Tower

2022 Half Year Results

1 October, 2021 to 31 March, 2022

26 May, 2022

Agenda

Chairman’s update
Michael Stiassny, Chairman

Business update
Blair Turnbull, Chief Executive Officer

HY22 financial performance
Paul Johnston, Chief Financial Officer

Looking forward
Blair Turnbull, Chief Executive Officer

Chairman's update

Sound business performance and delivering dividends

TACKLING THE CHALLENGES

- Proactively managing climate change risks
- Robust reinsurance programme providing protection from large events
- Rating and underwriting actions addressing inflation

STRONG CAPITAL POSITION

- Guidance affirmed and 2.5¢ dividend announced
- AM Best reaffirmed A- financial strength rating
- $30.4m capital returned to shareholders
- Prudent use of capital in value accretive acquisitions

CONTINUED LONG-TERM GROWTH

- Solid performance continuing on core business platform
- Flagship Tower Direct digital business growing
- Leveraging unique partnership distribution capability
- Digitising Pacific business improving efficiency & growth

Business Update

Blair Turnbull
Chief Executive Officer

TOWER

Our performance

Good business performance, achieved through growth and efficiencies

GWP growth
(Gross written premium)

11% | $216m
vs $194m in HY21

Customer growth

312,000
vs 294,000 in HY21

BAU claims ratio

48.6%
vs 48.2% in HY21

MER
(Management expense ratio)

35.8%
vs 37.1% in HY21

Underlying profit
excl. large events

$18.2m
vs $17.1m in HY21

Large events

$17.9m
vs $9.3m in HY21

COR
(Combined operating ratio)

94.8%
vs 90.9% in HY21

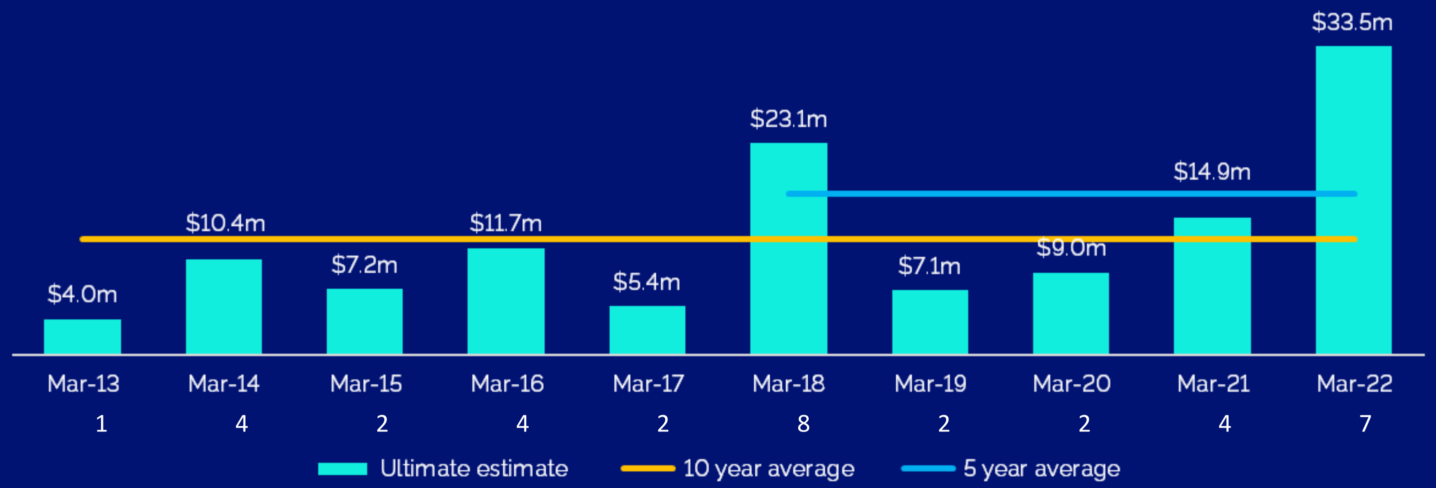
Reported profit

$3m
vs $11.1m in HY21

Climate change and large events

Managing increasing large event frequency and severity

ROLLING 12 MONTHS LARGE EVENTS
(ULTIMATE ESTIMATE)



Number of events	1	4	2	4	2	8	2	2	4	7

Risk-based pricing

Flood & earthquake

Coastal risks planned for HY23

Reinsurance

$20m aggregate cover

$862m catastrophe cover

Outlook for second half

Expecting continued business performance, large events impacts mitigated

Sound business performance

- Expecting continued growth in premium revenue
- Controlling inflationary pressure on claims expenses
- Management expenses benefitting from increased scale

Reinsurance programme will reduce volatility in second half

- Tower pays first $20m of large events in the year (currently at $17.9m)
- Reinsurance covers aggregate event costs in excess of $20m up to a limit of $40m
- $20m of total large events costs is planned for within the FY22 guidance range

HY dividend announced

2.5¢

Guidance confirmed

$21m - $25m

Underlying NPAT

5.5¢ total dividend for the full year expected[1]

Note 1: Tower's ordinary dividend policy is to pay out 60-80% of the full year cash earnings, where prudent to do so, with cash earnings defined as full year Reported Net Profit After Tax adjusted for acquisition amortisation and unusual items

Strong core business performance

UNDERLYING NPAT
excl. large events & NII

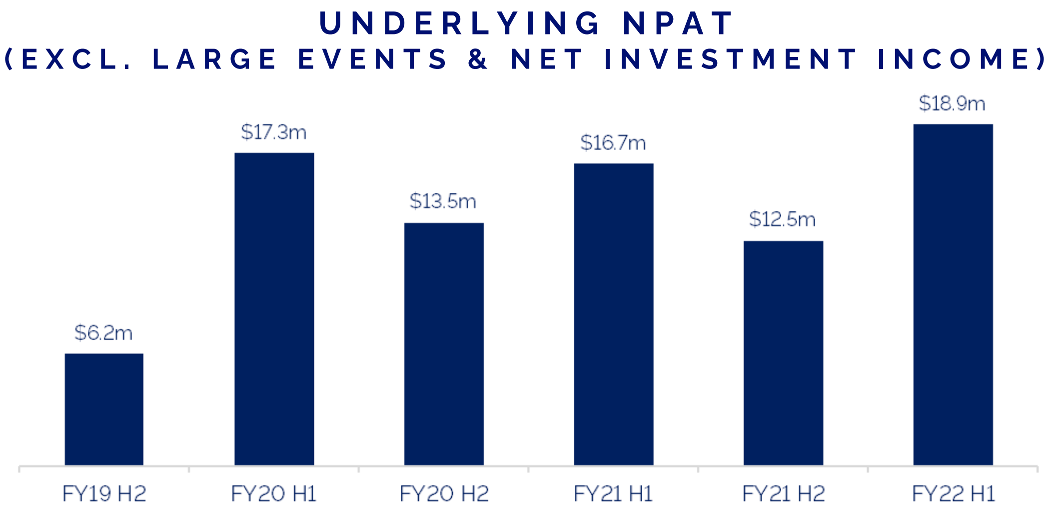
$18.9m

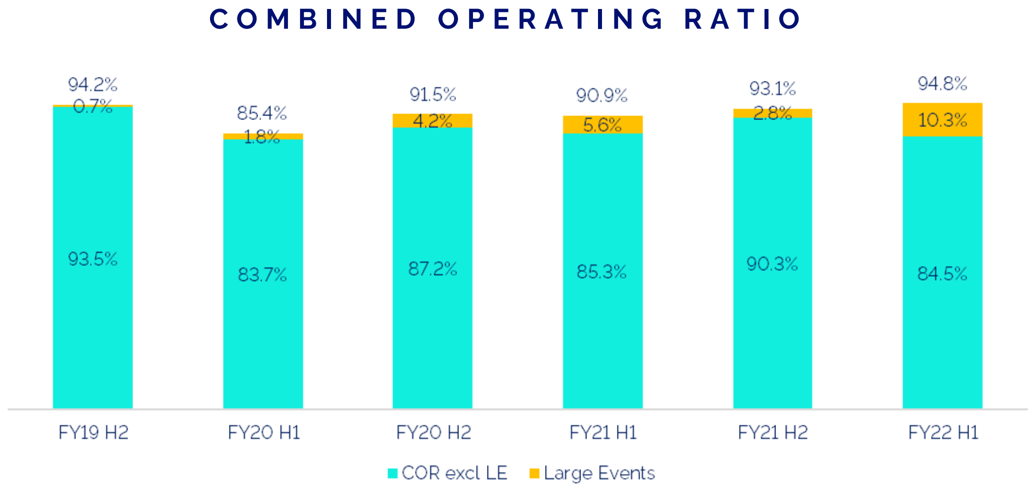
vs $16.7m HY21

COMBINED OPERATING RATIO

94.8%

vs 90.9% HY21





- Improved business performance
- Strong growth
- Managing inflation & claims costs
- Platform delivering scale & efficiencies, reducing MER

Consistent growth in customers and premium

GWP GROWTH

11%

to $216m in HY22

CUSTOMERS

312,000

up 6% on HY21

NET PROMOTER SCORE (NPS)

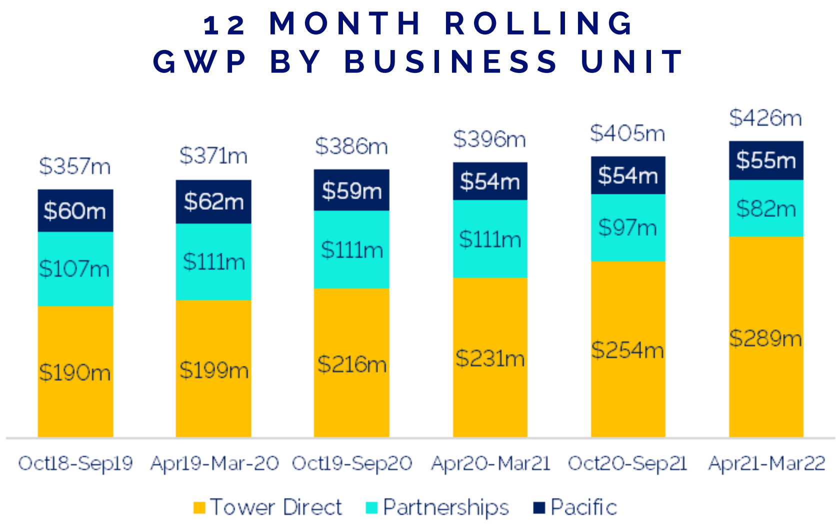
40%

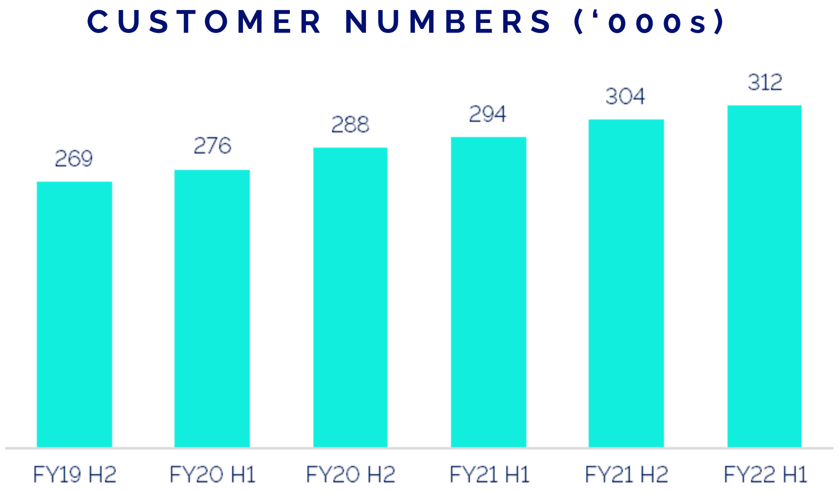
vs 34% in HY21

COST TO ACQUIRE

11%

of net earned premium vs 12% HY21





TOWER

Digitisation driving customer engagement and growth

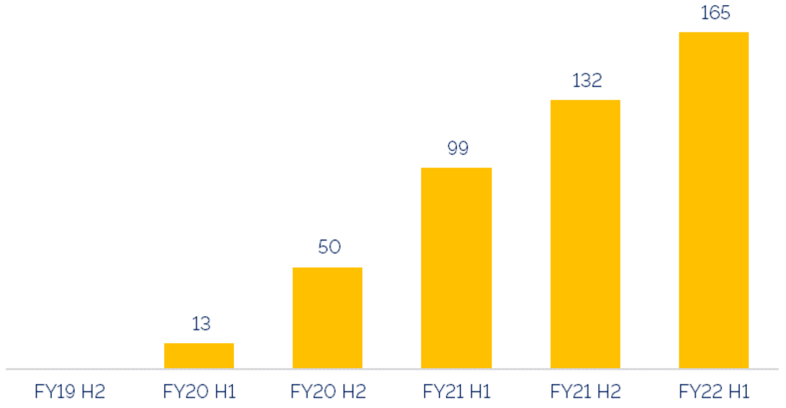
ONLINE QUOTES
41%
increase from HY21

DIGITAL SALES
63%
of Tower Direct sales are digital. Up from 58% HY21

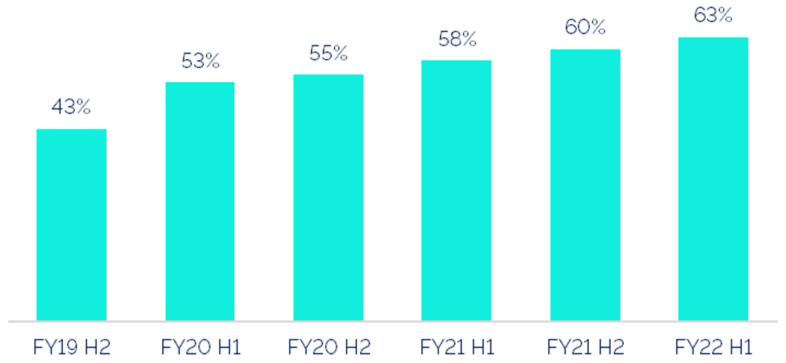
CROSS SELL
42%
of NZ sales are to existing customers

MY TOWER CUSTOMERS WITH MULTIPLE PRODUCTS
55%
Up from 47% HY21

MY TOWER REGISTRATIONS ('000s)



% OF DIGITAL NEW BUSINESS SALES - TOWER DIRECT



Expanding partnerships, driving scalable growth

FLAGSHIP TRADE ME PARTNERSHIP ACCELERATING GROWTH

40,000

risks up 35% vs HY21

ACCELERATED ADVISOR GROWTH

1,400

21% increase since Nov '21

BUILDING PARTNERSHIP ECOSYSTEMS

NZ Automotive Investments Ltd

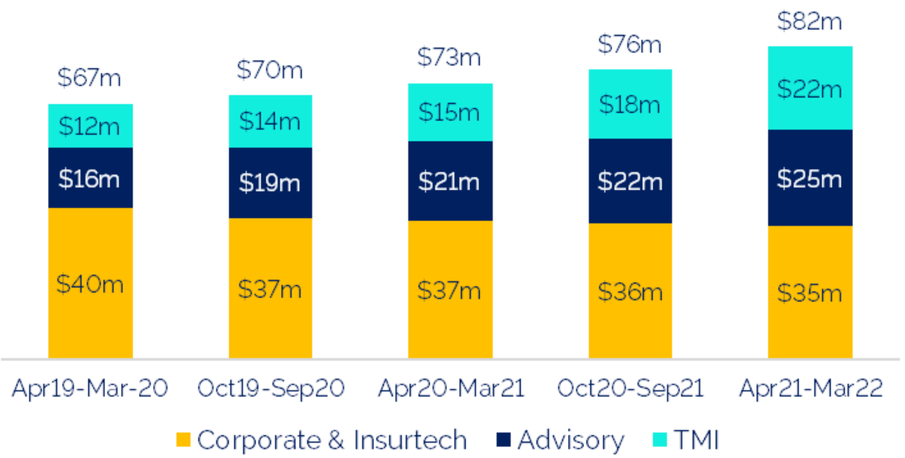
One of NZ's largest importers of used cars

PURCHASE OF LEGACY BOOKS

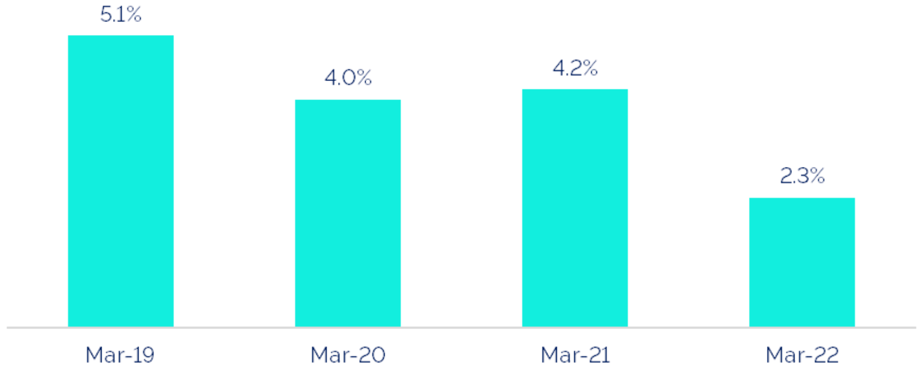
ANZ, Westpac

Westpac in Feb '22

12 MONTH ROLLING PARTNERSHIP GWP (EXCL ANZ)



COMMISSION (% to GEP)



TOWER

Pacific digitisation delivering enhanced efficiencies

DIGITAL PLATFORM ENABLING NEW BUSINESS

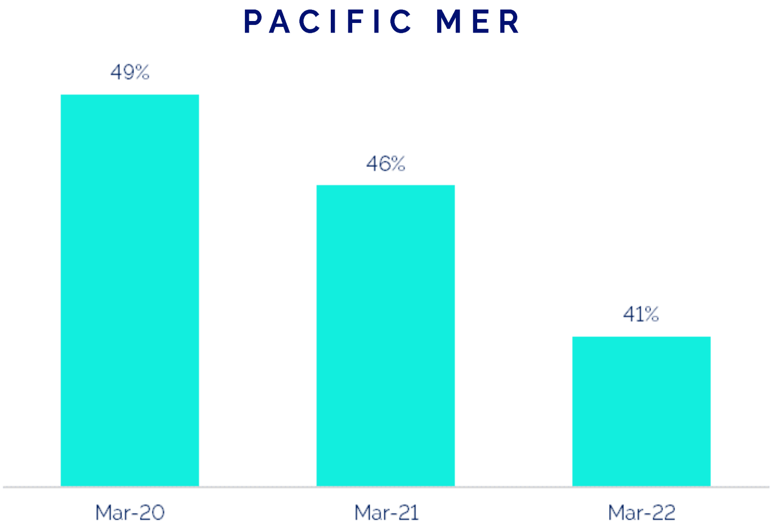
88%

of all Fiji new business via EIS in Mar '22 vs 23% in Mar '21

STREAMLINING NZ & PACIFIC OPERATIONS

One Tower brand

in FY22 following NPI acquisition



- Tower technology platform launched in Fiji, Tonga, Vanuatu and Samoa, plan to complete rollout in 2022
- Pacific industry-first online payments capability
- Domestic product suite rationalised from 33 to 13, aligned with NZ
- Resilient to challenges – Solomon Islands riots, Tonga volcanic eruption & tsunami, Covid

TOWER

Disciplined, data-driven underwriting improving risk accuracy

RISK BASED PRICING

70,000

NZ customers transitioned to flood risk pricing

AUTOMATED HOUSE SUM INSURED

99.8%

of NZ customers updated via CPI or Cordell vs 57% HY21

STRAIGHT THROUGH UNDERWRITING

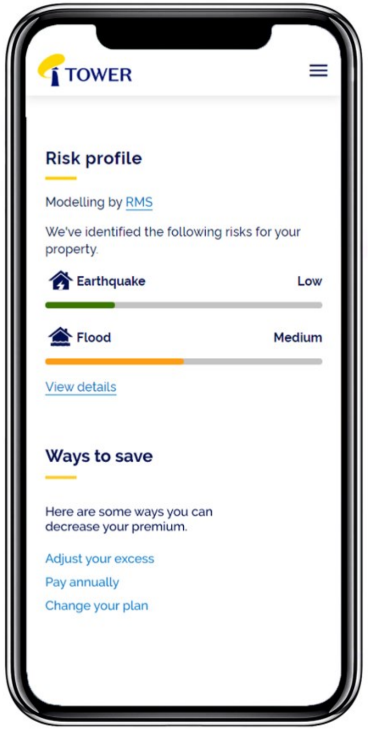
95%

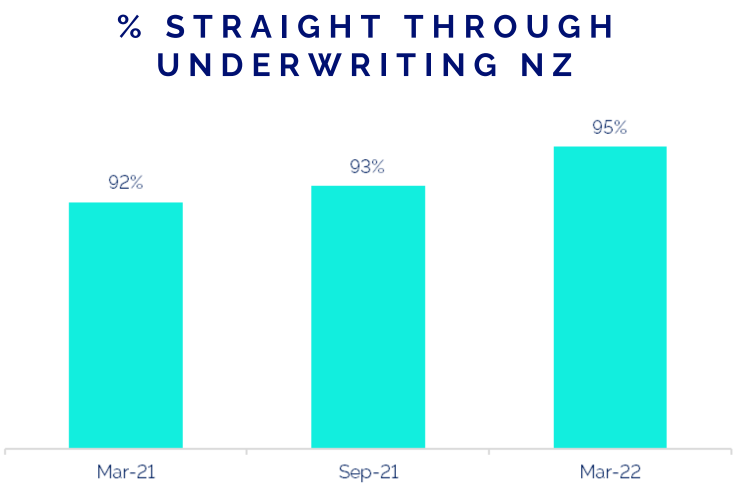
NZ risks sold without underwriting intervention

AGILE RATING CAPABILITY

70+

pricing and underwriting adjustments annually





Decisive actions to address claims inflation are delivering

DIGITAL CLAIMS LODGEMENT

48%

of NZ claims lodged online in Mar '22

SUPPLY CHAIN OPTIMISATION

76%

of NZ motor repairs by preferred suppliers

AUTOMATION TO ENHANCE EFFICIENCIES

AI

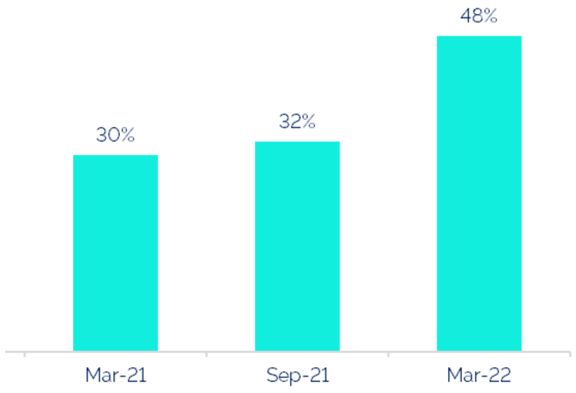
Faster, more accurate screening to identify fraudulent claims. Launched May '22

BAU CLAIMS RATIO

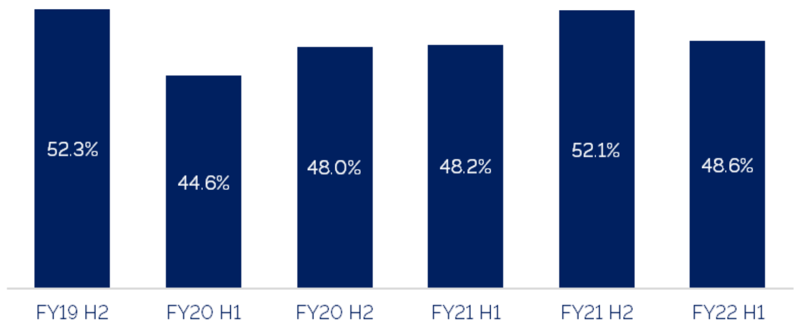
48.6%

vs 48.2% HY21

CLAIMS LODGED DIGITALLY



BAU CLAIMS RATIO



Improving MER through platform efficiency

DIGITAL TRANSACTIONS

52%

up 10% on HY21

MY TOWER WEEKLY LOG-INS

11,000

80% increase on HY21

DECOMMISSIONING LEGACY SYSTEMS

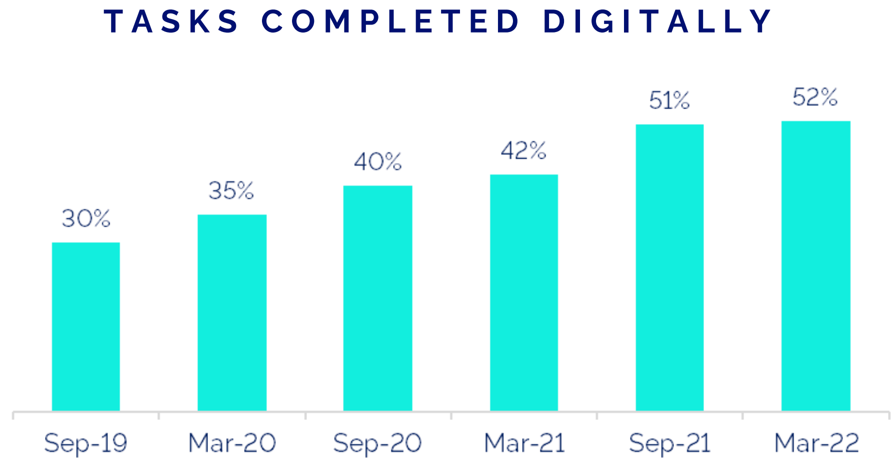
2

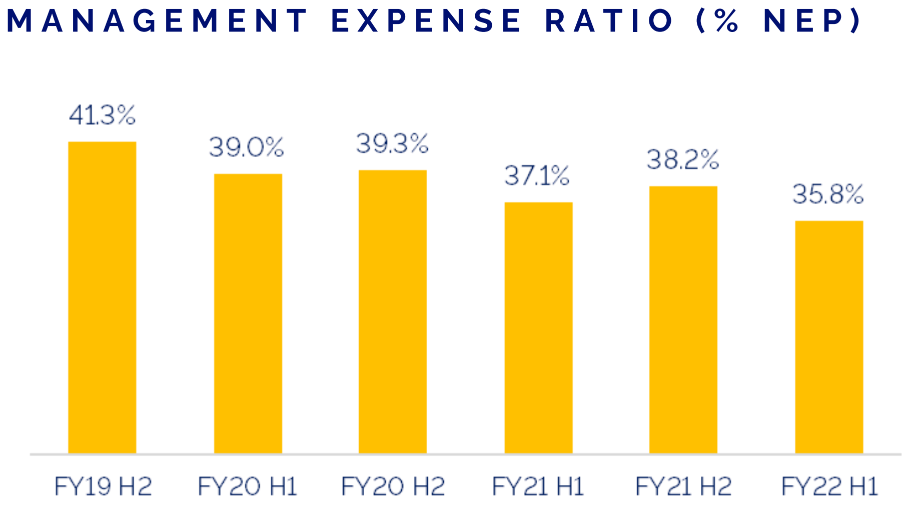
remaining by end of 2022

MER

35.8%

vs 37.1% in HY21





Strong capital & solvency, delivering shareholder returns

CAPITAL RETURN

$30.4m

returned to shareholders in March 2022

AM BEST FINANCIAL STRENGTH RATING

A-

affirmed in April 2022

TOWER PARENT SOLVENCY

210%

after capital return and half year dividend

SURPLUS CAPITAL ABOVE MINIMUM SOLVENCY CAPITAL

$72.2m

after 2.5¢ dividend

2.5¢ half year dividend

Tower's ordinary dividend policy is to pay out 60-80% of the full year cash earnings, where prudent to do so, with cash earnings defined as full year Reported Net Profit After Tax adjusted for acquisition amortisation and unusual items

TOWER

Financial performance

Paul Johnston
Chief Financial Officer

Group underlying financial performance

- Strong GWP growth of 11% to $216.1m
- Management expense ratio improved 1.3%, reflecting scale platform efficiencies and release of Liability Adequacy Test provision
- Lower commission expense through ANZ portfolio acquisition and provision for HY proportional reinsurance profit share
- Underlying NPAT before large events of $17.9m increased 6.4% on HY21
- Reported profit impacted by CEQ valuation increase of $2.3m after tax

Key ratios	HY22	HY21	Change
Claims ratio excluding large events	48.6%	48.2%	0.4%
Large events claims ratio	10.3%	5.6%	4.7%
Expense ratio	35.8%	37.1%	-1.3%
Combined ratio	**94.8%**	**90.9%**	**3.9%**

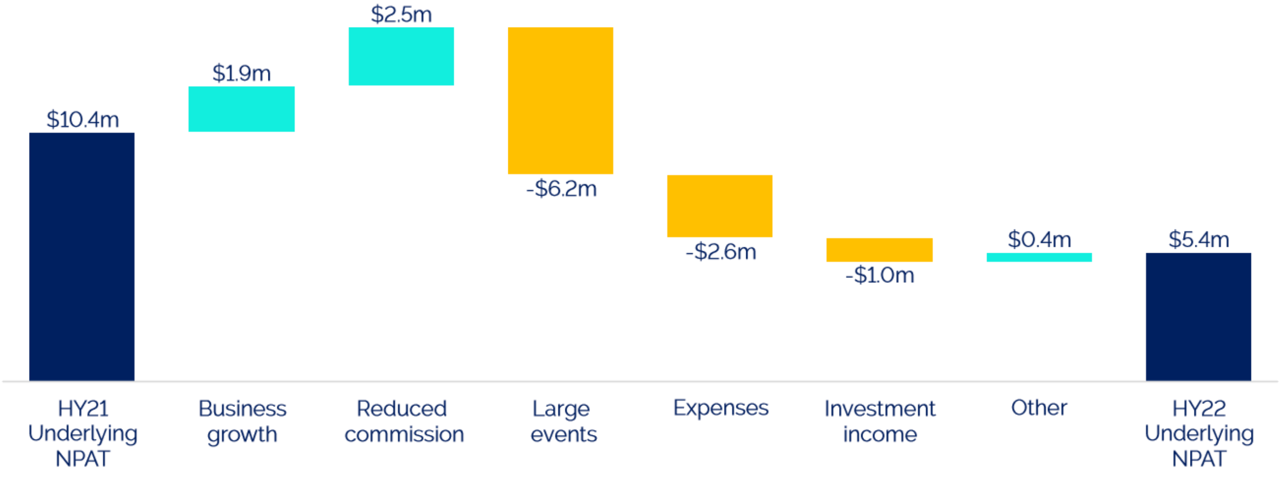
$ million	HY22	HY21	Change
Gross written premium	216.1	193.9	22.2
Unearned premium	(9.0)	1.3	(10.3)
Gross earned premium	207.1	195.3	11.8
Reinsurance	(33.4)	(28.1)	(5.2)
Net earned premium	**173.7**	**167.1**	**6.6**
BAU claims expense	(84.5)	(80.5)	(3.9)
Large event claims expense	(17.9)	(9.3)	(8.6)
Management expenses	(57.6)	(53.9)	(3.6)
Net commission expense	(4.7)	(8.1)	3.4
Underwriting profit	**9.1**	**15.2**	**(6.1)**
Net investment income	(0.9)	0.4	(1.4)
Other income	0.4	0.0	0.4
Tax	(3.1)	(5.3)	2.1
Underlying NPAT	**5.4**	**10.4**	**(5.0)**
One-off transactions (net of tax)	(2.4)	0.7	(3.1)
Reported profit after tax	**3.0**	**11.1**	**(8.1)**

Note: 1: Management expenses and tax have been restated in the comparative period for the IFRIC accounting treatment decision on software-as-a-service costs previously capitalised now expensed
Note 2: There has been a minor reclassification between management expenses and "other income and expenses" in the comparative period
Note 3: Refer to reconciliation between Underlying NPAT and Reported profit on page 34

Underlying NPAT impacted by large events

- Underlying NPAT of $5.4m is $5m below HY21
- Additional large events of $8.6m ($6.2m after tax) and reduction in net investment income of $1.4m ($1m after tax) were significant drivers of decrease in earnings
- Increase in expenses includes ANZ purchase amortisation and increase in staffing levels
- Business growth underpinned by 11% GWP growth
- Reduction in commission of $2.5m after tax reflects the purchase of ANZ back book

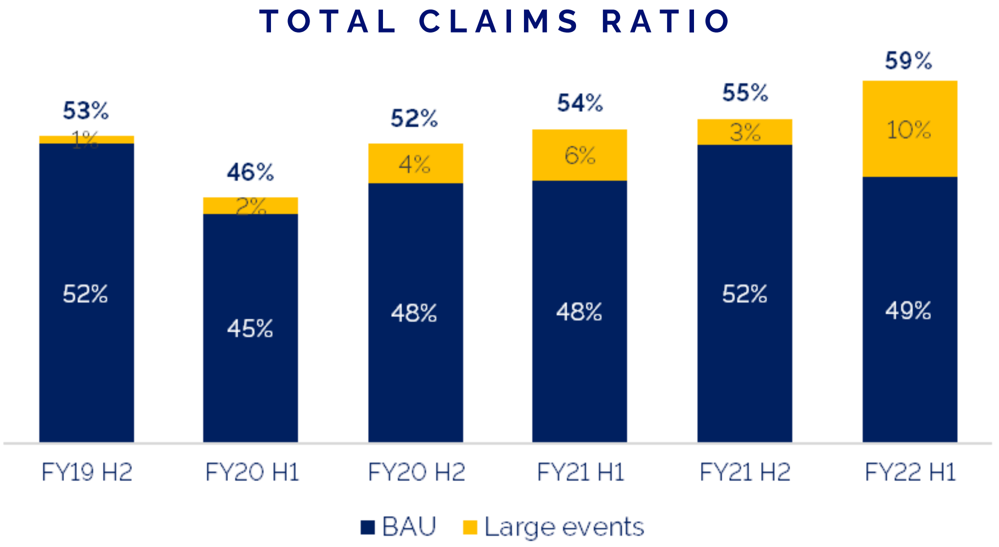
MOVEMENT IN UNDERLYING NPAT

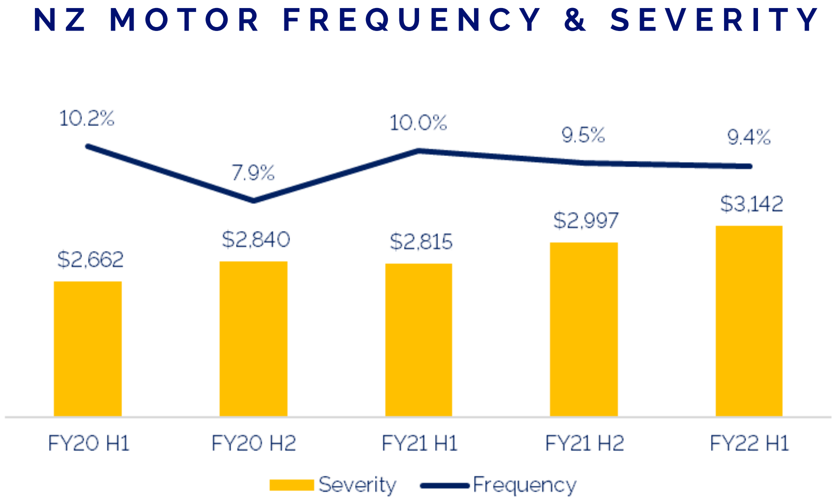


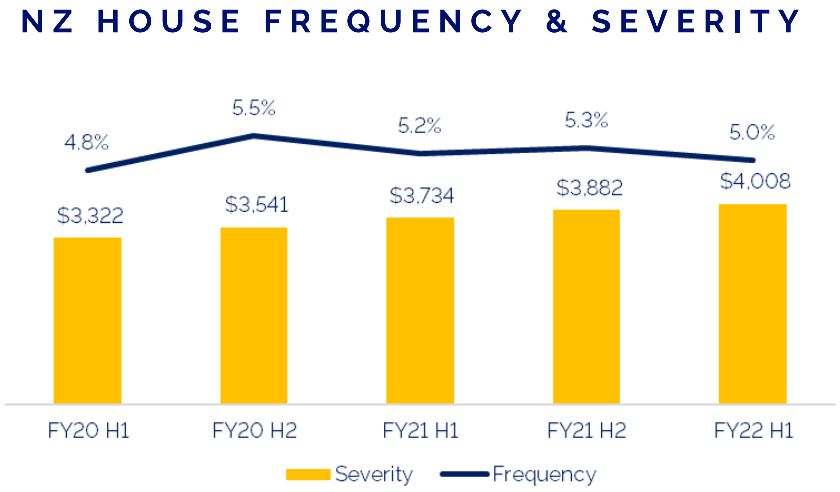
TOWER

Steady BAU claims ratio in a challenging environment

- High inflation period impacting cost of claims (severity) however reduction in BAU claims ratio highlights appropriate rating changes made to manage profit challenges
- NZ motor claims frequency down due to lighter traffic during Covid lockdown
- New anti-fraud tool live in FY22 H2







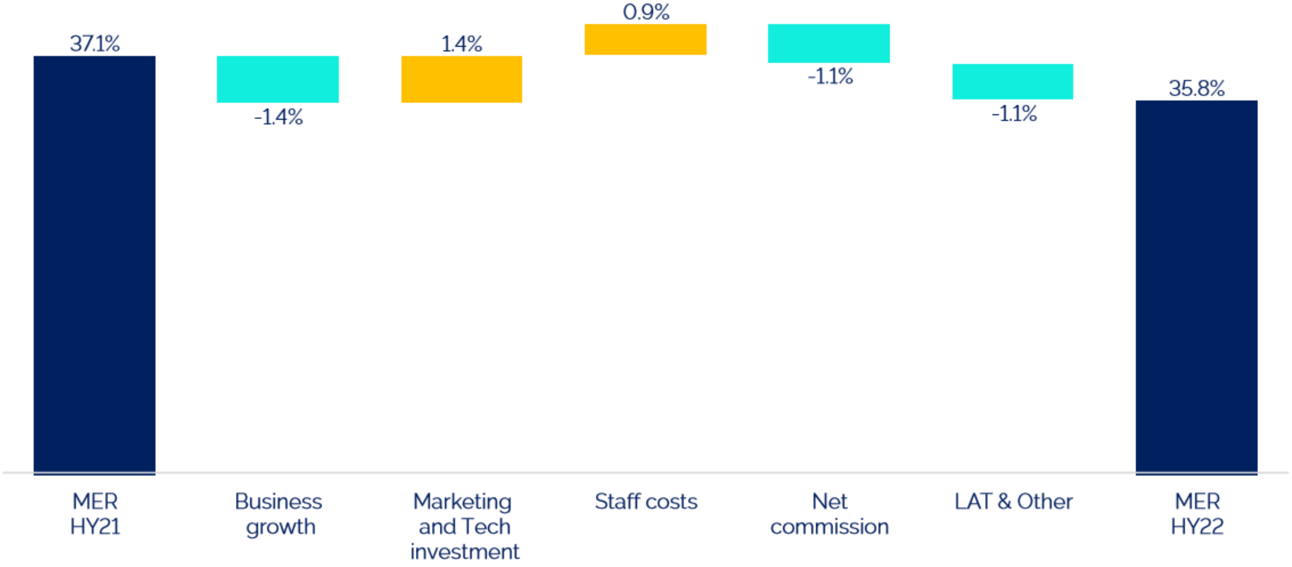
Note 1: Severity is defined as the cost of closed claims (excluding large events, large house, windscreen, zero value or negative incurred claims) divided by the count of claims
Note 2: Frequency is defined as the number of claims (same exclusions as above) divided by risks in force

TOWER

Continued focus on management expenses

- Management expense ratio (MER) reduced 1.3% to 35.8%
- GWP growth contributes a 1.4% reduction in MER
- Staff costs increased MER by 0.9% over HY21
- Net commission expenses decreased due to the purchase of the ANZ portfolio, and an increase in reinsurance profit share income in HY22
- Liability adequacy test (LAT) at 30 September 2021 resulted in an additional $2.1m of acquisition costs that were unable to be capitalized now released

MOVEMENT IN MANAGEMENT EXPENSE RATIO



Robust reinsurance programme supports resilience

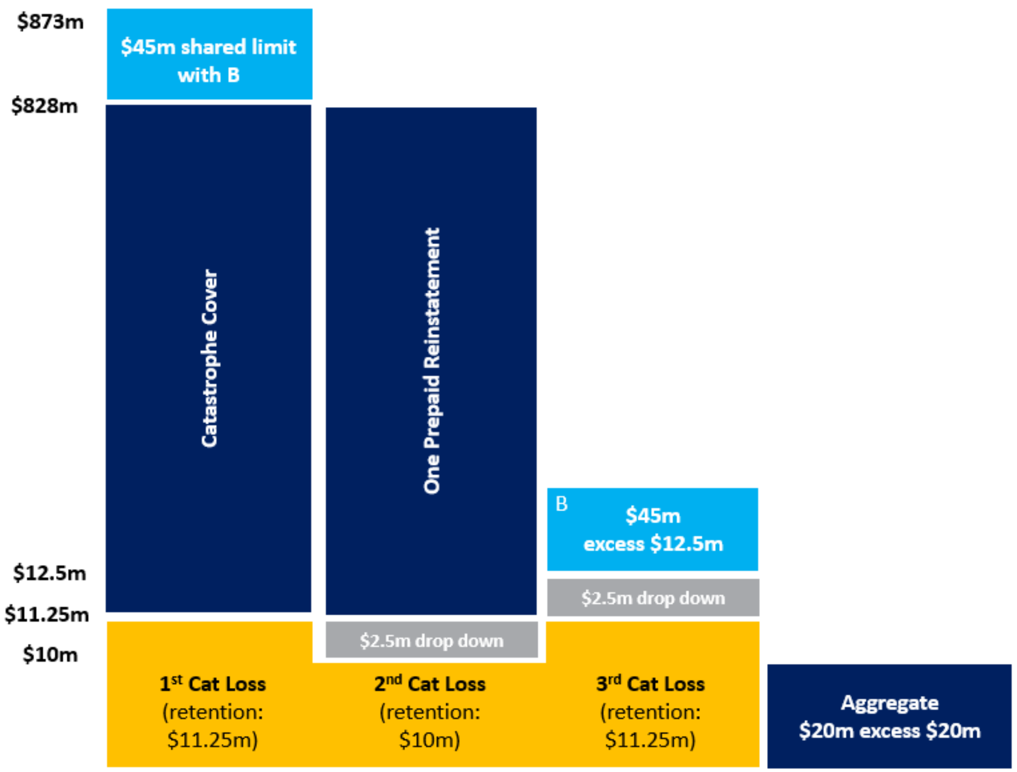
FY22 large events

- $17.9m large events incurred in HY22; Tonga volcanic eruption ($7.6m), Cyclone Dovi ($3.6m), and North Island Rainstorms ($6.7m)
- Further large events are met by aggregate reinsurance cover once they reach $20m, up to $40m
- FY22 guidance assumes the full use of $20m large event excess

FY22 reinsurance cover

- Catastrophe cover: $873m limit with retention of $11.25m
- Aggregate cover: $20m with excess of $20m and event range of $2m to $10m, excluding NZ earthquake

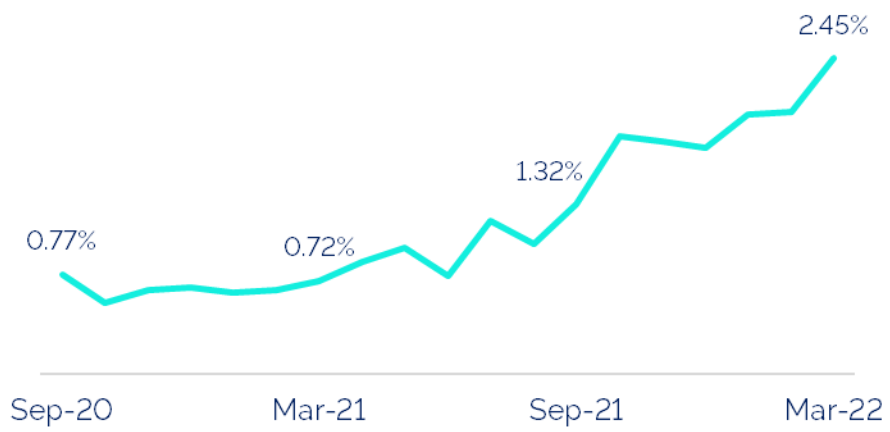
REINSURANCE PROGRAMME OVERVIEW



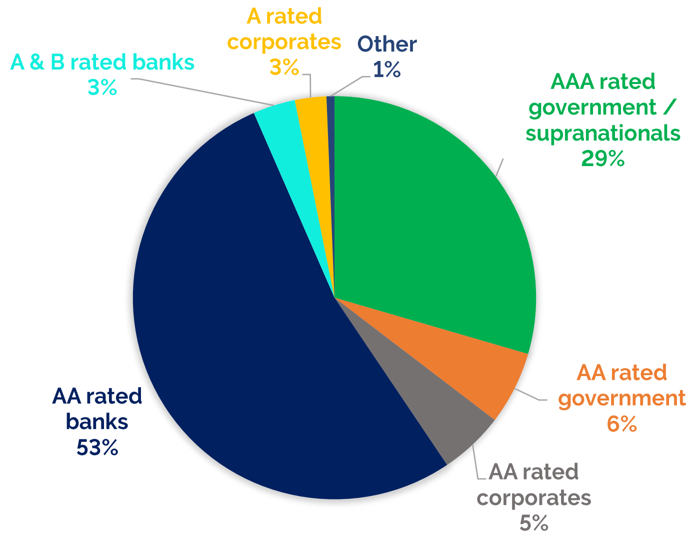
Investment strategy limits impact of market volatility

- Increases in interest rates have resulted in losses of $0.9m as the portfolio is revalued to market values - these losses are expected to be recovered through higher yields as the portfolio matures
- Tower maintains a conservative investment strategy, with a focus on liquidity and high credit quality, and a target duration for the core investment portfolio[1] of six months
- Our strategy has minimised profit impact from macroeconomic factors and market movements
- The running yield on the core investment portfolio has increased to 2.45% at 31 March 2022 (from 1.32% at 30 September 2021)

CORE PORTFOLIO YIELD



ASSET PROFILE – ALL CASH & INVESTMENTS



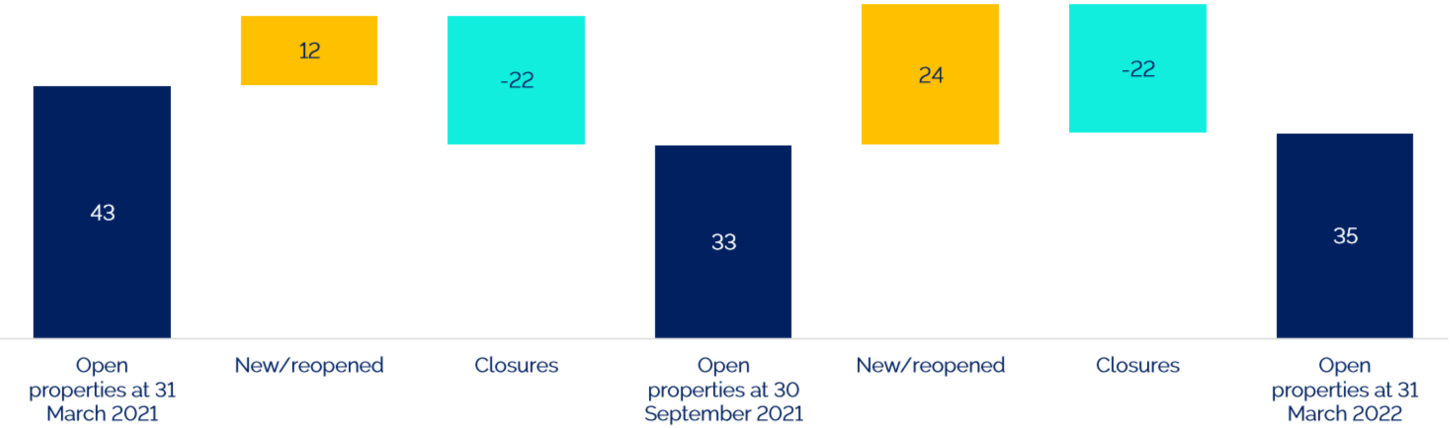
Note 1: Core investment portfolio refers to Tower's fixed income investment portfolio in NZ. It excludes cash held for operational purposes in NZ, and cash and short-term deposits held in Tower's Pacific subsidiaries.
Subsidiaries of banking groups with a credit rating have been grouped under their parent bank's credit rating, even if unrated themselves

TOWER

Canterbury earthquake claims a continuing challenge

- Continuing to settle open claims with 22 closed over the half
- Reduction in open claims slows as Tower continues to receive new and re-opened claims
- Several complex open claims have had significant strengthening, driven by both inflation and more costly rectification approaches
- Remaining Gross Outstanding Claims provision is $22.3m
- HY22 has seen an adverse P&L charge of $2.3m after tax in non-underlying items

OPEN CEQ CLAIMS



CEQ RESERVING

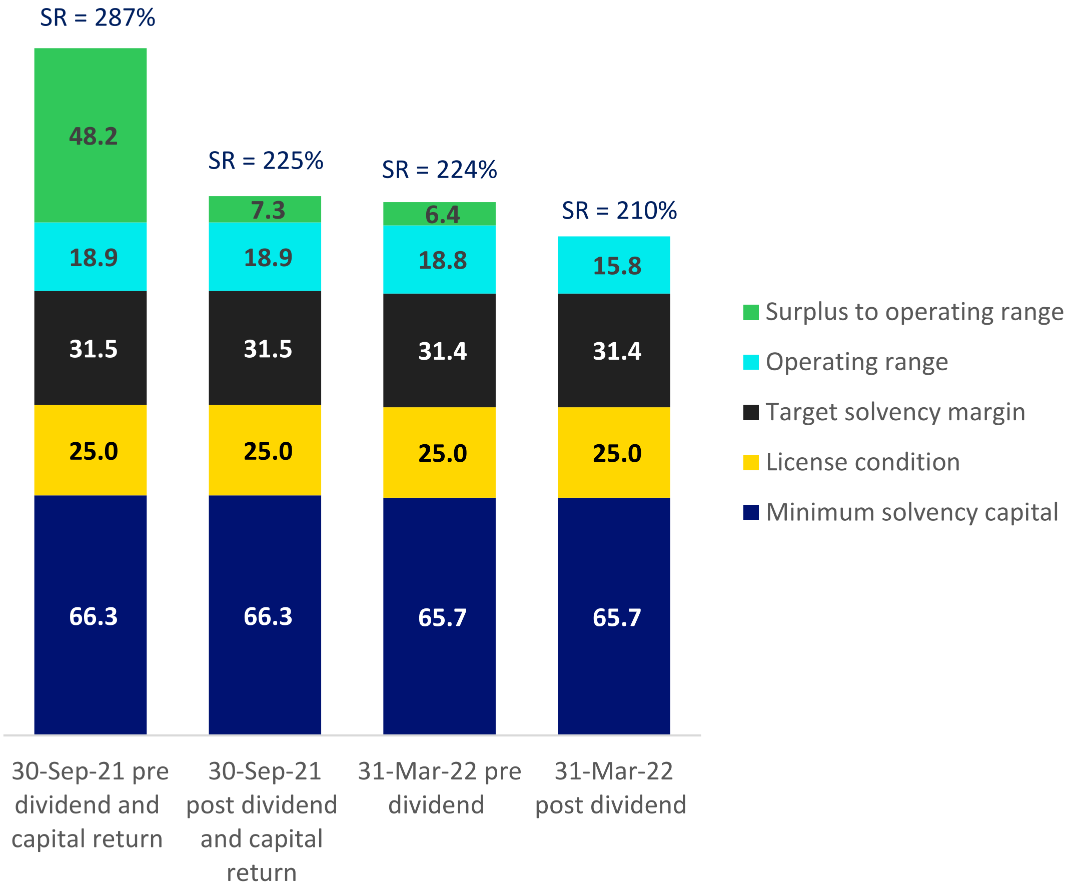
$ million	Sep-19	Mar-20	Sep-20	Mar-21	Sep-21	Mar-22
Case estimates	20.8	15.1	9.7	7.3	6.8	4.5
IBNR/IBNER[1]	15.5	11.7	11.6	9.9	9.6	11.9
Claims handling expense	2.5	1.9	1.9	1.6	1.3	1.0
Risk margin	7.8	6.7	5.7	5.1	4.9	4.9
Additional risk margin	5.0	5.0	5.0	2.5	0.0	0.0
Actuarial provisions	30.8	25.3	24.2	19.1	15.8	17.8
Gross outstanding claims	**51.6**	**40.4**	**33.9**	**26.4**	**22.6**	**22.3**

Note 1: IBNR = Incurred but not reported; IBNER = Incurred but not enough reported.

Strong capital and solvency position

- In the last 12 months Tower has returned to shareholders dividends of $21.1m and a capital return of $30.4m
- Strong solvency ratio of 210% as at 31 March 2022 allowing for a 2.5c dividend to be paid on 30 June 2022
- Solvency margin is $72.2m above minimum solvency capital, after declaration of a half-year dividend
- Strong capital position will enable continued investments in partnerships, legacy customer base buy-backs and IT investment while maintaining a dividend stream

TOWER SOLVENCY - NZ PARENT ($m)



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Note: 2: SR = Solvency ratio – the ratio of actual solvency capital to minimum solvency capital

Full year guidance unchanged

	FY21 Actual [1]	FY22 Guidance
Underlying NPAT excluding large events	$29.3m	$35.4m to $39.4m
Large events after tax (before tax)	$10m ($13.9m)	$14.4m ($20m)
Underlying NPAT	$19.4m	$21m to $25m
Dividend [2]	5 cents per share	5.5 cents per share

FY22 guidance has assumed Tower utilises the full $20m excess on its aggregate reinsurance cover. Additional large events will not impact NPAT unless the $20m aggregate reinsurance cover is exhausted.

Note 1: FY21 Underlying NPAT has been restated for the IFRIC accounting treatment decision on software-as-a-service costs previously treated as a non-underlying item in the full year results
Note 2: Tower's ordinary dividend policy is to pay out 60-80% of the full year cash earnings, where prudent to do so, with cash earnings defined as full year Reported Net Profit After Tax adjusted for acquisition amortisation and unusual items

Looking forward

Blair Turnbull
Chief Executive Officer

Committed to fair and transparent insurance services

INSURANCE IS NOT EASY TO UNDERSTAND

Only 1/4 Kiwis

are confident they have the right cover for all their risks*

CUSTOMERS VALUE TRANSPARENCY WHEN SELECTING INSURANCE

74%

of Kiwis say transparency is the most important factor*

TRANSPARENCY OF PRICING CHANGES

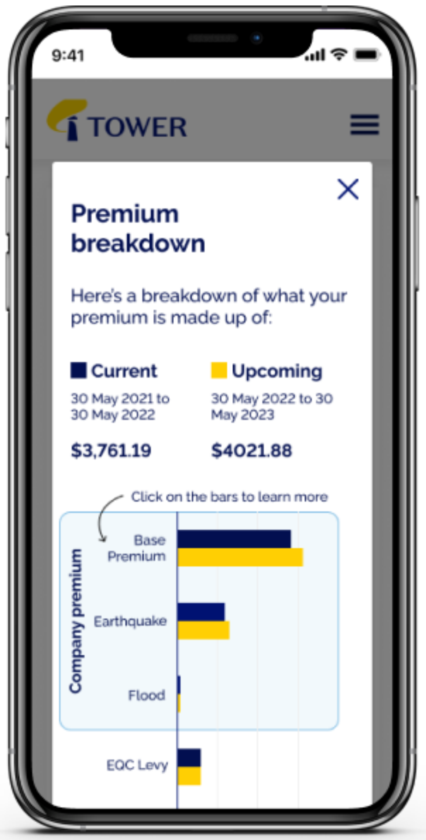
EQC cap

Tower will present the change to customers visually

TRANSPARENT ON CLIMATE CHANGE RISKS

200+

stakeholders engaged in flood risk changes



*From Tower research commissioned in September 2021 which surveyed 1,000 New Zealanders

Tackling labour market challenges via our unique footprint and positive culture

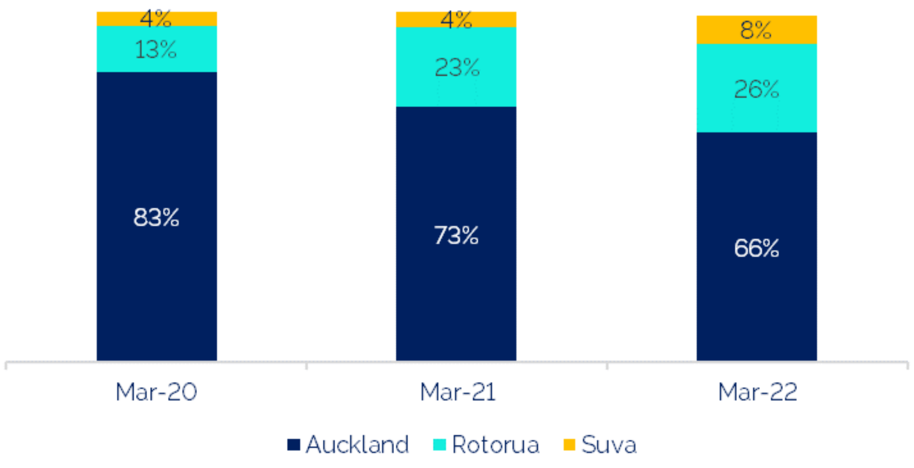
Leveraging unique footprint

- Digital platform enables workflow across multiple countries
- Leveraging access to talent in the Pacific and Rotorua, offering high quality roles
- Operational diversification enables us to manage workflow spikes and business interruption

Positive culture and engagement

- Refreshed Tower values
- Enhanced flexible working, staff recognition programme and benefits
- Transparency around gender pay gap – pay equity gap -1.4%
- Employee engagement up 6% on HY21 to 79%

LOCATION OF CUSTOMER FACING STAFF



Supporting communities through climate change

ENABLING HEALTHY, SUSTAINABLE HOMES

Sustainable rebuild benefit

Additional $15K available for sustainable products

PRODUCTS TO SUPPORT PACIFIC RESILIENCE

Parametric cover

pilot planned for 2022

SUPPORTING ELECTRIC TRANSPORTATION

60%

growth in EV policies sold vs HY21. E-bikes & e-scooters covered in contents policies

REDUCTION IN TOWER ANNUAL CARBON EMISSIONS

31%

from 551 tCO2e to 378 tCO2e in FY21. 21% reduction target by 2025.

THE UNIVERSITY OF WAIKATO
Te Whare Wānanga o Waikato

Supporting climate change education

TOWER

Investing in efficiency and growth

INVESTING IN TECHNOLOGY

Pacific EIS, Oracle, FRISS

AGILE TECHNOLOGY DELIVERY

134

HY22 technology releases, vs 96 prior six months

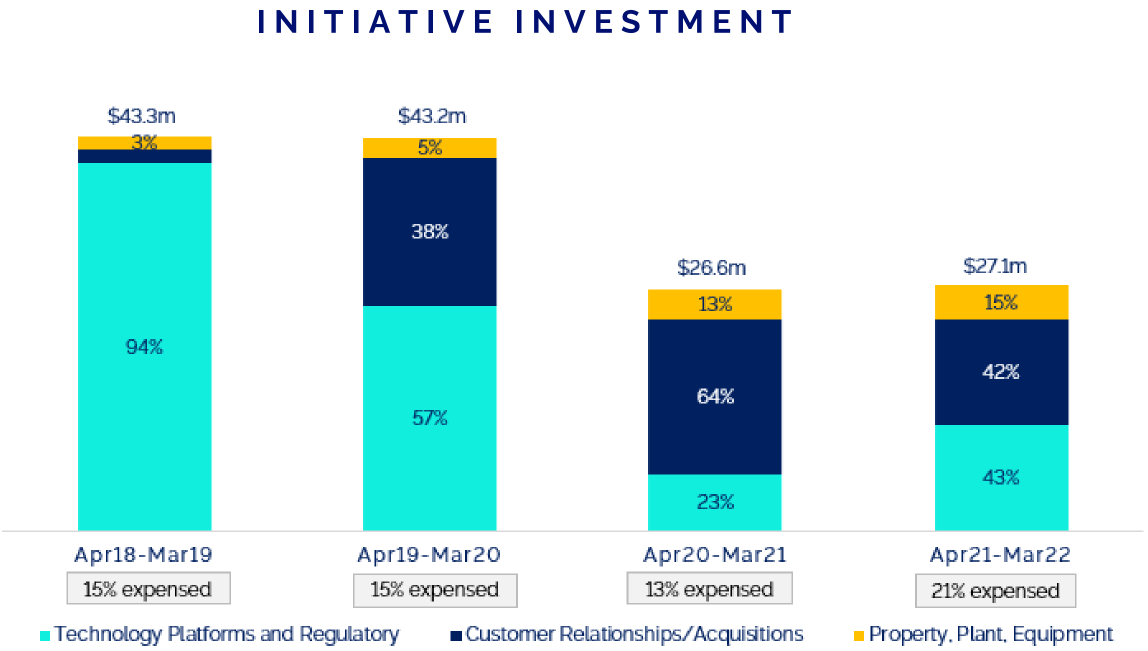
INVESTING IN ACQUISITIONS

ANZ, Youi, Westpac portfolios

INVESTING IN AUTOMATED MARKETING

1.5m

personalised messages sent post launch in HY22



Well positioned to continue delivering dividends and growth

- Strong underlying operating performance
- Achieving positive customer outcomes and growth through:
  - deeper customer relationships through digitisation
  - innovative partnership model
  - modernising our Pacific business
- Continued focus on claims inflation and process enhancements
- Driving efficiencies through scalable platform and focus on expenses
- Delivering positive shareholder returns: dividends and accelerating growth

Questions?

TOWER
Overview
Billing
Make a claim
Contact us
Account details
Log out
Get a quote
Billing
Next instalment
$151.70
On 17 Nov 2021
Go to billing
Policy number: P0019742851
37 Komai Street, Hamilton
House Plus
Current
Effective from 02 Nov 2021
Renewal
Effective from 02 Nov 2022
Policy details
Period of insurance
Total premium
Sum insured
Excess
Finance providers
Special features
02 Nov 2021 to 02 Nov 2022
$1,241.02 per year
Show premium breakdown
$634,300.00
$400.00
View other policy excess
None
You do not have any special features specified on this policy
02 Nov 2022 to 02 Nov 2023
$1,365.02 per year
$669,300.00
+ Add New
Risk profile
Modelling by RMS
Earthquake
Flood
Low
Medium
View details
People
Policy holder(s)
Who lives there
farheen fathima
Relative

Reconciliation between underlying profit after tax and reported profit after tax

$ million	FY22 underlying profit	Non-underlying items (1)	Claims handling expenses (2)	FY22 reported profit
Gross written premium	216.1			216.1
Gross earned premium	207.1			207.1
Reinsurance expense	(33.4)			(33.4)
Net earned premium	**173.7**	**0.0**	**0.0**	**173.7**
BAU claims expense	(84.5)	(3.2)	(11.2)	(98.9)
Large events	(17.9)			(17.9)
Management and sales expenses	(57.6)	0.3	11.2	(46.0)
Net commission expense	(4.7)			(4.7)
Underwriting profit	**9.1**	**(2.9)**	**0.0**	**6.2**
Net investment income	(0.9)			(0.9)
Other income	0.4			0.4
Underlying profit before tax	8.5			
Income tax expense	(3.1)	0.5		(2.6)
Underlying profit after tax	**5.4**			
Canterbury impact	(2.3)	2.3		
Holiday pay provision release	0.9	(0.9)		
Other non-underlying costs	(1.0)	1.0		
Reported profit after tax	**3.0**	**0.0**	**0.0**	**3.0**

(1) Non-underlying items include net impact of Canterbury earthquake valuation update, regulatory and compliance projects (such as the adoption of IFRS-17), and a prior period tax adjustment

(2) Reclassification of claims handling expenses from management expenses to net claims expense

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 Tower’s financial performance between periods
- Tower has applied a consistent approach to measuring underlying profit in the current and comparative periods. Note: there has been minor reclassification between management expenses and “other income and expenses” in the comparative period
- “Reported profit after tax” is calculated and presented in accordance with GAAP and is taken from Tower Limited’s financial statements for the half year ended 31 March 2022
- Prior period restated - in April 2021 the IFRS Interpretations Committee (IFRIC) issued an agenda decision 'Configuration or Customisation Costs in a Cloud Computing Arrangement (NZ IAS 38 Intangible Assets)'. This decision resulted in Tower expensing previously capitalised assets which were treated as non-underlying expenses in FY21

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Disclaimer

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