

## MEDIA STATEMENT

26 July 2013

For immediate release

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 Affirmed

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

- 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 Health & Life Limited: financial strength rating A- (Excellent)  
Issuer credit rating a-
- TOWER Limited issuer credit rating bbb- (Good)

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

TOWER welcomes the affirmation of its A- (Excellent) rating from A.M. Best.

Because of industry-wide Canterbury claims cost inflation and volatility as measured by A.M. Best's capital adequacy ratio modelling, A.M. Best has revised the outlook for the TOWER Group ratings from stable to negative.

In its announcement, A.M. Best noted that other than adjustments related to the February 2011 earthquake, TOWER Insurance Limited's underwriting has shown good profitability.

ENDS

Editor's Note:

A.M. Best defines an 'outlook' as an indication of a rating's potential direction over an intermediate term (generally defined as 12-36 months)

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## A.M. Best Revises Outlook to Negative for TOWER Limited and Its Subsidiaries



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### FOR IMMEDIATE RELEASE

HONG KONG, JULY 25, 2013

**A.M. Best Asia-Pacific Limited** has revised the outlook to negative from stable and 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 revised the outlook to negative from stable and affirmed the ICR of "bbb-" of the parent holding company, **TOWER Limited (TL)**. All companies are domiciled in New Zealand.

The revised outlook for TIL's ratings reflects its continued outstanding claims cost escalation and volatility in its financial strength, as measured by Best's Capital Adequacy Ratio (BCAR). Cost estimates (other allowances for risk margins and inflationary pressures) for the February 2011 earthquake exceeded the amount available for reinsurance protection in September 2012, and has continued to increase; thus, contributing to a capital reduction in March 2013. The resulting stress to TIL's financial strength has been removed through parental capital injections; however, the risk of further claims cost escalation remains. A large catastrophe combined with continued cost escalation could result in significant volatility to TIL's financial strength. TL's ability to inject capital into TIL will likely decline as TIL will be the only significant earnings generator following the disposal of its affiliates and given TL's dividend policy payout ratio guidance of at least 90% of net after tax profits.

Other than adjustments related to the February 2011 earthquake, TIL's underwriting has shown good profitability, especially in its motor portfolio. TIL has continued to grow its topline in the past five years and has maintained its market share (despite losing a large distribution partner in 2009) by strengthening sales through its own channels.

The affirmation of THL's ratings reflects its supportive risk-adjusted capitalization, high quality investment portfolio and favorable track record of profitability. These positive rating factors are partially offset by THL's distribution concentration using brokers, as well as its recent underlying earnings volatility associated with lapse experience.

The revised outlook for THL's ratings recognizes A.M. Best's concerns that capital requirements at TIL could result in lower earnings retention at THL.

The rating affirmations for TLNZ acknowledge its profitable operating performance, conservative investment strategy and risk-adjusted capitalization. These positive rating factors are offset by TLNZ's track record of high dividend payouts over the past five years, any potential impact due to the sale of its profitable group

risk business and its low absolute capitalization compared to its similarly rated peer group.

The revised outlook for TLNZ's ratings reflects A.M. Best's concerns with a declining trend in its risk-adjusted capitalization, and similar to THL, that capital requirements at TIL could result in lower than expected earnings retention.

THL and TLNZ are awaiting regulatory approval to sell most of their non-participating policies to another life insurer. Once the sale is completed, the ratings of THL and TLNZ will be re-visited.

The ratings of TL recognize the standard notching from its primary operating entity, TIL.

Positive rating movement for these four companies is presently unlikely.

However, if deterioration and/or volatility should occur to their BCAR (especially TIL's) it could result in negative rating movement.

The methodology used in determining these interactive 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. Best's Credit Rating Methodology can be found at [www.ambest.com/ratings/methodology](http://www.ambest.com/ratings/methodology).

Ratings are communicated to rated entities prior to publication, and unless stated otherwise, the ratings were not amended subsequent to that communication.

**A.M. Best Asia-Pacific Limited is a subsidiary of A.M. Best Company. A.M. Best Company is the world's oldest and most authoritative insurance rating and information source.**

[View a list of companies](#) related to this press release. The list will include Best's Ratings along with links to additional company specific information including related news and reports.

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