



Tower Limited

Half year results

24 May 2017





Introduction

Michael Stiasny
Chairman



Chairman's update

- **Business performance**
 - Underlying business continues to perform well
- **Canterbury**
 - Operating result is impacted by increase to Canterbury provisions
- **Scheme vote and non-binding proposal**
 - Timing of Fairfax scheme vote to be confirmed, in the absence of a superior offer, the Tower board continues to unanimously recommend this scheme.
 - Commerce Commission to release findings on Suncorp non-binding proposal on 30 June 2017
- **Capital and dividend**
 - Equity raising on hold pending outcome of Fairfax scheme vote
 - Solvency position strengthened through drawing on liquidity facility
 - Dividend payment remains suspended

Performance overview

Richard Harding
Chief Executive Officer



First half performance summary

2017 has seen Tower continue on its transformation

STRATEGIC IMPERATIVES DELIVERS RESULTS ACROSS ALL FOCUS AREAS

- **Growth of core book**
 - Gross written premium in core book increased 2.4% compared to H1 16
 - Growth of 4,949 policies in core book this half
- **Management of claims costs**
 - Claims costs continue to show positive trends, declining \$3.2m compared to H1 16, before the impact of large loss events
- **Reduction of management expenses**
 - Management expenses reduced by \$2.6m compared to H1 16

ACHIEVEMENTS

- ✓ Total GWP remains steady
- ✓ Continued policy growth in the core book with improved retention levels
- ✓ Growth in digital channel
- ✓ Launch of Airpoints partnership
- ✓ Containment of claims inflation through focus on supply chain management and refinement of underwriting
- ✓ Management expenses tightly controlled
- ✓ Growth in profits in Pacific

Financial performance

Reported result reflects impacts of adjustments to Canterbury provisions and other large loss events

GROUP PROFIT SUMMARY (\$m)

	H1 17	H1 16	Movement %
Gross written premium	145.8	146.2	(0.2%)
New Zealand underlying profit	4.7	6.0	(21.7%)
Pacific underlying profit	4.4	2.1	112%
Corporate underlying profit	(1.0)	(0.5)	(47.1%)
Total underlying profit after tax	8.1	7.6	7.6%
Canterbury impact	(9.8)	(2.1)	369%
Impairment of intangibles	-	(14.1)	n/a
Impact of Kaikoura earthquake	(7.2)	-	n/a
Acquisition & separation costs	(1.0)	-	n/a
Business in runoff	1.7	-	n/a
Reported loss after tax	(8.2)	(8.7)	n/a

- Underlying profit of \$8.1m after tax, an increase of 7.6% on H1 16
 - Underlying profit includes \$3.6m¹ post-tax impact from the Port Hill fires and the 'Tasman Tempest'
- Reported loss of \$8.2m after tax includes the post-tax impacts of:
 - \$9.8m due to increasing Canterbury provisions
 - The Kaikoura earthquake of \$7.2m
- Underlying profit growth in Pacific doubled to \$4.4 m due to benign weather environment

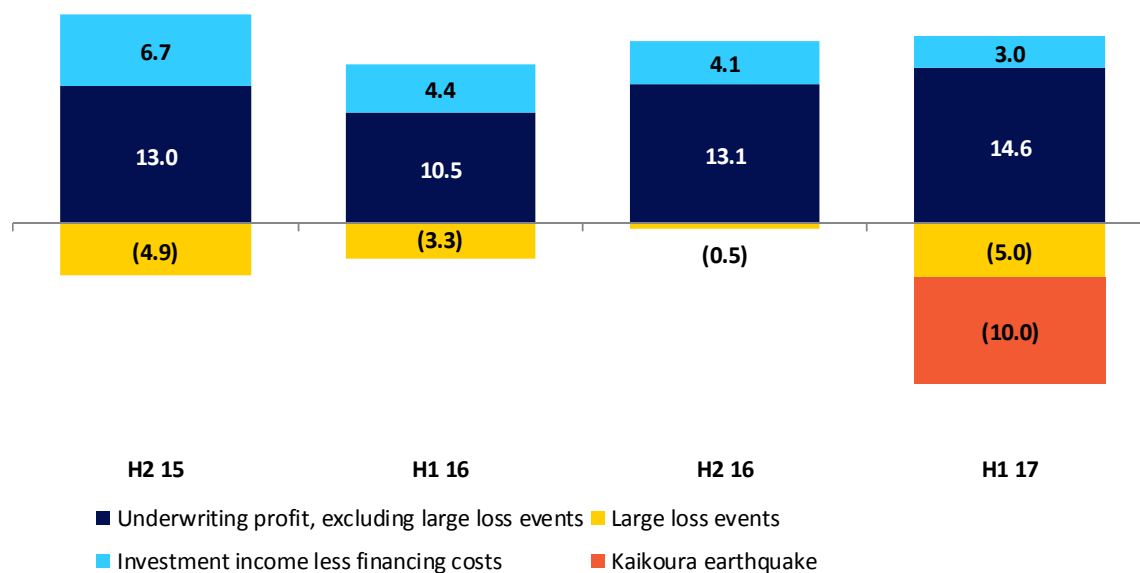
Notes:

1. Tower Limited market announcement 20 April 2017

Underwriting results improving

Improvements in pricing, underwriting and claims costs are growing underwriting profits

UNDERWRITING PROFITS AND INVESTMENT INCOME (\$m)

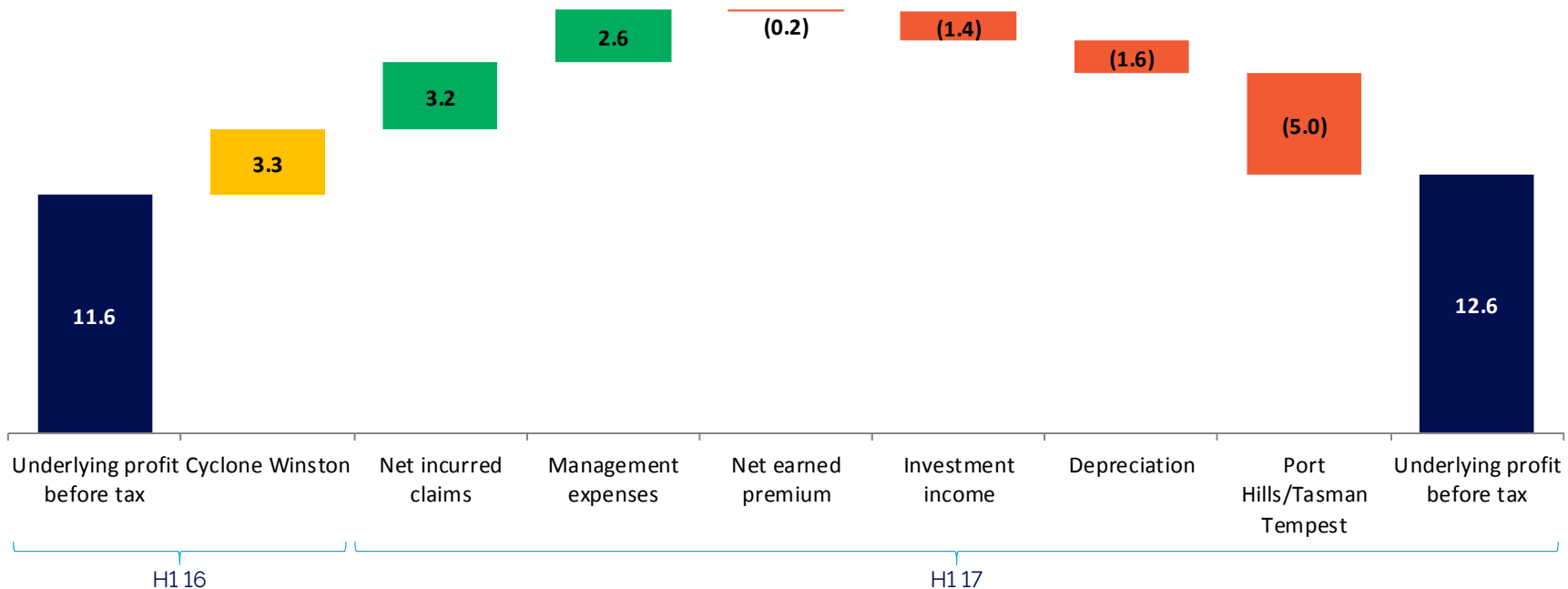


- Underwriting profit has increased \$4.1m before tax, excluding large loss events, compared to the same period in 2016
- Improvements reflect:
 - re-pricing of portfolios
 - actively targeting profitable market segments
 - better control of claims costs

Underlying profit before tax

Year on year change in underlying profit before tax reflects improved claims performance and lower management expenses, partly offset by impact of large loss events and lower investment income

MOVEMENT IN UNDERLYING PROFIT BEFORE TAX¹ (\$m)



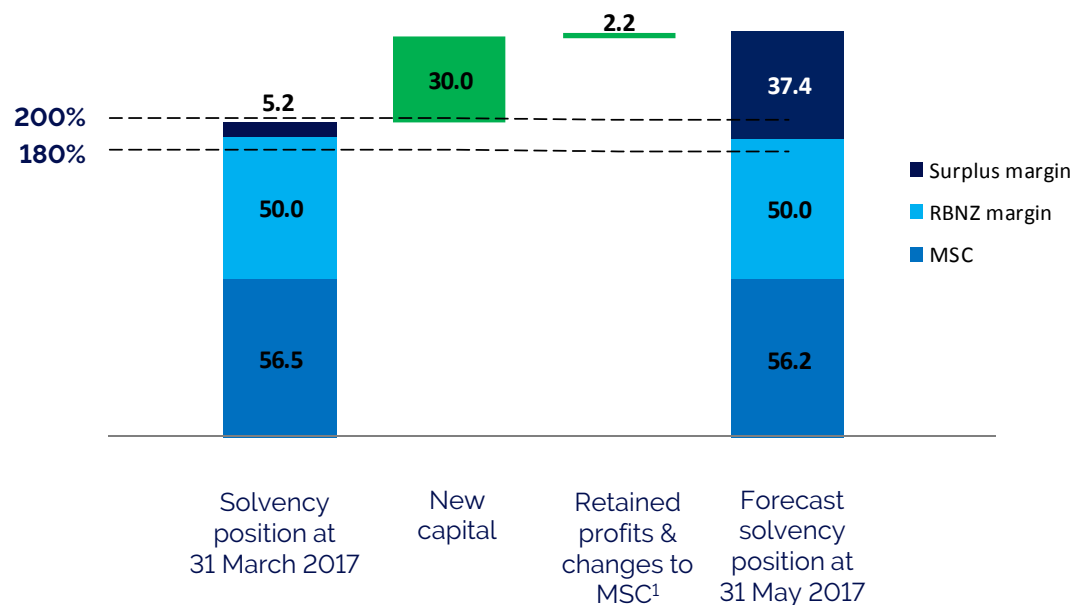
Notes:

1. Underlying profit excludes the impact of Canterbury earthquakes, Kaikoura earthquake, IT impairments, acquisition & separation costs and profit on businesses in run-off

Solvency position

Liquidity facility drawn down to support solvency position

TOWER INSURANCE LIMITED SOLVENCY POSITION (\$m)



- Tower is required to hold \$50m of capital above Minimum Solvency Capital (**MSC**)
- Additional Canterbury provisions have reduced solvency capital
- \$30m of \$50m BNZ facility drawn down in May and used to strengthen Tower Insurance Limited's solvency position

Notes:

1. Includes operating profits for April/May 2017, offset by impact of Cyclone Debbie

**Confident in our
future**

Focusing on the core

Our strategic imperatives continue driving high performance



MEDIUM TERM TARGETS

- ✓ GWP growth 4 – 6%
- ✓ Expense ratio <35%
- ✓ ROE of 12 – 14% through the cycle

Focus on customers delivers growth

Core book growing as a result of strong retention



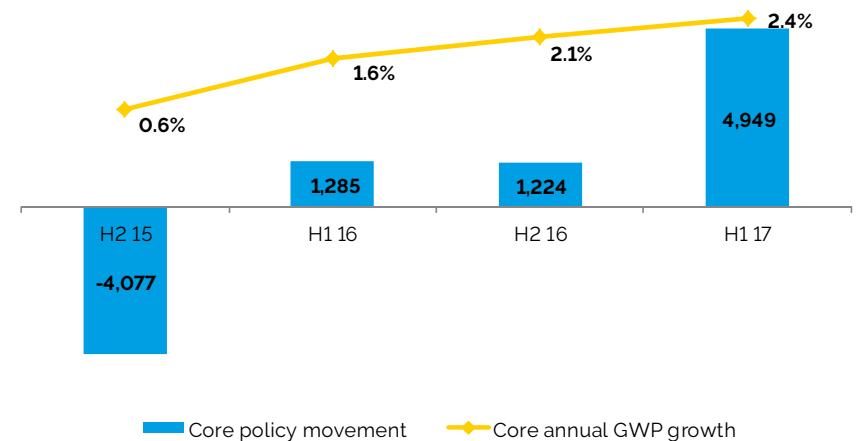
ACHIEVEMENTS

- ✓ Roll out of digital program, including quote to buy functionality, supporting core policy growth
- ✓ Launch of Airpoints partnership has proved attractive for both new and renewing customers
- ✓ Tower Direct retention has improved 1.3 percentage points compared to H1 16

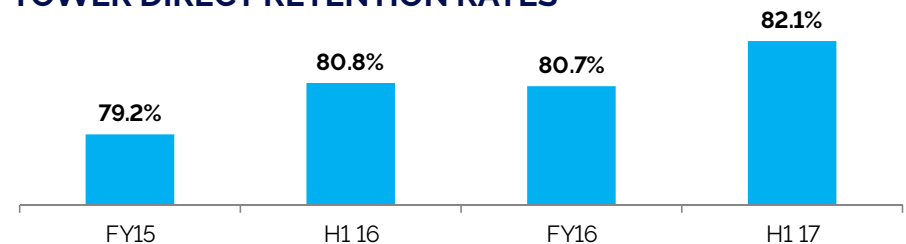
ACTIVITY CONTINUES

- Remainder of FY17 expected to benefit from further enhancement of digital channel, streamlined claims process and continued review of pricing competitiveness

GROWTH IN CORE ¹ NEW ZEALAND PORTFOLIO



TOWER DIRECT RETENTION RATES



Notes:

1. Core portfolio excludes legacy ANZ portfolio

Underwriting excellence

Attracting the right customers with better offerings



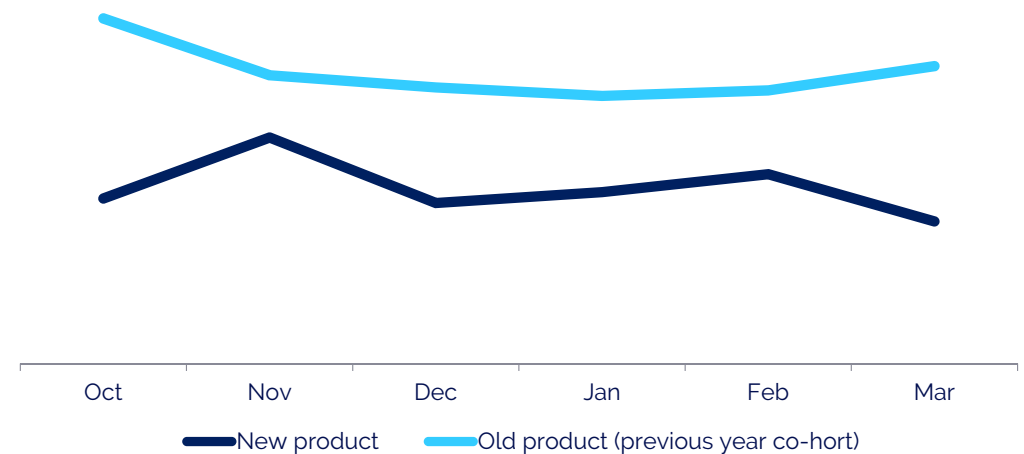
ACHIEVEMENTS

- ✓ Customers have more choice through a tiered product selection
- ✓ Easier for customers to purchase – less time on the phone makes them happier and increases our productivity
- ✓ Attracting the right customers is delivering positive movements in claims frequency

ACTIVITY CONTINUES

- Continuous review and improvement of pricing, underwriting and products
- Relentless focus on long term profitability improvements.

MOTOR COMPREHENSIVE CLAIM FREQUENCY COMPARISON



Claims update

Excluding the impact of large loss events, underlying claims costs are showing improvement

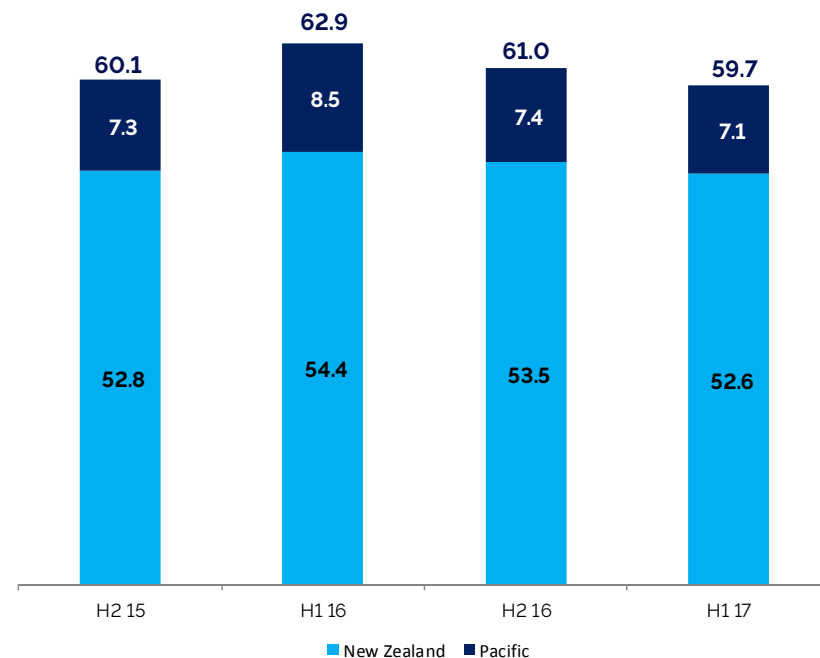
ACHIEVEMENTS

- ✓ Claims expenses¹ decreasing despite industry-wide claims cost inflation
- ✓ Closer management of claims supply chain has delivered material savings
- ✓ Continued focus on leakage and recoveries

ACTIVITY CONTINUES

- Development of improved underwriting model
- Refined product pricing models

**TOWER CLAIMS EXPENSES
(EXCLUDING LARGE LOSS EVENTS)¹ (\$m)**



Notes:

1. Excludes claims handling expenses, large loss events (e.g. Port Hill fires and Tasman Tempest), Kaikoura earthquake and changes to Canterbury provisions

Focus on management expenses

Savings initiatives continue to remain a focus and have delivered a reduction in the expense base

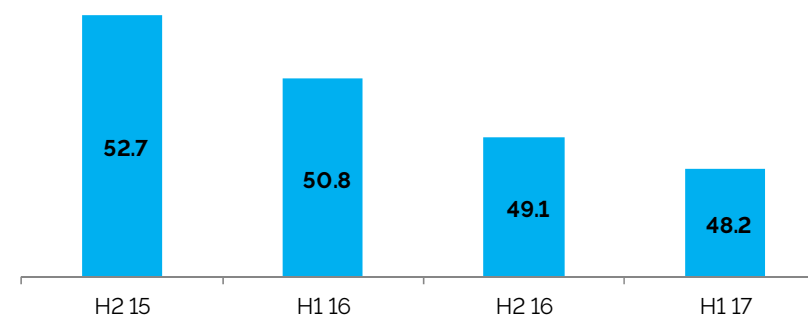
ACHIEVEMENTS

- ✓ Increased focus on efficiency and driving greater productivity
- ✓ Lower technology expenditure for business and software support activity
- ✓ Reduced reliance on contractors and third party providers

ACTIVITY CONTINUES

- Improvement in management expense will continue through embedding simplification initiatives
- Investment in initiatives that deliver long-term savings

MANAGEMENT EXPENSES¹ (\$m)



Notes:

1. Includes claims handling expenses. Excludes depreciation, amortisation and one-off expenses relating to sale and ownership activity.

Leveraging digital capability

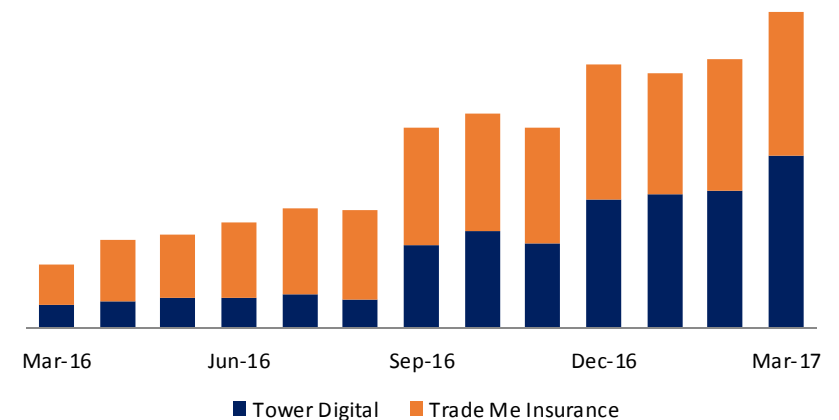
Continued focus on digital capability and partnership to deliver more customers

New product suite available online, providing access to a whole new range of customers through:

- increased online presence and capability
- Trade Me Insurance and Airpoints partnerships giving us access to digitally savvy customers
- tailored, targeted insurance offers for customers using digital channels

Including our partnerships with digital brands, online sales are up from 9% of total transactions in March 2016, to 24% of total transactions in March 2017.

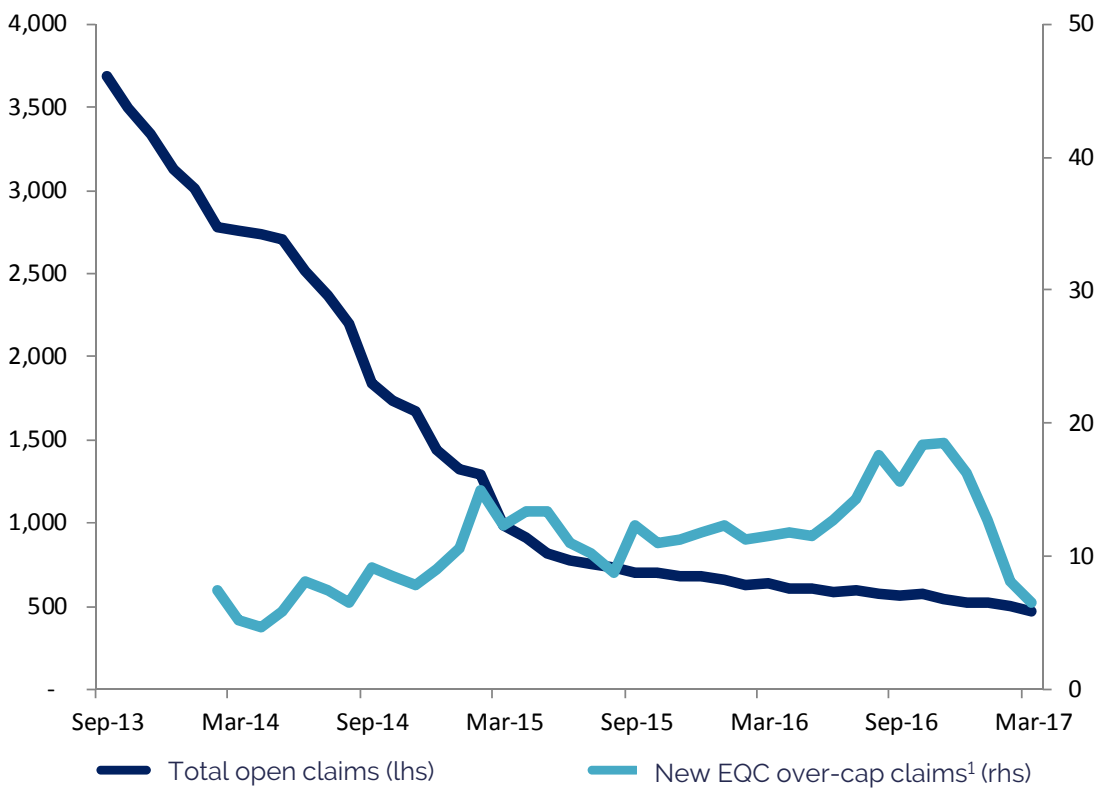
MONTHLY GWP ACROSS DIGITAL CHANNELS



Canterbury update

Canterbury claims snapshot

Open claims are reducing, yet we continue to receive new over-cap claims from EQC



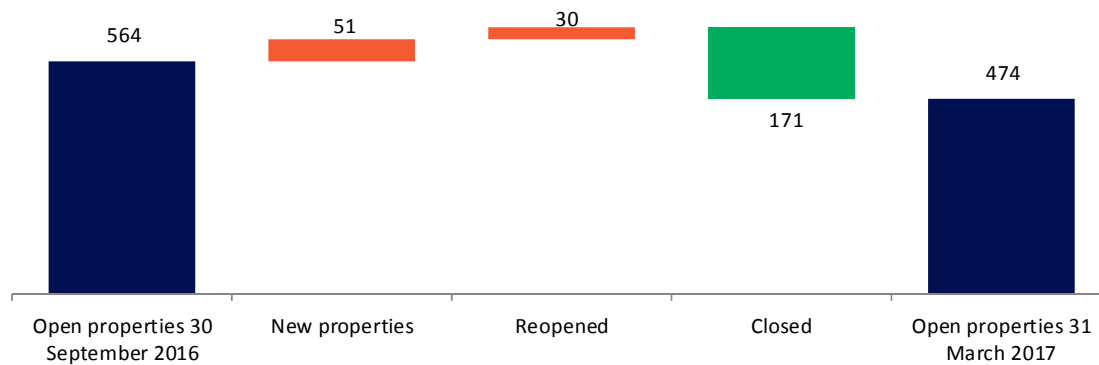
- Canterbury earthquakes continue to impact every facet of the insurance industry
- From over 16,000 claims received, 474 remain
- As with other industry participants, Tower continues to receive over-cap claims from EQC
- Tower is part of the industry-wide taskforce working to identify full extent of outstanding claims within EQC

Notes:
1. 6 month rolling average of new EQC over-cap claims

Progress in closing claims

We continue to reduce the number of open claims

MOVEMENT IN PROPERTIES



- Reduction in new and reopened claims
- Additional claims continue to be received due to:
 - EQC over-cap claims
 - Additional DFPP and accommodation claims as EQC finalise under-cap properties
 - Reopening due to litigation

Outstanding claims

IBNR/IBNER and risk margins have been increased to allow for further claims escalation or litigation

(NZ\$m)	Mar-17	% of case estimates ²	Sep-16	% of case estimates ²
Case estimates	73.9		93.2	
IBNR/IBNER ¹	47.4		44.0	
Risk margin	18.2		11.9	
Combined IBNR/IBNER/risk margin	65.6	89%	55.9	60%
Outstanding claims	139.5		149.1	
Adverse development cover	43.8		43.8	
Other reinsurance recoveries	2.2		7.1	
EQC receivables	66.6		57.6	
Total receivables	112.5		108.4	
Net outstanding claims	27.0		40.7	

- The Appointed Actuary has recommended an increase to IBNR/IBNER and risk margins, allowing a further \$9.7m for further escalation in claims costs
- Remaining claims are more complex with dispute resolution increasingly achieved through litigation

Notes:

1. IBNR / IBNER includes claims handling expenses
2. Ratio of IBNR / IBNER plus risk margin to case estimates

Outlook

Outlook



Transformation will continue to deliver improved financial performance

INDUSTRY DYNAMICS

- High claims environment resulting in movement on pricing
- Increasing digital competition
- Canterbury complexity playing out for all participants
- Low interest rate environment

TOWER DYNAMICS

Short term

- Ongoing improvement
 - Digital to drive GWP growth
 - Management expense initiatives to continue
 - Claims cost controlled
 - Pricing improvements
- Some benefits delayed due to pausing of IT simplification

Medium term

- **GWP growth 4 – 6%**
- **Expense ratio <35%**
- **ROE of 12 – 14% through the cycle**

Appendices

A New Zealand and Pacific general insurer



HY17

\$8.1m

UNDERLYING NPAT ¹

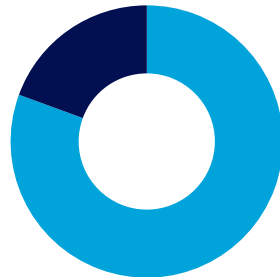


- New Zealand 52%²
- Pacific Islands 48%²

HY17

\$145.8m

GWP

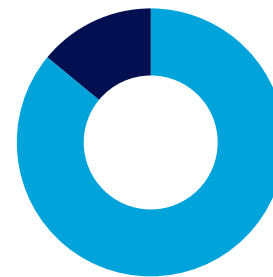


- New Zealand 81%
- Pacific Islands 19%

As at 31 March 2017

475k

INFORCE POLICIES

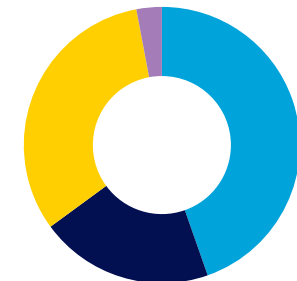


- New Zealand 86% (Direct 67% / Alliances 33%)
- Pacific Islands 14%

As at 31 March 2017

Personal lines focus

GWP breakdown



- House 45%
- Contents 20%
- Motor 32%
- Other 3%

Notes:

1. Underlying profit excludes the impact of Canterbury earthquakes, Kaikoura earthquake, IT impairments, sale & ownership costs and profit on businesses in run-off
2. Represents percentage of General Insurance underlying profit, excluding Corporate

Underlying performance

Tower Group



\$ million	H1 17	H1 16	Movement %
Gross written premium	145.8	146.2	(0.2%)
Gross earned premium	150.5	151.5	(0.6%)
Reinsurance costs	(23.8)	(24.5)	(3.0%)
Net earned premium	126.8	127.0	(0.1%)
Net incurred claims ¹	(59.7)	(62.9)	(5.2%)
Large loss events ²	(5.0)	(3.3)	52.6%
Management and sales expenses	(48.2)	(50.8)	(5.2%)
Depreciation and amortisation	(4.3)	(2.7)	58.3%
Underwriting profit	9.6	7.2	33.6%
Investment revenue	3.2	4.4	(27.9%)
Financing costs	(0.2)	0.0	n/a
Underlying profit before tax³	12.6	11.6	8.8%
Income tax expense	(4.5)	(4.0)	11.2%
Underlying profit after tax	8.1	7.6	7.6%

Notes:

1. Net incurred claims excludes claims handling expenses, which are included in management and sales expenses
2. Large loss events refers to events with cumulative claims cost greater than \$1m
3. Underlying profit excludes the impact of Canterbury earthquakes, Kaikoura earthquake, IT impairments, acquisition & separation costs and profit on businesses in run-off

Balance sheet

Tower Group



\$ million	HY17	HY16	Movement \$	Movement %
Cash & call deposits	70.1	94.7	(24.6)	(25.9%)
Investment assets	183.5	201.3	(17.8)	(8.9%)
Deferred acquisition costs	19.9	19.8	0.2	1.0%
Intangible assets	33.3	29.2	4.1	14.0%
Other assets	329.3	324.8	4.4	1.4%
Total assets	636.1	669.8	(33.7)	(5.0%)
Policy liabilities & insurance provisions	(364.2)	(355.8)	(8.4)	2.4%
External debt	0.0	0.0	0.0	0.0%
Other liabilities	(55.5)	(60.6)	5.2	(8.5%)
Total liabilities	(419.7)	(416.4)	(3.3)	0.8%
Total equity	216.4	253.4	(37.0)	(14.6%)

General Insurance New Zealand



\$ million	H1 17	H2 16	H1 16	H2 15
Key financial metrics				
Gross written premium	117.5	127.6	116.3	127.7
Net incurred claims ¹	52.6	53.5	54.4	52.8
Large loss events ²	5.1	(0.3)	(0.1)	4.9
Underwriting profit	9.2	9.2	5.4	3.5
Underlying NPAT ³	4.7	9.6	6.0	6.1
Key operating metrics				
Net incurred loss ratio	49.6%	50.5%	51.8%	50.3%
Loss ratio including large loss events	54.4%	50.3%	51.8%	55.0%
Core policies inforce	346,058	341,109	339,885	338,600
ANZ policies inforce	62,902	65,648	69,152	72,884
Total policies inforce	408,960	406,757	409,037	411,484

Notes:

1. Net incurred claims excludes claims handling expenses, which are included in management and sales expenses
2. Large loss events refers to events with cumulative claims cost greater than \$1m
3. Underlying profit excludes the impact of Canterbury earthquakes, Kaikoura earthquake, IT impairments, acquisition & separation costs and profit on businesses in run-off

General Insurance Pacific



\$ million	H1 17	H2 16	H1 16	H2 15
Key financial metrics				
Gross written premium	28.3	29.4	29.9	32.0
Net incurred claims ¹	7.1	7.4	8.5	7.3
Large loss events ²	(0.1)	0.8	3.3	-
Underwriting profit	6.2	4.8	3.2	6.0
Underlying NPAT	4.4	3.4	2.1	4.5
Key operating metrics				
Net incurred loss ratio	34.1%	35.2%	38.8%	31.5%
Loss ratio including large loss events	33.5%	39.0%	53.9%	31.5%
Policies outstanding	66,688	68,291	68,382	68,747

Notes:

1. Net incurred claims excludes claims handling expenses, which are included in management and sales expenses
2. Large loss events refers to events with cumulative claims cost greater than \$1m



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