million? This may not be easily explained but would be appreciated.

  Various factors have been in play; not least of which is the complexity of the New Zealand system that divides insurance responsibility between EQC and private insurers. This dictates a process that is not conducive to efficient claims assessment and settlement.

  Secondly, cost estimates for work yet to be completed have increased due to escalating material and labour costs.

  However, the real complexity lies in determining the best method and true cost of completing a repair. An initial assessment and review by geotechnical experts can lead to the determination of a method to rectify the damage and an estimate of costs. This is generally done based on the initial view of damage.

  But, often when a builder or engineer starts work, they will uncover additional damage or additional information about the damage that will require an alternate engineering solution or be more complex than originally estimated; and this results in increased costs.

  Within apartments or blocks of flats (known as 'multi-unit'), these issues are further exacerbated by the fact there are multiple customers involved who may all have different policies, these policies may have different entitlements, and they may be with one or many more different insurers. As such, there is more complexity in reaching agreement on repairs, on agreeing the method for engineering solutions and determining any cost sharing across the units.

- Why can't dividends paid be re-invested in TOWER shares?

  Currently TOWER is very strongly capitalised with excess capital of over $73m across the Group.

  This capital surplus has arisen following the divestment of Life, Health and Asset management businesses. As a result, TOWER has been in the process of returning surplus capital to shareholders.

  A dividend reinvestment plan has the effect of raising equity as it results in new shares being issued, which would run counter to our current programme of returning capital to shareholders.

- When could "TOWER" buy-back small quantities of shares? E.g. like mine, 750 shares. I think TOWER could do this in 2016.

  Shareholders have had two opportunities in the last few years to have small parcels purchased

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without incurring brokerage costs. These were the off-market pro rata voluntary share buy back over 2013/2014, and the small shareholder buy back completed in September 2014 (which applied to shareholders with fewer than 200 shares). There are very few small parcels remaining after TOWER completed these buy backs, and it simply isn't economic to run another programme at this time.

For any shareholders who still own small parcels, we suggest they talk to their share broker about the best possible method of selling shares.

- Are original investors who bought shares in the original float, took up cash issues in TOWER, Australia Wealth management, TOWER Australia, sold TOWER Australia in the takeover, kept their shares in IOOF, making a profit from capital gains? If so, how much?

  We want to acknowledge a question we received about whether original investors are making a profit from capital gains. Yet, it will take some time to collate information about this and we will directly respond to the investor who asked the question by mail.

- How much does it cost to produce the annual meeting book, and who is responsible for compiling it?

  People from a number of parts of the business are responsible for compiling the annual report, including finance, risk, legal, Human Resources, Company Secretary, and that it is reviewed by the CEO, CFO, auditors and directors prior to publication.

  Normal commercial rates apply for printing such a publication.

Ends