



Tower Limited

# Full Year Results to 30 September 2016

29 November 2016



# Introduction

Michael Stiasny  
Chairman



# Results overview

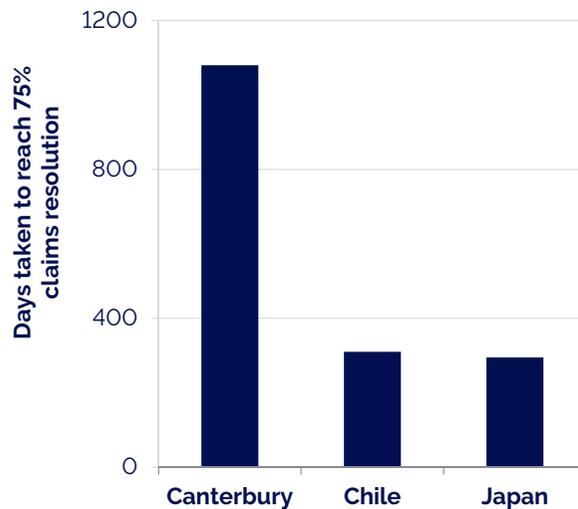
- **FY16 has been a year of tough decisions setting Tower up for the future**
  - reported loss of \$21.5m due to IT impairments and adjustments to Canterbury provisions
  - underlying profit of \$20.1m reflecting competitive industry environment
- **Improving core metrics gives confidence in underlying business**
  - return to policy growth in the core New Zealand book
  - reversed trend on management expenses
  - reduction in claims costs in H2
- **Decisions taken to enable Tower to become a high performer**
  - separation of the business to remove Canterbury risk
  - moving forward with new core insurance platform
- **Dividend on hold to preserve capital for RunOff Co**
  - dividend expected to resume once separation complete

# A broken industry model

## The Canterbury quakes are taking longer to settle and costing more than other comparable events

### TIME TAKEN TO RESOLVE CLAIMS

Canterbury quakes have taken significantly longer to resolve than other comparable events



Source: Marsh

### CONTINUED ESCALATION

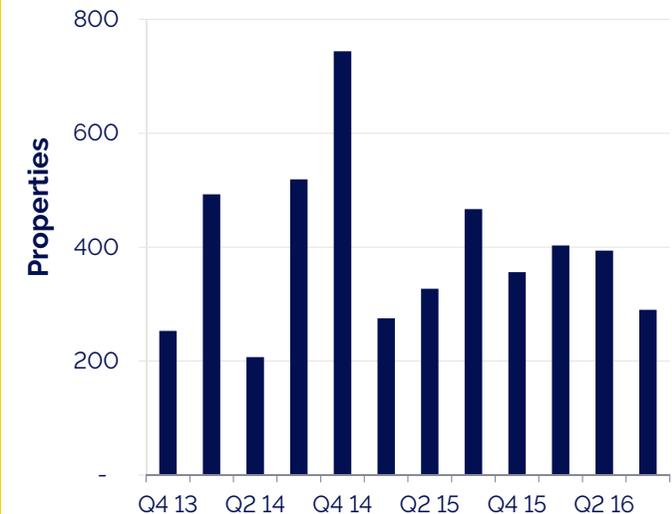
No material slow down in claims paid with continued growth in ultimate cost estimates



Source: RBNZ

### INDUSTRY OVERCAP PROPERTIES BY QUARTER

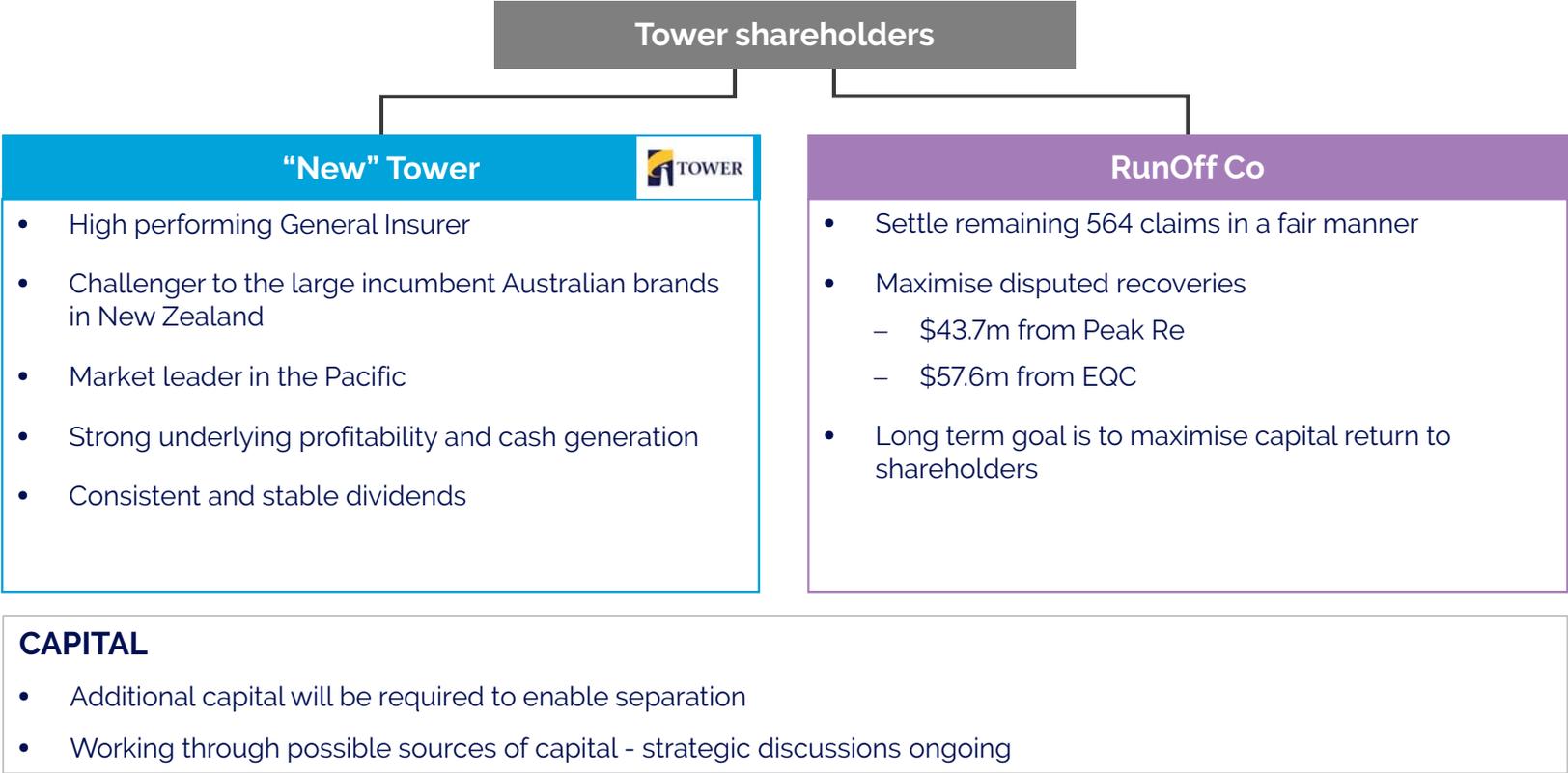
No slow down in industry overcap properties coming back to insurers



Source: ICNZ

# Creating focus

Separation will create focus, the two businesses will be separately managed for the benefit of both shareholders and policy holders





# Performance overview

**Richard Harding**  
Chief Executive Officer

# FY16 in review

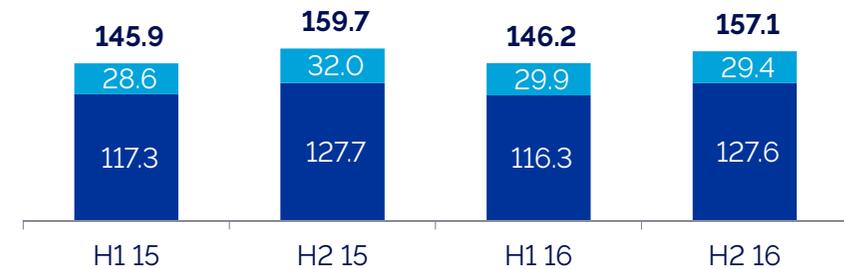


FY16 has been a year of tough decisions, setting up Tower for the future

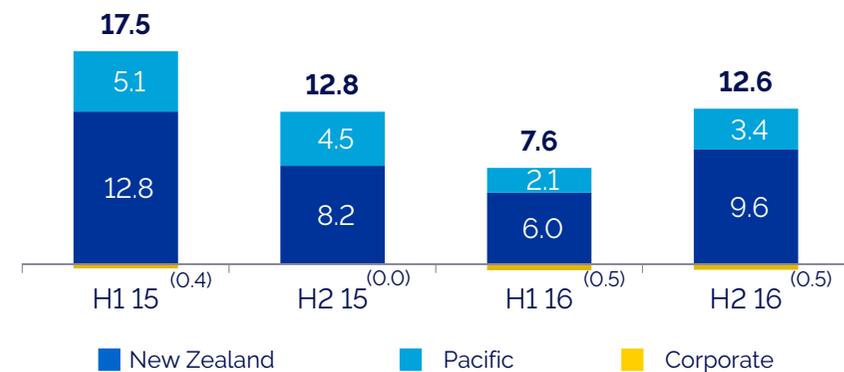
## ACHIEVEMENTS

- ✓ Return to policy growth in the core NZ book
- ✓ Reversed trend on management expenses
- ✓ Claims costs controlled in H2
- ✓ Product portfolio repriced
- ✓ New management team appointed
- ✓ Launch of Tower online
- ✓ Launch of new products
- ✓ Identification of required technology platform

## GWP (NZ\$m)



## UNDERLYING PROFIT (NZ\$m)



# Financial performance

## Reported loss of \$21.5m for the full year driven by IT impairments and further Canterbury provisions

### GROUP PROFIT SUMMARY (NZ\$m)

\$ million	FY 16	FY15	Movement \$	Movement %
Gross written premium	303.2	305.6	(2.3)	(0.8%)
Underwriting profit	19.8	26.3	(6.5)	(24.7%)
<b>Underlying profit after tax</b>	<b>20.1</b>	<b>30.3<sup>1</sup></b>	<b>(10.2)</b>	<b>(33.6%)</b>
Canterbury impact	(25.3)	(36.2)		
Impairment of intangibles	(14.1)	-		
Profit on discontinued businesses	-	1.4		
Foreign tax credits written off <sup>2</sup>	(2.2)	(2.1)		
<b>Reported loss</b>	<b>(21.5)</b>	<b>(6.6)</b>		
Underlying EPS (c) <sup>3</sup>	11.9	17.8		
DPS (c)	8.5	16.0		
<b>Key ratios</b>				
Claims ratio	50.3%	47.7%		
Expense ratio	41.9%	41.9%		
Combined ratio	92.2%	89.6%		

- Reported loss reflects :
  - \$25.3m impact from movement in Canterbury provisions (\$35.1m pre-tax)
  - \$14.1m impact from intangible asset impairment (\$19.6m pre-tax)
- Provisions increased at year end - \$7.0m post tax impact related to risk margin increases post 8 September announcement
- Underlying profit returned to long term trends in H2
  - H2 underlying profit of \$12.6m vs H1 underlying profit of \$7.6m

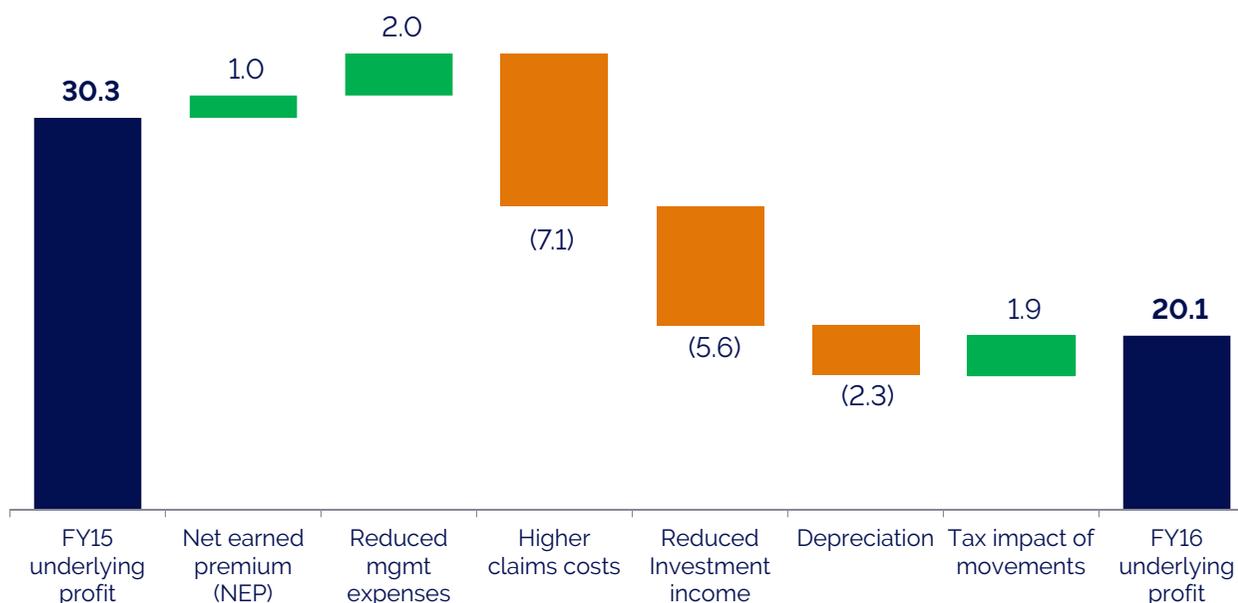
#### Notes:

1. FY15 underlying profit restated from \$28.2m to \$30.3m due to the classification of foreign tax credits written off one off items
2. Tower has lost the ability to use foreign tax credits due to the New Zealand business being in a loss making position following Canterbury provision increases and IT impairments
3. Reflects underlying profit rather than reported profit

# Movement in profit

Full year profit impacted by industry claims inflation and lower interest rate environment

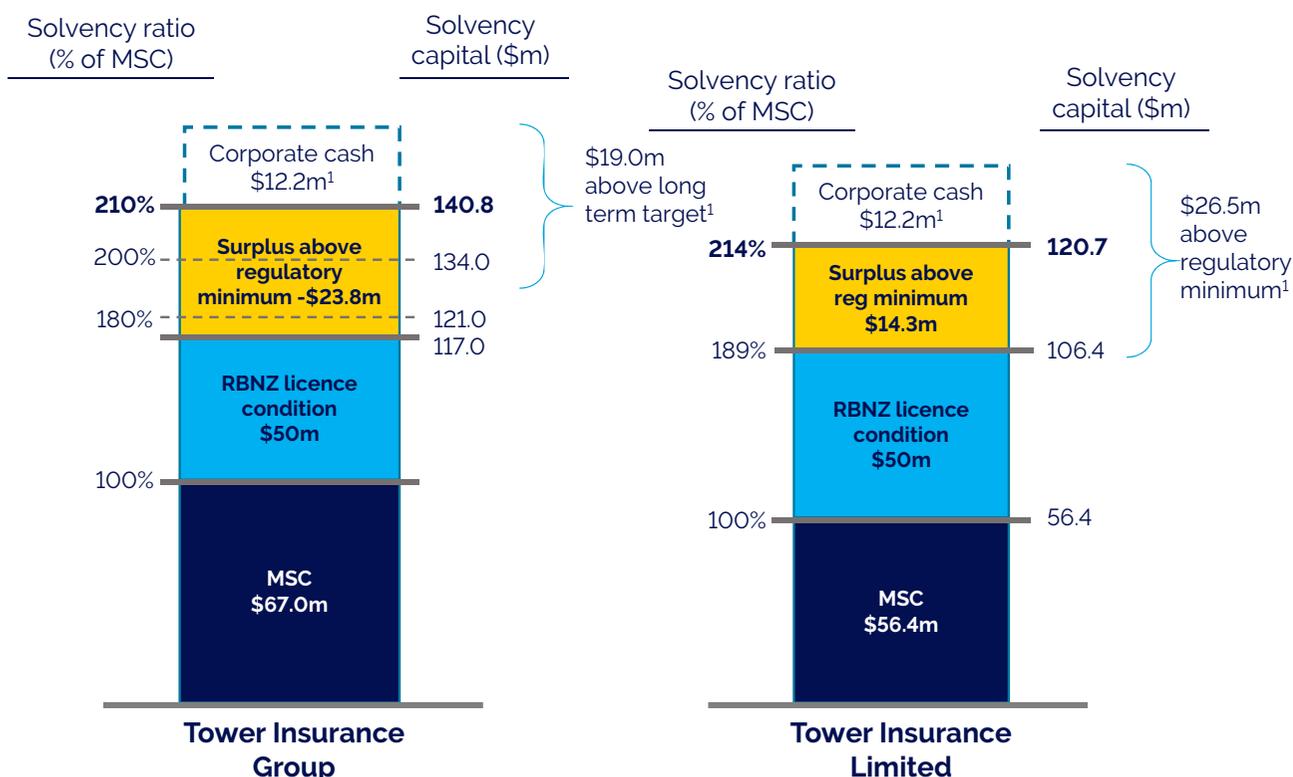
**MOVEMENT IN UNDERLYING PROFIT (NZ\$m)**



- Higher NEP due to reinsurance cost savings
- Reduced expenses as a result of focus on costs
- Higher claims costs in line with industry claims inflation and Cyclone Winston in the Pacific
- Lower interest rate environment impacted investment income
- Increased depreciation following go live of new systems

# Capital position

**\$26.5m capital above regulatory minimum including corporate cash at the year end**



- Tower Board has a long term target of 180 – 200% solvency ratio for Tower Insurance Group
- Tower Insurance Limited (New Zealand licensed entity) is required to hold \$50m of capital above MSC due to RBNZ licence condition
- Corporate cash available that can be injected into insurance entities at short notice
- \$50m liquidity facility also available if required
- Reinsurance program likely to limit impact of Kaikoura to \$13m reduction in solvency

Notes:

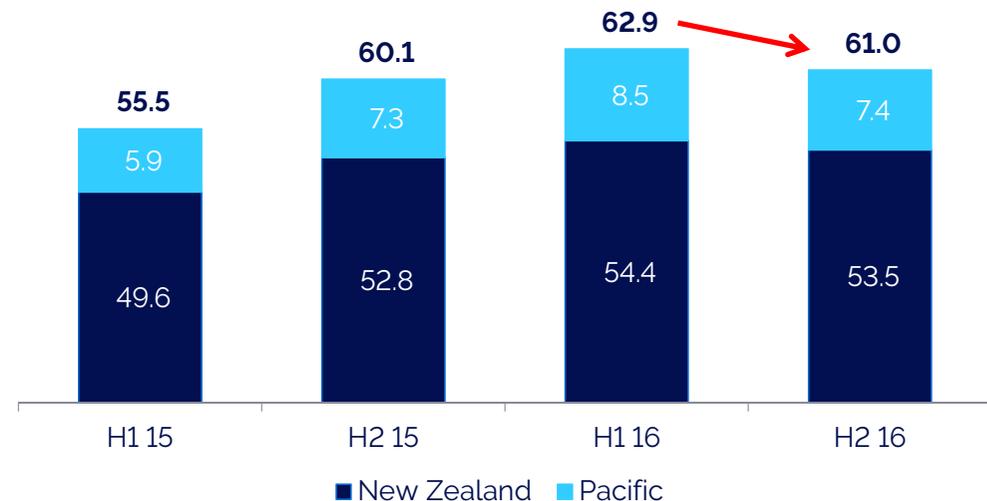
1. Corporate cash sits outside of regulated insurance entity, though is available to be injected into regulated entities as additional solvency capital if required
2. Capital above long term target / regulatory minimum includes corporate cash due to ability to be injected into regulated entities as additional solvency capital if required
3. MSC refers to minimum solvency capital as prescribed by RBNZ non-life solvency standard

# Claims update

## Claims management initiatives have driven reduced claims costs in the second half

- **Claims costs increased due to:**
  - Industry wide trends
  - Active storm season in the Pacific
  - Legacy policy issues in New Zealand
- **Actions to address escalating claims costs:**
  - Rollout of preferred supplier network in New Zealand
  - New claims handling processes
  - Product and pricing reviews

**TOWER CLAIMS EXPENSES (\$m)**

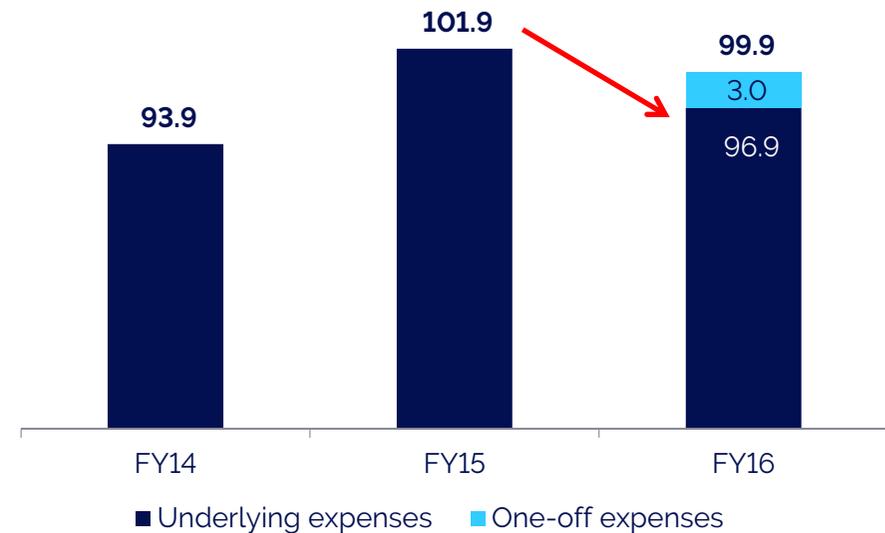


# Focus on costs

Tide has turned on management expenses. Overall expenses have fallen allowing reinvestment in the business

- Focus on simple initiatives has reduced expenses
  - supplier and vendor management
  - review of wastage across all business areas
- Some expense savings have been reinvested into key areas (digital, new products, improved capability)
- \$3.0m of one-off expenses incurred in FY16 preparing Tower for the future
- Significant improvement in expense base will be possible through longer term change initiatives (IT simplification and product rationalisation)

**MANAGEMENT EXPENSES (NZ\$m)**

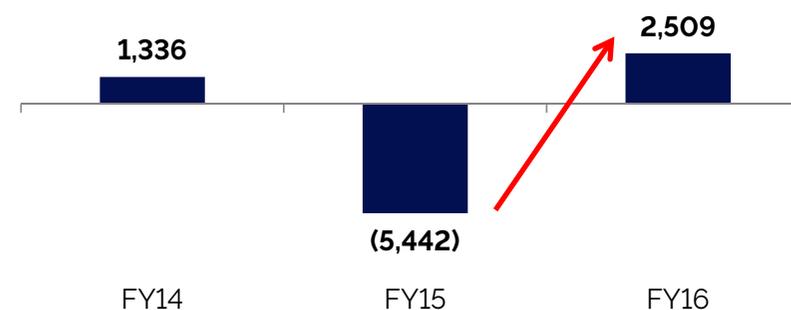


# Return to positive policy growth

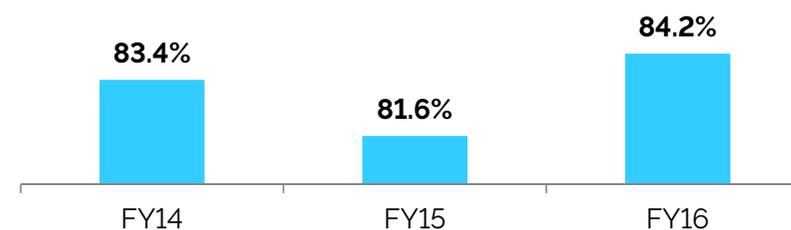
## Focus on retention has delivered policy growth

- Positive policy growth critical to delivering long term profit growth
- FY16 improvement driven by focus on retention
- FY17 expected to benefit from new business improvement
  - Digital launch in Tower Direct
  - TradeMe Insurance replatform
  - Recently signed Air NZ Airpoints partnership

**CORE<sup>1</sup> NEW ZEALAND POLICY MOVEMENT**  
(policies)



**TOWER DIRECT RETENTION RATES**



Notes:

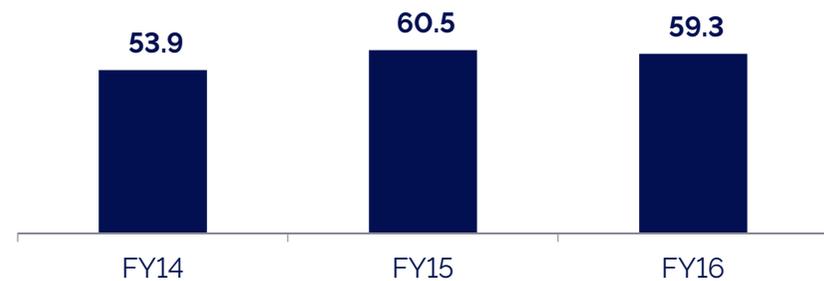
1. Core portfolio excludes legacy ANZ portfolio

# Disciplined approach to the Pacific

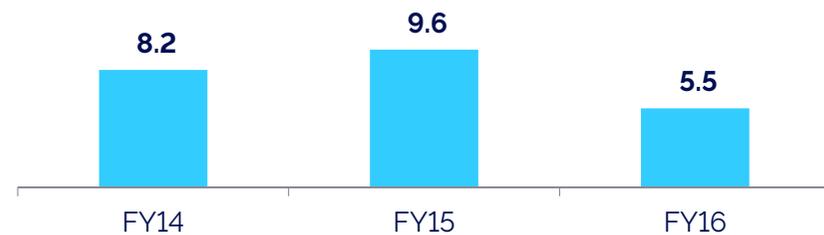
The Pacific has significant potential for Tower, we will increase our focus on this important market going forward

- FY16 NPAT impacted by Cyclone Winston (\$2.9m post tax impact), launch in Vanuatu and one off fire losses in PNG
- Year of transition for the Pacific
  - Increasing risk focus impacted GWP in PNG and Solomon Islands
  - Launch of Vanuatu increased expenses and claims costs
  - Repricing of portfolios underway
  - Concentration on key pan Pacific partners

**PACIFIC GWP (NZ\$m)**



**PACIFIC NPAT (NZ\$m)**



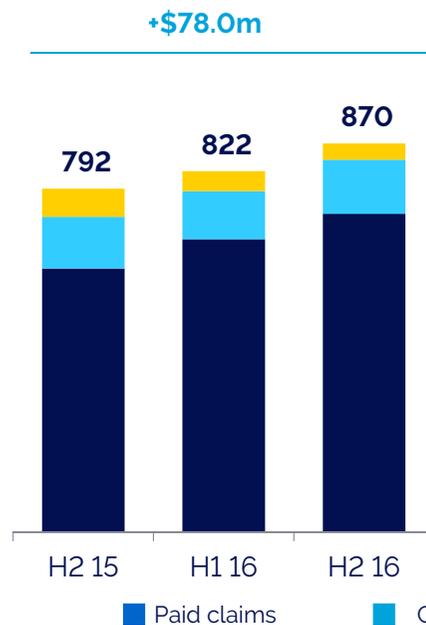
# Canterbury update



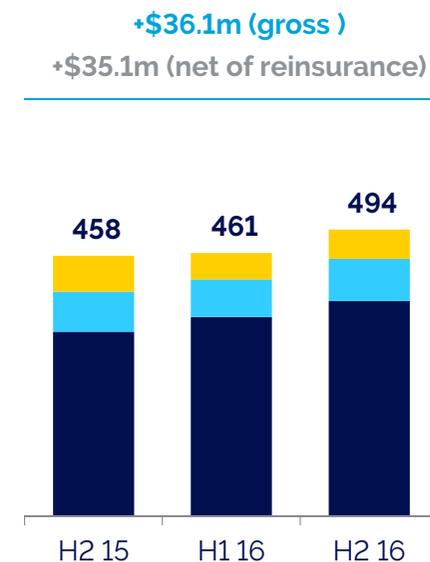
# Canterbury update

Costs continue to escalate, driven primarily by EQC and disputed claims

**TOTAL CANTERBURY CLAIM COSTS (\$m)**



**FEB 11 EVENT CLAIM COSTS (\$m)**



- Ultimate incurred claims costs increase by \$78m, net impact on Tower of \$35.1m (before tax)
  - Further \$9.7m increase (before tax) in provisions since 8 September announcement, with risk margin increases
- No material reduction in case estimates or IBNR given ongoing escalation
- Retain complete confidence in positions on PeakRe and EQC recoveries

# Continued uncertainty

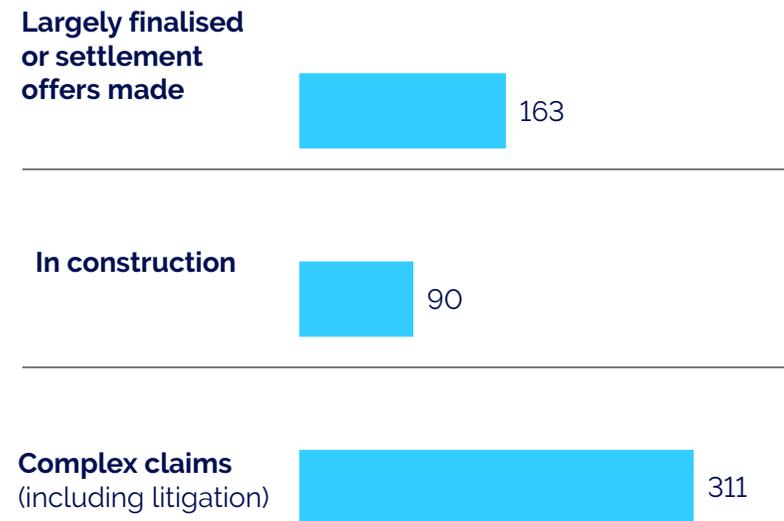
We continue to receive new claims from EQC and additional hard landscaping claims when EQC does the work

## MOVEMENT IN PROPERTIES



- New claims continue to be received due to:
  - EQC overcap claims
  - Additional hard landscaping and accommodation claims as EQC finalise undercap properties
- Reopenings due to customer disputes and EQC

## BREAKDOWN OF REMAINING PROPERTIES



# Creating focus

Strength gained from separation based on singular focus – RunOff Co to manage Canterbury tail and New Tower to build on improving core business

	"New" Tower	RunOff Co
<b>Ownership structure</b>	<ul style="list-style-type: none"> <li>Listed on NZX</li> </ul>	<ul style="list-style-type: none"> <li>Separate legal entity</li> </ul>
<b>Management and Board</b>	<ul style="list-style-type: none"> <li>Current management and Board structure</li> </ul>	<ul style="list-style-type: none"> <li>Management team and Board to be appointed</li> </ul>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>Become a high performing General Insurer challenging market incumbents</li> </ul>	<ul style="list-style-type: none"> <li>Manage Canterbury liabilities to maximise capital return</li> </ul>
<b>Assets held</b>	<ul style="list-style-type: none"> <li>Tower's underlying core businesses in New Zealand and the Pacific</li> </ul>	<ul style="list-style-type: none"> <li>All liabilities and receivables associated with Canterbury including:               <ul style="list-style-type: none"> <li>– Reinsurance and EQC receivables</li> <li>– Customer liabilities</li> </ul> </li> </ul>
<b>Capital requirements</b>	<ul style="list-style-type: none"> <li>Long term target of 160 – 180% of MSC</li> </ul>	<ul style="list-style-type: none"> <li>Capital requirement to be finalised</li> </ul>
<b>Dividend policy</b>	<ul style="list-style-type: none"> <li>In line with industry peers</li> </ul>	<ul style="list-style-type: none"> <li>Capital requirement assessed annually, excess capital to be repaid to shareholders (with RBNZ approval)</li> </ul>

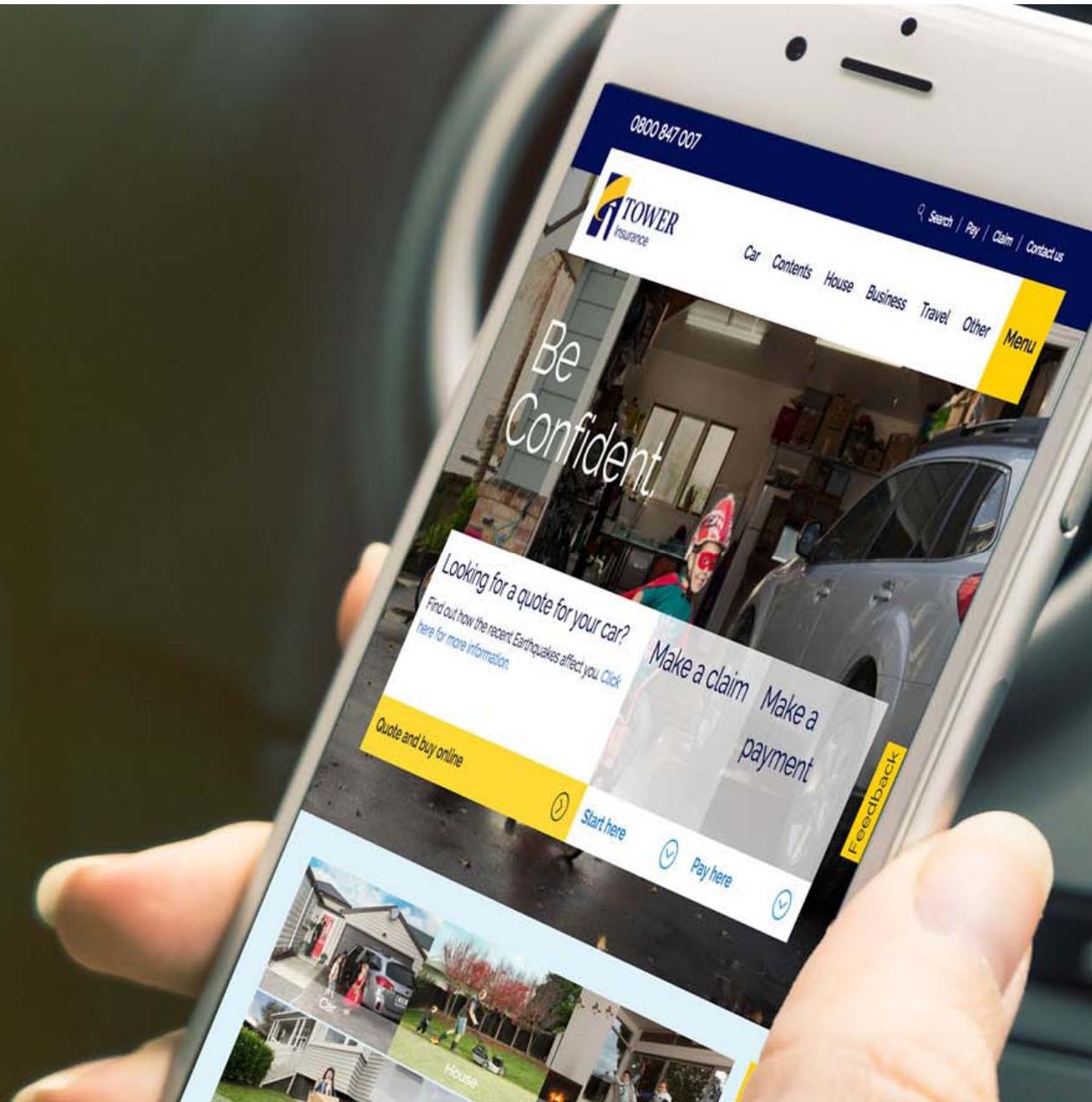
# Creating focus

## Three key steps required for the separation



- Separate licence required for both RunOff Co and New Tower
  - Initial discussions have been held - RBNZ has consented to the creation of two separate licensed entities, subject to licensing criteria being satisfied
  - Process ongoing to receive formal RBNZ approval
- 
- Extra capital required to implement separation
    - exact quantum to be finalised
  - Exploring options – both capital markets and strategic partner options considered
    - discussions are ongoing
- 
- Shareholder approval required to execute separation
  - Likely to take place with ASM in March 2017
-

**Confident in  
our future**



# Focusing on the core

Our strategic imperatives will drive high performance



## MEDIUM TERM TARGETS

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

# Creating simple and easy access

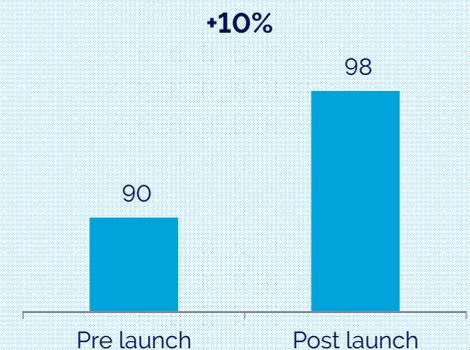
**We will build our digital capability - 50% of all transactions to be online within the next 3 – 5 years**

- Programs in place to enable digital functionality:
  - Cover for car relaunch
  - Online quote to buy functionality for house and contents
  - TradeMe Insurance replatform
- Current programme will improve attractiveness to new to Tower customers
- Enhanced mobile capability and responsiveness
- Longer term omni-channel experience available following IT simplification

## TOWER COVER 4 CAR RELAUNCH

- Cover for Car launched on 5 October
- Opens Tower to new markets and wider customer set
- Great response from customers
- Conversion rates exceeding expectations

### *Daily policy sales*



# Leveraging digital partnerships

We will use our enhanced digital capability to leverage our key partnerships

- Digital capability will allow us to work with partners and deliver attractive targeted propositions
- Combining Tower capability with partners information and customer base creates compelling propositions



- 1.8 million subscribers
- Offer Tower customers retention and acquisition propositions
- Different demographic to current Tower partnerships



- 1.4 million registered customers
  - Bespoke offering developed specifically for TradeMe customers
  - Technology refresh adds capability and stability – marketing to be restarted
-

# Delivering underwriting excellence

Underwriting excellence is critical to delivering growth and consistent levels of profitability

	 <b>Product</b>	 <b>Pricing</b>	 <b>Risk selection</b>	 <b>Monitoring</b>
<b>Requirements</b>	<ul style="list-style-type: none"> <li>• Modern effective products in plain English</li> <li>• Continual updates to wording reflective of claims and market environment</li> </ul>	<ul style="list-style-type: none"> <li>• Advanced rating algorithms using external and internal data sources</li> <li>• Targeting niche segments</li> <li>• Price to profit targets based on cost of risk</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure active underwriting with appropriate delegations</li> <li>• Automatic underwriting where possible, though skilled underwriters available where necessary</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring of portfolio for movements in pricing or customer behaviour</li> <li>• Post claims underwriting</li> </ul>
<b>Recent activities</b>	<ul style="list-style-type: none"> <li>✓ Launch of new products</li> <li>✓ Excess refund removed</li> <li>✓ Wording for illegal substances</li> </ul>	<ul style="list-style-type: none"> <li>✓ Portfolio repriced</li> </ul>	<ul style="list-style-type: none"> <li>✓ Capability build</li> </ul>	<ul style="list-style-type: none"> <li>✓ New data store built</li> </ul>

# Simple and easy products



## Rationalising into a simple and easy package style product

### OUR NEW PRODUCTS

- ✓ Modern product packages
- ✓ Tiered product structure to create choice and clarity of offer
- ✓ Tightened wording to address claims leakage
- ✓ Simple clear products to enable staff to easily serve customers

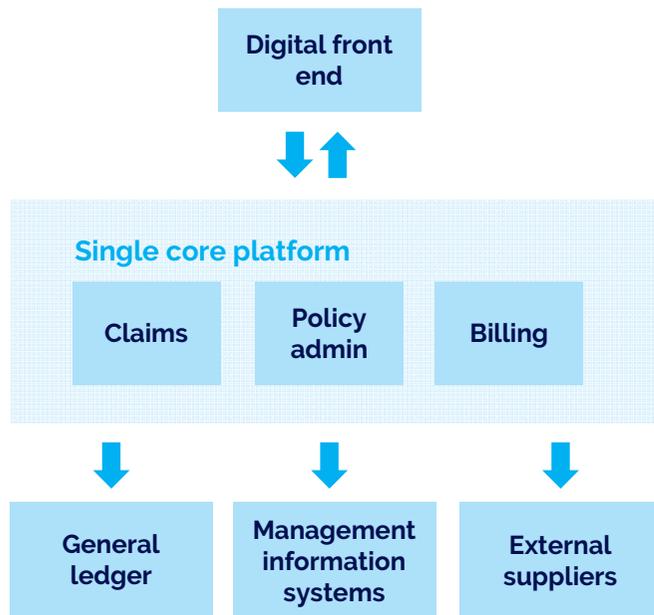


	Premium cover	Plus cover	Standard cover
Accidental loss or damage	✓	✓	✓ at your house
Basis of settlement	✓ Replacement value	✓ Replacement value	✓ Replacement value
Unspecified jewellery per item	✓ \$10,000	✓ \$2,500	✓ \$1,000
Specified jewellery per item	✓ >\$10,000	✓ >\$2,500	✓ >\$1,000
Unspecified jewellery total	✓ \$30,000	✓ \$15,000	✓ \$5,000
Any one item or set limit	✓ \$10,000	✓ \$5,000	✓ \$1,000
Specified items	✓ >\$10,000	✓ >\$5,000	✓ >\$1,000
Collections	✓ \$5,000	✓ \$3,000	✓ \$1,500
Specified collections	✓ >\$5,000	✓ >\$3,000	✓ >\$1,500

# IT simplification

IT simplification is a key enabler that will allow us to both drive growth and reduce costs

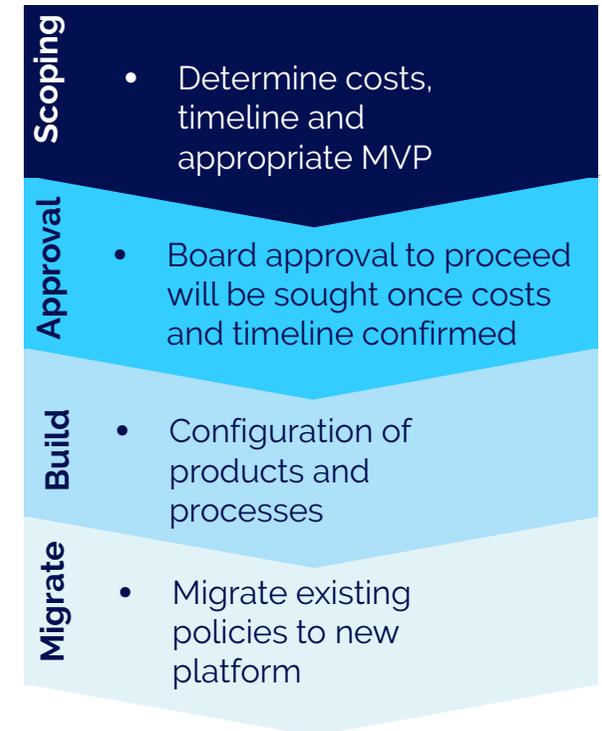
## OUR FUTURE STATE



## EXPECTED BENEFITS

- ✓ Operational efficiencies
- ✓ Granular pricing
- ✓ Flexibility to update products and pricing
- ✓ Improved claims management
- ✓ Digital and self service capability
- ✓ Improved information and reporting

## THE PROCESS

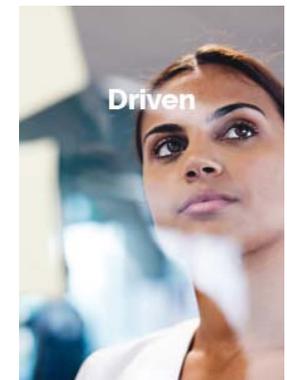
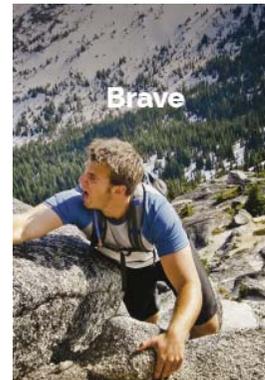


# Developing a challenger culture

Building a more dynamic, constructive culture will help deliver improved financial performance



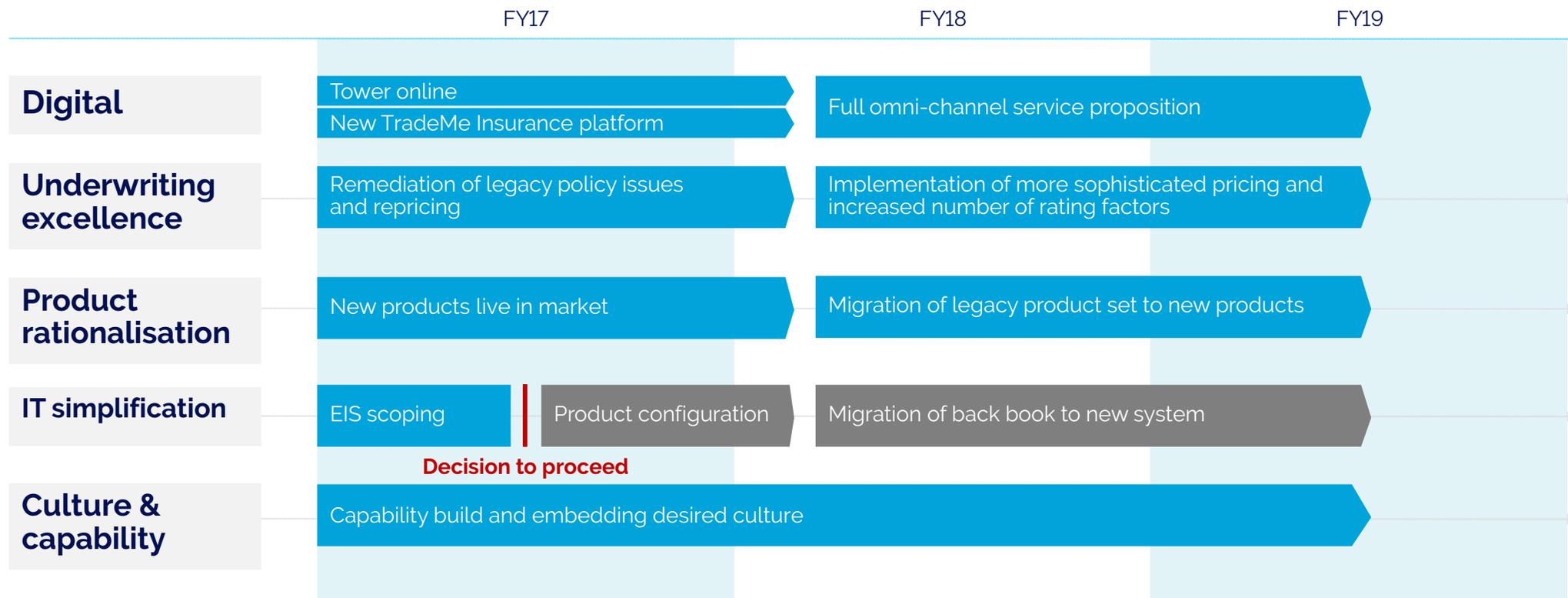
## OUR VALUES



# Our plan



We have a plan that addresses change across our entire business



# Outlook



Successful delivery of our transformation will deliver an improved financial trajectory for Tower

## 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

### *Medium term*

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

# Appendices



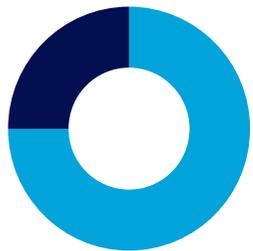
# A New Zealand and Pacific general insurer



FY16

**\$20.1m**

UNDERLYING NPAT<sup>1</sup>

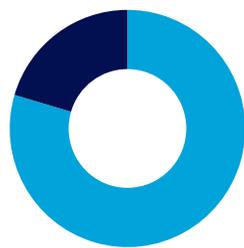


- New Zealand 74%<sup>2</sup>
- Pacific Islands 26%<sup>2</sup>

FY16

**\$303.2m**

GWP

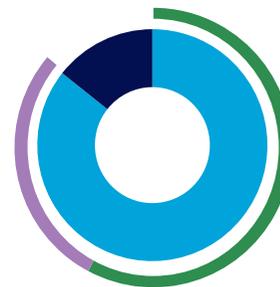


- New Zealand 80%
- Pacific Islands 20%

As at 30 September 2016

**475k**

INFORCE POLICIES

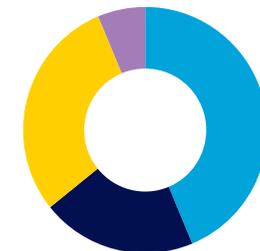


- New Zealand 86%
- Pacific Islands 14%
- New Zealand - Direct 69%
- New Zealand - Alliances 31%

As at 30 September 2016

**Personal lines focus**

GWP breakdown



- House 43.7%
- Contents 20.5%
- Motor 29.5%
- Other 6.3%

Notes:

1. Excludes impact of the Canterbury earthquakes, foreign tax credits lost and IT impairment
2. Represents percentage of General Insurance underlying profit, excluding Corporate

# Underlying performance

## Tower Group



\$ million	Half year results				Full year results		
	H2 16	H1 16	H2 15	H1 15	FY 16	FY15	Movement %
Gross written premium	157.1	146.2	159.7	145.9	303.2	305.6	(0.8%)
Gross earned premium	151.5	151.5	154.3	150.4	302.9	304.7	(0.6%)
Reinsurance Costs	(24.6)	(24.5)	(26.3)	(25.7)	(49.1)	(51.9)	(5.5%)
<b>Net earned premium</b>	<b>126.9</b>	<b>127.0</b>	<b>128.1</b>	<b>124.7</b>	<b>253.8</b>	<b>252.8</b>	<b>0.4%</b>
Net incurred claims	(61.0)	(62.9)	(60.1)	(55.5)	(123.9)	(115.6)	7.2%
Large events claims <sup>1</sup>	(0.5)	(3.3)	(4.9)	0.0	(3.8)	(4.9)	(23.7%)
Management and sales expenses	(49.1)	(50.8)	(52.7)	(49.2)	(99.9)	(101.9)	(1.9%)
Depreciation and amortisation	(3.7)	(2.7)	(2.2)	(1.8)	(6.4)	(4.0)	
<b>Underwriting profit</b>	<b>12.6</b>	<b>7.2</b>	<b>8.1</b>	<b>18.3</b>	<b>19.8</b>	<b>26.3</b>	<b>(24.6%)</b>
Investment revenue	4.1	4.4	6.7	7.3	8.5	14.0	(39.6%)
<b>Underlying Profit before tax</b>	<b>16.7</b>	<b>11.6</b>	<b>14.8</b>	<b>25.6</b>	<b>28.3</b>	<b>40.3</b>	<b>(29.8%)</b>
Income tax expense	(4.1)	(4.0)	(2.0)	(8.0)	(8.2)	(10.0)	(18.5%)
<b>Underlying profit after tax<sup>2</sup></b>	<b>12.6</b>	<b>7.6</b>	<b>12.8</b>	<b>17.5</b>	<b>20.1</b>	<b>30.3</b>	<b>(33.6%)</b>

Notes:

1. Large event claims refer to events with cumulative claims cost greater than \$1m
2. Underlying profit excludes the impact of Canterbury earthquakes, foreign tax credits, IT impairments and profit on discontinued businesses.

# General Insurance New Zealand



\$ million	Half year results				Full year results		
	H2 16	H1 16	H2 15	H1 15	FY 16	FY15	Movement %
<b>Key financial metrics</b>							
Gross written premium	127.6	116.3	127.7	117.3	243.9	245.1	(0.5%)
BAU claims	53.5	54.4	52.8	49.6	107.9	102.4	5.3%
Large event claims <sup>1</sup>	(0.3)	(0.1)	4.9	(0.0)	(0.3)	4.9	n/a
Underwriting profit	9.2	5.4	3.5	12.5	14.7	16.0	(8.2%)
Underlying NPAT <sup>2</sup>	9.6	6.0	8.2	12.8	15.6	21.0	(25.9%)
<b>Key operating metrics</b>							
BAU loss ratio	41.9%	51.8%	50.3%	47.7%			
Total loss ratio	41.7%	51.8%	55.0%	47.7%			
Policies inforce (000)	341.1	339.9	338.6	342.7	341.1	338.6	0.7%
ANZ inforce (000)	65.6	69.2	72.9	77.5	65.6	72.9	(9.9%)
Total policies inforce (000)	406.8	409.0	411.5	420.2	406.8	411.5	(1.1%)

Notes:

1. Large event claims refer to events with cumulative claims cost greater than \$1m
2. Underlying profit excludes the impact of Canterbury earthquakes and foreign tax credits lost ,

# General Insurance Pacific



\$ million	Half year results				Full year results		
	H2 16	H1 16	H2 15	H1 15	FY 16	FY15	Movement %
<b>Key financial metrics</b>							
Gross written premium	29.4	29.9	32.0	28.6	59.3	60.5	(2.0%)
BAU Claims	7.4	8.5	7.3	5.9	16.0	13.2	21.5%
Large event claims <sup>1</sup>	0.8	3.3	-	-	4.1	-	n/a
Underwriting profit	4.8	3.2	6.0	7.3	8.0	13.2	(39.6%)
Underlying NPAT	3.4	2.1	4.5	5.1	5.5	9.6	(42.7%)
<b>Key operating metrics</b>							
BAU loss ratio	25.3%	38.8%	31.5%	28.3%			
Total loss ratio	27.9%	53.9%	31.5%	28.3%			
Policies outstanding	68,291	68,382	68,747	68,237	68.3	68.7	(0.7%)

Notes:

1. Large event claims refer to events with cumulative claims cost greater than \$1m

# Balance sheet Tower Group



\$ million	FY16	FY15	Movement \$	Movement %
Cash & call deposits	92.2	125.1	(32.9)	(26.3%)
Investment assets	188.6	213.6	(25.0)	(11.7%)
Deferred acquisition costs	20.0	20.3	(0.3)	(1.5%)
Intangible assets	32.0	48.4	(16.4)	(33.9%)
Other operational assets	307.5	302.9	4.7	1.5%
<b>Total assets</b>	<b>640.3</b>	<b>710.2</b>	<b>(69.9)</b>	<b>(9.8%)</b>
Policy liabilities & insurance provisions	(361.0)	(375.9)	14.9	(4.0%)
External debt	0.0	0.0	0.0	0.0%
Other operational (liabilities)/assets	(55.3)	(53.3)	(2.0)	3.7%
<b>Total liabilities</b>	<b>(416.3)</b>	<b>(429.2)</b>	<b>12.9</b>	<b>(3.0%)</b>
<b>Total equity</b>	<b>224.0</b>	<b>281.0</b>	<b>(57.1)</b>	<b>(20.3%)</b>

# Impact of Canterbury claims

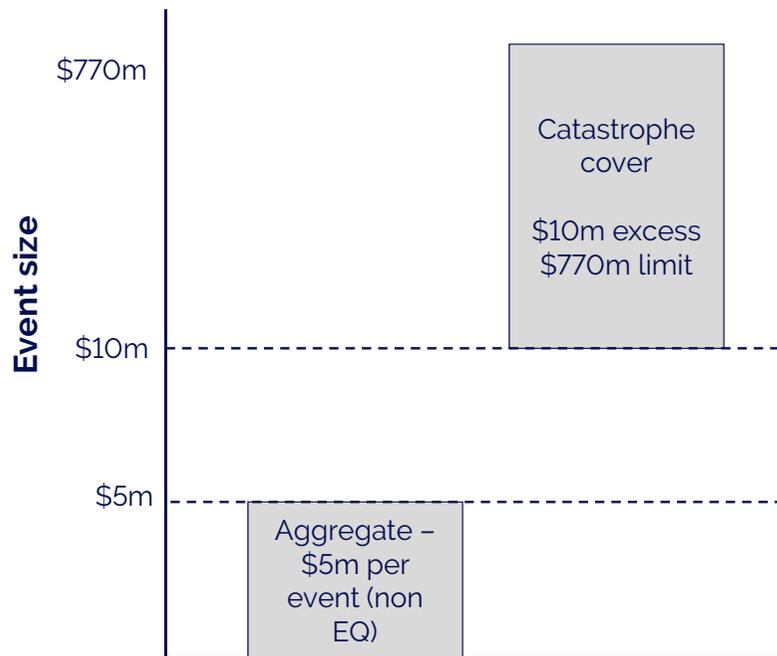


(\$m)	Feb 11 event			Total Canterbury		
	H2 16	H1 16	H2 15	H2 16	H1 16	H2 15
<b>Ultimate incurred claims</b>						
Customer claims	493.6	461.4	457.5	869.6	822.3	792.0
Reinsurance recoveries	(375.4)	(375.4)	(374.4)	(734.7)	(719.7)	(692.2)
<b>Net claims cost to Tower</b>	<b>118.2</b>	<b>86.0</b>	<b>83.2</b>	<b>134.9</b>	<b>102.7</b>	<b>99.8</b>
<b>Intra period movements</b>						
Movements in claims costs	32.2	3.9	53.1	47.3	30.3	43.6
Reinsurance recoveries	0.0	(1.0)	(39.0)	(15.0)	(27.5)	(29.5)
Cost of the ADC	-	0.0	4.8	-	-	4.8
Net increase	32.2	2.9	18.9	32.2	2.9	18.9
Income tax benefit	(9.0)	(0.8)	(5.3)	(9.0)	(0.8)	(5.3)
<b>Net impact after tax</b>	<b>23.2</b>	<b>2.1</b>	<b>13.6</b>	<b>23.2</b>	<b>2.1</b>	<b>13.6</b>

# Reinsurance structure overview

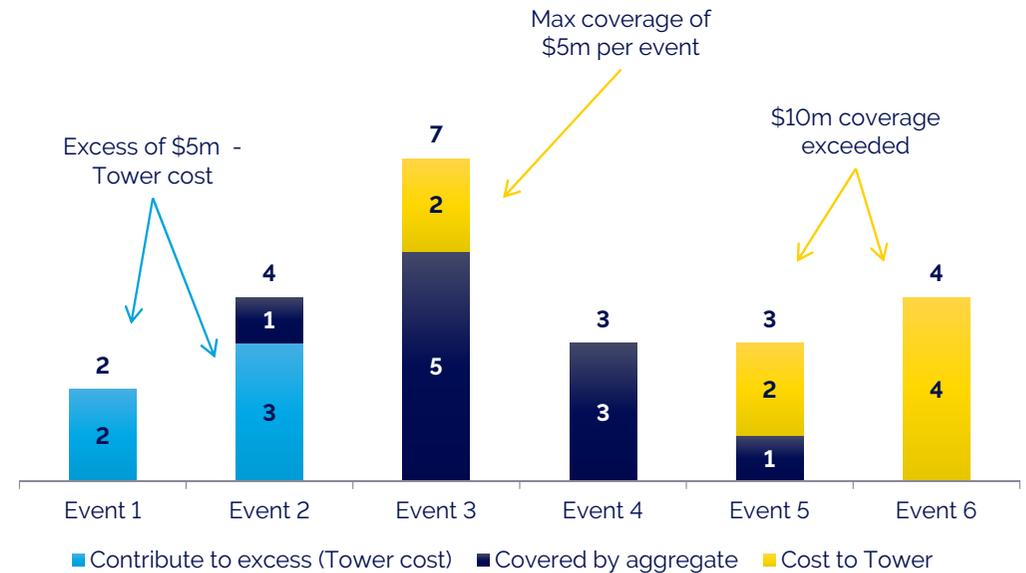


## STRUCTURE OVERVIEW (per event)



## AGGREGATE OVERVIEW

- Min event size of \$1m to qualify, max of \$5m per event coverage
- \$10m cover once \$5m excess filled
- No coverage for EQ





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