2018 annual results

28 November 2018
Tower Limited

Michael Stiassny
Chairman

Richard Harding
Chief Executive Officer

Jeff Wright
Chief Financial Officer

Chairman's update

Transformation of iconic NZ brand is driving growth

- Strategic focus on customers is delivering strong growth
- Implementation of leading technology will accelerate growth
- Reported result reflects impacts of Peak Re settlement, severe weather and Canterbury Earthquake provisions

Consumer trust and confidence has never been more important

- Australian banking Royal Commission has shone a spotlight on financial services conduct
- Tower's high customer trust is driven by an ethical and transparent approach to change
- Tower is a New Zealand listed company with strong ethical business practices and independent from any Australian owner

2018 financial year achievements

Richard Harding
Chief Executive Officer

2018 performance

TOWER

Strong growth achieved

- ☑ Significant NZ growth
- ☑ Strong digital sales continue
- ☑ Pacific remediation has positioned us for future growth
- ☑ Moved to risk-based pricing for all New Zealanders

Increases to claims costs

- ☐ Pacific claims ratio significantly impacted by severe weather
- ☐ FY18 loss ratio impacted by development of prior year claims
- ☐ NZ claims ratio impacted by industry wide inflation
- ☑ Reinsurance secured on favourable terms to reduce impacts

Other achievements

- ☑ Management expense ratio reduced
- ☑ Major technology upgrade on track
- ☑ Continued resolution of Canterbury Earthquake claims

Key metrics	FY18	FY17
Gross written premium (GWP)	$336m	$312m
Growth in GWP	7.6%	3.0%
Growth in GWP in core[1] NZ portfolio	11.9%	6.0%
Increase in risks[2] in core NZ portfolio	18,192	11,410
Claims expenses	$152m	$132m
Claims expense ratio	56.4%	51.2%
Open Canterbury earthquake claims	163	323
Management expense ratio	39.0%	39.9%
Underlying profit after tax	$13.6m	$18.0m
Reported loss after tax	$6.7m	$8.0m

1. Following the end to Tower's distribution relationship with Kiwibank on 4 April 2018, the 'core' portfolio now refers to the NZ business excluding the ANZ Bank and Kiwibank portfolios. The FY17 comparative has been restated to be consistent with this approach.
2. In prior years Tower has reported volumes using policy numbers as the relevant metric. Tower has changed to using risk numbers as the key metric in FY18 to align with internal management reporting and to better illustrate risk exposures, e.g., where one policy might cover several risks.

More customers choosing Tower

- **11.9% GWP growth in core NZ book**
- **Total GWP has grown 7.6% through higher volumes and improved rating**

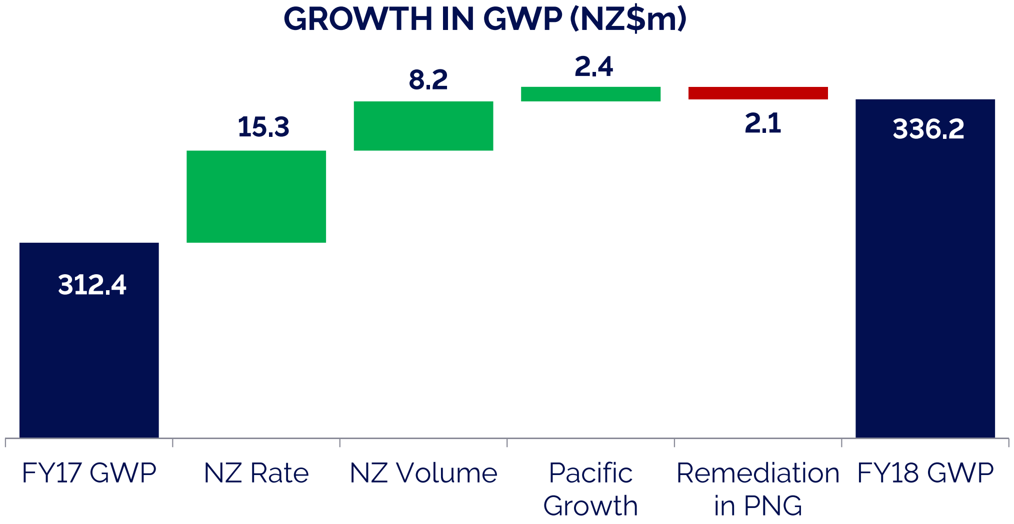
✓ GWP growth is across all NZ products:

- NZ House has grown 14% in FY18
- NZ Contents is up 2% in FY18
- NZ Motor has grown 12% in FY18

✓ Growth driven through a combination of volume and rating changes as well as changing mix of business

✓ Reduced GWP in Papua New Guinea reflects deliberate strategy to reduce risk

Improved targeting and pricing is attracting more profitable customers



Change in risk counts	FY16	FY17	FY18
Core NZ	(14)	11,410	18,192
Non-core NZ (ANZ + Kiwibank)	(8,848)	(8,031)	(9,018)
Total NZ	(8,862)	3,379	9,174

Digital leads the way

- **GWP from digital channels has grown at CAGR of 133% over past 3 years**
- **Digital channels now contribute 45% of new business**

✓ Digital sales increased to 45% of new business in September 2018, up from less than 10% during FY16

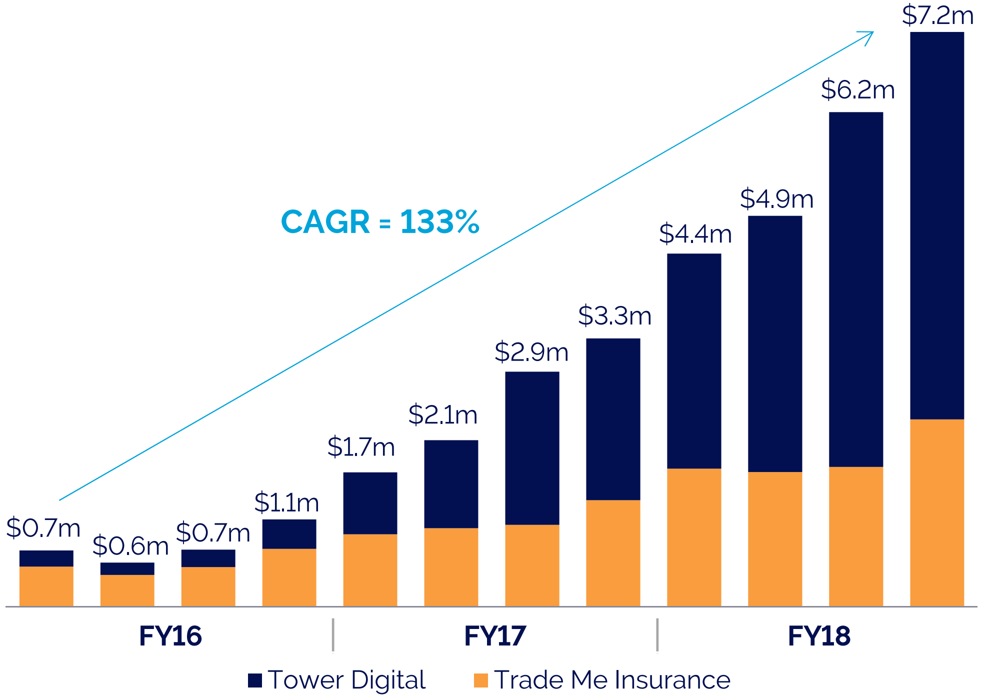
✓ Online conversion rates 26% better in FY18, relative to prior year

✓ New website launched with continued improvement in organic search rankings

✓ Continued investment in digital capability by shifting to agile operating model to enable rapid ongoing optimisation of channel

The digital offering is attracting more customers with a lower cost to acquire, and we continue to target an industry leading goal of 50 - 70% of all transactions online

GWP BY QUARTER THROUGH DIGITAL CHANNELS (NZ$m)



Pacific set for growth

- **Pacific remediation continuing to position us for future growth**
- **Growing the Pacific business profitably is a key component of Tower's strategy**

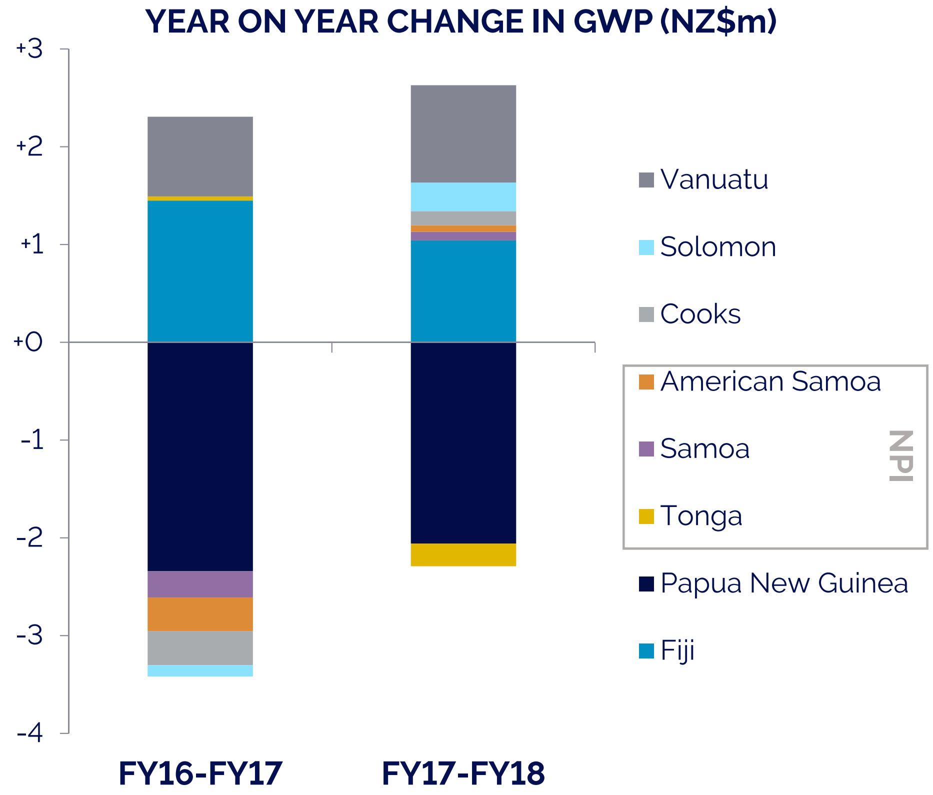
- Until FY18, the Pacific had been a significant contributor to Tower's performance

✓ Samoa, American Samoa and the Solomon and Cook Islands have returned to revenue growth in FY18, with Tonga heavily impacted by Cyclone Gita

✓ Over the past year, we have been remediating Papua New Guinea portfolio to:
  - Reduce risk
  - Improve customer outcomes
  - Increase profitability

✓ Created new Pacific operations centre to:
  - Centralise back office functions, improving cost and risk management
  - Co-ordinate approach to local-market product development

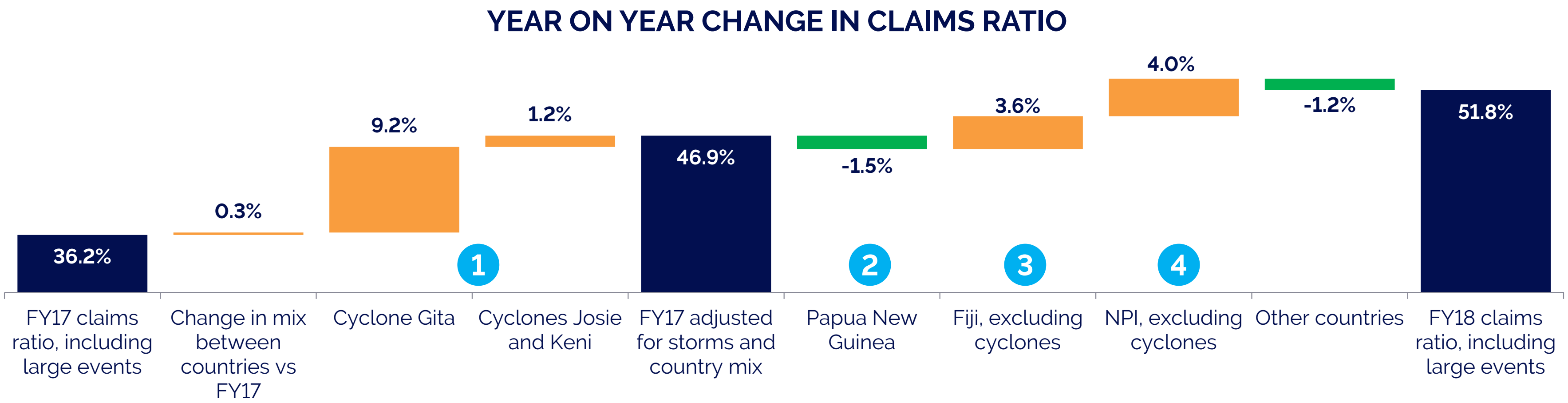
We are confident that Pacific will make a significant contribution in the future



Note: National Pacific Insurance (NPI) is a subsidiary of Tower and operates across Samoa, American Samoa and Tonga

Pacific claims expenses

- **Cyclones Gita, Josie and Keni drove significant increases**
- **Action taken to address claims escalation**



1. Cyclone Gita impacted National Pacific Insurance (NPI) and Josie and Keni impacted Fiji which has contributed significantly to increases in Pacific claims costs. We are utilising reinsurance, continually refining our product offering and pricing in response to weather impacts as well as working with the Cyclone Testing Agency to improve building standards in the Pacific.

2. Remediation of PNG book is delivering improved claims outcomes, supporting sustainable future growth

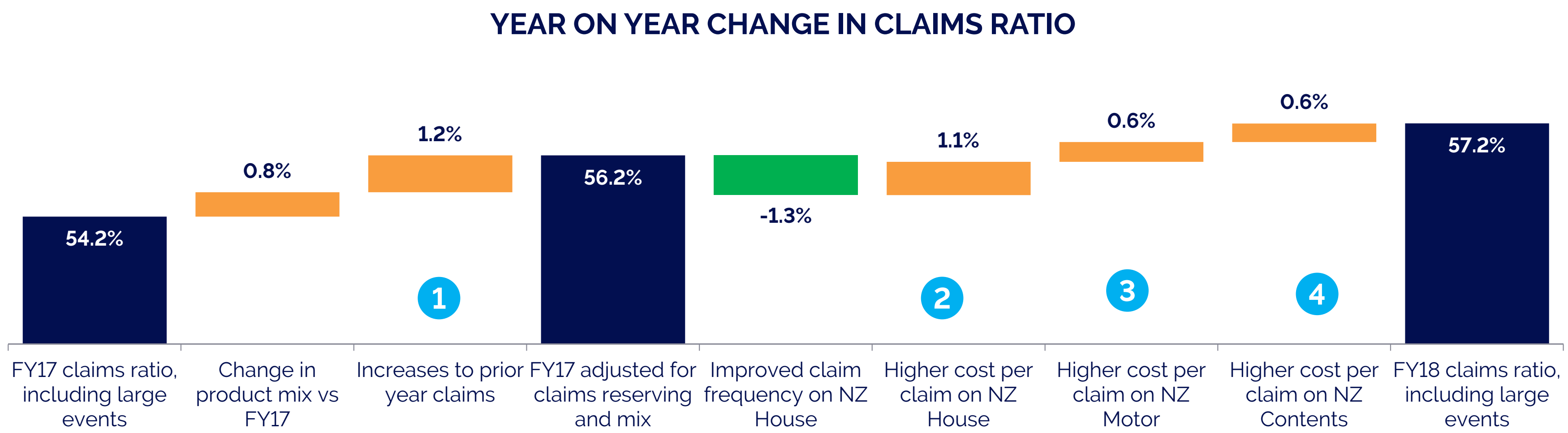
3. Growth in Fiji claims expenses mostly driven by motor claims inflation which has been addressed through pricing and underwriting criteria

4. NPI claims increases relate to 3 large commercial fires. This number of fires is higher than average, however is a normal part of the volatility in a small portfolio and is being managed through improved underwriting criteria

Note: Pricing changes include increases for Fiji Motor, and moving under-priced PNG Commercial Fire to standard rates. Underwriting improvements include the establishment of a centralised Pacific Underwriting team and refined underwriting guidelines for new business and renewals.

New Zealand claims expenses

- **Claims challenges are being well managed**
- **Some claims inflation continued into 2018**



1. Reserving model used in FY17 didn't respond well during the claims backlog we experienced due to storms, understating expected development of claims in FY17. We have updated reserving methodology accordingly
2. Higher cost per claim in NZ House driven by large house fires and increased industry wide Health & Safety requirements that are being addressed through pricing and product changes, and underwriting
3. Higher cost per claim in NZ Motor portfolio has been addressed through pricing changes
4. Inflationary impacts in NZ Contents portfolio are being addressed through pricing and underwriting changes

Note: Pricing changes include increases for higher risk homes, asbestos, higher risk drivers, as well as more granular rating for vehicle categories. Ongoing underwriting improvements include refinements to risk selection criteria and meth contamination policy limits.

Severe weather events

- **Severe and unprecedented weather drove increased claims expense in both FY17 and FY18**
- **Losses in past two years significantly above long term trends**

✓ Severe weather event impacts in FY17 totalled $15.5 million before reinsurance. Impacts in FY18 reached a gross amount of $20.1 million, well above both the 10 year average of $7.6 million, and the five year average of $11.3 million

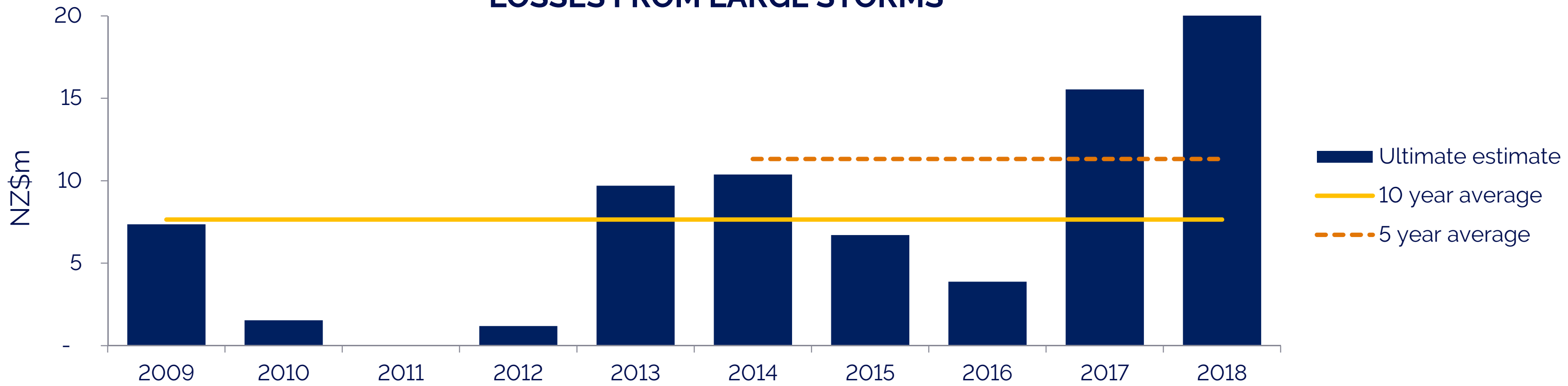
✓ Experts[1] are reporting that recent weather has been extraordinary and that weather patterns are likely to revert closer to longer term trends

✓ Reinsurance programme changed to reduce volatility from large events in FY19

✓ Pricing changes and improvements to supply-chain process will help to offset claims cost inflation

✓ Specialist team dedicated to fast and fair settlements to set things right for customers

LOSSES FROM LARGE STORMS[2]



Number of events:	2	1	0	1	3	3	2	1	5	7

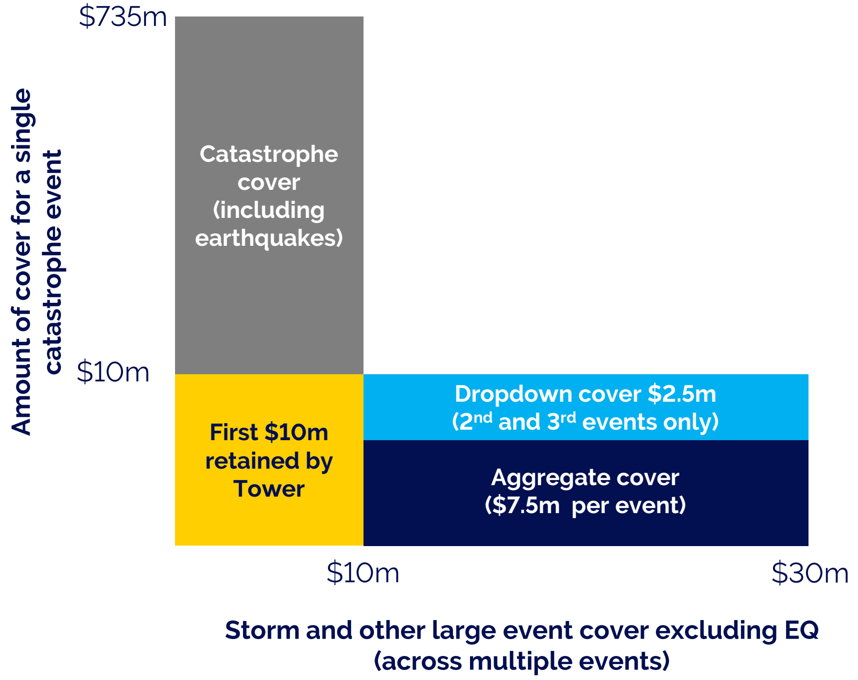
1. Source: NIWA Special Climate Statement - record warmth in the Tasman Sea, New Zealand and Tasmania
2. Includes only those events which individually have a >$1m impact to Tower, and is stated before reinsurance recoveries.

Reducing claims volatility

- **Reinsurance structure will reduce volatility from exposure to large events**
- **FY19 reinsurance secured on favourable terms**

- Increased aggregate cover to $20m, from $10m, with excess increased to $10m from $7m
- Increased cover for single large event to $7.5m, from $5m, once excess of $10m used
- $2.5m drop-down cover to help bridge gap between aggregate cover and catastrophe cover
- Reinsurance expense ratio expected to improve in FY19

HIGH-LEVEL REINSURANCE STRUCTURE OVERVIEW



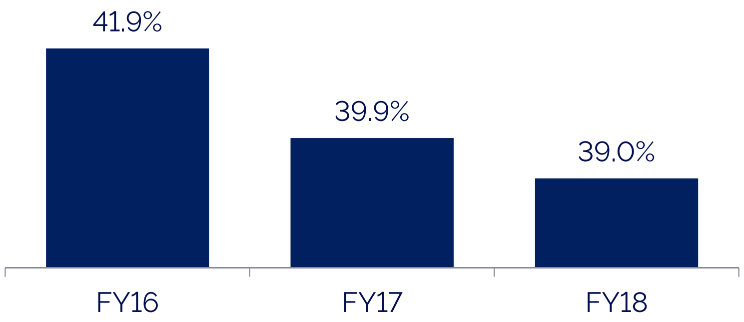
Note: Detailed reinsurance structure overview available on page 34

Building capability while controlling costs

- **Management expense ratio continues to improve**
- **Additional spend directed towards growth, building capability and reducing risk**

- Tower has achieved a significant capability lift with a lower expense ratio thanks to close management of costs
- Increased capability in the following areas:
  - Pricing and underwriting
  - Technology and digital
  - Data lake and data scientists
  - Claims management
  - Procurement
  - Customer insights
- In addition, the management expense ratio of 39.0%, includes incremental investment of:
  - $1.0m to reduce cyber security risks
  - $1.2m on acquisition, including partnerships and marketing
  - $0.7m on ancillary IT system refresh

GROUP MANAGEMENT EXPENSE RATIO[1]



1. For management reporting Tower includes claims handling expenses in Management Expense Ratio

Continued focus on expenses will enable achievement of long term MER target of <35%

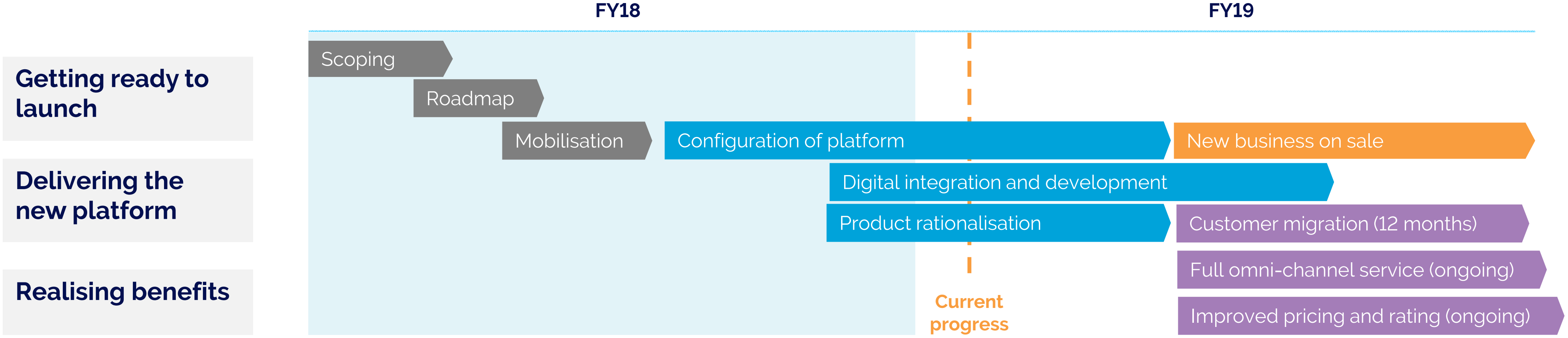
Major tech upgrade progressing well

Programme delivery on track

- Full replacement of our core platform with investment in leading technology announced in May 2018
- Progress to date is in line with expectations, with new business to be on sale on new platform from mid 2019
- Halfway through programme and now approaching most complex part, however due to strong methodology and governance we are confident delivery will be achieved within expected timeframes
- End-to-end digital integration and transformation will drive growth and reduce cost

Further significant foundational technology achievements

- Replacement of ancillary legacy system server delivered, resulting in annual savings of $1.3m going forward
- Creation of data lake and implementation of new data platform complete
- We are also upgrading other IT infrastructure and processes to 'fit-for-purpose' digital and technology systems



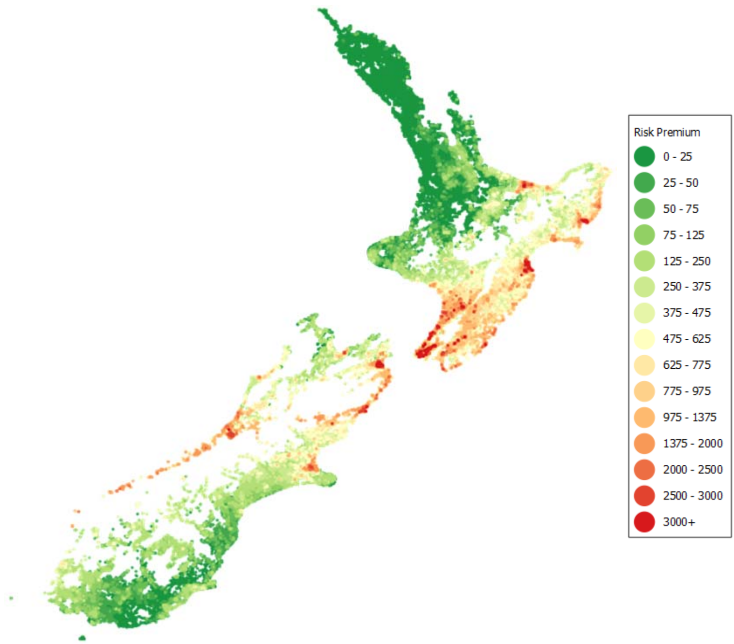
Experience with new platform confirms assumptions and is enabling transformation

Enhanced risk pricing

- **17% reduction in extreme risk house policies**
- **Earthquake risk-based pricing already delivering shareholder value**

- Address specific data means customers now fairly pay the true cost of the earthquake risk they face
- We believe risk-based pricing is the right thing to do for New Zealand
- Portfolio being built for long-term growth and profitability
- Our approach to pricing and underwriting Wellington earthquake has already reduced the amount of reinsurance required by $35m due to reductions in exposure.
- We have seen an annualised 17% reduction in extreme risk house policies and 4% growth in larger low risk areas like Auckland
- Risk based pricing will result in lower risk profile for Tower, resulting in even lower earthquake exposure, long term profitability and ultimately lower reinsurance costs

Work has begun on risk-based pricing for flood, wind and storm, which will deliver long-term benefits



Earthquake risk premiums for a rebuild value of $500k

Canterbury earthquakes

- **Continued progress with 318 claims closed in FY18**
- **Uncertainty continues to reduce**

- Settlement of **Peak Re** dispute achieved in first half
- Tower is actively engaging with **EQC** in relation to recoveries and remain confident of our position.
- Canterbury Earthquake claims continue to reduce at a solid pace, with over 300 closed for the year, bringing the total remaining to 163
- New overcaps have reduced in the second half with additional data provided by EQC providing greater foresight
- There continues to be challenges with some of the more complex outstanding claims, but these are being closely managed
- We expect the majority of non-litigated claims to be closed out in FY19

MOVEMENT IN PROPERTIES

Financial performance

Jeff Wright
Chief Financial Officer

Financial performance
Consolidated Group

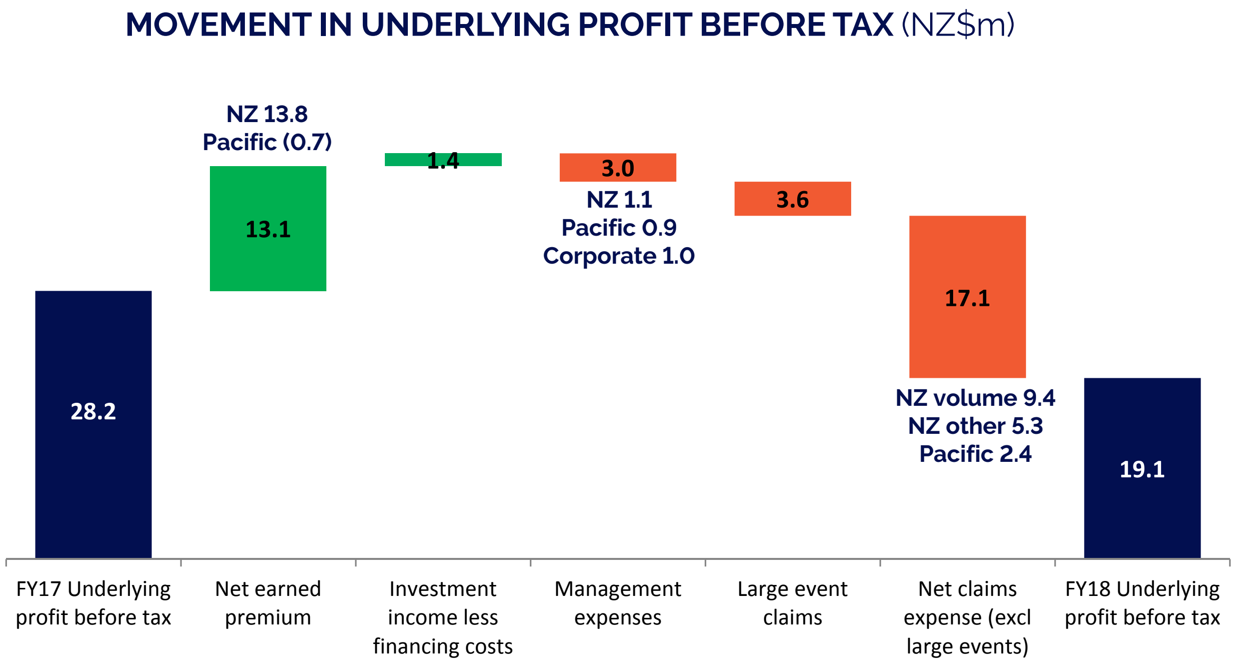
GROUP PROFIT SUMMARY (NZ$m)

$ million	FY18	FY17	Change
Gross written premium (GWP)	336.1	312.4	23.7
Gross earned premium (GEP)	323.1	306.1	17.0
Reinsurance expense	(53.1)	(49.2)	(3.9)
Net earned premium	**270.0**	**256.9**	**13.1**
Net claims expense	(141.2)	(124.2)	(17.1)
Large events claims expense	(11.0)	(7.4)	(3.6)
Management and sales expenses	(105.4)	(102.4)	(3.0)
Underwriting profit	**12.4**	**22.9**	**(10.5)**
Investment and other revenue	7.2	6.1	1.1
Financing costs	(0.6)	(0.8)	0.3
Underlying profit before tax	**19.1**	**28.2**	**(9.2)**
Income tax expense	(5.5)	(10.2)	4.7
Underlying profit after tax	**13.6**	**18.0**	**(4.5)**
Peak Re settlement	(16.2)	0.0	(16.2)
Christchurch impact	(3.6)	(18.6)	15.1
Kaikoura impact	0.3	(4.1)	4.5
Corporate transaction costs	(0.2)	(3.1)	2.9
Foreign tax credit write-offs	(1.2)	(1.9)	0.7
Business in runoff	0.0	1.7	(1.7)
Other non-underlying items	0.6	0.0	0.6
Reported loss after tax	**(6.7)**	**(8.0)**	**1.3**

- Significant growth in GWP of $23.7m and GEP of $17m reflects ongoing successful turnaround in New Zealand business
- Management and sales expenses controlled, with almost 1% improvement in expense ratio
- Underlying profit of $13.6m after tax affected by severe and unprecedented storm activity and short-term claims challenges
- Resolution of Peak Re dispute resulted in P&L impact of $16.2m
- Full year Canterbury P&L impact of $3.6m

Key ratios	FY18	FY17	Change
Reinsurance / gross earned premiums	16.4%	16.1%	(0.3%)
Claims ratio excluding large events	52.3%	48.3%	(4.0%)
Claims ratio	56.4%	51.2%	(5.2%)
Expense ratio	39.0%	39.9%	0.9%
Combined ratio	95.4%	91.1%	(4.3%)

Movement in
Underlying profit before tax



- Net earned premium higher due to growth in core book and new approach to pricing
- Improved investment income primarily a result of increased investment assets
- Management expenses continue to be contained with investment in core business capability continuing
- Increase in claims costs reflective of severe weather, a number of large house fires in New Zealand and the Pacific, short term severity issues and regulatory changes that are all being actively managed

Financial performance
New Zealand

NEW ZEALAND PROFIT SUMMARY (NZ$m)

$ million	FY18	FY17	Change
Gross written premium	277.7	254.2	23.5
Gross earned premium	266.8	248.8	18.1
Reinsurance expense	(38.2)	(34.0)	(4.3)
Net earned premium	**228.6**	**214.8**	**13.8**
Net claims expense	(123.6)	(108.9)	(14.7)
Large events claims expense	(7.2)	(7.4)	0.2
Management and sales expenses	(86.4)	(85.2)	(1.1)
Underwriting profit	**11.4**	**13.2**	**(1.8)**
Investment and other revenue	5.4	4.6	0.8
Underlying profit before tax	**16.9**	**17.8**	**(0.9)**
Income tax expense	(4.0)	(5.7)	1.7
Underlying profit after tax	**12.8**	**12.1**	**0.7**

Key ratios	FY18	FY17	Change
Claims ratio excluding large events	54.1%	50.7%	(3.4%)
Claims ratio	57.2%	54.2%	(3.0%)
Expense ratio	37.8%	39.7%	1.9%
Combined ratio	95.0%	93.9%	(1.1%)

- Underlying profit increased by $0.7m on prior year
- 9.2% increase in GWP was the result of a new pricing approach, customer growth and stable retention, leading to a 6.4% growth in net earned premium
- Growth in the New Zealand business offset by increased claims expenses
- Increased claims costs due to business growth, 2017 development, unusually large number of weather events and industry wide inflation which is being addressed
- Management expenses contained, resulting in an almost 2% decrease in expense ratio on prior year

Financial performance
Pacific

PACIFIC PROFIT SUMMARY (NZ$m)

$ million	FY18	FY17	Change
Gross written premium	58.4	58.2	0.2
Gross earned premium	56.3	57.3	(1.0)
Reinsurance costs	(14.8)	(15.2)	0.3
Net earned premium	**41.4**	**42.1**	**(0.7)**
Net claims expense	(17.6)	(15.3)	(2.4)
Large events claims expense	(3.8)	0.0	(3.8)
Management and sales expenses	(16.4)	(15.6)	(0.9)
Underwriting profit	**3.5**	**11.3**	**(7.8)**
Investment revenue and other revenue	0.7	0.9	(0.2)
Underlying profit before tax	**4.2**	**12.2**	**(7.9)**
Income tax expense	(2.0)	(5.0)	2.9
Underlying profit after tax	**2.2**	**7.2**	**(5.0)**

Key ratios	FY18	FY17	Change
Claims ratio excluding large events	42.6%	36.2%	(6.4%)
Claims ratio	51.8%	36.2%	(15.6%)
Expense ratio	39.7%	37.0%	(2.7%)
Combined ratio	91.5%	73.2%	(18.3%)

- Lower underlying profit after tax of $2.2m largely due to adverse weather impacts
- 3% growth in GWP in local currency terms was offset by exchange rate movements
- Revenue growth was strongest in Fiji and Vanuatu, while Papua New Guinea saw a decrease due to more stringent risk selection and remediation
- Net claims expense increased due to weather impacts and several large commercial fires, partly offset by improvements in Papua New Guinea following remediation activity
- Large events claims expense reflects the impact of Cyclone Gita

Canterbury earthquakes
Reducing balance sheet risk

- The second half saw strengthening in a number of non litigated claims as we moved closer toward finalisation, as well as increases in litigated claims
- Outstanding claims almost halved from 323 to 163
- Risk continues to reduce as the portfolio finalises, and accordingly $5m of additional risk margin has been released
- While risks remain, provisioning is considered adequate, with the ratio of IBNR/IBNER and risk margins increasing from March 2018, to 95%
- Increase in ultimate incurred claim estimates in 2018 was $10m, net of allocation to reinsurers, which was offset by release of $5m additional risk margin, resulting in a $3.6m impact on NPAT

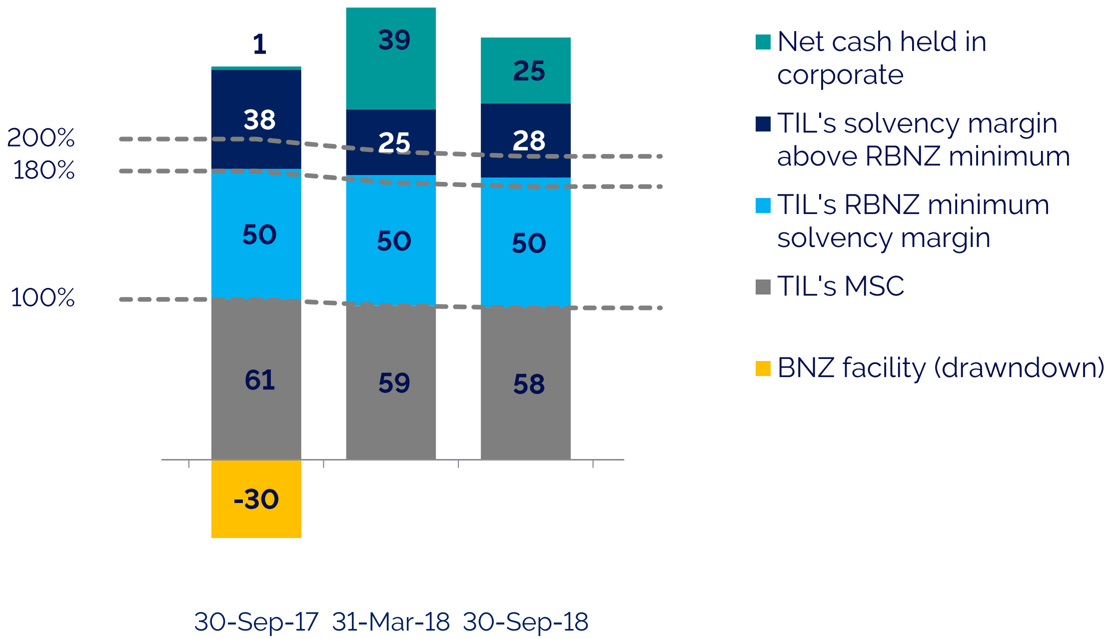
$ million	Sep-18	Mar-18	Sep-17	Mar-17	Sep-16
Case estimates	37.5	48.0	58.9	73.9	93.2
IBNR/IBNER[1]	21.4	22.0	34.4	47.4	44.0
Risk margin	9.0	10.8	13.9	18.2	11.9
Additional risk margin	5.0	10.0	10.0	-	-
Actuarial provisions	35.4	42.8	58.3	65.6	55.9
Gross outstanding claims	**72.9**	**90.8**	**117.2**	**139.5**	**149.1**
Ratio of provisions to case estimates[2]	95%	89%	99%	89%	60%

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

A robust solvency position

- **Strong capital position has been maintained**
- **Funding in place to support continuing investment**

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



- ✓ Capital raise successfully completed with over 88% of shareholders taking up rights
- ✓ At 30 September, $78m of solvency margin was held in Tower Insurance Limited (TIL); $28m above RBNZ requirements and equivalent to 234% of minimum solvency capital
- ✓ An additional $25m in corporate cash is also held by Tower Limited
- ✓ Tower's strong capital base supports growth while providing a buffer against legacy risks
- ✓ Debt facilities remain in place and undrawn, although our preference is to fund remaining IT investment from debt

Future outlook

Richard Harding
Chief Executive Officer

Continued delivery of strategy

- Digital challenger positioning enables achievement of medium-term targets

Medium-term operating targets:

- GWP growth of 8-10%
- Combined Operating Ratio < 85%
- Return on equity of 14 – 16%

FY19 priorities

Keep improving core business while building digital challenger reputation and capability

1. IT and digital transformation completed
2. Continue driving strong growth in NZ and Pacific businesses
3. Deliver underwriting and pricing improvements to improve claims costs and drive profitability
4. Continue to control expenses and invest in growth

1. Complete digital transformation

- **Enables accelerated growth**
- **Will deliver cost savings**

Completion of simplification in 2019 will provide the platform for growth

- Increased digital capability will enable accelerated growth
- Improved product offering building on Tower's award-winning, plain English product set
- Reduction in number of products in NZ book from over 400 to 12 core products
- Improved time to answer customer calls
- Enables a unique digital, self-service offering which will improve retention
- Better, faster claims outcomes and reduce claims turn-around time

Delivers a step change in expenses from FY20

- Efficiencies through IT will enable us to reduce complexity and cost
- Immediate and real time data enables instantaneous pricing adjustment

Reduction of business risk

- Simplified, cloud-based technology reduces complexity and risk

Will enable achievement of medium term Gross Written Premium growth target of 8 – 10%

2. Keep driving growth

- **Deliver challenger value proposition**
- **Increase use of data and analytics**

Challenger value proposition is differentiating Tower and will continue attracting more customers

- Stunningly simple products
- Great value for money
- Amazing claims experiences

Improved data capability enables growth

- Increased ability to target profitable customers with attractive offers
- Simplified quote and buy process will reduce customer effort

Pacific operations centre focussed on enabling local growth

- Leverage centralised product and innovation capability
- Continue driving strong risk and underwriting practices

Will enable achievement of medium term Gross Written Premium growth target of 8 – 10%

3. Improve profitability

- **Ongoing pricing review and refinement**
- **Improved underwriting and new products**

Continued implementation of fairer pricing

- Deliver risk-based pricing for other natural perils including, flood, wind and storm
- Ongoing portfolio review to offset claims inflation
- Ongoing reduction in catastrophe exposure in high-risk locations will reduce reinsurance expense

Development of even simpler products

- Award winning products will be further refined and simplified
- New products will keep reducing complexity, improving customer experience and reducing leakage
- Increase use of data to enable improved underwriting

Migration of all customers to new, simpler policies

- Tower customers to be migrated on renewal to new core system, following implementation
- All Tower customers will benefit from simpler policies and improved experience

Will enable achievement of medium term Combined Operating Ratio target of <85%

4. Continue controlling expenses

- **Continue investing in core business**
- **Reduce expenses through removal of complexity**

Increase automation to enable focus on customers

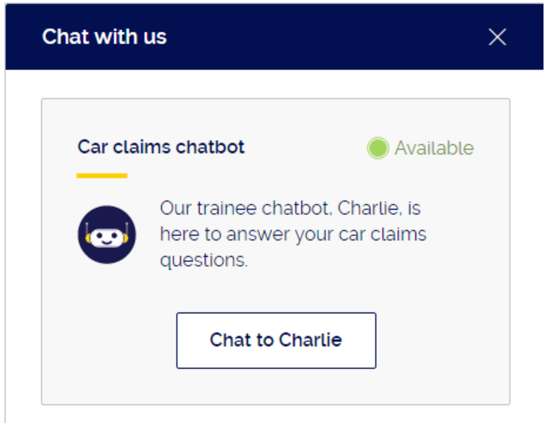
- Automation of all repeatable processes and tasks
- Ongoing removal of complex systems and processes to improve efficiency

Continue investing to ensure long-term sustainability

- Ongoing upgrade of IT infrastructure and processes to industry best practice
- Review and improvement of frameworks to keep improving on strong ethical business practices

Continue to increase capability and engagement

- New Executive team members to drive industry leading practice
- Delivery of employee experience to position Tower as an employer of choice



Will enable achievement of medium term Combined Operating Ratio target of <85%

FY19 financial outlook

- **Strong growth expected to continue**
- **Claims ratio expected to improve**

Tower has provided a one-off guidance for FY19 to demonstrate its confidence in the strategy and performance of its underlying business

- Tower's guidance for underlying NPAT in FY19 is in excess of $22m
- Assumptions include:
  - Continued momentum in revenue growth and sales through improved digital channels
  - Underwriting and pricing changes will be implemented, continuing to drive improvement in mix of risk, as well as addressing inflation
  - Pacific contribution will return to normal levels
  - Maintaining a steady management expenses ratio
  - Aggregate excess fully utilised for weather events
- Tower's Board has determined that in FY19, Tower will pay a dividend of 50% to 70% of reported NPAT where prudent to do so

Appendices

Reconciliation between **underlying profit after tax** and **reported loss after tax**

$ million	FY18 underlying profit	Non-underlying items (1)	Claims handling expenses (2)	Other items (3)	FY18 reported profit
Gross written premium	336.1				336.1
Gross earned premium	323.1				323.1
Reinsurance expense	(53.1)	(1.2)			(54.3)
Net earned premium	**270.0**	**(1.2)**	**0.0**	**0.0**	**268.8**
Net claims expense	(152.3)	(4.5)	(19.9)		(176.6)
Management and sales expenses	(105.4)	(0.3)	19.9	(4.3)	(90.0)
Impairment of reinsurance receivables	0.0	(22.5)			(22.5)
Underwriting profit	**12.4**	**(28.5)**	**0.0**	**(4.3)**	**(20.4)**
Investment revenue and other revenue	7.2	1.4		4.3	12.9
Financing costs	(0.6)				(0.6)
Underlying profit before tax	19.1	(27.1)	0.0	0.0	(8.0)
Income tax expense	(5.5)	6.8			1.3
Underlying profit after tax	**13.6**	**(20.3)**	**0.0**	**0.0**	
PeakRe settlement	(16.2)	16.2			
Christchurch impact	(3.6)	3.6			
Kaikoura impact	0.3	(0.3)			
Corporate transaction costs	(0.2)	0.2			
Foreign tax credit write-offs	(1.2)	1.2			
Other non-underlying items	0.6	(0.6)			
Reported loss after tax	**(6.7)**	**0.0**	**0.0**	**0.0**	**(6.7)**

- "Underlying profit" does not have a standardised meaning under Generally Accepted Accounting Practice (GAAP). Consequently it may not be comparable to similar measures presented by other reporting entities and 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 Tower's underlying performance, and is useful to investors as it makes it easier to compare the underlying financial performance of Tower between periods.
- Tower has applied a consistent approach to measuring underlying profit in the current and comparative periods.
- "Reported loss after tax" is calculated and presented in accordance with GAAP and is taken from Tower Limited's audited financial statements for the year ended 30 September 2018.

Notes on reconciling items:

1. Non-underlying items are shown separately in Tower's management reporting, yet included within other lines (depending on the nature of the item) in the statutory financial statements.
2. In Tower's management reporting, indirect claims handling expenses are reported within 'management and sales expenses'. In the financial statements, indirect 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.

Balance sheet
Tower Group

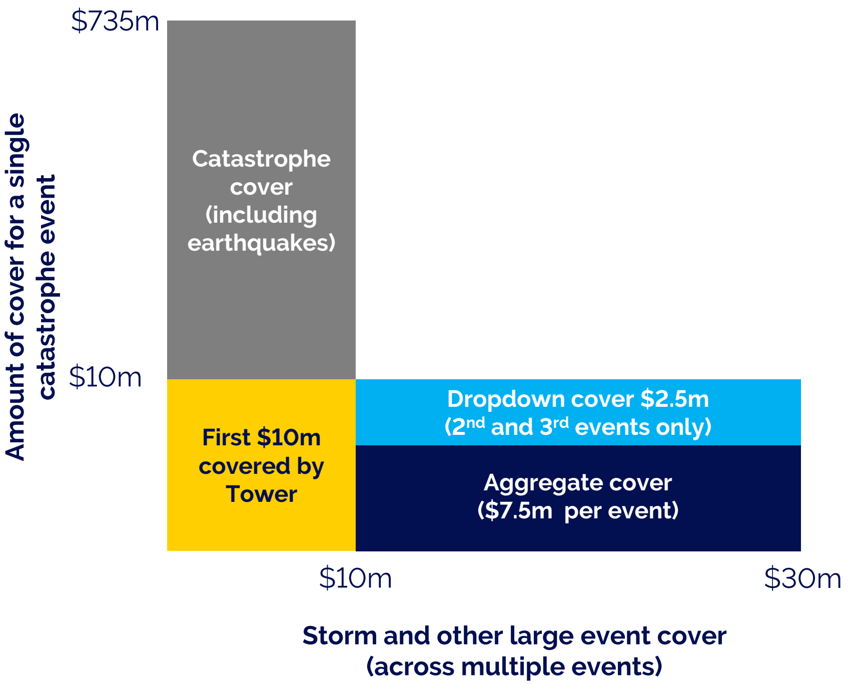
$ million	30 September 2018	30 September 2017	Movement $	Movement %
Cash & call deposits	102.0	83.9	18.1	21.6%
Investment assets	198.2	186.9	11.3	6.0%
Deferred acquisition costs	22.6	21.0	1.6	7.8%
Intangible assets	45.0	31.3	13.7	43.7%
Other operational assets	318.3	341.5	(23.2)	(6.8%)
Total assets	**686.2**	**664.6**	**21.6**	**3.3%**
Policy liabilities & insurance provisions	324.5	343.5	(19.0)	(5.5%)
External debt	0.0	29.9	(29.9)	100.0%
Other operational liabilities	86.9	75.5	11.4	15.1%
Total liabilities	**411.4**	**448.9**	**(37.5)**	**(8.4%)**
Total equity	**274.8**	**215.7**	**59.1**	**27.4%**

Reinsurance structure overview

TOWER

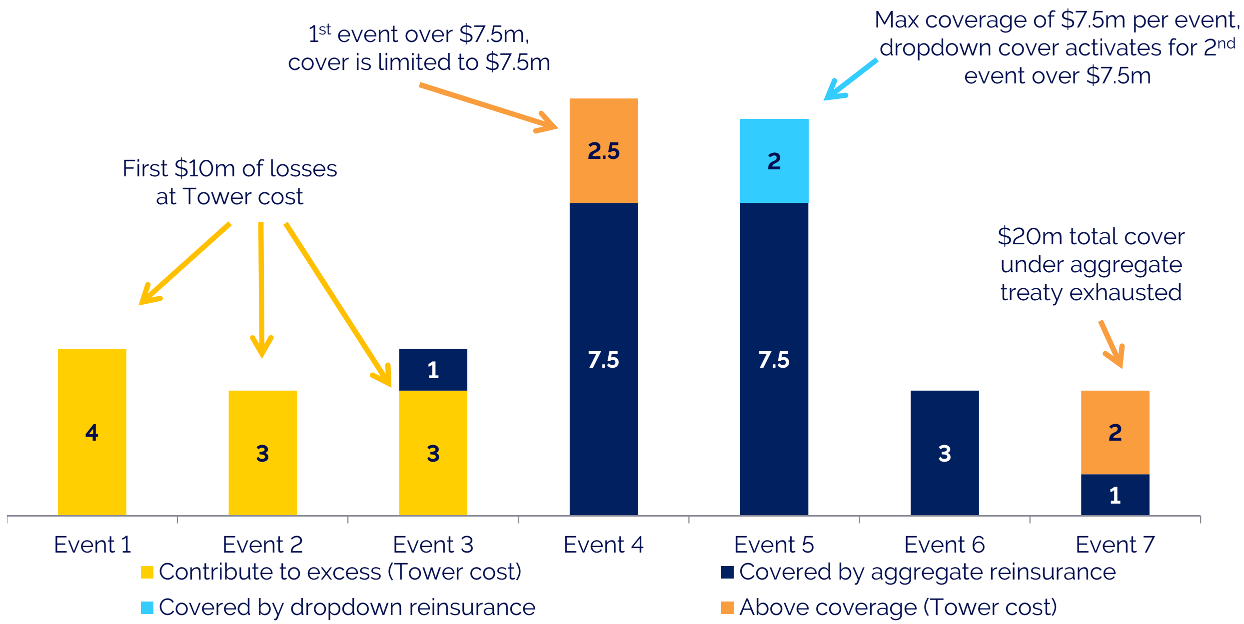
Changes to our reinsurance structure will reduce volatility from large events, with reinsurance expense ratio expected to improve in FY19

High-level reinsurance structure overview



Aggregate cover overview for FY19

- Minimum event size of $1m to qualify, max of $7.5m per event
- $20m cover once $10m excess filled
- No coverage for earthquake in New Zealand
- Drop-down cover for 2nd and 3rd event over $7.5m to bridge gap between aggregate cover and catastrophe cover (including earthquake)



Disclaimer

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