



the leading light

March 2015

Innovation is at the heart of what makes TOWER a leader in general insurance and a strongly growing business.

We have been at the forefront of developing new products and services and finding better, more efficient ways of doing business for the benefit of our customers, our staff and our shareholders.

In October we became the only major insurer focusing on all New Zealanders to introduce full replacement cover for New Zealand houses destroyed by fire.

This is a great innovation for our customers and reflects our risk management expertise and, we believe, gives us a competitive advantage in the market for home insurance.

We've also been pleased that our SmartDriver App, which rewards safer drivers with discounts on their motor premiums, continues to win recognition from both our customers and the insurance industry. In November, the App won the Innovation of the Year Award at the 2014 New Zealand Insurance Industry Awards.

Leveraging the advantages of our digital platform is another way we innovate and to that end we recently forged an alliance with New Zealand's online marketplace Trade Me, which brings together TOWER's customer service focus and insurance expertise with the strength of Trade Me's audience.

These innovations are helping boost our key performance measures of customer retention, brand recognition and net promoter score. These all increased over the 2014 financial year

and experience shows they translate not only into happier customers but also into better returns to shareholders.

TOWER reported strong FY14 financial results back in November, but it is worth revisiting the highlights. Our underlying general insurance net profit after tax rose 32.3% to \$25.1m for the 12 months to the end of September 2014. Our business in the Pacific was particularly strong, with 79.1% growth in underlying net profit after tax to \$8.2m. This underlines our belief in the opportunities for expansion in this important region.

This strong performance allowed us to boost TOWER's full year dividend to 14.5 cents per share for 2014 (unimputed), up 31.8% on the previous year. The final dividend of 8c a share was paid on 3 February. We intend to return more capital to shareholders in the 2015 financial year by performing an on market share buyback of up to \$34 million, or up to 10% of TOWER's issued capital, which will reduce the number of shares on issue and boost earnings per share.

This financial year will be our first full year as a pure general insurer following the divestment of our life business last year.

General insurance is where our competitive advantage lies. We have considerable room to grow in our key markets and we intend to exploit that advantage to the full.

David Hancock
Chief Executive Officer



TOWER's Strong Performance in FY2014

■ Full year dividend
14.5c up 31.8%

■ Final dividend
8c paid on 3 February

■ Underlying NPAT
\$25.1m up 32.3%

■ Underlying Pacific NPAT
\$8.2m up 79.1%

Full replacement for fire cover gives homeowners *peace of mind*

There are few more devastating life events than losing your home to fire, but now TOWER has brought some comfort to homeowners by offering full replacement for fire cover as standard, the only major insurer focusing on all New Zealanders to do so.

TOWER customers can rest easy that if they were to lose their home to fire, they will have the funds to rebuild it to the same standards as before the fire, even if that costs more than the sum insured.

TOWER Chief Executive Officer David Hancock, who narrowly avoided losing his own home to fire four years ago, says the company understands only too well that a house fire can happen to anyone and that the impact is totally devastating.

“People want to know that if the worst happens they can at least be sure that they will get their house back the way it was,” Mr Hancock says. “TOWER can guarantee your home will be fully rebuilt if it’s destroyed by fire, regardless of the cost or the sum you’re insured for.”

Fire is the most common reason for the total loss of a home, after natural disasters, yet only about 10 per cent of New Zealanders consider losing their house to fire to be a high risk, according to recent survey results from Horizon Research.

And while house fire claims make up only a small percentage of insurance claims by number, they are costly, being the largest single category of claims by value.

Mr Hancock says many homeowners have struggled to understand sum insured home insurance since it was introduced in early 2013 following the Christchurch earthquakes. It is believed a significant proportion of homeowners in New Zealand have underestimated the cost of replacing their home and are underinsured.

“Our customers have repeatedly told us that they find the concept of sum insured confusing and worry about whether they have the right insurance cover,” Mr Hancock says.

TOWER has worked hard with international reinsurers to be able to bring back full replacement for fire cover and Mr Hancock says that TOWER’s strong focus on risk management and healthy capital reserves were important in achieving this.

“We would like to see homeowners having more options for how they insure their home and we will keep working hard to try and simplify the house insurance process,” he says.

Full replacement for domestic fires covers total loss of the home, except when the fire is the result of a natural disaster. It applies to most existing and all new TOWER house insurance policies but excludes those typically older homes that are covered by a Present Day Value policy. These make up a very small percentage of TOWER’s customer base.

Some feedback from our customers

“Thank you! I hope I never need to use this, but I feel that TOWER is doing the right thing here. Listening to customers will ensure your company’s ongoing success. I have all my personal and business insurance with TOWER and see this as another great reason to stay. Thank you again.”

Andrew Hine

“As a TOWER policy holder for many years I applaud the decision made to bring back full replacement cover for fire. I admit I had to read it twice before fully believing what was written. So many of us homeowners have been worrying about this subject, so to have that problem removed is wonderful.”

Lydia Milne



Residential Fire Statistics

After natural disasters fire is the most common reason for the total loss of a home



Source: New Zealand Fire Service

TOWER's alliances build *strong relationships and a strong business*

TOWER has welcomed an important new partner to its growing alliance network with the announcement of an agreement with New Zealand's leading online marketplace, Trade Me.

TOWER's General Manager of Customer Proposition Mark Savage says the partnership is in line with TOWER's strategy to expand its alliance network and drive policy sales through digital platforms.

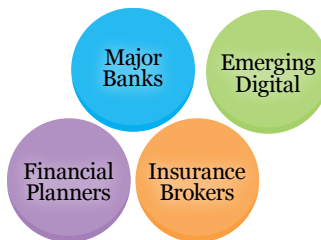
"Alliances are an important part of TOWER's growth strategy and a key source of revenue," Mr Savage says. "The alliance with Trade Me will also play to TOWER's strengths in meeting customer needs through innovation".



Approximately 1.2 million people bought or sold something on Trade Me in the past 12 months and 766,000 unique visitors every day will provide TOWER with a channel to a significant potential customer base.

We have longstanding alliances with the major banks which allow them to sell TOWER insurance when they speak to

Our alliance channels



customers about their broader banking needs, we have customer referral relationships with New Zealand's major independent networks of financial planners and we act as underwriter for a number of specialist insurance brokers.

"These relationships help bring more business and customers to TOWER but they also enhance the way that TOWER operates as a business," Mr Savage says.

"It might be the exchange of data on claims experiences that helps our partners better understand and service

"Alliances are an important part of TOWER's growth strategy and a key source of revenue."

GM Customer Proposition
Mark Savage

3

their customer bases or it could be sharing information and experience that helps them respond to the raft of regulatory changes that have affected the insurance sector since 2011."

"TOWER also benefits from the expertise and the experience that our alliance partners bring to the table. We don't just value the business they bring us but the value they add in terms of helping us better understand the needs of our customers and how to respond to them."

Referrals from third parties like financial planners are often also an opportunity to help customers reassess their broader insurance needs.

"When customers come to us via our referral partners it is often because of a life event, like taking out a mortgage to buy their first home. These are the times when they and their planner are thinking about their financial circumstances and security," Mr Savage says.

Earthquake claim resolution a priority for TOWER

Rebuilding Canterbury remains an important focus for TOWER, the insurance industry and New Zealand as a whole. To date TOWER has settled and closed 91% of all claims related to the devastating earthquake events.



TOWER directors and management receive their safety briefings during site visits in Canterbury

TOWER directors take a keen interest in our programme of work in Canterbury and in February spent a day in Christchurch at a Board workshop assessing and discussing our progress.

Directors also had the opportunity to go on site to inspect several works in progress. This included visiting an 18-unit complex, where TOWER is repairing nine units and rebuilding another nine.

They also inspected a "high lift" repair in Fendalton, where a two-storey home has been hoisted two metres in the air to allow for the foundation to be rebuilt.

Despite remaining an industry leader in claims resolution, risks continue in regard to increasing costs and time delays. At this point in the process a number of the claims that we still have to resolve are complex and challenging. We recognise that there still many customers waiting to get back into their homes, or into a new one of their choosing via a cash settlement option, and our team is working as hard and quickly as possible to resolve outstanding claims.

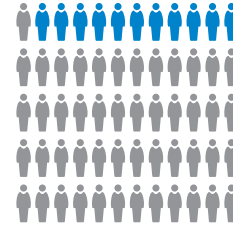
TOWER People

TOWER is improving the way its staff interact with customers.

Aon Hewitt Staff Survey

+22.4%

TOWER's score in the Aon Hewitt Staff Survey, which measures employee engagement and satisfaction, climbed 22.4%, from a score of 49 to 60 in 2014



4

Vanessa Dudley tallies up that she has worked in 12 different countries during her varied career in banking and insurance, useful experience for someone whose speciality is change management.

Mrs Dudley joined TOWER in March 2014 as General Manager Customer Interaction and is responsible for a large team of customer-facing staff across sales, service, claims and underwriting.

She was previously with ANZ Banking Group Limited for 13 years and was most recently ANZ's Head of Retail Banking for Pacific, based in Suva, Fiji, where she was responsible for distribution channels in 11 Pacific countries.

"My experience in the Pacific was really valuable from a customer relations perspective because we were dealing with so many different cultures," Mrs Dudley explains. "It makes a difference to the way you engage with people."

At TOWER, Mrs Dudley is responsible for improving the way staff work and their interaction with customers, a task that she can already claim some success at, with increases in TOWER's Net Promoter Score of customer satisfaction and the Aon Hewitt Staff Survey rating during 2014.

One of her core projects is refining the customer service experience so that each customer's needs are, as far as possible, dealt with by the one staff member, without the need to hand them off to someone else. It not only makes customers happier but makes for greater efficiency, she says.

Technology will be an important part of improving the customer experience, including making better use of mobile phone technology, perhaps to warn customers of a forecast storm or give them an easier way to provide feedback on a claims experience. "TOWER has the advantage over its competitors in that it is building a platform from the ground up and is not weighed down by legacy systems," she says.



Vanessa Dudley
GM Customer Interaction

Keep up to date electronically

TOWER gives shareholders the choice to access our Annual and Half Year Reports electronically or to request a hard copy. To reduce costs and pressure on the environment, our current Annual and Half Year Reports and other reports are available on our website at www.tower.co.nz/investor-centre

You can elect your preferences for shareholder communications online by visiting www.investorcentre.com/nz and logging in. You will need your

CSN or Holder Number and FIN to access the Investor Centre and register your account. From then on you will access this service with your own User ID and Password. Select 'My profile' and click on the 'update' button on the communication preferences tile. Notwithstanding that these reports are available electronically, you have the right to receive, upon request, a free copy of the Annual Report and the next Half Year Report (when available) prepared under the NZSX Listing Rules.

If you have any questions about changing how you receive shareholder communications, please contact Computershare at 0800 222 065 or 09 488 8777, email enquiry@computershare.co.nz or write to:
Computershare
Private Bag 92119,
Auckland Mail Centre,
Auckland 1142

Contact us

We would like to hear from you if you have feedback on our newsletter, suggestions for future news items or would like to be added to our mailing list. Please contact Julia Belk, TOWER's Head of Capital and Investor Relations on +64 9 925 0034 or e-mail: investor.relations@tower.co.nz

