



2021 half year results

1 October 2020 to 31 March 2021

26 MAY 2021

Agenda

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Chairman's update
Michael Stiasny, Chairman

2



Business update
Blair Turnbull, Chief Executive Officer

3



HY21 financial performance
Jeff Wright, Chief Financial Officer

4

Looking forward
Blair Turnbull, Chief Executive Officer

Chairman's update – solid earnings with positive growth

SOUND BUSINESS PERFORMANCE

- Delivered solid earnings in 1H21
- Focused on managing emerging challenges
- GWP growth through digital and data platform and unique distribution footprint
- Continued efficiency improvements
- Increased claims driven by large events and higher large house claims frequency - decisive action to address
- Dividend - announcing a 2.5¢ dividend per share – first time since 2016

STRONG AND WELL CAPITALISED

- Tower has shed its legacy issues - now a quality business with very strong capital position and solvency margin
- Resilient in the Pacific where Covid has significantly impacted the economy
- Capital licensing condition reduced from \$50m to \$25m
- Capital investment – ANZ, Club Marine

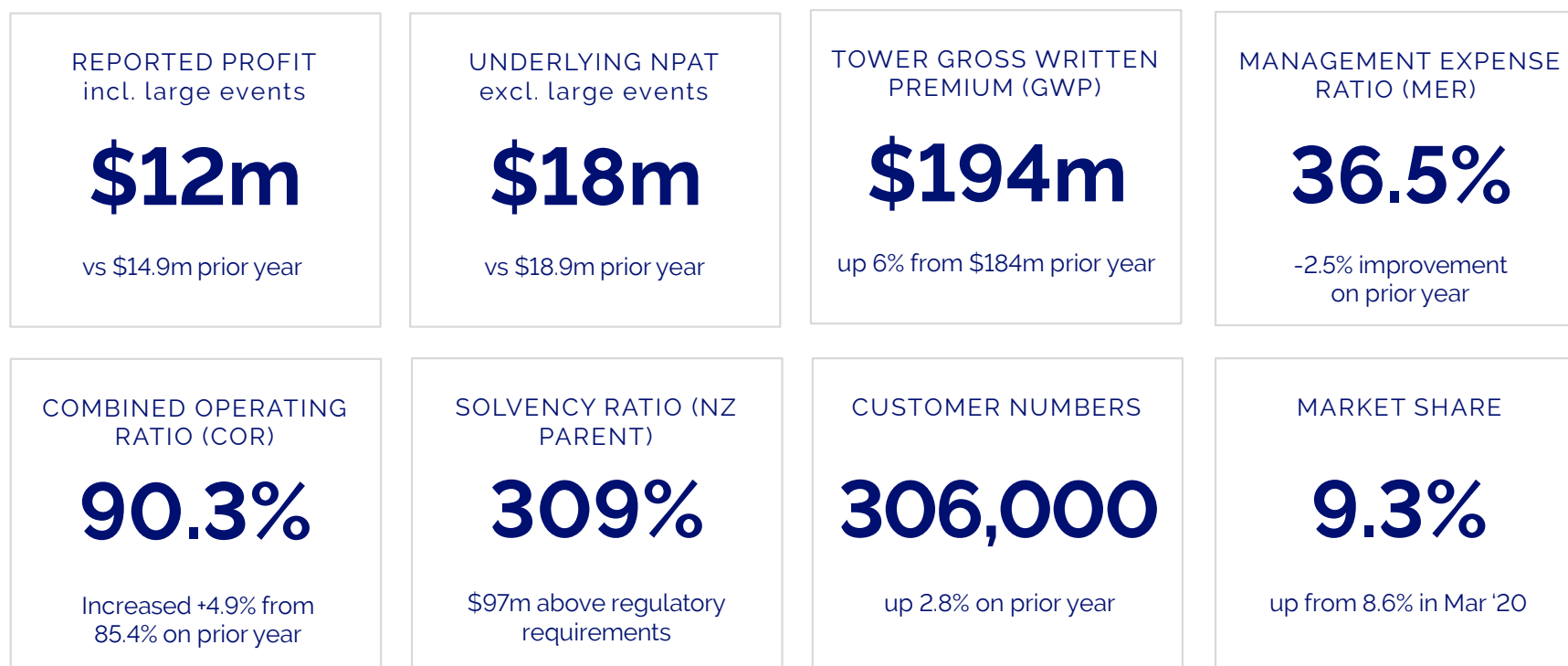
POSITIONED FOR LONG-TERM GROWTH

- Leading Tower Direct digital business
- Unique Partnership distribution capability & a strong pipeline
- Digitising our Pacific business to improve efficiency
- Unique technology partnerships

**Solid performance
with a strong platform
for growth**



Solid performance with a strong platform for growth



A journey of continued focus and streamlining

2015–2019

TRANSFORMATION AND RE-PLATFORM

Product rationalisation

Christchurch recovery

\$47m investment in cloud-based, EIS platform implementation

2020 - 2021

RESOLVING LEGACY ISSUES

EQC settlement

RBNZ solvency condition reduced \$25m

Tower entity amalgamation

Continuing customer migration to new platform

2021 +

GROW, PARTNER AND INNOVATE

Grow flagship Tower Direct

Unique Partnership model

Digitising Pacific to drive efficiency

Leading digital and data capability

STRENGTHENING THE BUSINESS

Addressing emerging claims inflation pressure through automation, supply chain efficiency and process improvements

Responding rapidly with rating and underwriting actions to address higher claims levels

Investigating the risks leading to large house fires through data science

Understanding links between large events and climate change

Customer and premium growth

TOWER GROSS WRITTEN PREMIUM (GWP) HY21

\$194m

up 6% on HY20

TOWER DIRECT GWP HY21

\$113m

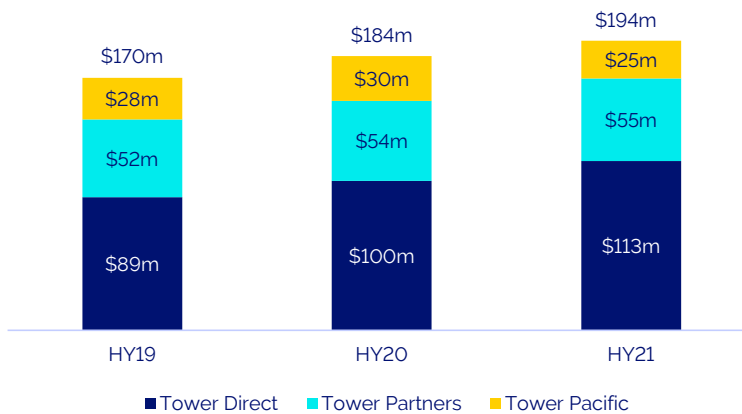
up 14% on HY20

CUSTOMER ACQUISITION COSTS (% of NEP)

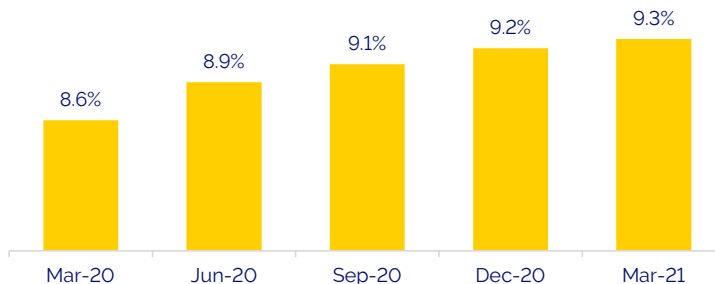
12%

1% improvement on prior year

GWP BY BUSINESS UNIT



NZ PERSONAL LINES MARKET SHARE



- Tower Direct 14% year on year growth
- Tower Partnership 3% year on year growth
- Pacific business declined 16% primarily as a result of economic challenges related to Covid-19
- Last 12-month GWP \$395m
- Cost to acquire customers has improved, partially through increased sales to existing customers
- Customer numbers grew 2.8% to 306,000
- Market share grew to 9.3%

Continued improvement in cost efficiencies

TOWER MANAGEMENT
EXPENSE RATIO (MER)

36.5%

2.5% improvement
on prior year

TOWER DIRECT MER

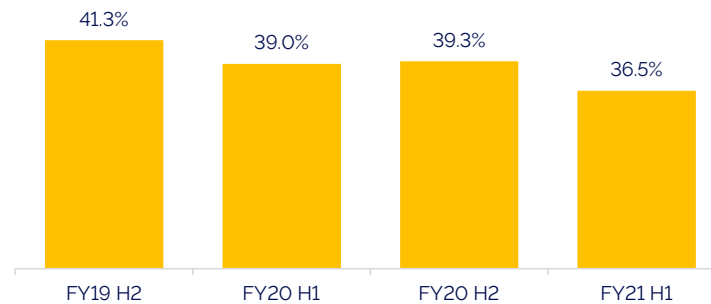
31%

Improved 4% on HY20

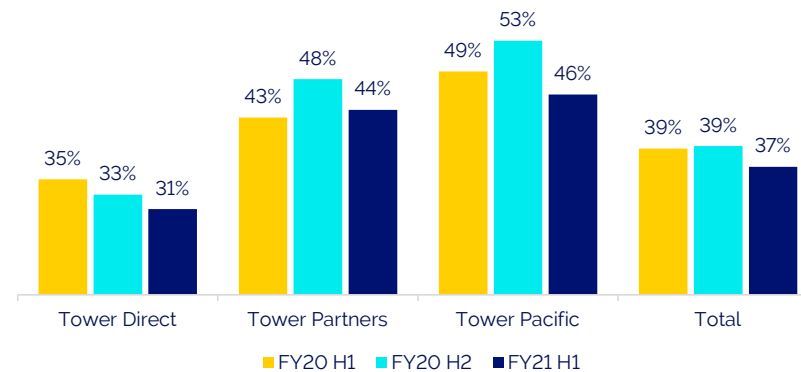
REALISING BENEFITS OF
DIGITAL SCALE

**Youi complete
ANZ acquisition**

MER



MER BY BUSINESS UNIT



- Continuing track record of decommissioning legacy systems to improve efficiency. Targeting to move from 6 to 2 by year end.
- Future commission footprint reduced through ANZ acquisition. Full benefits flow through H1FY22 onwards.
- Youi fully complete with retention in line with acquisition expectations.

Emerging claims inflation

CLAIMS RATIO EXCL. LARGE EVENTS

48%

3.6% higher than prior year

LARGE EVENTS

**Ōhau fire
Napier flood**

\$9.3m impact

AVERAGE HOUSE CLAIM COST

\$4,620

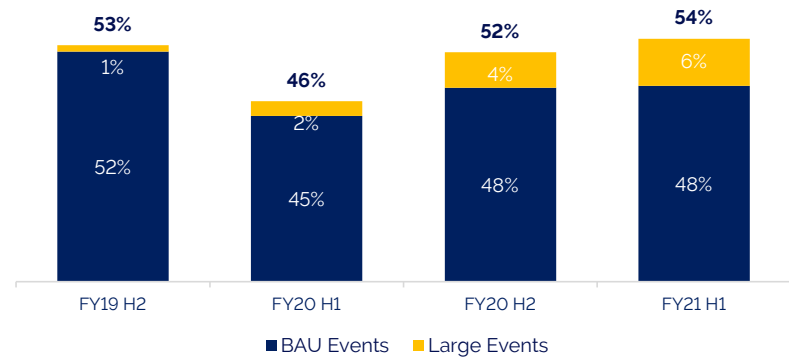
Up 8% on HY20

LARGE HOUSE CLAIMS

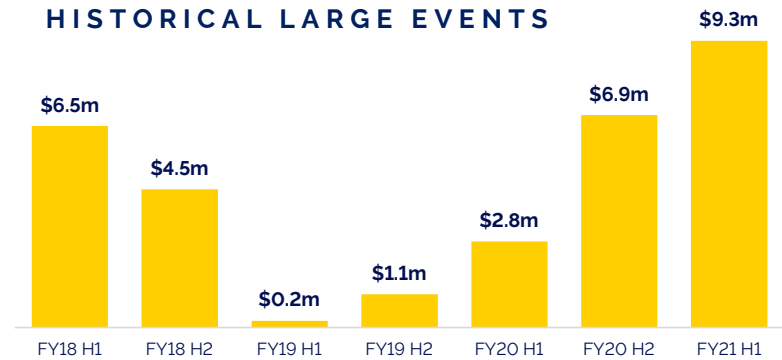
52

Up from 26 in HY20

CLAIMS RATIO



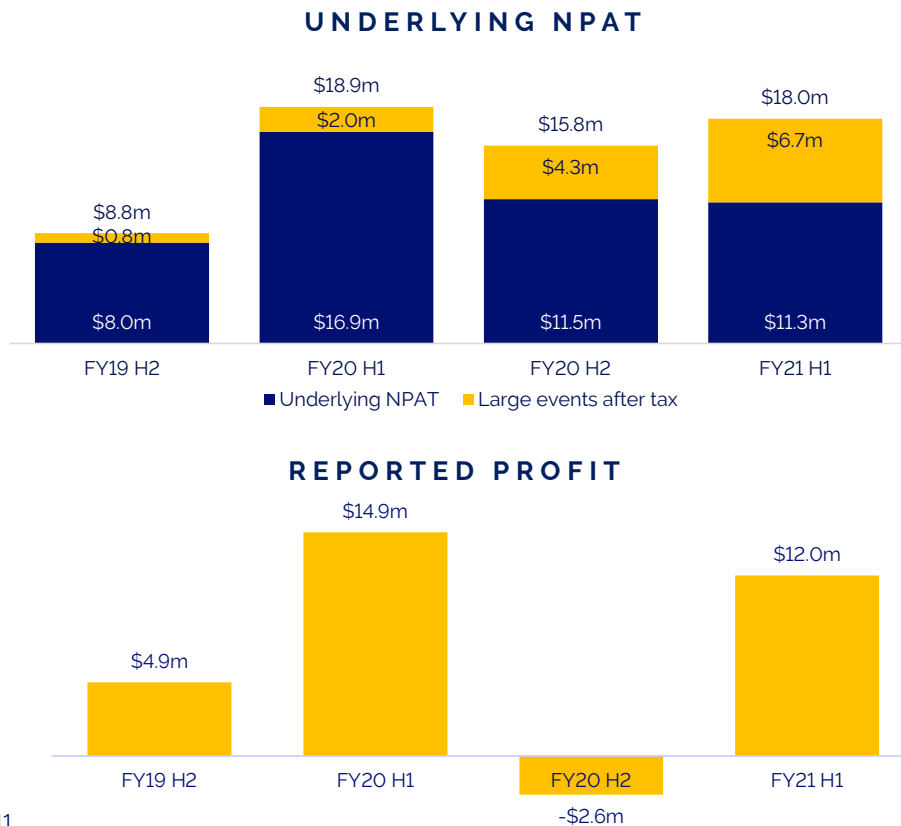
HISTORICAL LARGE EVENTS



Decisive action to address claims challenges

Priorities	Supply chain optimisation	Working with supply chain to enhance efficiencies and moderate increases in supply chain costs
	Research & analysis on house fires	Working with data science partners & multiple stakeholders to analyse risks
	Automation to enhance efficiencies	Optimising digital claims management to improve quality of claims assessment, repair and settlement
	Rating and underwriting actions	Reviewing pricing and underwriting policies
Ability to leverage digital & data capability to implement actions quickly		

Core business solid and positioned for long term growth



- Three focused businesses – Direct, Partnerships and Pacific
- Total HY21 premium of \$194m underpinned by scalable, efficient digital platform
- Positive growth and ongoing reduction in management expenses
- Large events and large house claims have offset premium growth and are being actively addressed

Delivering Shareholder Return

ORDINARY
DIVIDEND POLICY

60-80%

of cash earnings* where
prudent to do so

TOTAL INTERIM DIVIDEND
PAYMENT

\$10.5m

to be paid 14 July 2021

DIVIDEND RESUMPTION

5 years

last dividend paid based on
the 31 March 2016 half year

INDICATIVE COMBINED FULL
AND HALF YEAR DIVIDEND

5¢ – 5.5¢

based on achieving
FY21 guidance

Interim dividend
confirmed

2.5¢ per share

HY21 financial performance



Group underlying financial performance

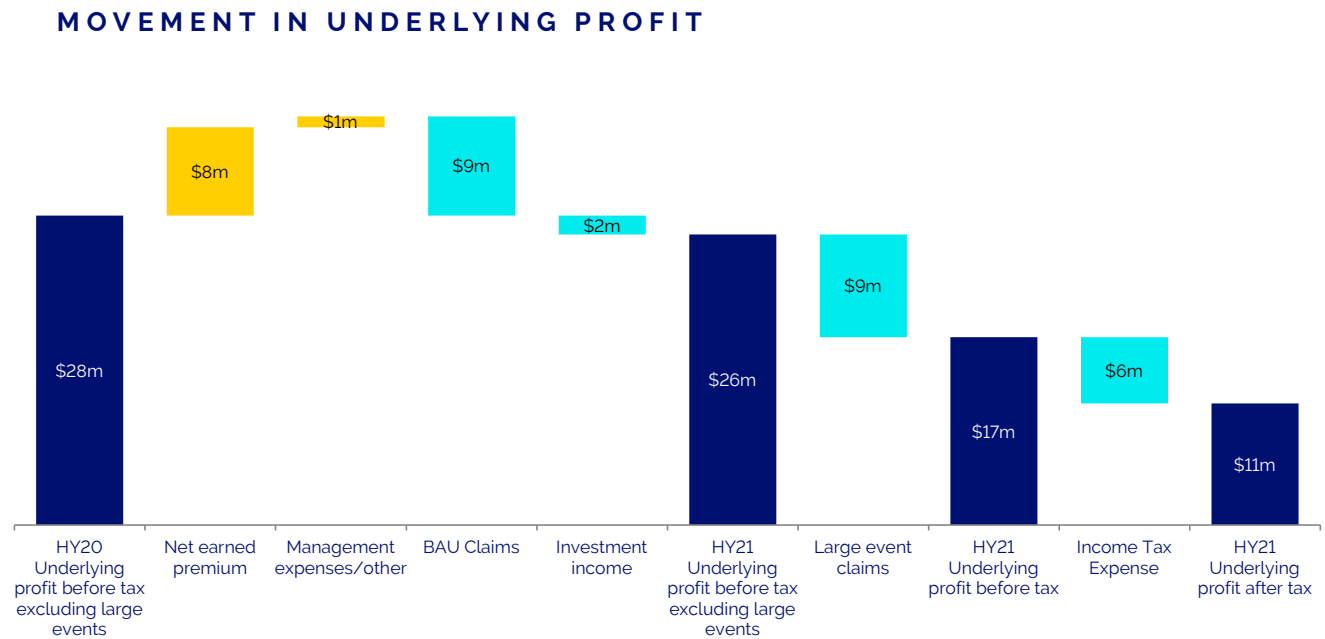
\$ million	HY21	HY20	Change
Gross written premium	193.9	183.6	10.3
Unearned premium	1.3	3.7	(2.4)
Gross earned premium	195.3	187.3	8.0
Reinsurance	(28.1)	(27.9)	(0.3)
Net earned premium	167.1	159.4	7.7
BAU claims expense	(80.5)	(71.1)	(9.4)
Large event claims expense	(9.3)	(2.8)	(6.5)
Management expenses	(52.9)	(55.6)	2.7
Net commission expense	(8.1)	(6.9)	(1.2)
Underwriting profit	16.2	22.9	(6.7)
Net investment income	0.7	2.2	(1.5)
Other income	0.0	(0.4)	0.4
Tax	(5.6)	(7.9)	2.3
Underlying NPAT	11.3	16.9	(5.6)
One-off Transactions (net of tax)	0.7	(2.0)	2.7
Reported profit after tax	12.0	14.9	(2.8)

- HY21 GWP of \$193.9m. GWP growth \$10.3m on HY20 (+6%)
- BAU claims expense impacted by higher volume of large house claims and emerging house claims inflation
- Management expense ratio improves by 2.5%, realising benefits from EIS platform
- Underlying NPAT before large events of \$18m is a decrease of 5% on HY20
- Profit impacted by lower investment income
- Reported profit of \$12m, decrease of 19% on HY20. Impacted by \$6.5m before tax increase in large events.

Key ratios	HY21	HY20	Change
Claims ratio excluding large events	48.2%	44.6%	3.6%
Large events claims ratio	5.6%	1.8%	3.8%
Expense ratio	36.5%	39.0%	(2.5%)
Combined ratio	90.3%	85.4%	4.9%

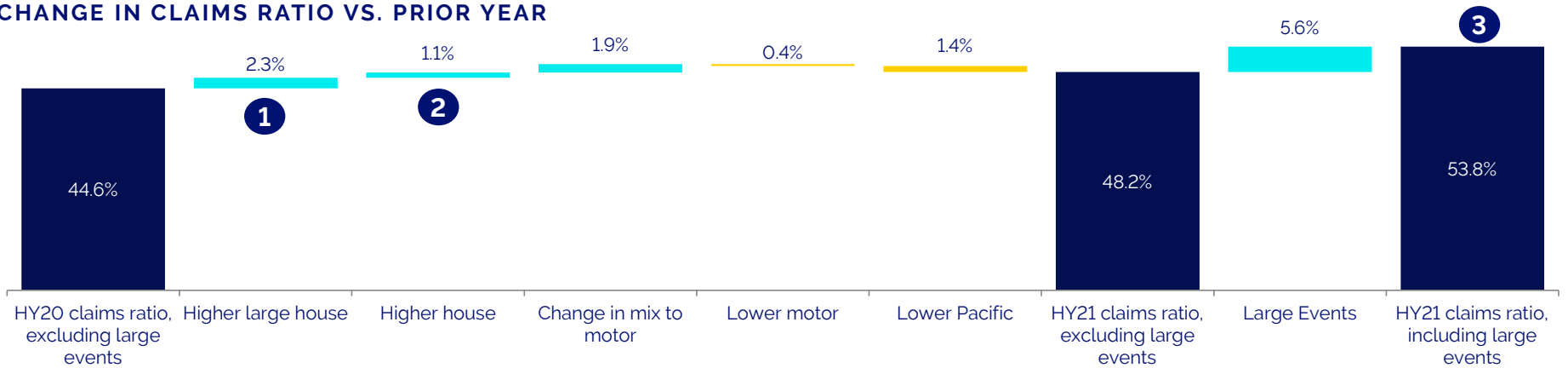
Movement in underlying profit

- Net earned premium higher due to Youi acquisition, and growth in Tower Direct and Tower Partnerships
- Management expenses reduced following completion of EIS platform build
- Large event claims expense well above HY20
- BAU claims expenses impacted by an increase in large house claims
- Investment income reduced as a result of a lower interest rate environment

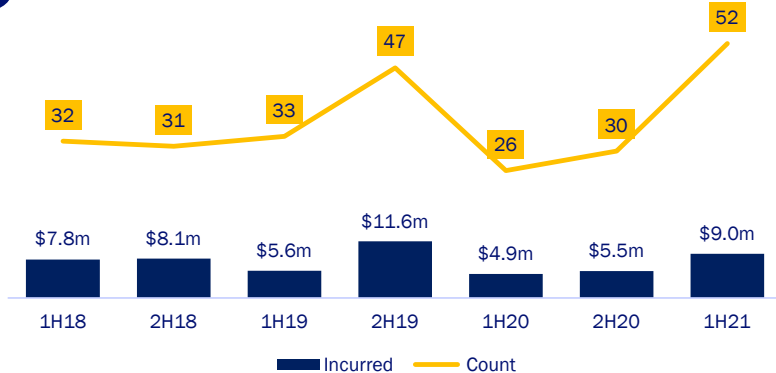


Continued focus on improving claims ratio

CHANGE IN CLAIMS RATIO VS. PRIOR YEAR



1 LARGE HOUSE CLAIMS

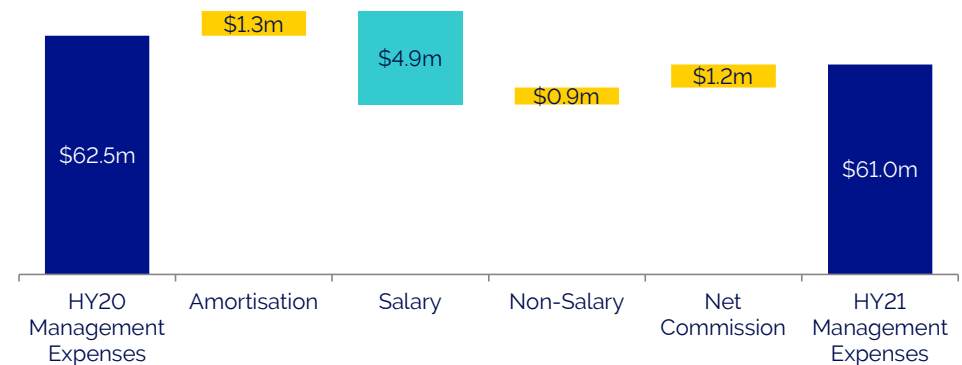


- 1 Large house claims are historically volatile, Tower is working with data science partners to analyse latest experience and to review rating and underwriting for house.
- 2 Early signs of building cost inflation in house claims are being monitored and Tower is also working with supply chain to minimise increases.
- 3 Review of end to end claims processes underway to ensure optimal claims performance.

Continued discipline on management expenses

- HY21 management expenses reduced \$1.5m on HY20 to \$61m in HY21
- MER improved 2.5% on HY20, down to 36.5%
- Salary expenses reduced \$4.9m following the completion of the EIS project and May 2020 reorganisation
- Net commission expenses increased due to the inclusion of reinsurance profit share income in HY20
- Amortisation expense increased largely due to additional Youi, ANZ & EIS amortisation

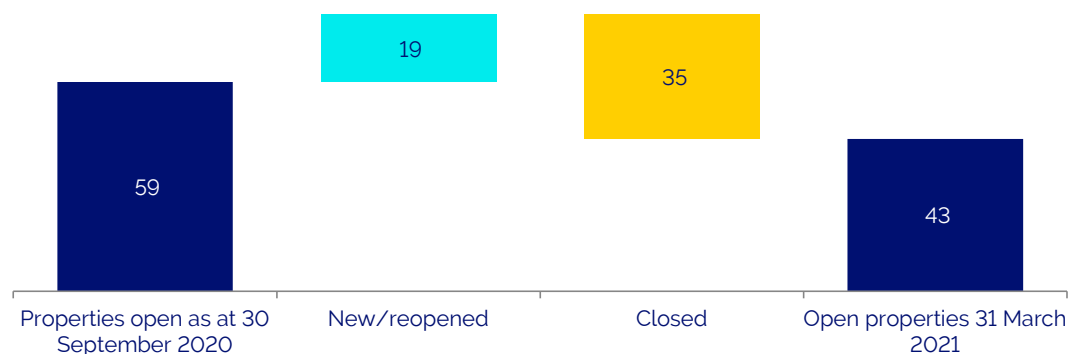
MOVEMENT IN MANAGEMENT EXPENSES



CEQ claims continue to reduce

- Continued reduction in open claims with 35 claims closed in HY20
- 16 new EQC overcaps in line with expectations
- Gross outstanding claims down to \$26.5m following strengthening of \$2.2m due to tribunal claims settling for more than expected and increase in allowance for future claims
- Release of \$2.5m in Additional Risk Margin reflecting continued run-off of CEQ claims

OPEN CEQ CLAIMS



CEQ RESERVING

\$ million	Mar-21	Sep-20	Mar-20	Sep-19	Mar-19	Sep-18
Case estimates	6.9	9.7	15.1	20.8	29.7	37.5
IBNR/IBNER	10.4	11.6	11.7	15.5	17.7	18.1
CHE	1.6	1.9	1.9	2.5	2.6	3.3
Risk margin	5.1	5.7	6.7	7.8	9.0	9.0
Additional risk margin	2.5	5.0	5.0	5.0	5.0	5.0
Additional provisions	19.6	24.2	25.3	30.8	34.3	35.4
Gross outstanding claims	26.5	33.8	40.4	51.6	64.0	72.9

Strong capital and solvency structure

TOWER SOLVENCY RATIO
(PARENT)

309%

\$97m capital above regulatory minimums, following settlement of EQC receivable

RBNZ LOWERS LICENCE CONDITION

\$25m

from \$50m to \$25m

FINANCIAL STRENGTH RATING RECONFIRMED

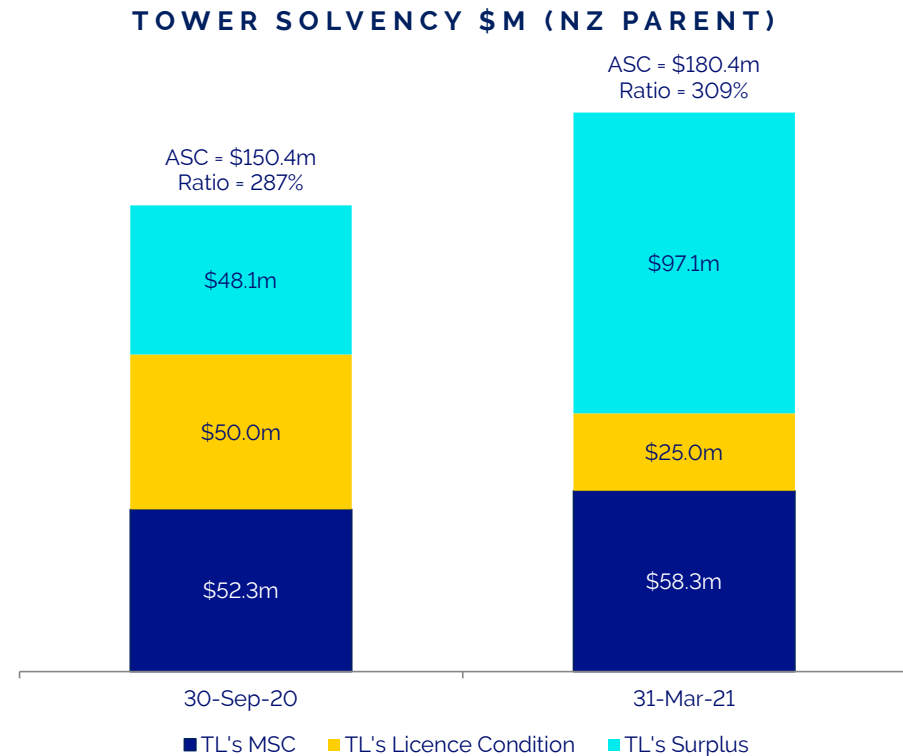
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CHRISTCHURCH EARTHQUAKE OPEN CLAIMS

43

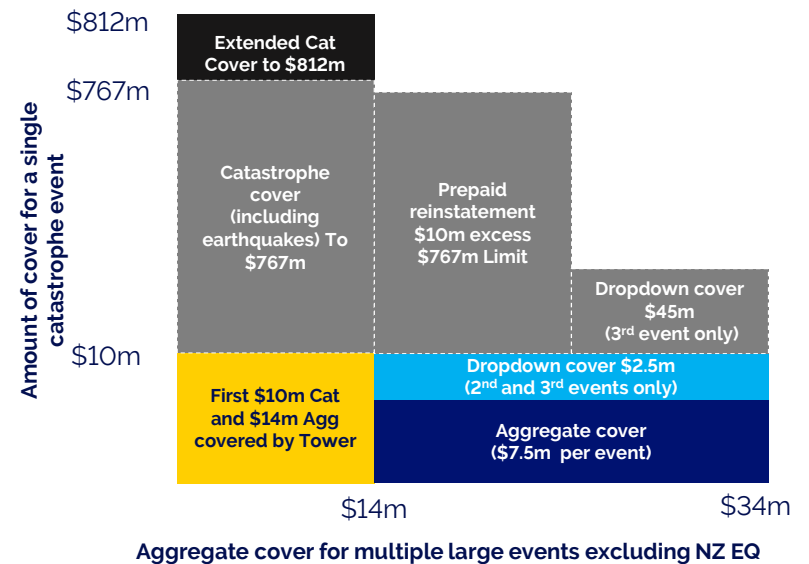
down from 59 as at 30 September 2020



Robust reinsurance programme supports resilience

- Lake Ōhau and Napier Flood events resulted in event claims increasing \$6.5m on HY20, to \$9.3m in HY21.
- Aggregate cover applies from \$14m of large events
- Any increase to the H1 \$9.3m for large events in H2 will reduce NPAT by a rate of approximately \$0.72m for each \$1m until the aggregate cover applies
- Tower’s long term average for large events is \$8m per annum

HIGH-LEVEL REINSURANCE STRUCTURE OVERVIEW



FY21 guidance

	FY20 Actual	FY21 Guidance Based on FY20 large events (\$9.7m)
Underlying NPAT	\$28.4m	\$25m to \$27m

- Recognising increasing house claims cost and reducing investment income, guidance has been revised from underlying NPAT of greater than \$29.8m to underlying NPAT of \$25m to \$27m for the year ended 30 September 2021.
- This revision to guidance reflects (i) higher frequency of large house claims, (ii) emerging house claims inflation (iii) lower investment income.
- The revised guidance retains a large event assumption of the same as FY20 at \$9.7m.
- Further increase in claims expense is a potential risk to this guidance. A 1% increase in loss ratio above management assumptions will result in an approximate \$1.2m reduction in underlying NPAT.



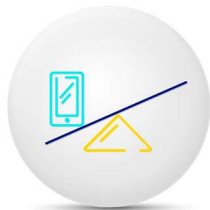
Our plan for long term
growth & improvement

Clear strategy leveraging our technology, customer and partnership advantage

GROW AND INNOVATE



Relentless focus on customer relationships



Leverage digital & data everywhere



Partner wherever possible

BUILD FINANCIAL STRENGTH & CAPABILITY



Embracing agile culture & talent



Maintain a strong capital & solvency structure

Our core strategy for personal lines and small to medium sized commercial segments, in the New Zealand and Pacific region.

MyTower platform improves growth and efficiency



MYTOWER REGISTRATIONS

100,000

at April 2021

BUILDING MYTOWER
MOMENTUM

44%

of Tower Direct customers on
MyTower

DIGITAL SALES

60%

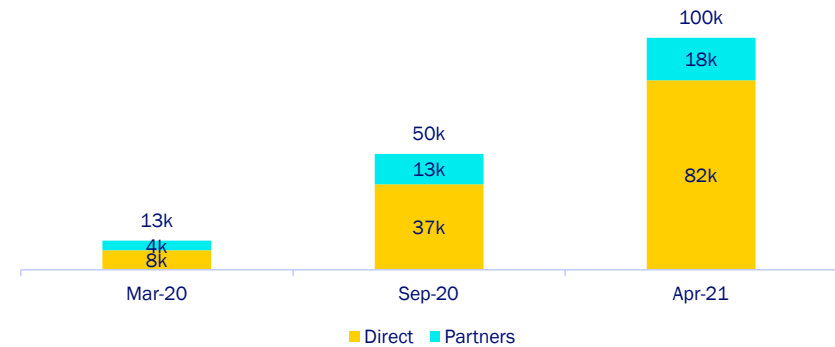
of Tower Direct GWP sold
online

NZ CUSTOMERS WITH
MULTIPLE PRODUCTS

40%

47% of Tower Direct customers
hold multiple products

MY TOWER REGISTERED CUSTOMERS



- Longevity of a multi-product customer is around twice that of a single product holder
- Cost to acquire on MyTower is half that of telephone service

Unique partnerships distribution drives scalable growth



LEADING RETAIL PARTNERSHIPS

TradeMe

To renew for further five years

NEW CORPORATE PARTNERSHIPS

CSC Buying Group, NZDF, Auckland Council

LEADING ADVISORY PARTNERSHIPS

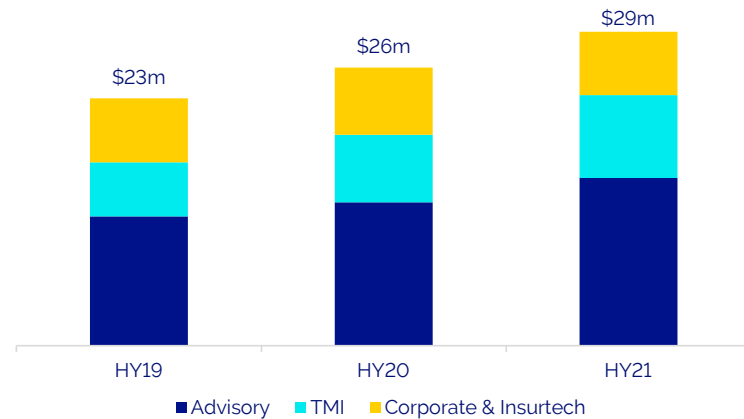
NZFSG TSB

NEW INSURTECH PARTNERSHIPS

Sentro

leveraging cloud-based API platform

PARTNERSHIPS GWP (excludes closed books)



- Leading Australian insurtech
- Tower to provide underwriting
- Launching second half 2021

Quality product mix to improve revenue and retention



NEW PRODUCTS

**Pet, Travel,
Barracks,
Pacific motor**

INNOVATING TRADITIONAL
PRODUCTS

**Boat
insurance
going online**

MODERNISING OUR CORE
PRODUCTS

**Electric
vehicle, e-bike
and e-scooter**

keeping pace with customer
lifestyles

BALANCED NZ INFORCE
PRODUCT MIX

**43% motor,
51% home &
contents**

Allianz

- Tower partnering with one of the world's largest insurers
- New Pet and Travel products offered in 2H, 2021

60% of customers hold single products only - opportunity through expanded product range to deepen customer relationships and increase revenue.

Supporting our Culture & Community



NZ FOOTPRINT MEASURED

Carbon audit completed

committed to long-term improvements

CULTURAL DIVERSITY

58%

of our workforce identify as non-European

FLEXIBLE WORKPLACE

10%

of our workforce are permanently working from home

WORKING WITH DATA SCIENCE PARTNERS ON

Climate research projects

to understand and share climate data

SIX GREEN STAR AUCKLAND OFFICE FROM AUGUST 2021



Investing for long term growth

Total FY21
investment
\$22m

Core business

- Digital & data cloud-based platform
- EIS Pacific rollout
- Customer experience innovation

New Distribution

- Corporate partnerships
- Insurtechs – Huddle, Sentro

Product Innovation

- Boat, Travel, Pet
- Risk-adjusted pricing

Acquisitions

- ANZ
- Club Marine referral

Summary – solid business performance with a platform for long term growth

- Well capitalised with strong balance sheet and solvency margins.
- Focus remains on driving shareholder value by accelerating growth and innovation through a relentless focus on customers.
- Taking decisive action to address emerging challenges with claims inflation.
- Continue to invest in digital and data platform to drive efficiency and support growth.
- Dividends resumed in HY21.
- Guidance updated to underlying NPAT \$25m to \$27m assuming large events of \$9.7m.
- Analyst day planned for September, 2021.

Questions?



Tower Direct

CUSTOMERS

187,000

6% growth on HY20

GWP

\$113m

14% growth on HY20

MER

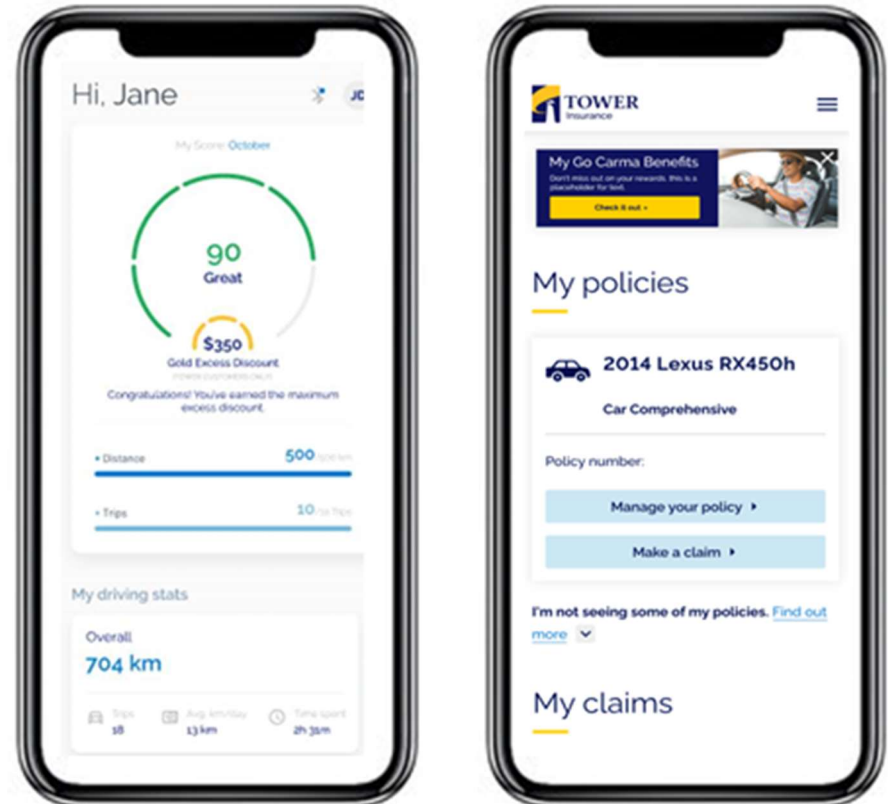
31%

improvement of 4% on HY20

ANZ BUY-OUT

23,000

Customers to migrate to Tower Direct



- Second consecutive half of double digit GWP growth
- Increased customer digital adoption
- Launched GoCarma App in December 2020

Tower Partnerships



- Five new partnerships secured in HY21
- TradeMe in the process of renewing for a further five years
- Strong pipeline for growth in FY21

Tower Pacific

CUSTOMERS

34,000

8% decline on HY20

GWP

\$25m

16% decline on HY20

MER

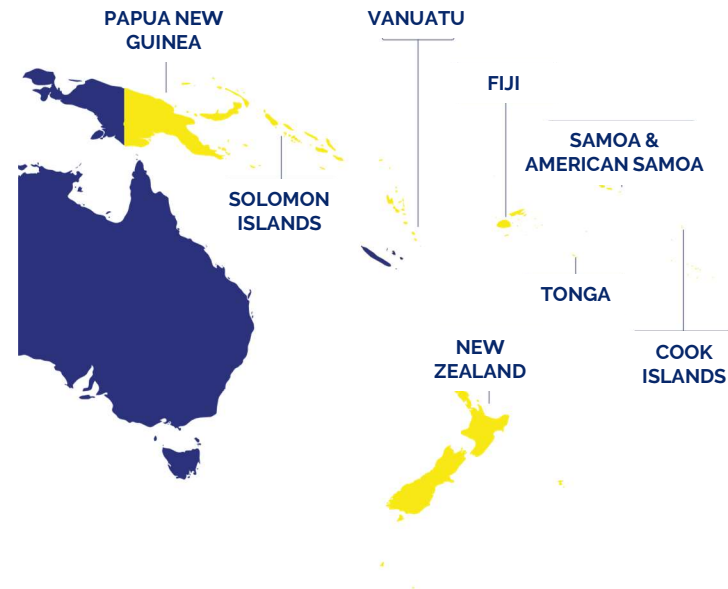
46%

improvement of 3% on HY20

GOING DIGITAL IN
THE PACIFIC

**Fiji MyTower &
EIS motor**

1st online insurance offering in
the Pacific



- Moving from bespoke, manual intensive legacy system and operating model to digitised platform aligned to NZ businesses. Aim to complete by end FY22
- Product suite rationalised from 449 in HY20 to 347
- GWP retention for HY21 in line with expectations

Reconciliation between underlying profit after tax and reported profit after tax

\$ million	HY21 underlying profit	CEQ adjustments (1)	GWP reclassifications (2)	Other (3)	HY21 reported profit
Gross written premium	193.9	-	0.6	-	194.6
Gross earned premium	195.3	-	0.6	-	195.9
Reinsurance expense	(28.1)	-	-	-	(28.1)
Net earned premium	167.1	-	0.6	-	167.8
Net claims expense	(80.5)	0.3	-	(11.9)	(92.1)
Large events claims expense	(9.3)	-	-	-	(9.3)
Management expenses	(52.9)	-	-	12.2	(40.7)
Net commission expense	(8.1)	-	-	-	(8.1)
Underwriting profit	16.2	0.3	0.6	0.3	17.4
Net investment income	0.7	-	-	(0.2)	0.5
Other	0.0	-	-	0.1	0.1
Income tax expense	(5.6)	(0.1)	(0.2)	(0.0)	(5.9)
Underlying profit after tax	11.3	0.2	0.5	0.1	12.0
Canterbury impact on outstanding claims	(1.6)	1.6	-	-	0.0
Release of additional board risk margin for Canterbury	1.8	(1.8)	-	-	0.0
Other non-underlying items	0.55	-	(0.5)	(0.1)	0.0
Reported profit after tax	12.0	-	-	-	12.0

- (1) Includes net impact of Canterbury earthquake valuation update and part release of the additional Canterbury earthquake risk margin release.
- (2) Release of customer remediation provision treated as non-underlying.
- (3) Reclassification of claims handling expenses from management expenses to net claims expense; reclassification of forex movements to management and sales expenses and other non-underlying transactions.

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 2021.

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