Tower 2020 full year results

25 November 2020

Agenda

1 

Chairman's update

Michael Stiassny, Chairman

2 

Business update

Blair Turnbull, Chief Executive Officer

3 

FY20 financial performance

Jeff Wright, Chief Financial Officer

4 

Looking forward – Q&A

Blair Turnbull, Chief Executive Officer

Chairman's update

Continued growth and momentum

- New CEO, Blair Turnbull, joined Tower in August 2020
- Underlying profit increased on prior year
- Results at top end of guidance, supported by solid growth
- Accelerated push into digital and data

Leading through COVID-19

- Dedicated team and support programme in place to help customers
- $7.2m being refunded to customers for lower claims due to COVID-19
- Tower has demonstrated strong resilience, navigating the challenges of COVID-19 well
- Pacific operations maintained full service despite widespread lockdowns

Strong and well capitalised

- Strong capital position and solvency margin
- Settlement of EQC receivable removes legacy issue and further improves capital position
- Removal of regulatory complexity through amalgamation
- Following updated RBNZ guidance to the industry, Tower intends to resume dividend payments in FY21, subject to market conditions and consideration of growth opportunities

Business update

Blair Turnbull, Chief Executive Officer

A journey of continued focus and streamlining

2020 +

GROWTH AND INNOVATION

Relentless focus on the customer

Customer and profit growth

Focused businesses

Leading digital and data capability

THREE DISTINCT BUSINESSES WITH END-TO-END ACCOUNTABILITY

Tower Direct – Flagship portfolio performing strongly

Partnerships – Leading, scalable partnership offering

Pacific – Digitisation will drive efficient growth

2015–2019

TRANSFORMATION AND RE-PLATFORM

Product rationalisation

Christchurch recovery

Investment in cloud-based platform

2010–2014

STREAMLINED GENERAL INSURER

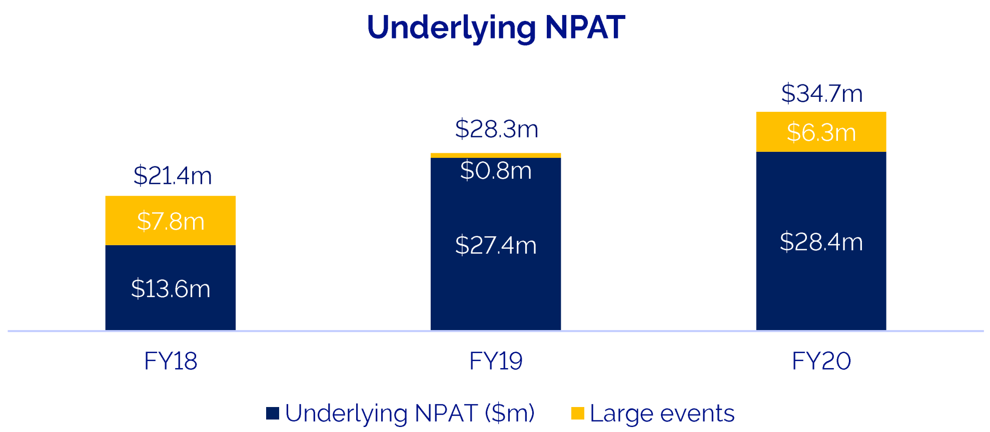
From composite to mono-line insurer

Sold health, investments and life businesses

Delivering consistent growth in profitability

UNDERLYING NPAT excl. large events	UNDERLYING NPAT incl. large events
$34.7m	**$28.4m**
+ 23% on prior year	+ 3% on prior year

COMBINED RATIO	REPORTED PROFIT
88.5%	**$12.3m**
In line with prior year	Impacted by EQC receivable



TOWER

Strong growth in customers and premium

CUSTOMERS

300,000

+ 11% on prior year

UNDERLYING GROUP GWP

$385m

+ 8% on prior year
Includes Youi NZ $12m GWP

NZ MARKET SHARE

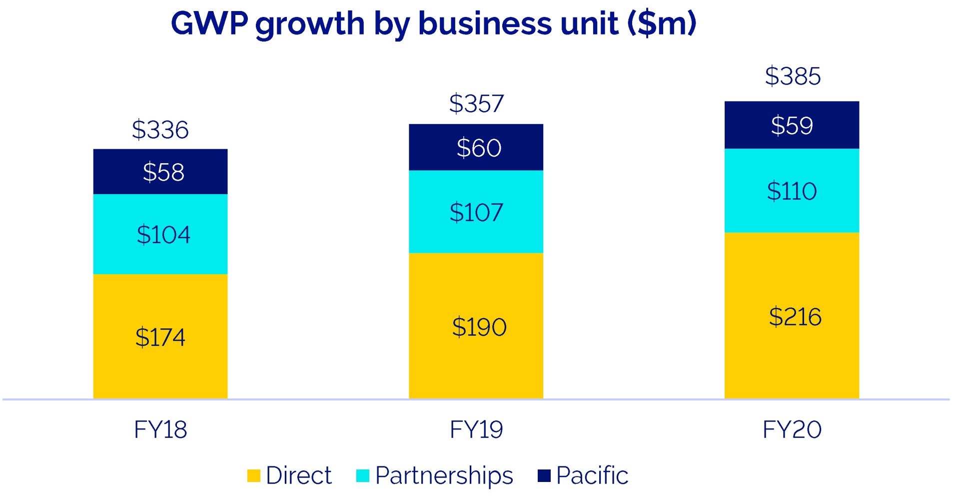
9.1%

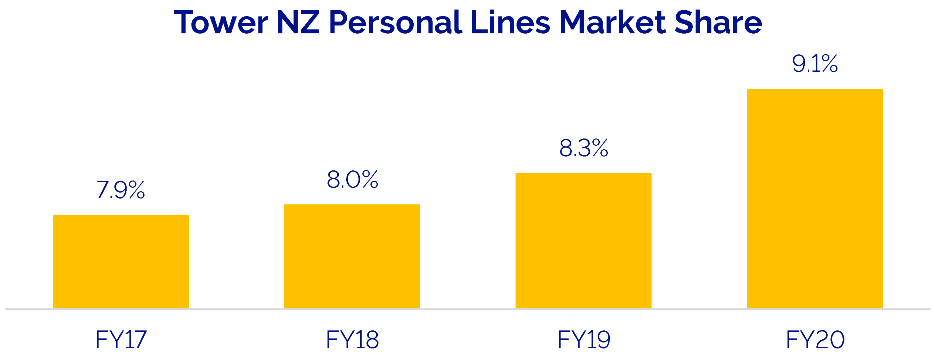
Up from 8.3% in prior year

CUSTOMERS ON MyTower

50,000

October 2020





Refer to reconciliation between underlying and reported GWP on page 33

Disciplined claims management improved through digitisation

CLAIMS RATIO EXCL. LARGE EVENTS

46%

2% better than prior year

CLAIMS LODGED ONLINE IN SEPTEMBER 2020

45%

27% in September 2019

AVG. MOTOR CLAIM COST

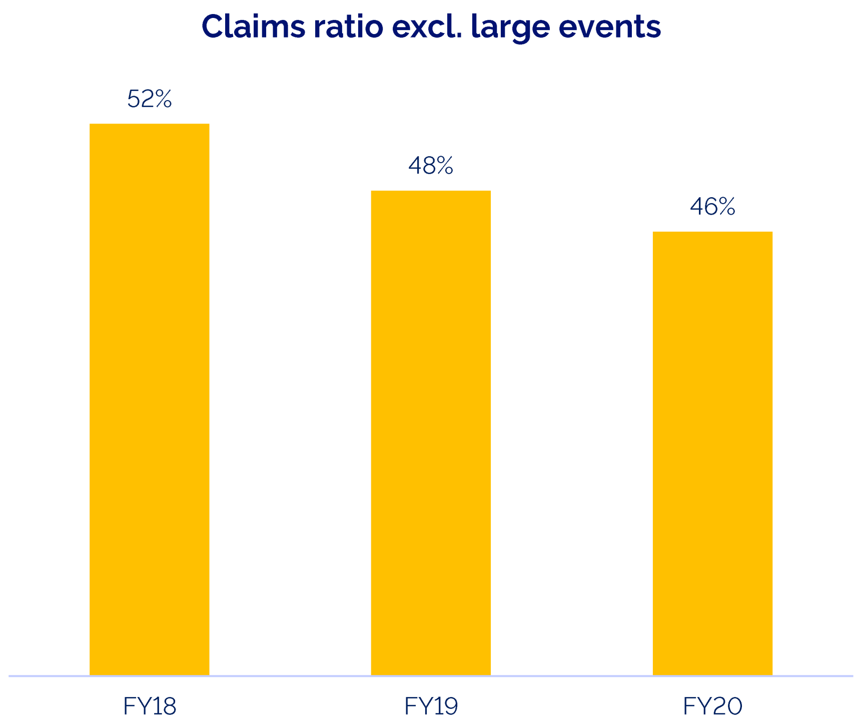
$1,600

+ 6% on prior year

SIMPLE HOUSE CLAIMS

20%

Straight to builder in FY20



TOWER

Product, pricing and underwriting enhanced through data

BALANCED PRODUCT MIX

43%

Of NZ risk portfolio is motor

RISKS INSURED

632,000

Average of 2 risks per customer

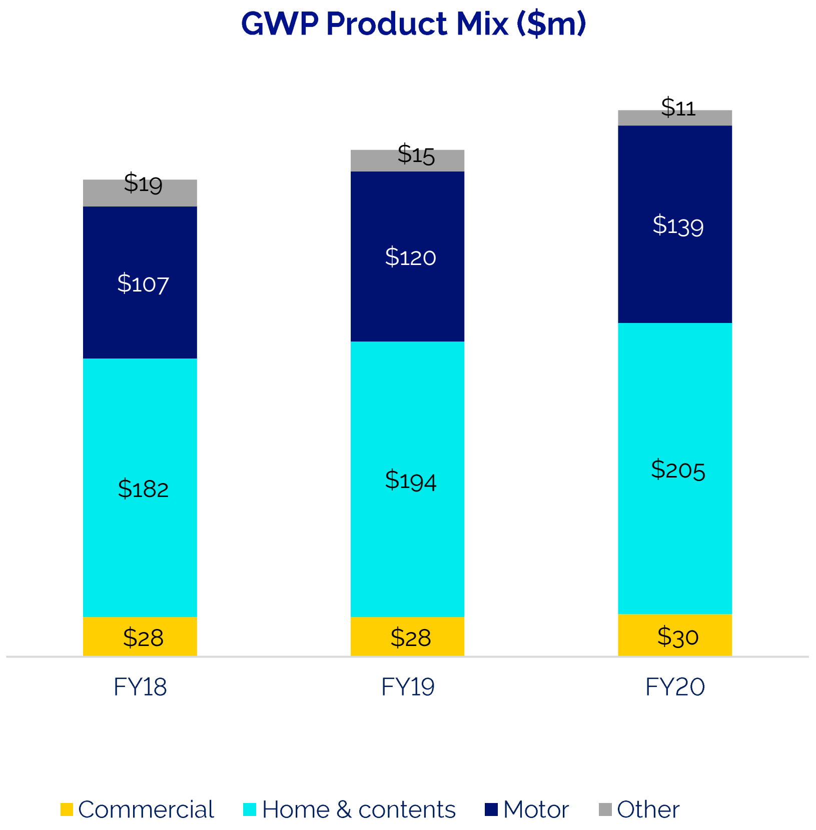
CORE PRODUCTS

12

All in plain language

PACIFIC PRODUCT VARIANTS ON SALE REDUCED BY

30%



TOWER

MER improving while continuing to invest and simplify

TOWER MANAGEMENT EXPENSE RATIO

39%

1% better than prior year

MANAGEMENT EXPENSE RATIO

34%

In Tower Direct

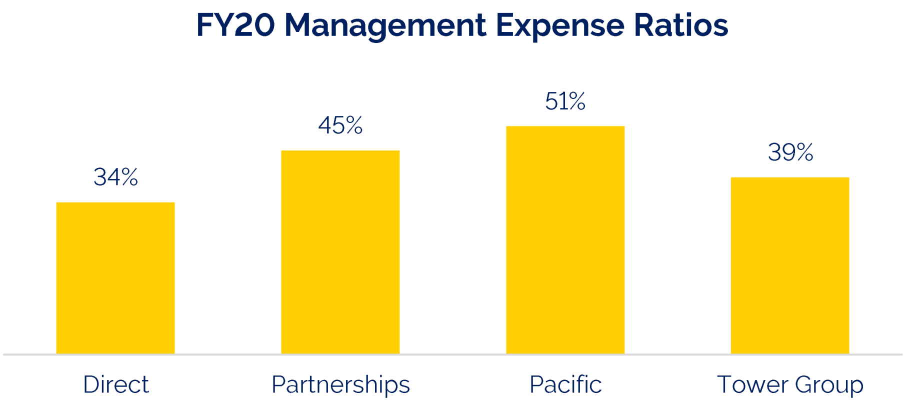
ACQUISITION COSTS

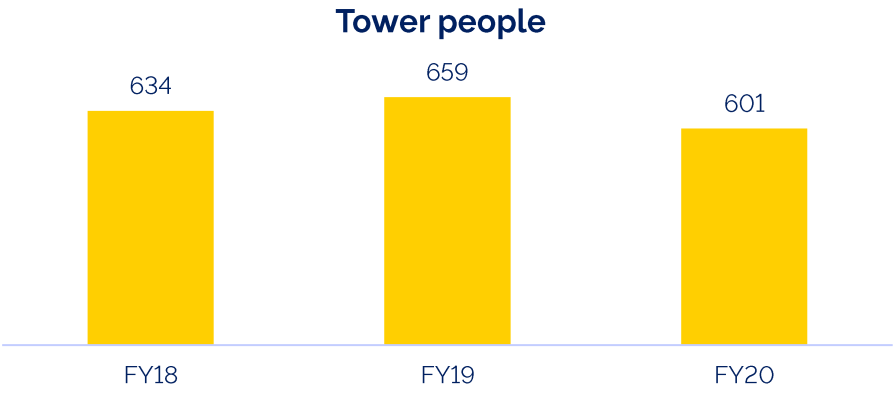
13%

2% lower than prior year

TOWER PEOPLE

601





Investing in digital platform for efficiency and scalability

TECHNOLOGY RELEASES IN FY20

117

2.4 x more than prior year

CUSTOMERS MIGRATED TO EIS

90%

Tower Direct

WORKLOADS MOVED TO THE CLOUD

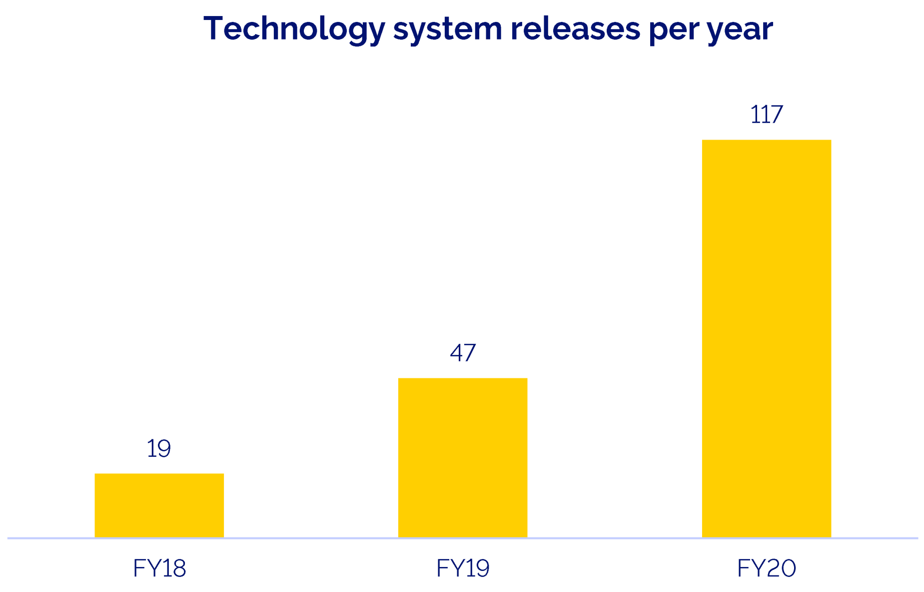
70%

Since January 2019

CORE ADMIN LEGACY SYSTEMS DECOMISSIONED

4

6 remaining, 4 to be decommissioned in FY21



- Foundational partnerships in place with EIS, Ushur, CoreLogic, Microsoft

TOWER

Strong capital and solvency position

TOWER LIMITED SOLVENCY MARGIN (PARENT)

287%*

$48m* capital above regulatory minimums

FINANCIAL STRENGTH RATING RECONFIRMED

A-

Following amalgamation

EQC RECEIVABLE SETTLED

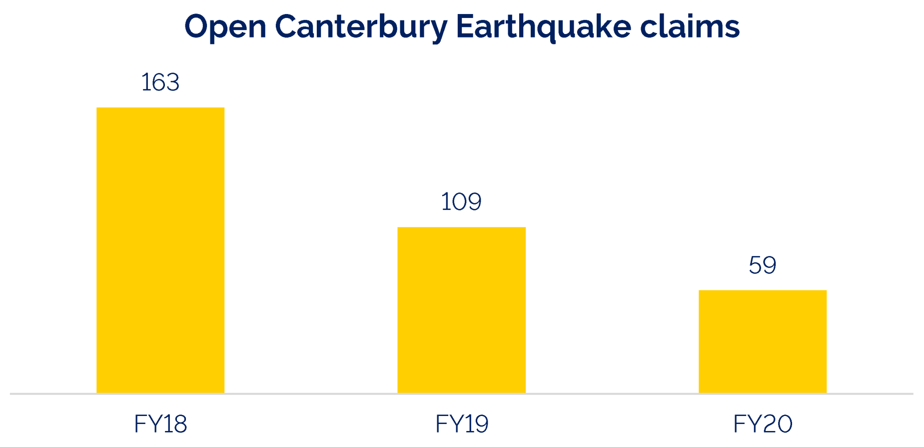
$42.1m

After disbursement to reinsurers

CHRISTCHURCH EQ CLAIMS

59

Open claims at 30 September



- Settlement of EQC receivable removes legacy issue and further improves capital position
- $15m BNZ credit line paid and closed
- Tower intends to resume dividend payments in FY21, subject to market conditions and consideration of growth opportunities

*Excludes EQC receivable

Managing through Covid-19, demonstrated resilience

REFUNDING CUSTOMERS	REMOTE WORKING CAPABILITY
$7.2M	**100%**
	Staff able to work from home

STAFF ON SAME DESKTOP SYSTEMS	KEY OPERATIONS CENTRES
100%	**3**
	Auckland, Rotorua, Suva

SUPPORTING OUR PEOPLE

- Agile working environment with digital collaboration
- Ongoing wellbeing support

HELPING OUR CUSTOMERS

- Dedicated hardship team providing case-by-case customer support
- MyTower to support online self-service

READY TO RESPOND

- New operating model enables flexible workforce across three core offices

BUSINESS INTERRUPTION INSURANCE

- Tower policies only provide Business Interruption in relation to physical events, like fire, burglary or flood in the Pacific

FY20 financial performance

Jeff Wright, Chief Financial Officer

Group underlying financial performance

$ million	FY20	FY19	Change
Gross written premium	385.1	356.8	28.4
Gross earned premium	380.5	345.0	35.5
Reinsurance expense	(57.2)	(55.0)	(2.2)
Net earned premium	**323.3**	**290.0**	**33.3**
Net claims expense	(149.7)	(140.3)	(9.4)
Large events claims expense	(9.7)	(1.3)	(8.4)
Management and sales expenses	(126.6)	(116.0)	(10.6)
Underwriting profit	**37.2**	**32.4**	**4.8**
Investment and other revenue	6.4	7.0	(0.7)
Financing costs	(1.1)	(0.3)	(0.8)
Underlying profit before tax	**42.4**	**39.1**	**3.4**
Income tax expense	(14.1)	(11.6)	(2.4)
Underlying profit after tax	**28.4**	**27.4**	**0.9**
EQC receivable write down	(9.5)	0.0	(9.5)
Canterbury impact	(2.7)	(6.0)	3.3
Restructure costs	(1.7)	0.0	(1.7)
Foreign tax credits write-off	0.0	(1.6)	1.6
Simplification programme opex	(0.8)	(1.0)	0.2
Other non-underlying costs	(1.4)	(2.1)	0.7
Reported profit/(loss) after tax	**12.3**	**16.8**	**(4.5)**

- Reported NPAT of $12.3m, impacted by EQC settlement write off
- Underlying NPAT before large events of $34.7m is an increase of 23% on FY19
- Improvement in key metrics of claims ratio excluding large events and expense ratio
- Combined Ratio further improves to 88.5%
- $7.2m customer refund is included in net claims expense

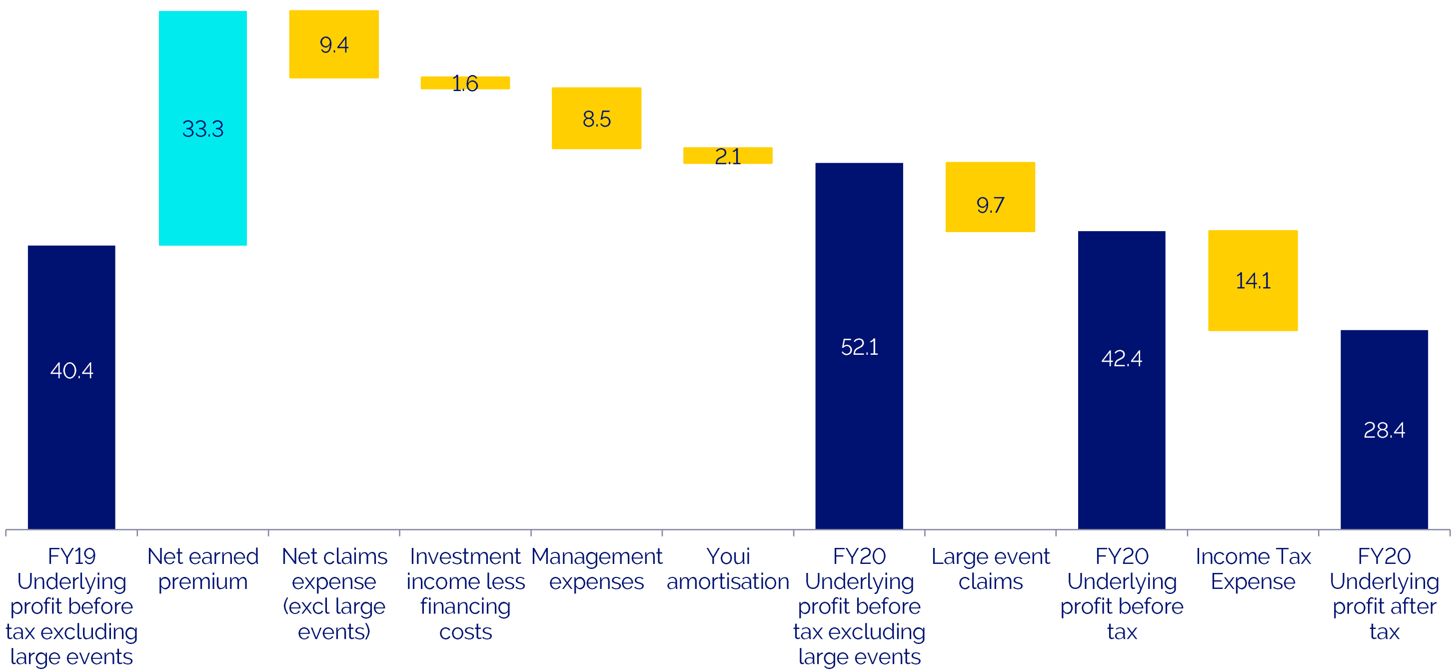
Key ratios	FY20	FY19	Change
Claims ratio excluding large events	46.3%	48.4%	2.1%
Claims ratio	49.3%	48.8%	(0.5%)
Expense ratio	39.2%	40.0%	0.8%
Combined ratio	88.5%	88.8%	0.3%

Refer to reconciliation between underlying and reported profit on page 33

Movement in underlying profit

- Net earned premium (NEP) higher due to Youi acquisition, and growth in Tower Direct and Tower Partnerships GWP
- Large event claims well above prior year as a result of weather events in NZ and Pacific
- While net claims expenses increased, it was proportionally lower than the increase in NEP than prior year
- Increased technology expenses during platform migration, including EIS and Youi amortisation expense

Movement in underlying profit (NZ$m)



TOWER

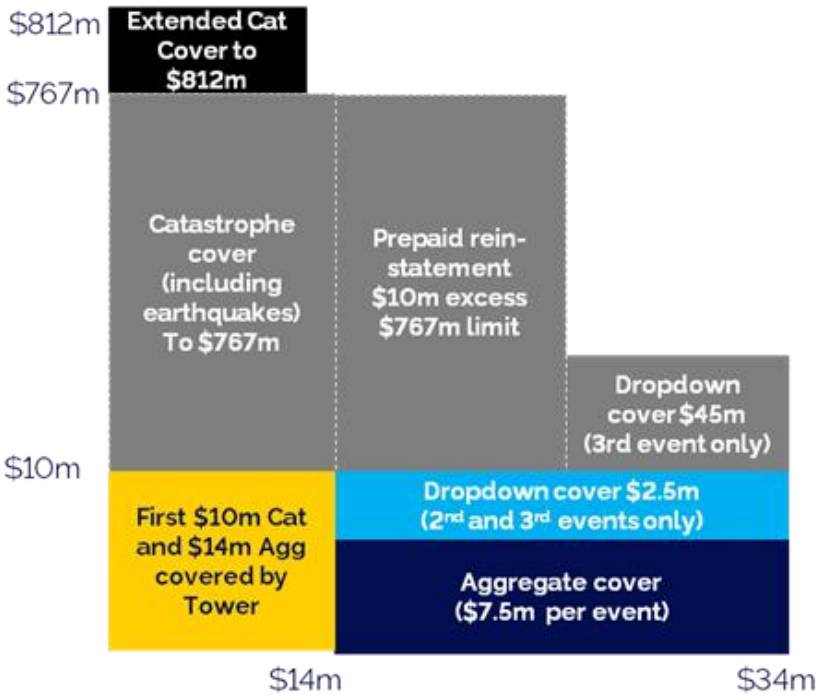
$800m reinsurance programme increases resilience

- Tropical Cyclone Harold and the Timaru Hailstorm resulted in FY20 large event claims increasing $8.4m on the prior year to $9.7m
- Provision for Lake Ōhau fires of $6m in FY21
- Preliminary estimates for Napier floods to result in $3-$4m impact on FY21 results

FY21 REINSURANCE RENEWAL

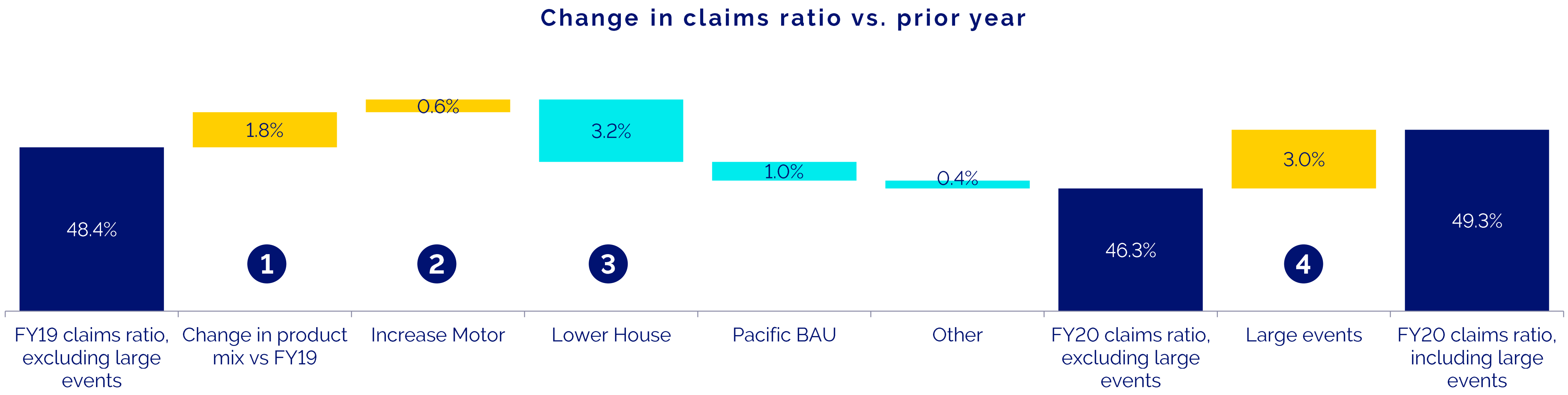
- Increase in catastrophe cover from $783m to $812m
- Pre-paid reinstatements in place to provide additional protection
- Catastrophe renewed on 'risk adjusted' flat pricing
- $20m aggregate cover maintained at lower cost, but higher excess of $14m

High-level reinsurance structure overview



Storm and other large event cover (across multiple events)

Continued focus on improving claims ratio

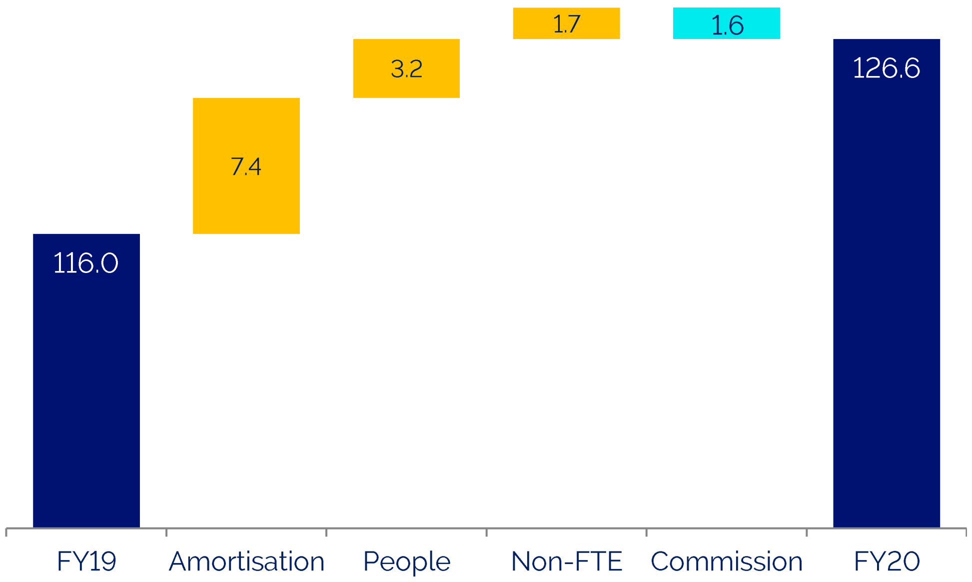


1. Increase in mix of motor policies, relative to lower loss ratio products, contributed an increase in the claims ratio.
2. Higher average cost of claims driven by increasing technological changes in vehicles as well as supply chain pressures starting to be seen from COVID-19.
3. The FY20 seasonal impact of house fires is below previous years.
4. $9.7m of large events were incurred in FY20 (vs $1.3m in FY19). Timaru Hailstorm and Northland Floods totalling $4.5m (net of reinsurance) in New Zealand, and Cyclone Harold $5.2m (net of reinsurance) in Pacific.

Continued discipline on management expenses

- FY20 Management Expense Ratio improved 1% on the prior year, down to 39%
- FY20 management expenses of $126.6m include the cost of running EIS in addition to existing systems
- Tower Direct now almost fully on the digital platform, with the lowest MER of the three businesses
- Shift of Tower Partnerships and Tower Pacific to the digital platform underway
- Digital platform allows fast and efficient aggregation of additional portfolios of business
- Amortisation expense increased due to: (i) Youi acquisition, (ii) implementation of the lease standard IFRS16, and (iii) EIS digital platform

Movement in management expenses (NZ$m)



Over 15,000 Christchurch EQ claims now settled

- The pace of new overcaps and reopened claims slowed during the second half of 2020
- Finalisation of claims also slowed during the second half of 2020, impacted in part by COVID-19 restrictions

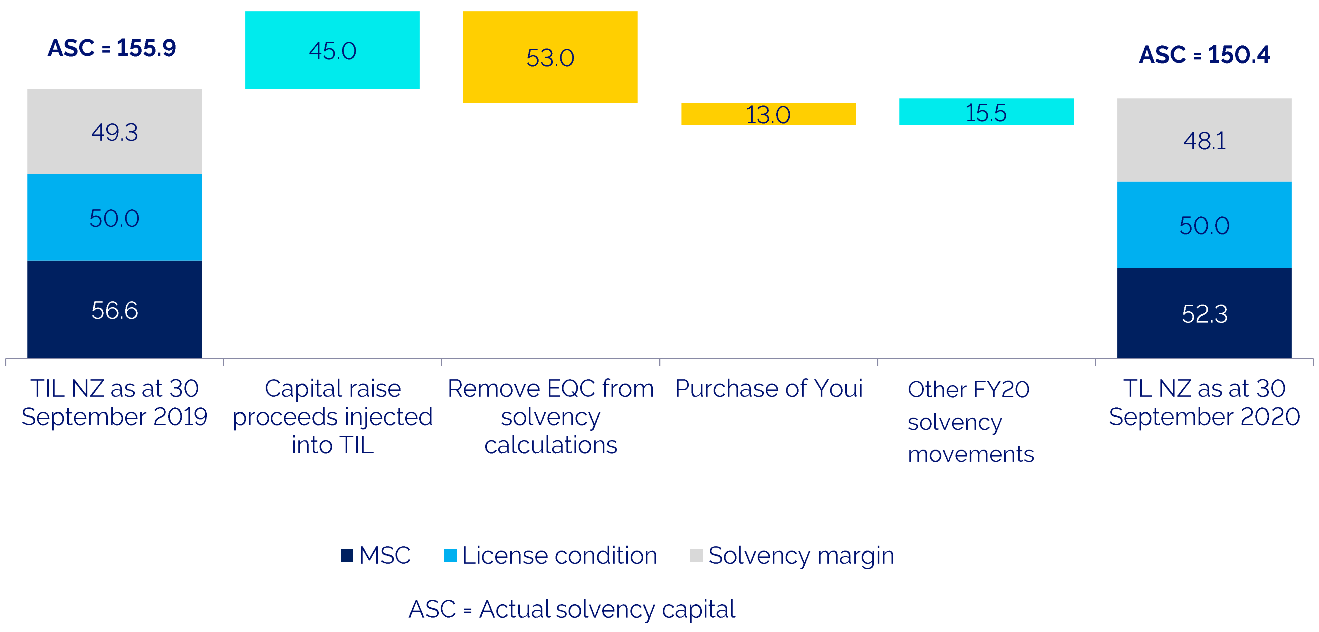
Settlement of EQC receivable

- Tower to receive $42.1m after disbursement to reinsurers
- Write off of residual amount resulted in an impact of approximately $9.5m on NPAT
- Removal of legacy issue a significant milestone

Open Canterbury Earthquake Claims

Solid solvency position and simplified structure

- At 30 September 2020, Tower Limited New Zealand had $98m of solvency margin, $48m above the RBNZ licence condition
- Actual solvency capital of $150.4m is equivalent to 287% of minimum solvency capital
- Tower's financial strength was reconfirmed at A- (excellent) following the amalgamation
- BNZ loan to Tower Limited finalised on amalgamation with Tower Insurance Limited



Looking forward

Blair Turnbull, Chief Executive Officer

A good result and an exciting future

Tower's results this year are good and at the top end of expectations. We've achieved this despite some unprecedented headwinds and challenges.

As we start to move into a new era of Tower though, the business will look and behave differently.

To be clear, we don't just want to be a smaller version of a big global insurer. That is not the path we choose.

At Tower, we're choosing a direction that leads to higher growth through a relentless focus on our customers.

We're more determined than ever, more energised than ever, and over the coming months we'll be demonstrating that we're far more dynamic than ever before.

OUR SOUTHERN STAR

To deliver beautifully simple and rewarding experiences

(that our customers rave about – every time)

Clear and focused strategic priorities

GROW AND INNOVATE

Relentless focus on customer relationships

Leverage digital and data everywhere

Partner wherever possible

BUILD FINANCIAL STRENGTH AND CAPABILITY

Embracing agile and talent

Maintain a strong capital and solvency structure

Three focused businesses: Direct, Partnership & Pacific

TOWER DIRECT

- 180k customers
- $216m GWP
- 88% COR
- 34% MER

PARTNERSHIPS

- 85k customers
- $110m GWP
- 91% COR
- 45% MER

PACIFIC

- 35k customers
- $59m GWP
- 91% COR
- 51% MER

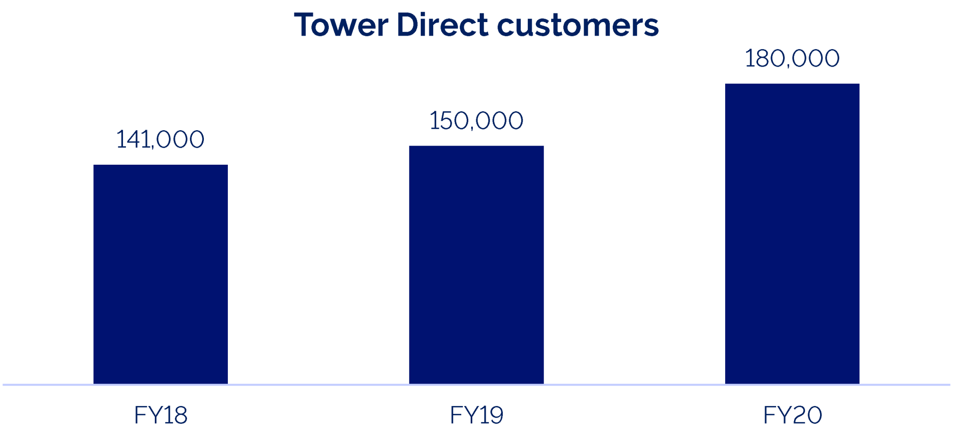
CLOUD-BASED DIGITAL AND DATA PLATFORM

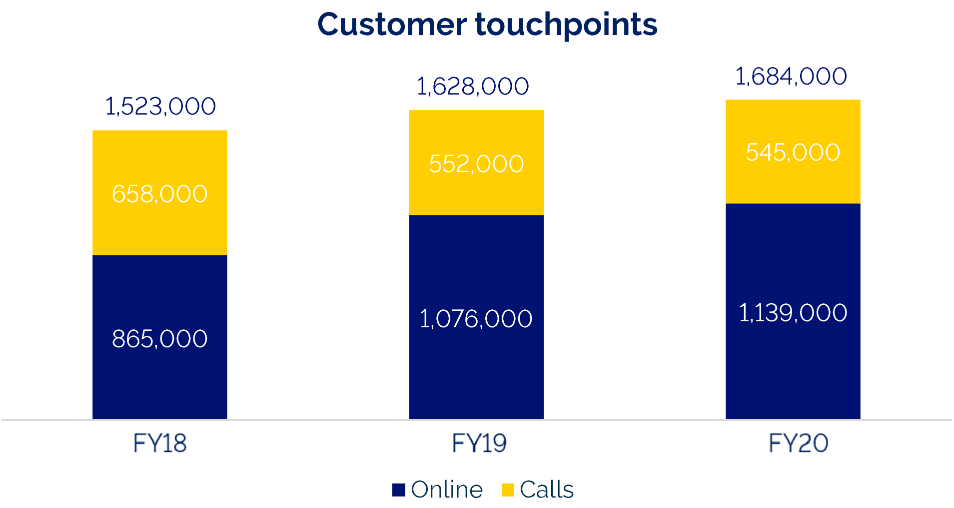
TOWER GROUP

- 300k customers
- $385m GWP
- 88.5% COR
- 39% MER

Growing our leading Tower Direct business

- Growing our Direct business where we have leading digital, data and innovative propositions
- 58% of new business online, service transactions conducted online 30% of the time
- Digital platform supports lower MER at 34%, which will further improve as we scale
- Youi migration almost complete, proven model to acquire additional books
- Automated campaigns and service notifications, such as weather warnings and WOF notices
- $216m GWP, up 13% on prior year
- Retention consistent at 82%





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Investing in Partnerships and the Pacific

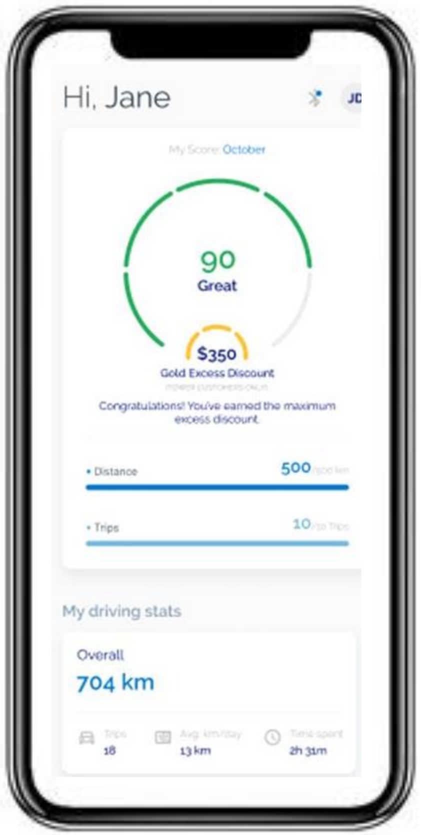
Tower Partnerships well positioned for growth

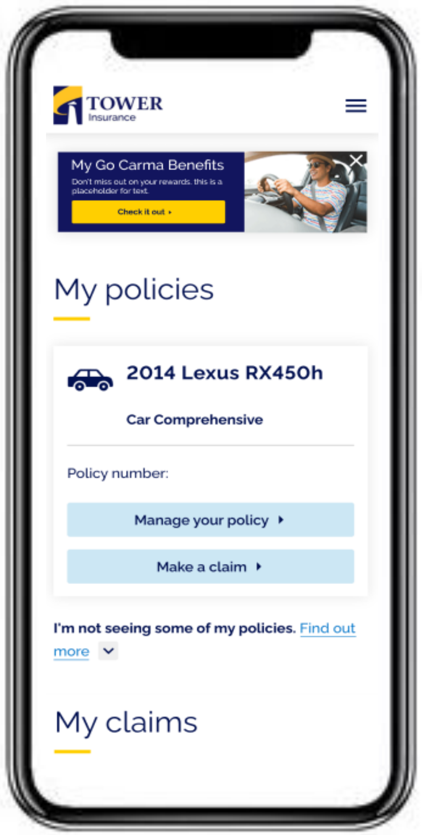
- New platform enables fast and scalable partnership support
- TSB & Trade Me customer migration to new cloud EIS platform well underway
- $110m GWP, up 3% on prior year
- Strong retention at 84%

Transforming Pacific business while improving margins

- New tech platform key to providing a sustainable Pacific business
- Fiji motor on new platform launching in Dec 2020
- Product rationalisation to reduce products by 30% to 362 products
- Mitigating volatility by reducing commercial exposure and focusing on personal lines
- Pacific business contributes 15% of GWP

Investing in technology, innovation and a sustainable environment





INNOVATIVE PROPOSITIONS

- Expanding product range with Marine and Pet to deepen customer relationships
- Developing risk-adjusted personalised pricing to include flooding

DIGITAL AND DATA PLATFORM

- Auckland University Science Faculty partnership
- EQC agency agreement signed to manage claims on behalf of EQC following natural disasters

SUSTAINABLE ENVIRONMENT

- Sustainable Business Council member
- Carbon audit to reduce footprint
- Development of climate action plan, including transparent climate reporting

FY21 guidance

	FY20 Actual	FY21 Guidance Based on FY20 large events ($9.7m)
Underlying NPAT	$28.4m	Exceeding 5% on FY20

- Two key areas we are focusing on to achieve this guidance are GWP growth of 5% or more, and continued improvement in our management expense ratio

Summary – a good result and an exciting future

- Sound strategy and demonstrated resilience in overcoming challenges of COVID-19
- Well capitalised with strong balance sheet and solvency margins
- Focus remains on accelerating growth and innovation through a relentless focus on customers
- Continue to invest in digital and data platform to drive efficiency and support growth
- Intention to resume dividends in FY21, with consideration of growth opportunities
- Analyst day planned for March 2021

Questions

Appendix

TOWER

Reconciliation between underlying profit after tax and reported profit after tax

$ million	FY20 underlying profit	Non-underlying items (1)	Impairment of receivable (2)	GWP reclassifications (3)	Other Reclassifications (4)	FY20 reported profit
Gross written premium	$385.1	-	-	$(8.0)	-	$377.2
Gross earned premium	$380.5	-	-	$(8.0)	-	$372.6
Reinsurance expense	$(57.2)	-	-	-	-	$(57.2)
Net earned premium	**$323.3**	**-**	**-**	**$(8.0)**	**-**	**$315.3**
Net claims expense	$(149.7)	$(3.7)	-	$7.2	$(25.2)	$(171.3)
Large events claims expense	$(9.7)	-	-	-	-	$(9.7)
Management and sales expenses	$(126.6)	$(4.7)	-	-	$28.9	$(102.4)
Underwriting profit	**$37.2**	**$(8.4)**	**-**	**$(0.8)**	**$3.8**	**$31.8**
Corporate management expenses	-	-	-	-	$(2.9)	$(2.9)
Investment and other revenue	$6.4	$0.1	-	-	$(0.9)	$5.6
Impairment of EQC receivable	-	-	$(13.1)	-	-	$(13.1)
Financing costs	$(1.1)	-	-	-	-	$(1.1)
Underlying profit before tax	**$42.4**	**$(8.3)**	**$(13.1)**	**$(0.8)**	**$0.0**	**$20.3**
Income tax expense	$(14.1)	$2.3	$3.7	$0.2	-	$(7.9)
Underlying profit after tax	**$28.4**	**$(6.0)**	**$(9.5)**	**$(0.5)**	**$0.0**	**$12.3**
Canterbury impact	$(2.7)	$2.7	-	-	-	-
Impairment of EQC receivable	$(9.5)	-	$9.5	-	-	-
Restructure provision	$(1.7)	$1.7	-	-	-	-
Simplification programme opex	$(0.8)	$0.8	-	-	-	-
Other non-underlying items	$(1.4)	$0.8	-	$0.5	$(0.0)	$(0.0)
Reported profit after tax	**$12.3**	-	-	-	-	**$12.3**

1) Non-underlying items are shown separately in Tower's underlying reporting, yet included within other lines (depending on the nature of the item) in the financial statements.
2) Premium refunds that were offset against GWP in the statutory reported results but were treated as non-underlying.
3) Reclassification of claims handling expenses from management expenses to net claims expense; reclassification of corporate costs from underwriting profit to underlying profit; reclassification of forex movements to management and sales expenses.
4) 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'. Corporate costs are included in management expenses for Tower's management reporting, however are excluded from underwriting profit for statutory reporting.

Underlying and reported profit:

- "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 Tower's financial performance between periods.
- Tower has applied a consistent approach to measuring underlying profit in the current and comparative periods.
- "Reported profit 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 2020.

TOWER

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