2018 half year results

Tower Limited investor presentation

29 May 2018

Introduction

Michael Stiassny
Chairman

Transformation is driving growth

TOWER

Strong underlying performance through GWP growth and cost discipline

- Significant improvements achieved in policy and premium growth, claims control and management expense ratio
- Half year result impacted by one-offs: Peak Re settlement and severe weather events

Transformation of iconic NZ brand well underway

- Challenger brand positioning already delivering community and business benefits
- Decision made to invest in transformation to accelerate trajectory

Solid capital base and commitment to efficient capital management

- Tower's Board and management team remain strongly committed to paying dividends
- The Board intends to recommence dividends at the 2018 Full Year, subject to financial performance

First half performance overview

Richard Harding
Chief Executive Officer

Delivering strong underlying performance

TOWER

Strong growth offset by unprecedented frequency and severity of weather events

ACHIEVEMENTS

- ✓ Strong GWP growth of 15.6% achieved in core NZ portfolio
- ✓ Maintained claims discipline despite exceptional weather events
- ✓ Management expense ratio improvement
- ✓ New approach to pricing implemented
- ✓ 46% reduction in open Canterbury earthquake claims in the 12 months since 31 March 2017

Key metrics	H1 18	H1 17
Total GWP	**$161.0m**	$145.8m
GWP growth in core NZ portfolio[1]	**15.6%**	2.4%
Growth in policies in core NZ portfolio[1]	**9,634**	4,949
Claims expenses	**$74.4m**	$64.7m
Claims expense ratio	**55.5%**	51.0%
Claims expense ratio exc. severe weather	**50.6%**	47.0%
Management expense ratio	**38.9%**	40.8%
Underlying profit after tax[2]	**$7.3m**	$8.1m
Reported loss after tax[3]	**$11.6m**	$8.2m
Open Canterbury earthquake claims	**253**	474

1. Core portfolio is the NZ business and excludes ANZ legacy portfolio
2. "Underlying profit" does not have a standardised meaning prescribed by Generally Accepted Accounting Practice (GAAP) and may not be comparable to similar measures presented by other entities. While Tower has applied a consistent approach to measuring underlying profit in the current and comparative periods, it is not subject to audit or independent review. Tower uses underlying profit as an internal reporting measure as management believes it provides a better measure of Tower's underlying performance than reported profit, as it excludes large or non-recurring items that may obscure trends in the underlying performance of the Tower group. Tower considers that underlying profit is useful to investors as it makes it easier to compare the underlying financial performance of Tower between periods.
3. "Reported loss after tax" is calculated and presented in accordance with GAAP and is taken from Tower Limited's unaudited interim financial statements for the half-year ended 31 March 2018.

Focus on customers leads to growth

Core book growing as a result of digital growth and strong retention

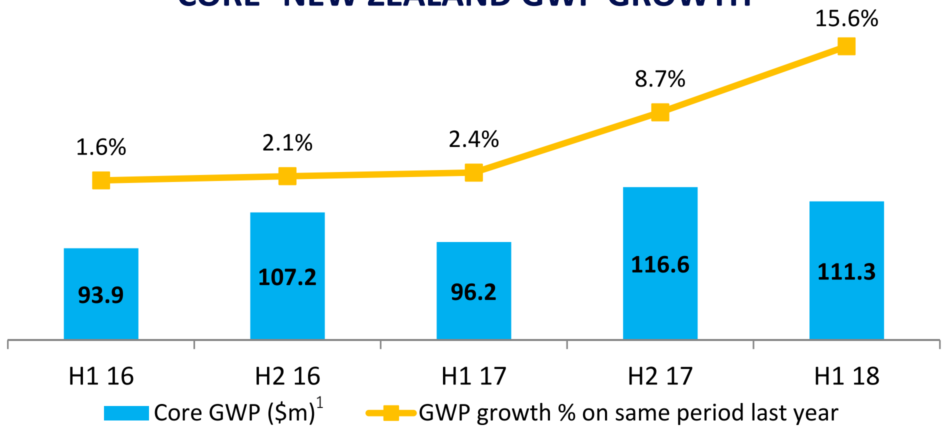
ACHIEVEMENTS

- ✓ Strong GWP growth of 15.6% in core book, due to a combination of pricing (10.0%) and volume growth (5.6%)
- ✓ Policy growth almost doubled on first half of FY17 in core NZ book
- ✓ New approach to pricing combined with simple and easy products driving impressive customer growth and improved mix
- ✓ Tower Direct retention levels remaining steady

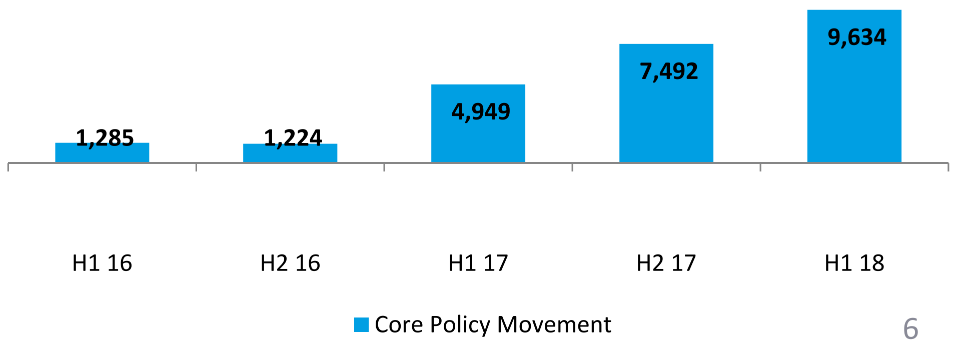
INVESTMENT WILL ACCELERATE TRAJECTORY

- Unique customer experience
- Leverage new and existing partnerships to drive retention
- Innovative new offerings delivered through partners

CORE[1] NEW ZEALAND GWP GROWTH



POLICY GROWTH IN CORE[1] NEW ZEALAND PORTFOLIO



1. Core portfolio is the NZ business and excludes ANZ legacy portfolio

Digital: a stand-out performer

Continued focus on digital capability and partnerships sees growth above industry norms achieved

ACHIEVEMENTS

✓ 39% of new business sales online in March 2018, compared to 24% in March 2017

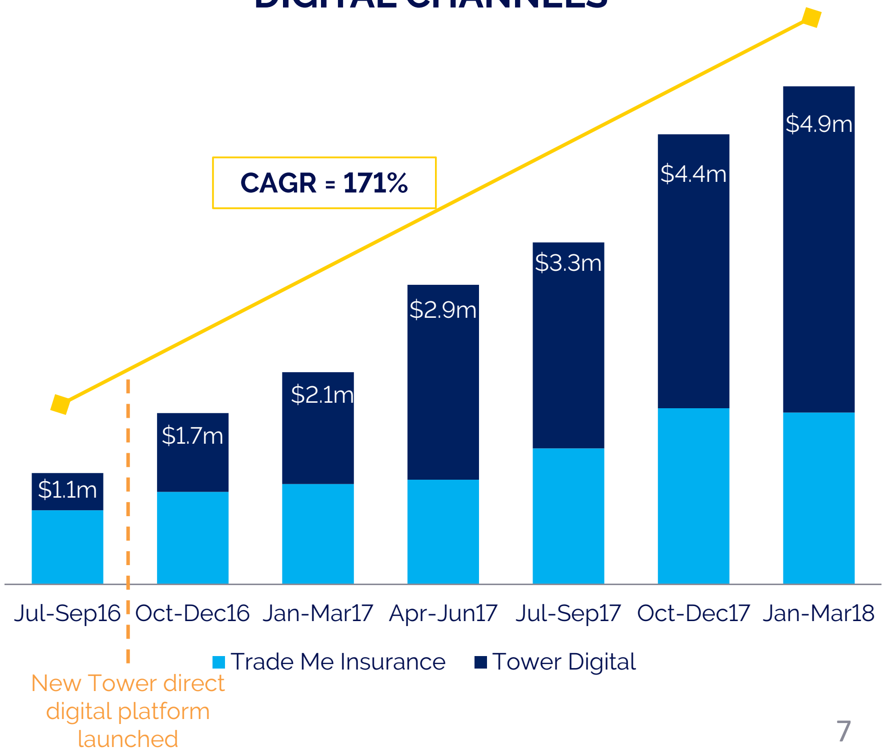
✓ Tailored, targeted insurance offers available for customers using digital channels

✓ Trade Me Insurance platform continues to contribute to positive result

INVESTMENT WILL ACCELERATE TRAJECTORY

- Online conversion rate optimisation and improvement
- Digital self-service, policy management and claims lodgement

QUARTERLY NEW BUSINESS GWP - DIGITAL CHANNELS



Claims and underwriting update

Improvements in pricing and underwriting is controlling claims costs despite industry wide inflation and severe weather

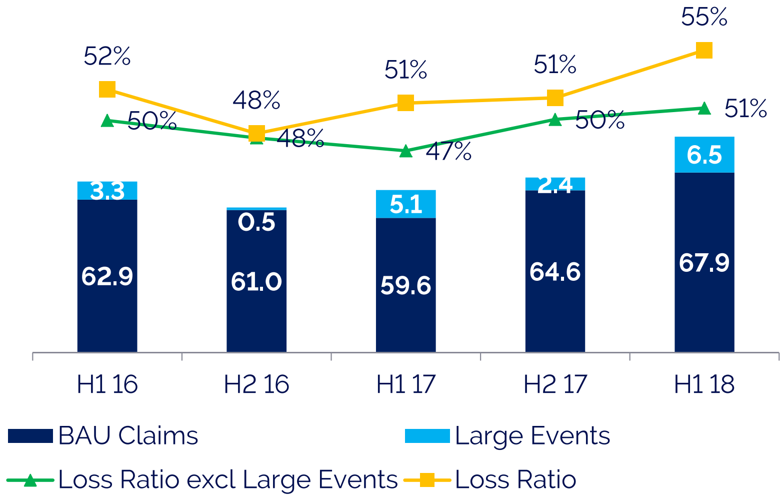
ACHIEVEMENTS

- ✓ New approach to weather events helps set things right for customers faster and more efficiently
- ✓ New approach to pricing enabling targeted underwriting and risk attraction
- ✓ Supply chain and preferred supplier initiatives continue delivering savings

INVESTMENT WILL ACCELERATE TRAJECTORY

- Sophisticated pricing and underwriting to offset claims inflation and improve long-term profitability
- Advanced rating algorithms and address based pricing
- Improved supply chain management and focus on fraud and claims leakage

TOWER CLAIMS EXPENSES ($m)



Note: Claims costs includes BAU and large storm events, but excludes Christchurch and Kaikoura movements

Severe weather and storm events

TOWER

Unprecedented frequency and severity of large weather events have resulted in impacts that already exceed full 2017 financial year

WEATHER EVENTS

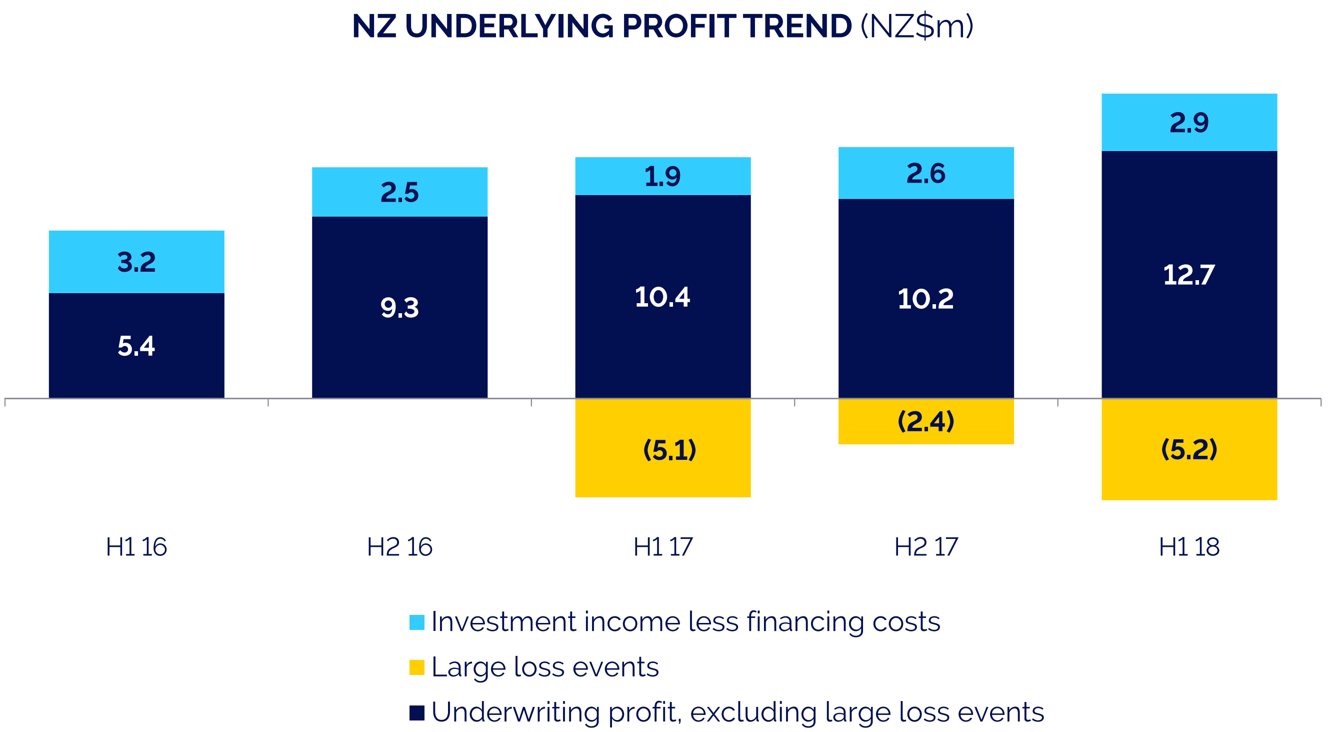
- FY17 was the worst year for weather impacts in 25 years and seven months into FY18, weather and storm impacts are already higher than the full prior year
- Industry experts reporting that these weather conditions are one-off
- Initial estimates of losses for April events is $9.0m, with a before-tax, and after reinsurance impact, expected to be around $3.8 million
- Tower expects its non-catastrophe aggregate reinsurance programme to be fully utilised this financial year
- Tower is currently pricing further aggregate reinsurance cover for the remaining 4 months of the year, to manage further volatility driven by multiple weather events

Event	Date	Incurred to Date	Ultimate Estimate + Risk Margin	Estimated Reinsurance Recoveries	Estimated Impact Net of Reinsurance
H1 18 Events					
NZ - New Year Storm	Jan-18	$1.4m	$1.8m	-	$1.8m
NZ - Ex-Cyclone Fehi	Feb-18	$2.6m	$3.7m	-	$3.7m
Pacific - Cyclone Gita	Feb-18	$4.0m	$7.7m	$6.2m	$1.5m
NZ - Ex-Cyclone Gita	Feb-18	$1.1m	$1.8m	$1.8m	-
Total Storms		**$9.1m**	**$15.0m**	**$8.0m**	**$7.0m**
H2 18 Events – impact not included in reported loss to 31 March 2018					
Auckland Storm	Apr-18	N/a	$7.2m	$5.0m	$2.2m
North Island Storm	Apr-18	N/a	$1.8m	$0.2m	$1.6m

Note: Estimated reinsurance recoveries includes amounts received under aggregate and proportional treaties

Underwriting profit growing

Transformation is driving improved underwriting profit



- Underwriting profit increased $2.3m vs. H1 17, before tax and excluding large loss events
- Improvements reflect:
  - new approach to pricing
  - actively targeting profitable market segments
  - better control of claims costs

Focus on costs

Cost saving initiatives delivering sustainable cost base

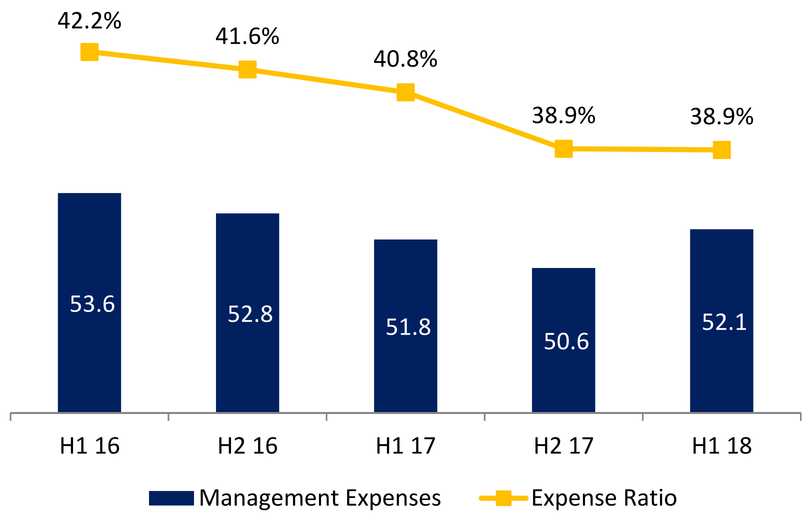
ACHIEVEMENTS

- ✓ Maintained focus on efficiency and productivity
- ✓ Investment made to deliver ongoing and sustainable cost management
- ✓ Continued review of existing supplier contracts and close management of all contract negotiations

INVESTMENT WILL ACCELERATE TRAJECTORY

- IT simplification will deliver significant productivity gains and step-change in expense reduction
- In shorter term, additional spend is required for legacy system stabilisation and changing compliance requirements

MANAGEMENT EXPENSE



Note: Management expenses include commission cost, depreciation and amortisation and excludes corporate transaction costs.

Financial performance

Jeff Wright
Chief Financial Officer

Financial performance

Business turnaround well underway, as evidenced by strong growth and contained expenses

GROUP PROFIT SUMMARY (NZ$m)

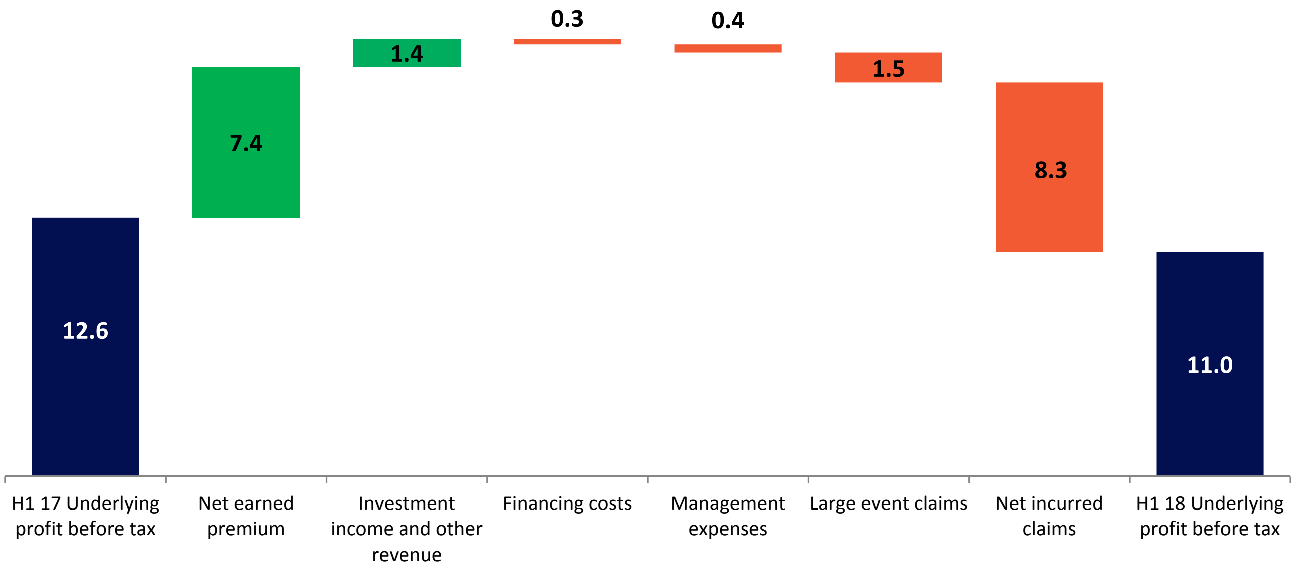
$ million	H1 18	H1 17
Gross written premium	161.0	145.8
Gross earned premium	159.6	150.5
Reinsurance costs	(25.5)	(23.8)
Net earned premium	**134.1**	**126.8**
Net claims expense	(67.9)	(59.6)
Large events	(6.5)	(5.1)
Management and sales expenses	(52.1)	(51.8)
Underwriting profit	**7.6**	**10.4**
Investment revenue and other revenue	3.8	2.4
Financing costs	(0.4)	(0.2)
Underlying profit before tax	11.0	12.6
Income tax expense	(3.7)	(4.5)
Underlying profit after tax	**7.3**	**8.1**
PeakRe settlement	(16.2)	0.0
Christchurch impact	(2.3)	(9.8)
Kaikoura impact	0.5	(7.2)
Corporate transaction costs	(0.2)	(1.0)
Revaluation of PacificRe	(0.7)	0.0
Business in runoff	0.0	1.7
Reported loss after tax	**(11.6)**	**(8.2)**
Key ratios		
Loss ratio	55.5%	51.0%
Expense ratio	38.9%	40.8%
Combined ratio	94.3%	91.8%

- Significant growth in GWP of $15.2m
- Underlying profit of $7.3m after tax, was affected by severe and unprecedented storm activity
  - A $15.0m gross loss due to storms was reduced to $7.0m by reinsurance
- Reported loss of $11.6m after tax driven by
  - $16.2m after-tax impact from resolution of Peak Re dispute
- Canterbury provisions continue to stabilise with $2.3m impact in first half

Movement in underlying profit

Growth in premiums and stable management expenses offset by weather events and large claims in the Pacific

MOVEMENT IN UNDERLYING PROFIT BEFORE TAX (NZ$m)



- Net earned premium higher due to growth in core book and new approach to pricing
- Improved investment income a result of increased balances
- Management expenses continue to be contained
- Increase in net incurred claims reflective of severe weather, a number of large house fires and large claims in the Pacific

Premium remains stable across Pacific

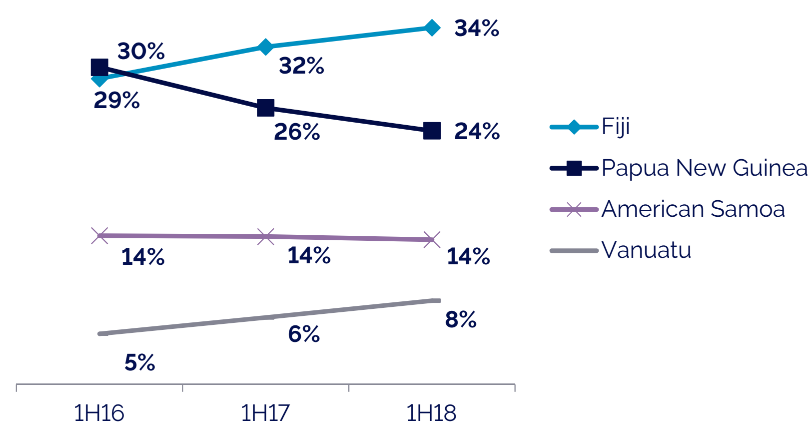
Pacific business impacted by large commercial claims and Cyclone Gita

PACIFIC PROFIT SUMMARY (NZ$m)

$ million	H1 18	H1 17
Gross written premium	27.8	28.3
Gross earned premium	28.1	28.4
Reinsurance costs	(7.5)	(7.6)
Net earned premium	**20.7**	**20.8**
Net claims expense	(9.8)	(7.0)
Large events	(1.3)	0.0
Management and sales expenses	(8.7)	(7.4)
Underwriting profit	**0.9**	**6.4**
Investment revenue and other revenue	0.4	0.3
Underlying profit before tax	1.3	6.7
Income tax expense	(1.0)	(2.3)
Underlying profit after tax	**0.2**	**4.4**

- Underlying result reflects changing country mix, a number of large claims, Cyclone Gita, and investment in a new Pacific hub

MIX OF PACIFIC REVENUE – TOP FOUR COUNTRIES

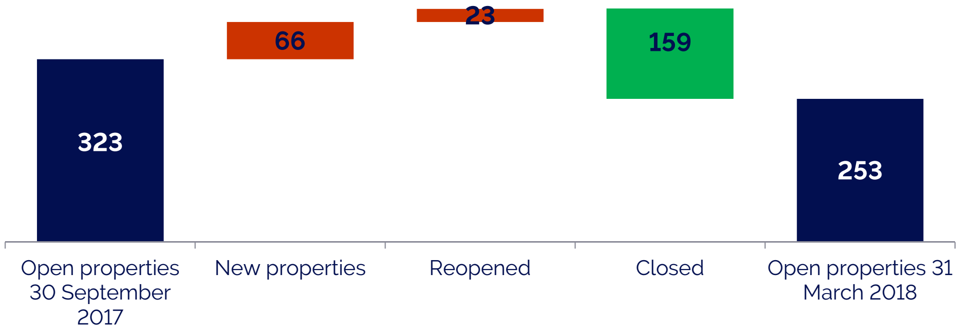


- Growth in Fiji and Vanuatu offset by softening market and tightened approach to risk in Papua New Guinea

Canterbury update

Solid progress continues to be made towards finalising Canterbury earthquake legacy

MOVEMENT IN PROPERTIES



RESERVING UPDATE

(NZ$m)	Mar-18	% of case estimates[2]	Sep-17	% of case estimates[2]	Mar-17	% of case estimates[2]	Sep-16	% of case estimates[2]
Case estimates	48.0		58.9		73.9		93.2	
IBNR/IBNER[1]	22.0		34.4		47.4		44.0	
Risk margin	10.8		13.9		18.2		11.9	
Additional risk margin	10.0		10.0		-		-	
Combined IBNR/IBNER/risk margin	42.8	89%	58.3	99%	65.6	89%	55.9	60%
Gross outstanding claims	**90.8**		**117.2**		**139.5**		**149.1**	

- Gross ultimate claims increased $0.7m
- Case estimates almost halved and risk margin significantly increased since September 2016
- Number of open Canterbury Earthquake claims reduced by 70
- 253 claims remain open
  - 51 claims currently under litigation
  - 35 "Protocol 1" claims[3]
  - 167 claims moving towards settlement
- Decision made to close Christchurch office at conclusion of Canterbury Earthquake recovery programme

Notes:
1. IBNR / IBNER includes claims handling expenses
2. Ratio of IBNR / IBNER plus risk margin to case estimates
3. Protocol 1 claims are where EQC are managing repairs yet the total cost is over the EQC cap.

EQC receivables

Tower continues to progress recovery programme and remains confident in its position

- EQC receivables are fundamentally different to Peak Re, which was a single issue with a binary outcome and recorded at 100% in financial statements
- EQC receivables has multiple dimensions, with alternative causes of action
- The value of EQC receivables recorded in financial statements is actuarially valued at $66.9m, significantly less than Tower's estimates of the total amount due
- If $66.9m is received from EQC, $18.5m will be payable to reinsurers
- Resolution is unlikely to be a single event and will possibly occur over a number of years
- Proceedings against EQC have been issued in regards to a subset of land claims, with a court hearing expected in early 2019
- Tower continues applying significant resources to the EQC recovery program and based on legal advice to date remains confident in its position

LAND $13.5M

COMPONENTS

- Land remediation
- Foundation repair

PROGRESS

- Recovery action commenced on a subset of land
- Further litigation expected

RECOVERY OPTIONS

- Litigation
- Negotiated settlement

BUILDING $53.4M

COMPONENTS

- Apportionment of EQC liability for a variety of case types

PROGRESS

- Significant resources dedicated to building recovery programme
- Discussions with EQC commenced and Alternative Dispute Resolution (ADR) process commenced
- Litigation will be pursued if outcome is not reached through ADR

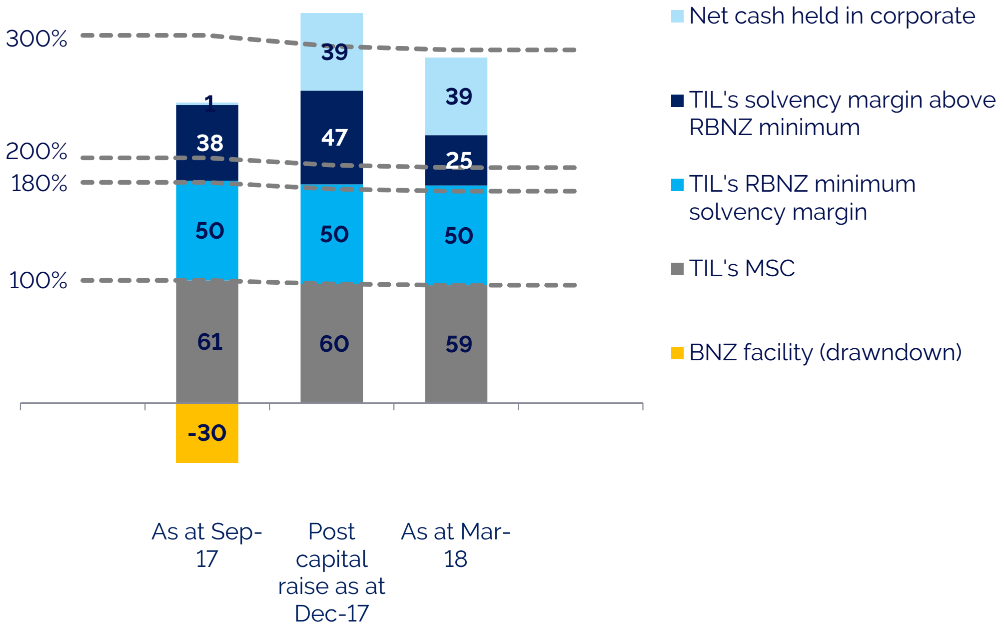
RECOVERY OPTIONS

- Alternative dispute resolution
- Negotiated settlement
- Litigation

Strong capital and solvency position

Capital base allows investment in transformation

TOWER INSURANCE LIMITED SOLVENCY POSITION PLUS CORPORATE CASH ($m)



CAPITAL RAISE COMPLETED

- Capital raise successfully completed with over 88% of shareholders taking up rights
- Strong capital base allows investment in future and acceleration of transformation into a challenger brand

STRONG CAPITAL POSITION

- $75m of solvency margin held in Tower Insurance Limited (TIL); $25m above RBNZ requirements
- Additional $39m of cash held in Tower Limited's corporate entities
- As at 31 March, the combination of TIL's solvency margin and corporate cash were $114m above TIL's minimum solvency capital, equivalent to 294% of MSC

Strategy and outlook

Richard Harding
Chief Executive Officer

Clear strategic plan to grow Tower as the leading digital challenger brand

TOWER Insurance

Traditional insurance

- Product and price transparency
- Simplification of policies and processes
- Underwriting refinement and capability build
- Claims process efficiency
- IT refresh, security, and regulatory requirements

Digital distribution

- Digital self-service and engagement tools
- Partnerships through extended ecosystem
- Pacific operating model & growth plan
- Product and underwriting experimentation
- Data-driven insights for risk and decision-making

Customer experience

- Setting it right at the moment of truth
- Predictive modelling and data analytics
- Simple and easy underwriting and claims experiences
- Automation and technology to accelerate claims
- Sophisticated pricing and risk understanding

Challenger brand

- Personalised price, cover, and service
- Power to choose when and how to pay
- Community of loyalists and vocal advocates
- Innovative leadership (i.e. instant claims)
- Challenger culture, capability, and leadership

Solid foundations in place

To achieve high performance, investment is required

Transformation is accelerating momentum

TOWER

Transforming all aspects of our business is delivering improved results and creating a unique offering for customers

SIGNIFICANT BENEFITS

- ✓ Simple, customer focussed products
- ✓ Easy product experimentation and development
- ✓ Granular, automated pricing and underwriting
- ✓ Improved access and use of internal and external data
- ✓ Improved claims management
- ✓ Significant operational efficiencies and reduced costs
- ✓ Highly engaged employee group

MEDIUM TERM TARGETS

Challenger brand delivering:

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

IT simplification enables transformation

Decision made to invest $33.5m to accelerate transformation, with amortisation in line with current levels

1 NEW CORE PLATFORM – APPROXIMATELY $24m

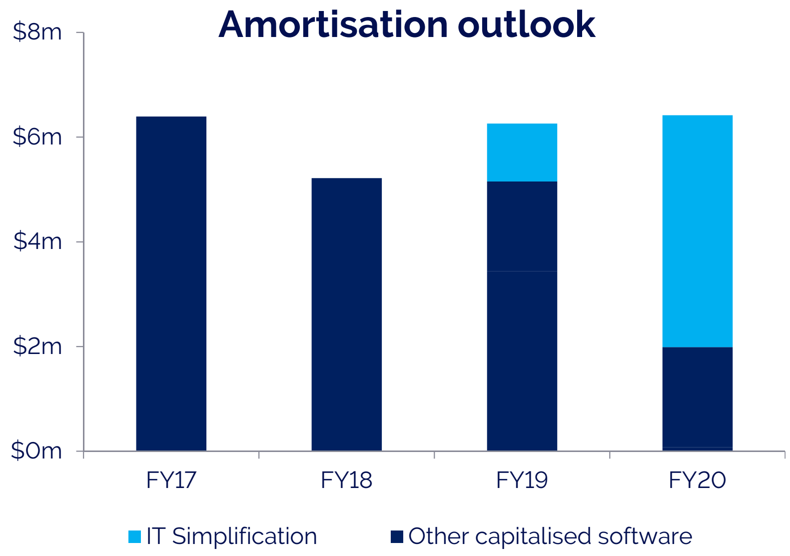
- ✓ Flexible, modern, integrated core insurance platform that will deliver the capability to drive and accelerate change
- ✓ New business to go live on new platform in first half of 2019 calendar year, with product rationalisation and customer migration in the following 12 months
- ✓ Platform will allow improved use of internal and external data, enabling targeted and granular pricing

2 DIGITAL TRANSFORMATION – APPROXIMATELY $6m

- ✓ Full digital integration will enable a truly self service, omni-channel offering for customers
- ✓ Online claims lodgement, tracking and management will revolutionise the way customers manage their claim
- ✓ Ability to offer specialised and targeted offers to highly profitable customer segments based on individual needs and wants

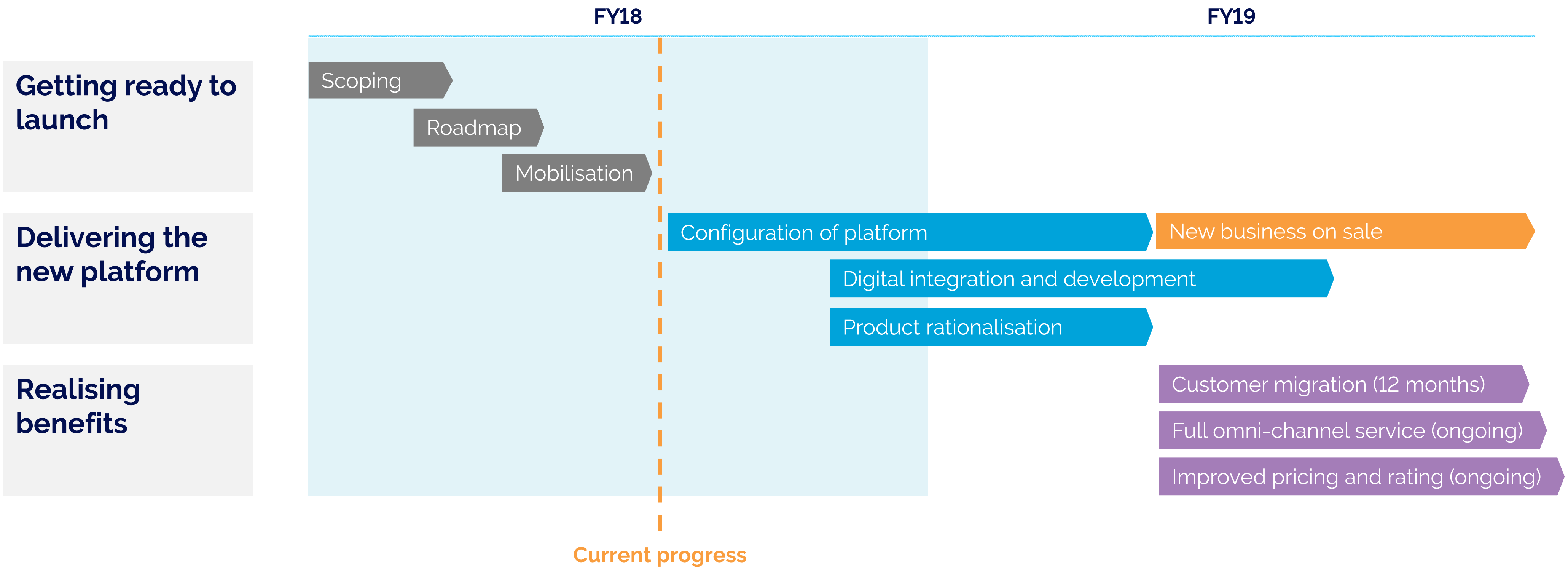
3 ADDITIONAL OPERATIONAL INVESTMENT – APPROXIMATELY $3.5m

- ✓ Improved business processes and systems delivering significant efficiencies and enabling dynamic and flexible workforce
- ✓ Simpler, improved customer communications management system to support and enhance unique experience



Implementation plan

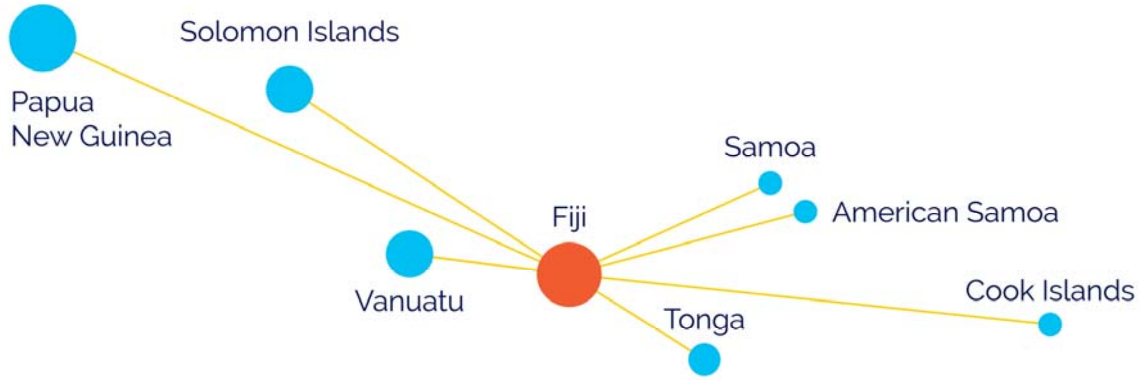
Staged implementation to protect and enhance value



Driving growth and quality in the Pacific

A new operating model to better meet the needs of our customers, drive sales growth and realise potential

- NZ based manufacturer to leverage underwriting, data and pricing capability and experience
- Local distribution teams to maximise individual relationships and local area knowledge
- Centralised Pacific hub to process high volume transactions enabling local teams to focus on growth and retention initiatives
- Improved underwriting, compliance, pricing and product optimisation will ensure long-term sustainability



Tower outlook for FY18

TOWER

Accelerate brand transformation and develop unique customer experience	• Ongoing development and delivery of unique customer value proposition • Brand transformation activity to enable Tower's transition into challenger brand territory • Continued improvement of digital channels to improve acquisition and conversion
Expect continuing gross written premium growth in NZ core book	• Risk based pricing will deliver equitable pricing and continue driving growth • Current marketing activity resulting in strong lead enquiry • Positive momentum in digital distribution channel • Continued pricing and product refinement to offset claims inflation and improve profitability
Claims expenses to be controlled	• Industry wide claims inflation expected to be offset by product updates, targeted rate/pricing changes and supply chain initiatives • Aggregate reinsurance cover fully utilised. • Tower is currently pricing further aggregate reinsurance cover for the remaining 4 months of the year, to manage further volatility driven by multiple weather events
Management expenses maintained	• Maintain current expense level • Investment is being made to deliver IT change and growth
Pacific offers significant potential	• New operating model to improve risk management and underwriting discipline in key Pacific markets • Repricing of portfolios to improve profitability
Investment in simplification will accelerate improvements in FY19 and beyond	• Significant management focus will go into IT simplification and EIS implementation in FY18 • Step-change in expense reduction and productivity gains to be realised following implementation of new technology systems which is expected to yield benefits from FY19

Appendices

New Zealand business improving

Improvements in key focus areas offset by storm activity and large events

NEW ZEALAND PROFIT SUMMARY (NZ$m)

$ million	H1 18	H1 17
Gross written premium	133.2	117.5
Gross earned premium	131.5	122.2
Reinsurance costs	(18.0)	(16.2)
Net earned premium	**113.5**	**106.0**
Net claims expense	(58.0)	(52.6)
Large events	(5.2)	(5.1)
Management and sales expenses	(42.8)	(42.9)
Underwriting profit	**7.5**	**5.3**
Investment revenue and other revenue	2.9	1.9
Underlying profit before tax	10.4	7.3
Income tax expense	(2.8)	(2.6)
Underlying profit after tax	**7.6**	**4.7**

- Improvements in underlying business offset by natural events
- Increase in GWP on back of new pricing approach, customer growth and retention initiatives
- Claims costs increase due to unusually large number of weather events and industry wide inflation
- Management expenses contained

Balance sheet
Tower Group

$ million	31 March 18	30 September 17	Movement $	Movement %
Cash & call deposits	142.6	102.9	39.8	38.6%
Investment assets	157.3	167.9	(10.7)	(6.4%)
Deferred acquisition costs	21.2	21.0	0.2	1.1%
Intangible assets	31.6	31.3	0.2	0.8%
Other operational assets	310.3	334.1	(23.8)	(7.1%)
Total assets	**662.9**	**657.2**	**5.7**	**0.9%**
Policy liabilities & insurance provisions	320.2	336.0	(15.8)	(4.7%)
External debt	0.0	29.9	(29.9)	100.0%
Other operational liabilities	74.7	75.5	(0.8)	(1.0%)
Total liabilities	**394.9**	**441.4**	**(46.5)**	**(10.5%)**
Total equity	**268.0**	**215.7**	**52.3**	**24.2%**

Reconciliation between underlying profit after tax and net profit after tax

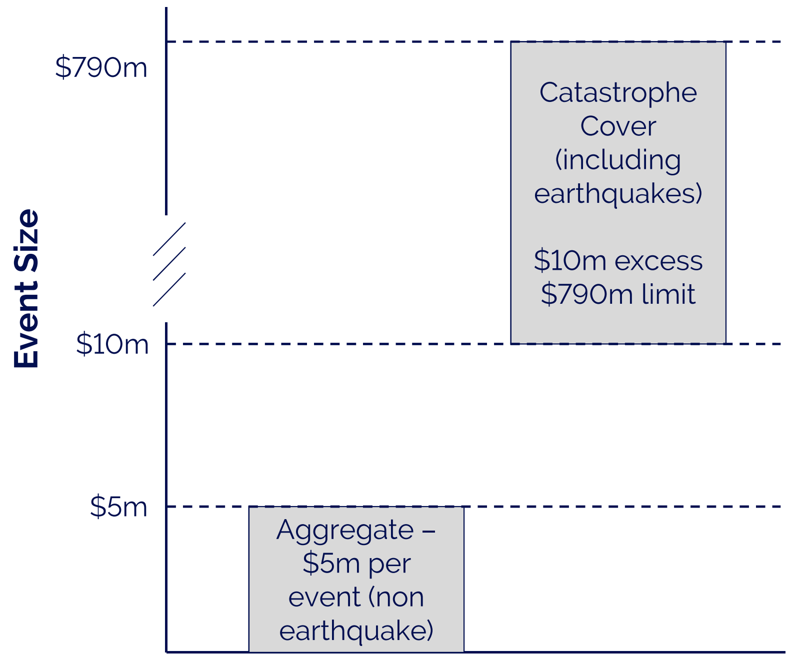
$ million	1H 18 underlying profit	Non-underlying items (1)	Claims handling expenses (2)	Other items (3)	1H 18 reported profit
Gross written premium	161.0				161.0
Gross earned premium	159.6				159.6
Reinsurance costs	(25.5)				(25.5)
Net earned premium	**134.1**				**134.1**
Net claims expense	(74.4)	(2.4)	(12.1)		(88.9)
Management and sales expenses	(52.1)	(0.3)	12.1	(1.3)	(41.7)
Impairment of reinsurance receivables	0.0	(22.5)			(22.5)
Underwriting profit	**7.6**	**(25.3)**	**0.0**	**(1.3)**	**(19.0)**
Investment revenue and other revenue	3.8	(0.7)		1.3	4.4
Financing costs	(0.4)				(0.4)
Underlying profit before tax	11.0	(26.0)	0.0	0.0	(15.0)
Income tax expense	(3.7)	7.1			3.4
Underlying profit after tax	**7.3**	**(18.9)**	**0.0**	**0.0**	
PeakRe settlement	(16.2)	16.2			
Christchurch impact	(2.3)	2.3			
Kaikoura impact	0.5	(0.5)			
Corporate transaction costs	(0.2)	0.2			
Revaluation of PacificRe	(0.7)	0.7			
Reported loss after tax	**(11.6)**	**0.0**	**0.0**	**0.0**	**(11.6)**

1. Non-underlying items are shown separately in Tower's management reporting, yet included within 'net claims expense', 'management and sales expenses' and 'tax expense' (depending on the nature of the item) in the financial statements.
2. In Tower's management reporting, claims handling expenses are reported within 'management and sales expenses'. In the financial statements, claims handling expenses are reclassified to 'net claims expense'.
3. Certain items of revenue are netted off 'management and sales expenses' in Tower's management reporting, and are reclassified to 'other revenue' in the financial statements. This primarily relates to commission received by Tower.

Reinsurance structure overview

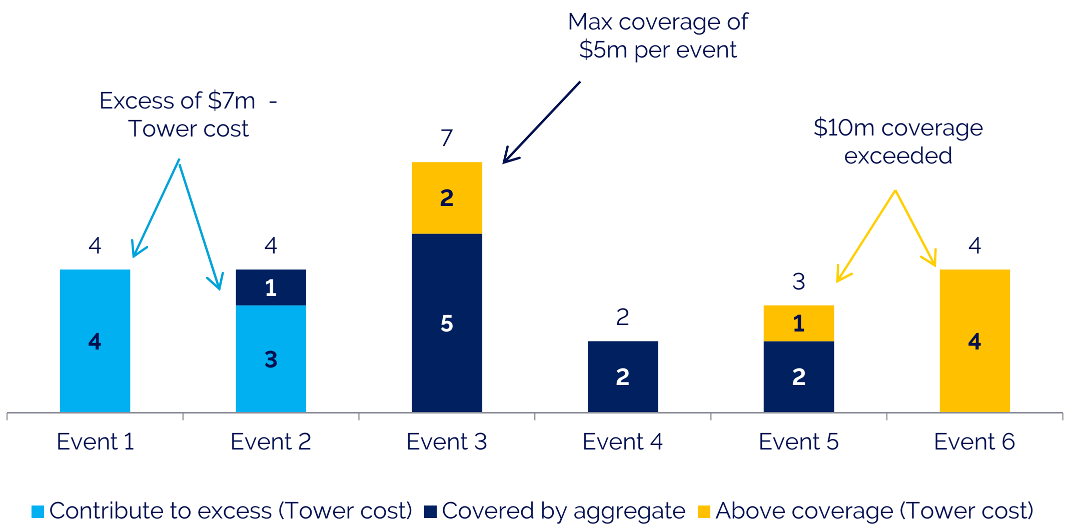
The excess on the aggregate cover has increased to $7m and the limit on catastrophe cover increased to $790m

STRUCTURE OVERVIEW (per event)



AGGREGATE COVER OVERVIEW FOR FY18

- Minimum event size of $1m to qualify, max of $5m per event coverage
- $10m cover once $7m excess filled
- No coverage for earthquake in New Zealand



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