8 February 2012

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**TOWER Limited: Chairman's address to Annual Meeting**

Attached is a copy of the Chairman's address to the annual meeting of shareholders.

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

**CHAIRMAN'S ADDRESS TO THE TOWER ANNUAL MEETING**

**8 FEBRUARY 2012**

Ladies and Gentlemen

When we met at this time last year, Christchurch and New Zealand were adjusting to the September and Boxing Day 2010 earthquakes. Within 3 weeks Christchurch experienced the extreme catastrophe of 22 February with its huge loss of life and property. Since then there have been, it is reported, around 10,000 earthquakes in the Canterbury region.

This has all had an impact on TOWER as an insurer - not just as to profitability, but also on our staff, who have served beyond the call of duty throughout this period, and on the way in which we manage the business as we focused our relatively small resources on support for those affected by the catastrophe who were insured with us.

I am pleased to report that TOWER came through these events with a profit for the year ending 30 September 2011 of $33.4 million , compared with $58.1 million in the previous year, or earnings per share of 12.5 cents. While this interrupted the annual growth in earnings the company has recorded since the separation from Tower Australia in 2006, your directors nonetheless took the view that the underlying strength of the company remained, and that a dividend for the year of 6 cents a share should be declared. The final payment of 2 cents per share was distributed on 1 February 2012.

We move forward in an environment of some uncertainty. In order to recover the increased costs, including reinsurance in particular, experienced in the wake of the Canterbury disasters, like other insurers, we have had to make some judicious premium increases, and further increases may be in prospect. But insurance cannot be priced off the market, and we need to maintain a careful balance between the needs of our customers and our shareholders. Timing is a critical ingredient in this balance, but we have confidence that we can re-instate the pattern of profit growth achieved in previous years.

TOWER is New Zealand's oldest insurer but in the various moves which have occurred since demutualisation it has forfeited scale and become an operator across all the major insurance categories, whereas the competition tend to be larger specialist insurers, as TOWER used to be. Addressing these issues is a primary task of the board, and we would not rule out the disposition of assets as well as acquisitions in the interests of improving the positioning of the company in the market, and securing optimal returns for shareholders on their capital. I am conscious that we raised capital from shareholders two years ago to enable us to pursue value creating opportunities which would provide scale for TOWER. With nothing immediately on the horizon a capital repatriation will be addressed as part of this work.

However, we shall have to take into account the Government's prudential regulations for insurance companies, now being introduced, which, together with increased provisioning for catastrophe insurance reinstatement, will require us over time to build capital reserves above the levels we have customarily held.

Throughout we will continue to pursue the goal of building the company through operational excellence in product development and pricing and in customer service, and I am pleased to say that with the baptism of fire provided by the Canterbury earthquakes, TOWER's management team has proved that it is up to the task.

Board Appointments

Tony Gibbs resigned as Chairman in September. GPG nominated Mike Allen as his replacement, and he was appointed by the Board to fill the casual vacancy created by Tony's departure, and presents himself for election by shareholders today.

May I say that Tony made a singular contribution to the Board from his appointment in 2003, and particularly during his Chairmanship of the Board from the company's establishment as a New Zealand entity in 2006. The record of profit growth to which I referred earlier, and our successful bond issue and capital raising are due in no small measure to his untiring commitment to the company, and Tony can reflect well on his achievements.

Mike Jefferies and Denis Wood retire by rotation at this meeting, and resolutions are before you for their re-election. Denis has decided that he no longer wishes to seek re-election, and that motion is therefore withdrawn. Denis remains a Director until the conclusion of this meeting, and he will be explaining his decision at the conclusion of the elections agenda item.

Denis was appointed to the Board in 2005 and he too was a valued and enthusiastic contributor. He was Chairman of the Investment Committee from its inception, a member of the Audit Committee for a period, and brought extensive financial and business experience to our deliberations.

Late last year the Board brought forward a programme aimed at ensuring a steady introduction of new experience to the board, by capping the number of terms for which a director may serve at 3. Obviously it will take a while for a pattern of retirements and new appointments to settle in, and special considerations will need to be accommodated. Immediately however, we will be using our head room to appoint another director, and the search for a replacement for Denis Wood will be undertaken as part of the same process. I expect appointments to be made by the Board within the next 2 months. The appointees would then come before shareholders for election at the General Meeting in 2013.

Conclusion

May I conclude by saying that the year under review has been an eventful one, whose repercussions are not yet over. The year has tested the insurance industry, and I am pleased to say that TOWER has come through well. I want to thank Rob Flannagan, the senior management team and our staff for making that so. I would also like to thank my fellow directors for being constantly available and for the constructive governance of the company they have provided. May I now hand over to Rob Flannagan to brief you in detail on the year past and the company's outlook.

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**Managing Director's Address**

Thank you Mr Chairman. Good morning Ladies and Gentlemen

It goes without saying that this has been a very difficult year for the insurance industry and for New Zealand as a whole. But despite this, TOWER has come through these turbulent times, is profitable and maintains a strong balance sheet.

We are going through a major global economic adjustment with long term interest rates at an all time low. As an example, our investment income for shareholders is down significantly when compared to the same period last year.

The New Zealand economy is slow with discretionary income for New Zealanders being squeezed. The insurance industry, especially in the Asia Pacific region has had major events over the past 18 months: Australia – floods and hail storms, earthquakes of a magnitude never experienced before in Christchurch and Japan, and floods in Thailand. All of these events affect the reinsurance market and, as a result, large increases have been incurred for reinsurance, which of course will flow through to premiums.

The earthquakes in New Zealand have had a large impact on resources within TOWER handling and managing the events that have occurred in 2011.

TOWER is profitable, when many other insurers have booked losses, many of them significant losses. The diversified business of TOWER has protected the shareholder. As an example, the Health, Life and Investment businesses have carried the General Insurance business through these times. It should be remembered we are in the risk business. This year we have had claims on over 8,000 houses and have lost 16 customer lives as a result of the Christchurch earthquakes. TOWER can be very proud that we are there for these families.

Our profit after tax, before earthquakes and the discount rate impact, was $54.6m down 6% on last year. If we include the discount rate and the costs of Christchurch, the Group's net profit after tax for the year to 30 September 2011 is $33.4 million.

We believe this is still a strong result for the Group and are especially pleased that every one of our businesses were profitable, despite the events we have experienced.

TOWER remains in a strong financial position. The Board decided to pay a final dividend to shareholders, bringing the total to 6 cents per share for the year.

I will now ask Michael Boggs, TOWER's Chief Operating Officer, to provide further detail.

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**Chief Operating Officer's Address**

Thank you Rob and good morning.

I'd like to take you through the results in more detail, beginning with the General Insurance business. Despite a very difficult year, the General Insurance business has still made a profit of $2.5 milion. Profit overall has reduced from $21.9 million in 2010 to $2.5 million in 2011. The reduction in the 2011 result reflects $22.2 million after tax in direct costs relating to the Christchurch earthquakes.

The Life business profit, excluding the discount rate movement for the year, is $18.8 million, a decrease of $8.6 million compared to the same period last year. This result has been impacted by the lower investment returns on shareholders' funds of approx $10 million after tax. This result also includes $1.1 million of direct expenditure relating to the Christchurch earthquakes. As Rob noted, TOWER provided life insurance cover for the families of 16 of the lives that were lost in Christchurch.

The Health business recorded a profit of $9.7 million compared to $7.5 million last year - a pleasing result.

The Investments business profit for the past year is $6.8 million, which represents a growth of $4 million from the same period last year. This increase in profit is a direct result of the restructuring carried out last year.

Finance and corporate expenses have increased by $1 million compared to the same period last year. These costs include $300,000 in relation to Christchurch.

The discount rate effect is highlighted as we have done in previous years. So after the impact of Christchurch and the discount rate affect, our Net Profit after Tax is $33.4 million.

We wish to pay a dividend each year. However, as part of our capital management, we believe it should come out of the Net Profits earned. The bars on this chart show our Dividend payments over the past few years. The dark line represents the Net Profits after Tax.

This year, because of the adverse events impacting on our profit, we have paid a lower overall dividend.

It is important to note that our current capital structure enables us to exceed the required solvency standards. These are set out by the Reserve Bank, as part of the new Insurance Prudential Supervision Regulations that are coming into force and have been defined over the last year. We are operating to targets above the minimum to ensure adequate solvency at all times.

Claims associated with Christchurch are anticipated to require payments of over $450 million over the coming periods. Tight working capital management is in place to ensure that we are able to match the payments to customers, with timely reimbursements that will come from our reinsurers. In addition, reinsurance structures are changing. These are necessitating the need for TOWER to hold increased capital against potential losses and future cover requirements.

External debt is $81.3 million and consists of the unsecured bonds which mature in April 2014. Even after meeting the solvency and capital needs that I have just spoken to, TOWER has capital available of $30 million, the utilisation of which is currently being reviewed by the Board.

With the reduction in profitability and lower dividend payments to shareholders in the last year, the focus is on returning to previous profitability levels.

In the General Insurance market, all insurers have been impacted by large reinsurance cost increases. TOWER was able to anticipate these prior to its October 2011 reinsurance renewal date and has been increasing customer premiums over the last year. These premium increases are expected to fully recover the increased reinsurance costs during the year to September 2012, protecting the profitability impact of this significant cost increase.

Policy growth is a focus across each of the insurance businesses. Policy growth is clearly evident in the General Insurance and Life businesses. Health remains problematic. While TOWER manages to maintain its market share in the health market, increased health claims costs are driving increased premiums. This is making health protection less affordable and accordingly, there is an overall decline in the number of lives covered by the industry.

Investment markets continue to be volatile.

The continuation of Christchurch earthquakes and aftershocks are costly to the business. Costs of the earthquakes just prior to Christmas last year, on 23 December, have already resulted in claims approximating $2 million. These will have a direct impact on our results again this year.

In summary, the focus remains on growing the profitability of the business through increased revenues and improved efficiency levels across the business.

I'll now hand back to Rob to give a brief overview on looking forward.

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**Group Managing Director's Address cont**

As an insurance company, TOWER's focus is to ensure its businesses generate long term sustainable profits. The introduction into the New Zealand regulatory regime of prudential supervision of insurance companies supports our focus on long term sustainable growth – prudential supervision is intended to protect policyholder's interests. Like our shareholders, our customers want to know we will be here in the long term.

We are continuing to focus on organic growth. It is slow, but it's beginning to deliver. Our new core administration system, although late in delivery, has gone live. Full transition will be complete over the coming months.

We have been out bid by bigger balance sheets in our attempt at acquisition. Any acquisition opportunities that emerge will be evaluated to see if they will enable a step up in growth that the company wants to pursue, but that is not the strategy on which we are focused day to day. We will continue to look at acquisitions and divestments if this adds to shareholder value.

The challenge for TOWER, and the industry, is to change - to meet the needs of our customers through affordable and easily understood products.

This has been a year when our customers have relied on us to be true to our purpose. We are in the business of protecting people in their time of need and this has been clearly demonstrated with the Christchurch events where we will pay in excess of $450 million.

We have also delivered value to our shareholders in turbulent times and our focus is on continuing to do so.