30 July 2012

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

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

TOWER Group Credit Ratings

Global rating organisation A.M. Best Company has affirmed its ratings of companies in the TOWER Limited Group as set out below:

- TOWER Health & Life Limited: financial strength rating A- (Excellent)
  issuer credit rating a-
- TOWER Insurance Limited: financial strength rating A- (Excellent)
  issuer credit rating a-
- TOWER Life (N.Z.) Limited: financial strength rating A- (Excellent)
  issuer credit rating a-
- TOWER Limited: issuer credit rating bbb-

A copy of the A. M. Best news release is attached.

Yours faithfully

Bronwyn Walsh
Company Secretary & Compliance Manager
TOWER Limited
ARBN 088 481 234 Incorporated in New Zealand

A.M. Best Affirms Ratings of Tower Limited and Its Subsidiaries

Print this article

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FOR IMMEDIATE RELEASE

HONG KONG, JULY 27, 2012
A.M. Best Co. has affirmed the financial strength rating of A- (Excellent) and issuer credit ratings (ICR) of "a-" of **TOWER Insurance Limited** (TIL), **TOWER Health & Life Limited** (THL) and **TOWER Life (N.Z.) Limited** (TLNZ). A.M. Best also has affirmed the ICR of "bbb-" of these subsidiaries' parent, **TOWER Limited**. The outlook for all ratings is stable, and all companies are domiciled in New Zealand.

TOWER Limited's ICR reflects the supportive risk adjusted capitalization of its operating subsidiaries.

The ratings of Tower Limited's general insurance subsidiary, TIL, reflect its good operating performance, its supportive risk-adjusted capitalization and efforts to reduce reinsurance recoverable risk.

Recovering underwriting results and stable investment results are anticipated to help TIL to generate good operating results in fiscal year 2012. Unaudited management accounts as of June 30, 2012 show that TIL is tracking close to its expected recovery.

TIL's risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR) has weakened but remains supportive of its current ratings. This is due to a recently completed capital injection and an anticipated full retention of earnings for 2012.

Improvement in TIL's BCAR will be driven by reinsurance recoverable risk reduction. To this end, TIL will focus on cash settling earthquake claims that have large dollar values.

Offsetting rating factors include adverse development in TIL's catastrophe related claims costs, a low catastrophe reinsurance buffer for the February 2011 earthquake (after allowances for risk margins and inflationary pressures) and capital management.

Adverse development in cost estimates for the 2010/2011 earthquakes has led to a higher than anticipated level of reinsurance recoverable risk and has weakened TIL's BCAR. Should further negative development in the claims cost estimate for the February 2011 earthquake exhaust the remaining buffer to the catastrophe reinsurance limit, the additional cost would have to be borne by TIL, with negative consequences to its capital and BCAR.

Capital management has been difficult. A dividend in respect to fiscal year 2010 earnings was paid in fiscal year 2011 before the February 2011 earthquake occurred. This led to a reduction in TIL's capital in fiscal year 2011; thus, temporarily stressing TIL's BCAR as it has been facing significantly higher capital requirements since the 2010/2011 earthquakes. A capital injection completed in July 2012 and recovering profitability has since helped to strengthen TIL's capital.

Developments that could lead to negative rating actions include an upward revision to the February 2011 earthquake cost that exceeds the catastrophe reinsurance protection for the event, a failure to fully retain fiscal year 2012 earnings as well as slower than anticipated reduction in reinsurance recoverables.

The rating affirmations of THL reflect its adequate risk-adjusted capitalization and favorable in-force business portfolio.

Although THL holds a large percentage of its assets in illiquid form, its risk-adjusted capitalization, as evaluated by BCAR, remains adequate for its current ratings. It is expected that THL's capitalization will continue to strengthen as a result of its profitable operations and stable risk profile.

Over the past five years, THL has achieved strong and continuous growth in its core products. On average, the value in force has compounded by over 10% per annum. The consistent growth in embedded value reflects that the performance of THL's in force business has been favorable.

Offsetting these positive rating factors are the challenging economic conditions, the increasingly competitive environment and the high upfront commissions that THL faces within the New Zealand life insurance industry.

A significant deterioration in THL's capitalization could lead to a downgrading of its ratings.

The ratings of TLNZ acknowledge its moderate capitalization, established position in the group risk market and continuous favorable operating performance.

TLNZ's risk-based capitalization remained adequate and strengthened with the retention of earnings in fiscal year 2011. The capital position of TLNZ is expected to be maintained at a similar level for 2012 stemming from a planned dividend payout and a continuous decline of its in-force business volume. TLNZ is running off all its books of business, except group risk, which is the only portfolio open to new business.

TLNZ has maintained a profitable operation over the past five years. The net income in 2011 was positive; although, adversely impacted by group risk losses from the Christchurch earthquake. Profits flowing out of the closed books of business have contributed to earnings, together with a continued reduction of management expenses. Asset and liability management has remained an integral strategy of TLNZ's investment philosophy, which has also aided in reducing the volatility of operating results.

Offsetting rating factors are TLNZ's low absolute capitalization, underperformance of the group risk portfolio and exposure to regulatory risk.

The absolute capitalization of TLNZ is small. This may raise issues such as scale and operating capabilities; however, being part of TOWER Limited somewhat mitigates these concerns, as TLNZ outsources capabilities it does not have.

The performance of TLNZ's group risk business has been adversely impacted by claims from the Christchurch earthquake, operating market environment and higher reinsurance premiums paid.

The New Zealand solvency standard for TOWER's life insurance businesses applies from December 31, 2012. Management has adopted two policies for the participating and non-participating funds to comply with the upcoming standard. Going forward, the dividend payout will be decided with consideration to the solvency of TLNZ. However, there could be a potential gap between TLNZ's willingness to comply with the regulatory requirements and the shareholders' interests.

The methodology used in determining these ratings is Best's Credit Rating Methodology, which provides a comprehensive explanation of A.M. Best's rating process and contains the different rating criteria employed in the rating process. Key criteria utilized include: "Catastrophe Analysis in A.M. Best Ratings"; "Rating Members of Insurance Groups"; "Insurance Holding Company and Debt Ratings"; and "Understanding Universal BCAR." Best's Credit Rating Methodology can be found at www.ambest.com/ratings/methodology.

Founded in 1899, A.M. Best Company is the world's oldest and most authoritative insurance rating and information source.