

Tower

2023 Half Year Results

1 October 2022 to 31 March 2023

25 May 2023



Agenda



Chairman's update

Michael Stiasny, Chairman



Business update

Blair Turnbull, Chief Executive Officer



HY23 financial performance

Paul Johnston, Chief Financial Officer



Looking forward

Blair Turnbull, Chief Executive Officer



Chairman's update

Taking decisive action to address external challenges

Catastrophic events



Inflation



Motor crime



Strong rating and underwriting actions
Expansion of risk-based pricing
Maintaining a prudent dividend policy

Business update

Blair Turnbull
Chief Executive Officer



Our performance

Business performance impacted by catastrophe events

GWP growth

(Gross written premium)

15%¹ | \$245m

vs \$216m in HY22

BAU claims ratio

51.6%

vs 48.6% in HY22

MER

(Management expense ratio)

35.1%

vs 35.8% in HY22

Underlying profit

excl. large events costs

\$23.6m

vs \$18.2m in HY22

Large events

\$33.9m

vs \$17.9m in HY22

COR

(Combined operating ratio)

105.3%

vs 94.8% in HY22

Underlying loss

incl. large events costs

\$3.3m

vs \$5.4m profit in HY22

Reported loss

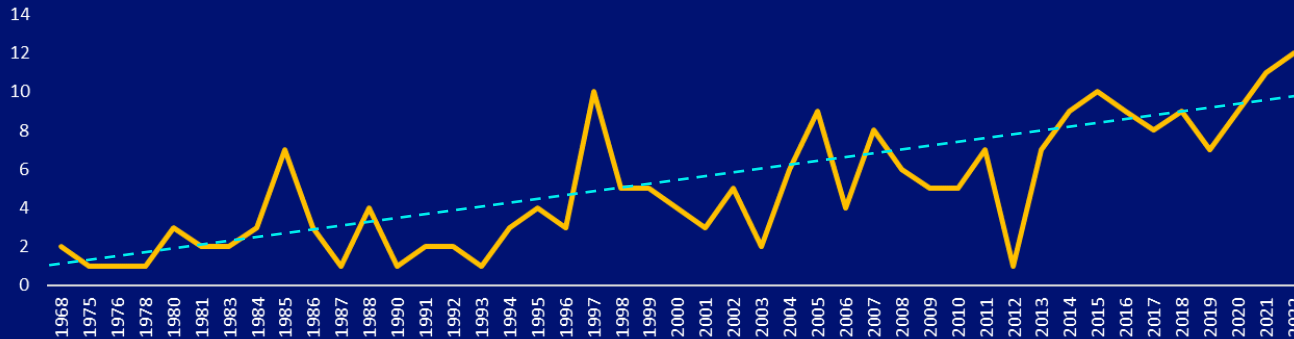
\$5.1m

vs \$3m profit in HY22

Note 1: adjusted to exclude Papua New Guinea

Catastrophic and large weather events

Frequency of New Zealand Disaster Events ¹



Auckland & Upper North Island weather event

- \$195m-\$225m, ~5,550 claims, \$11.9m net impact
- 30% claims settled

Cyclone Gabrielle

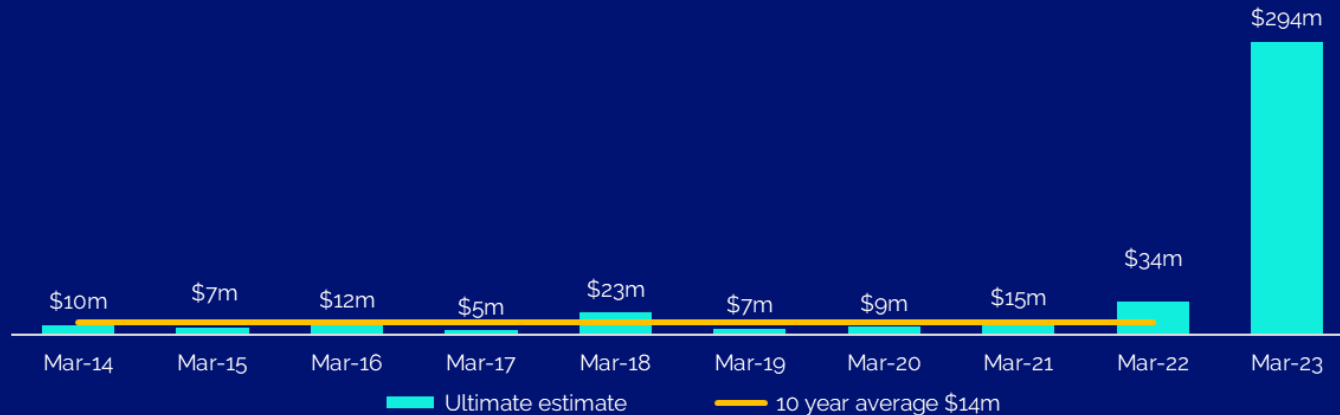
- \$55m-\$75m, ~3,350 claims, \$11.9m net impact
- 30% claims settled

Vanuatu Cyclones

- \$15m, ~250 claims, \$10m net impact
- 5% claims settled

FY23 large events allowance increased to \$50m net of reinsurance recoveries.

Tower Rolling 12 Month Large Events (Gross Estimate)



Note 1: Sourced from ICNZ

Managing impacts of increasing weather events

Observed flooding



Tower flood model



Transparent underwriting and risk-based pricing

- Landslide risk selection implemented
- Increased weighting of flood risk portion of premium
- Automated coastal & landslide risk-based pricing launching 2023

Product innovation

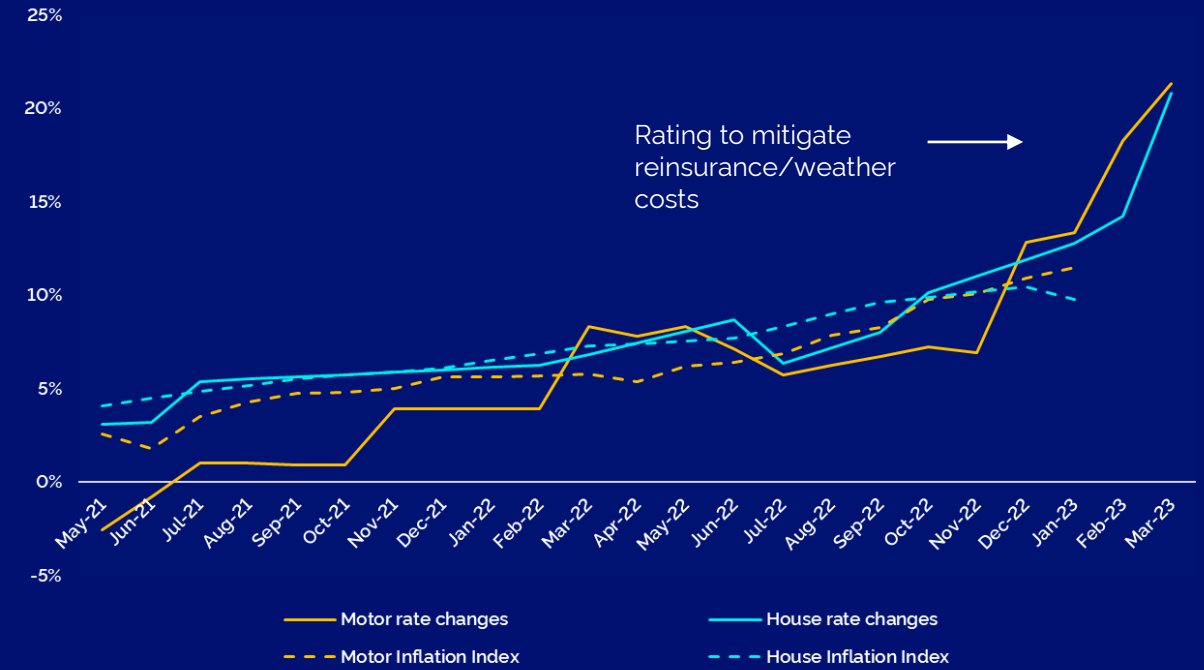
- Parametric

Managing impacts of inflation and motor crime

12 Month Rolling Rate Changes vs Tower's Inflation Indices for the period
1 May 2021 to 31 March 2023

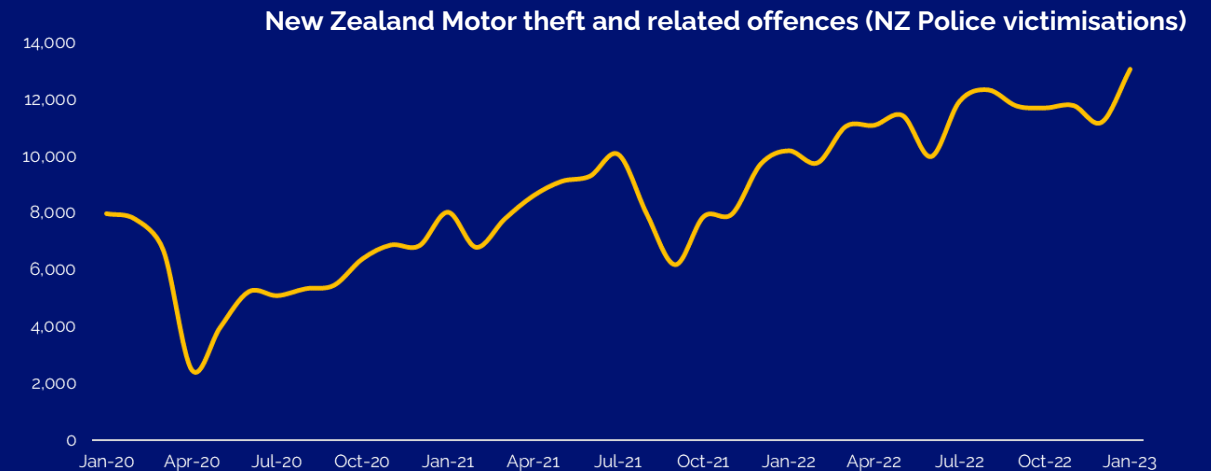
Inflation

- Monthly inflation rate changes
- Sum insured amounts matched to Cordell or CPI at renewal
- Rating to mitigate reinsurance and weather-related costs



Motor theft

- Theft more than 10% of total motor claim costs - double historical averages
- High theft vehicle rate & excess changes



Outlook for second half

- Efficiently settling large event claims
- Targeted rate increases and further underwriting improvements to address inflation
- 15% - 20% GWP growth
- Continuing to deliver operational efficiencies
- Reinsurance protection for two additional catastrophe events in FY23 up to \$889m per event
- Auckland storm on 9 May expected to be a large event in the range of \$4m to \$6m
- Full year underlying NPAT guidance of \$8m-\$13m, assuming \$50m large events allowance is used (\$10m - \$12m remaining for further large events)

Continued customer and premium growth

CUSTOMERS¹

320,000

Up 5% on HY22
NZ risks up 5% to 592k

15% GWP INCREASE

60:40

NZ rate² vs organic

TOWER DIRECT RETENTION

79%

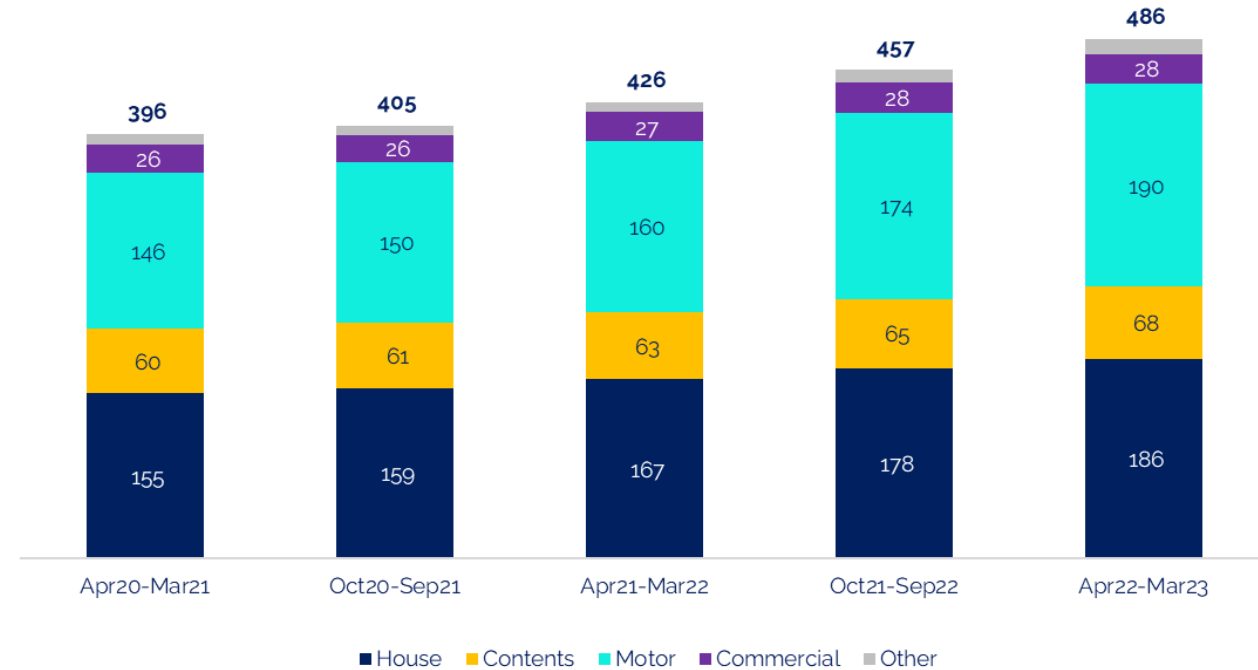
Up from 78% in HY22

NZ CUSTOMERS WITH
MULTI PRODUCTS

51%

With an average
tenure of 8 years

12 MONTH ROLLING
GWP BY PRODUCT(\$m)



Note 1: Comparative period restated to account for customer de duplication process and Papua New Guinea subsidiary sale
Note 2: Normalising for EQC cap change which reduced Tower's company premium

Channel and efficiency improvements

TOWER DIRECT

- 20% premium growth to \$183m
- 88% legacy bank book policy retention
- 237k My Tower registrations, up 44%

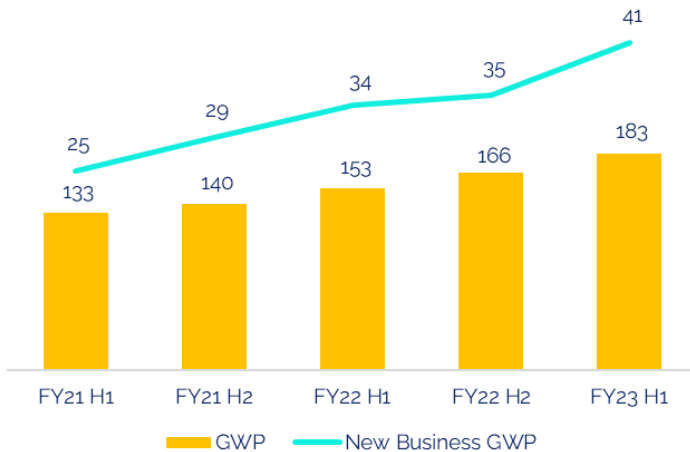
PARTNERSHIPS

- 23% active partner growth to \$37m
- Advisor network grew 57% to 2,200
- Commission reduced to 2.1% of GDP

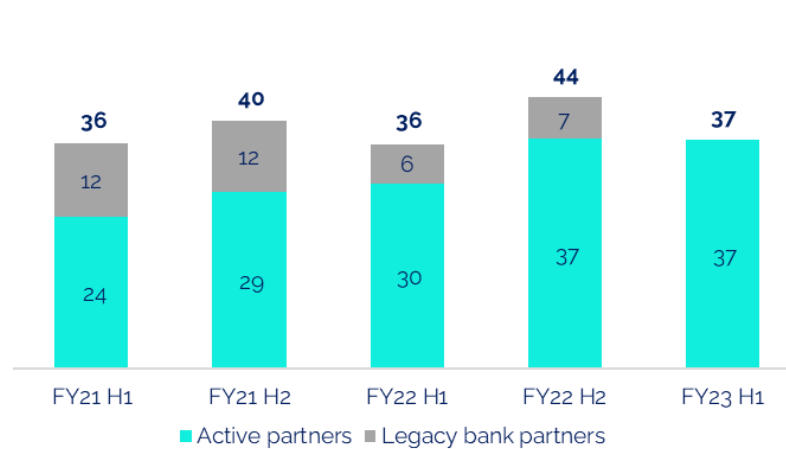
PACIFIC

- Simplifying: PNG sale
- My Tower live in 7 countries, vs 1 HY22
- Tightening risk appetite

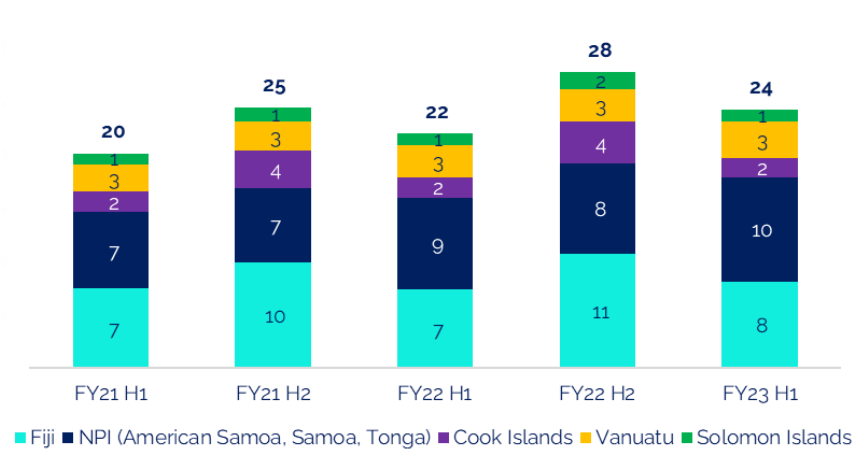
TOWER DIRECT GWP (\$m)



PARTNERSHIPS GWP (\$m)¹



PACIFIC GWP (\$m)²



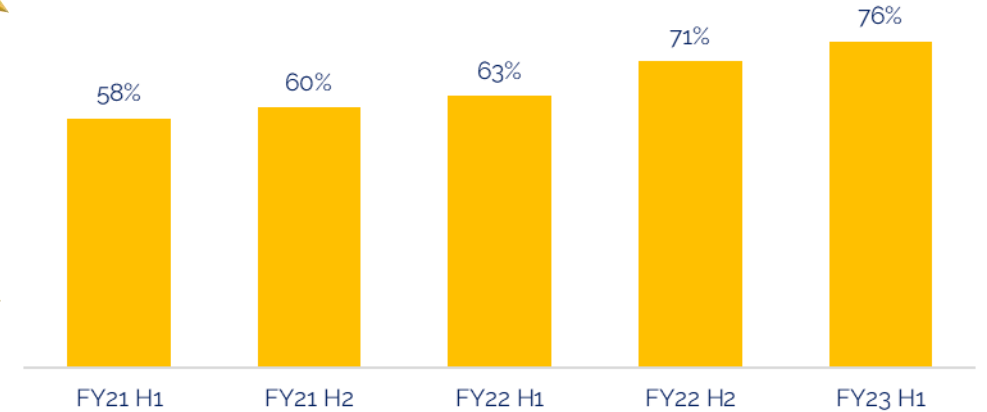
Note 1: Legacy partnership portfolios have been transferred from the Partnerships business unit to Tower Direct after purchase, being ANZ in FY21, TSB and Westpac in FY22, Kiwibank in FY23
 Note 2: Adjusted to exclude Papua New Guinea

Improving efficiency through leading data and digital

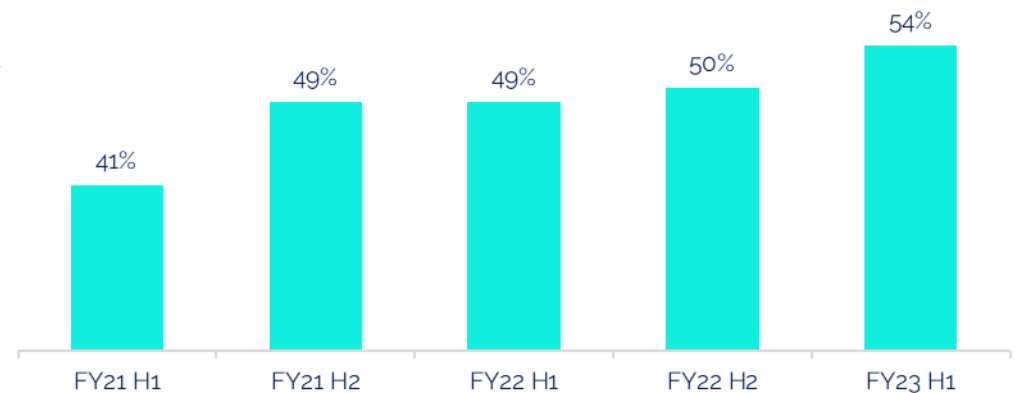
- Digital driving down costs to acquire and serve
- Lowering telephony and service costs through Suva hub
- Leading NZ online NPS, improved to 58% from 56% in HY22
- Continuous improvement via core platform agility
- Rapid daily tech releases take 25min, down from 2 hours



NZ DIRECT SALES ONLINE



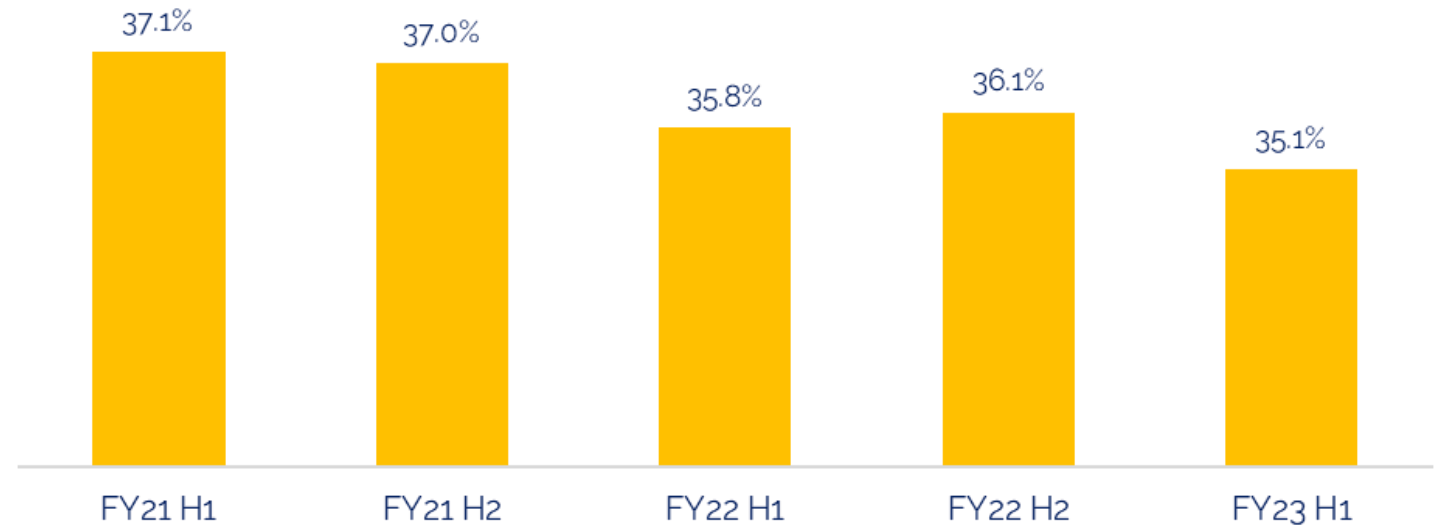
NZ SERVICE & CLAIMS TASKS ONLINE



Reducing MER as simplification and digitisation realised

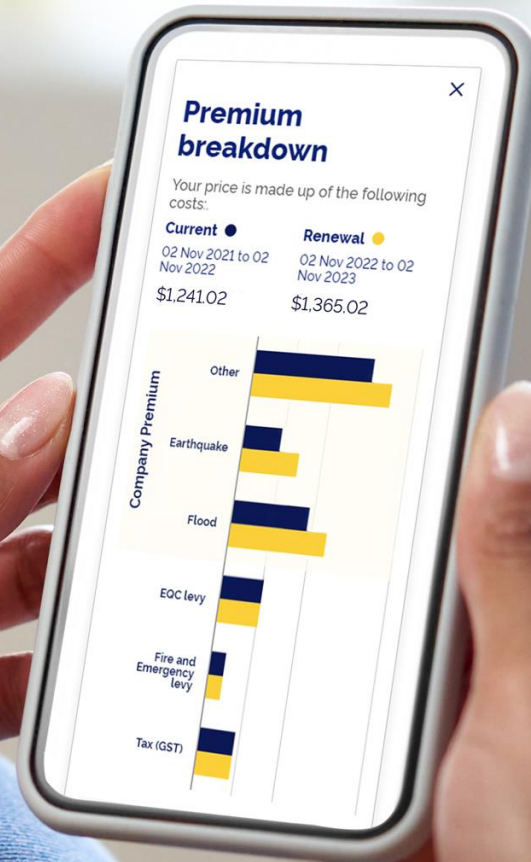
- Streamlining our business - 1 platform, all countries
- Simplified organisational alignment
- Scale and operational efficiency enabled through digitisation

MANAGEMENT EXPENSE RATIO (% NEP)



Financial performance

Paul Johnston
Chief Financial Officer



Group underlying financial performance

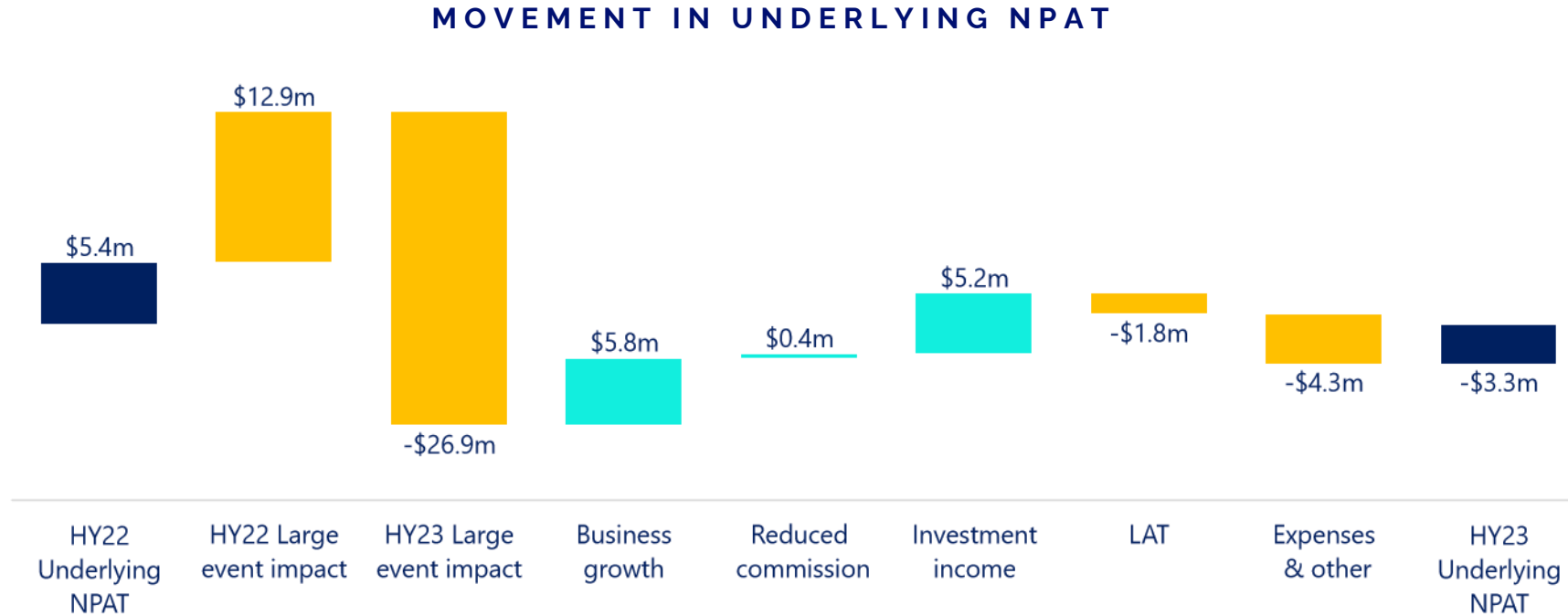
- Strong premium growth of 15%
- BAU loss ratio of 51.6%, an increase of 3% as a result of increased motor frequency
- \$3.4m reinsurance reinstatement costs expensed in the half year
- Management expense ratio improved to 35.1% as a result of expense efficiencies and scale
- HY Underlying NPAT before large events of \$23.6m
- Non-underlying transactions include gain on sale of PNG and Suva building, CEQ valuation increase, prior period tax adjustments, and an increase to the customer remediation provision

Key ratios (% of NEP)	HY23	HY22	Change
Claims ratio excluding large events	51.6%	48.6%	3.0%
Large events claims ratio	16.9%	10.3%	6.6%
Expense ratio	35.1%	35.8%	(0.7)%
Combined ratio	105.3%	94.8%	10.5%

\$ million	HY23	HY22	Change
Gross written premium	245.0	216.1	28.9
Unearned premium	(12.0)	(9.0)	(2.9)
Gross earned premium (GEP)	233.0	207.1	26.0
Reinsurance	(32.2)	(33.4)	1.2
Net earned premium (NEP)	200.9	173.7	27.2
BAU claims expense	(103.6)	(84.5)	(19.2)
Large event claims expense	(33.9)	(17.9)	(16.0)
Large event reinsurance reinstatement	(3.4)	0.0	(3.4)
Management expenses	(65.6)	(57.6)	(8.0)
Net commission expense	(5.0)	(4.7)	(0.3)
Underwriting (loss)/profit	(10.6)	9.1	(19.7)
Net investment income	6.3	(0.9)	7.2
Other income	0.3	0.4	(0.0)
Tax	0.7	(3.1)	3.9
Underlying net (loss)/profit after tax (NPAT)	(3.3)	5.4	(8.6)
Non-underlying transactions (net of tax) ¹	(1.8)	(2.4)	0.5
Reported (loss)/profit after tax	(5.1)	3.0	(8.1)

Note: 1: Refer to reconciliation between Underlying NPAT and Reported profit on page 28

Underlying NPAT impacted by large events



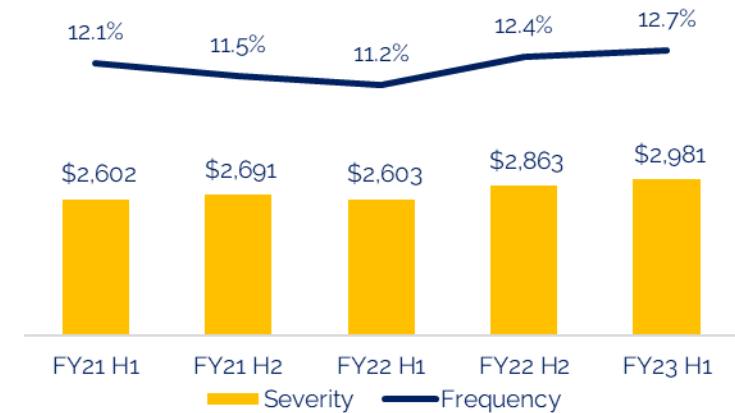
- Underlying NPAT loss of \$3.3m
- Additional large event impact of \$14m¹ (\$37.3m pre-tax HY23 vs \$17.9m HY22)
- Premium growth partially offset by rising motor claims
- Reduction in commission expense from legacy book purchase
- Liability Adequacy Test (LAT) one-off unwind included in HY22 (\$2.5m pre tax)

Note 1: Includes the cost of large event claims and catastrophe reinsurance reinstatement cost

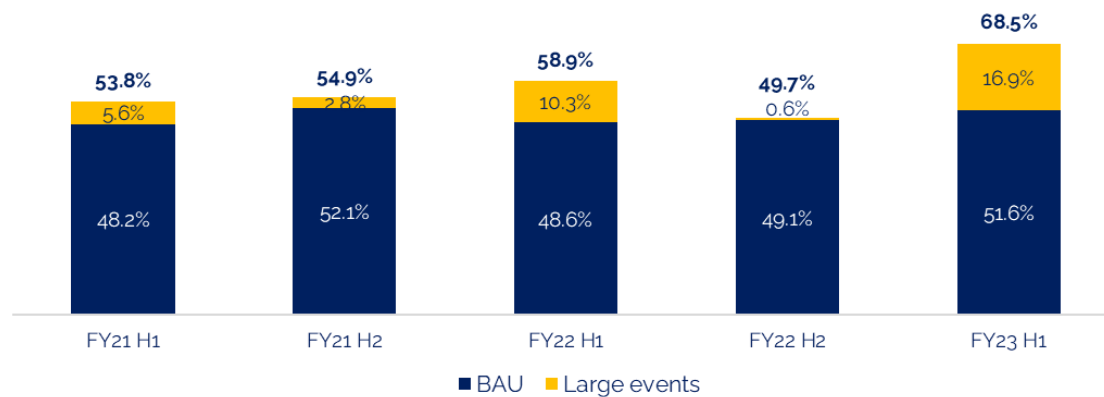
BAU claims challenged by motor frequency and inflation

- High inflation period impacting cost of claims (severity)
- NZ motor claims frequency above historical norms
- Covid lockdowns lowered motor frequency in previous periods
- Motor theft contributing to higher frequency and severity

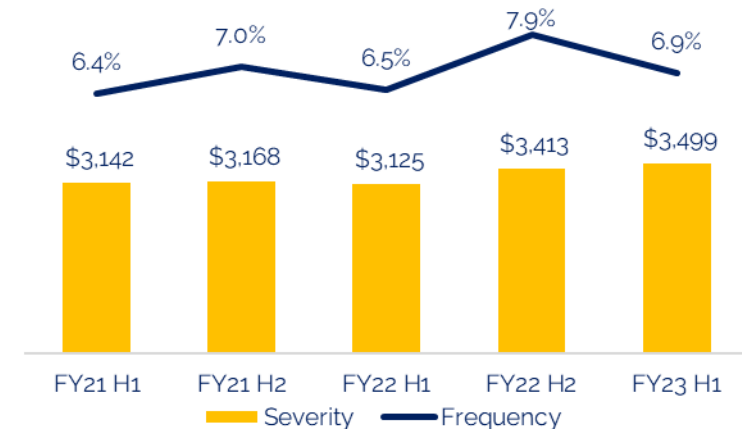
NZ MOTOR FREQUENCY & SEVERITY



TOTAL CLAIMS RATIO



NZ HOUSE FREQUENCY & SEVERITY

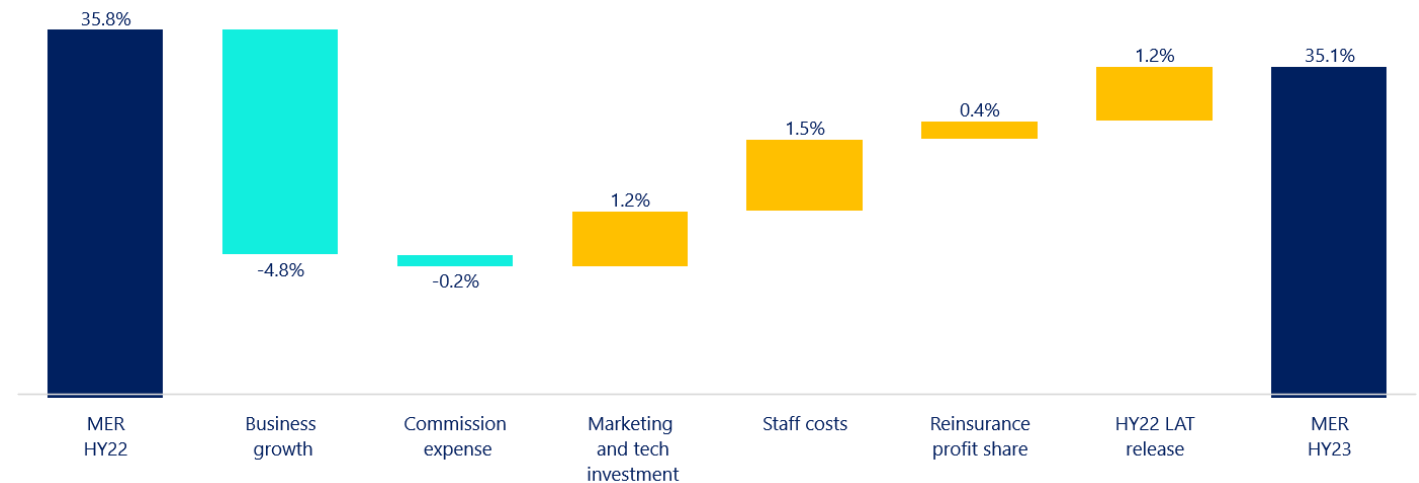


Note 1: Severity is defined as the cost of claims (excluding large events, large house, windscreen) divided by the count of claims. In prior years this definition excluded negative or zero incurred claim volumes and was based only on closed claims. The updated definition is deemed more effective in understanding claims and aligns to the actuarial valuation of outstanding claims
 Note 2: Frequency is defined as the number of claims (same exclusions as above) divided by risks in force

Continued improvement in management expenses

- MER reduced 0.7% to 35.1%
- Scale contributes a 4.8% reduction in MER
- Commission expenses decreased due to the purchase of back book legacy portfolios
- Nil reinsurance profit share impacts net commission expenses
- HY22 includes the release of a liability adequacy test (LAT) provision of \$2.5m

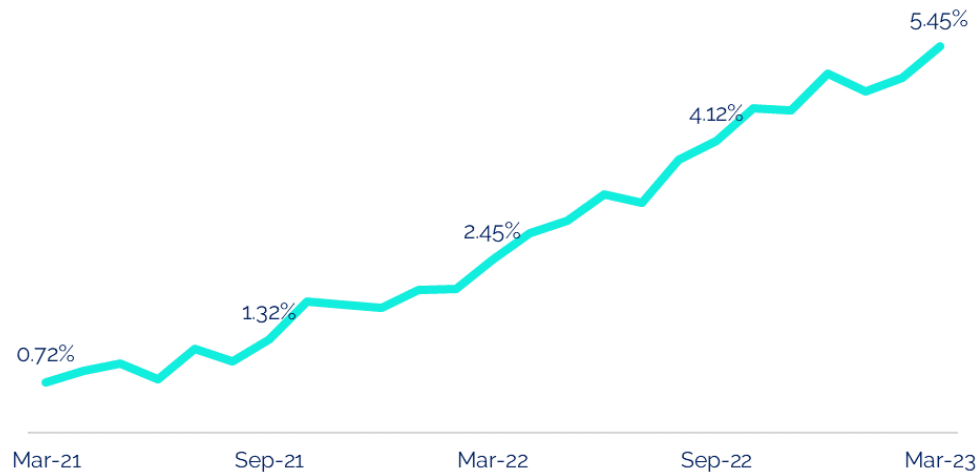
MOVEMENT IN MANAGEMENT EXPENSE RATIO (MER)



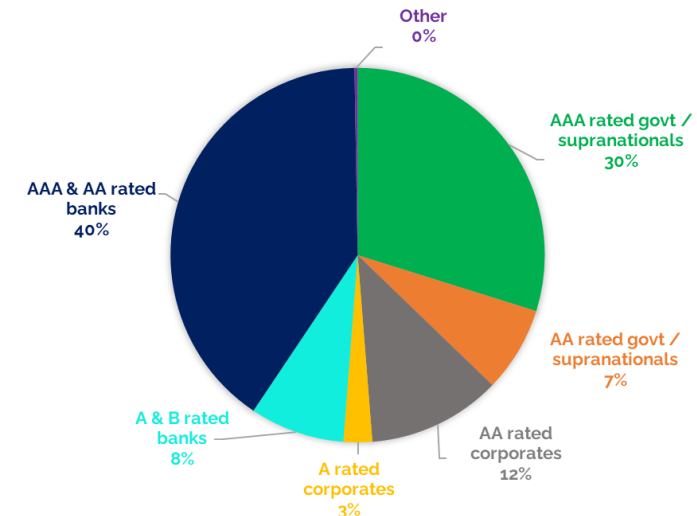
Higher investment returns as yields increase

- Net Investment Income \$6.3m for HY23, \$7.2m higher than HY22
- Interest rates have stabilised resulting in higher running yields
- Tower maintains a conservative investment strategy
- Strategy has minimised profit impact from macroeconomic factors and market movements
- Running yield on the core investment portfolio has increased to 5.45% at 31 March 2023

CORE INVESTMENT PORTFOLIO YIELD¹



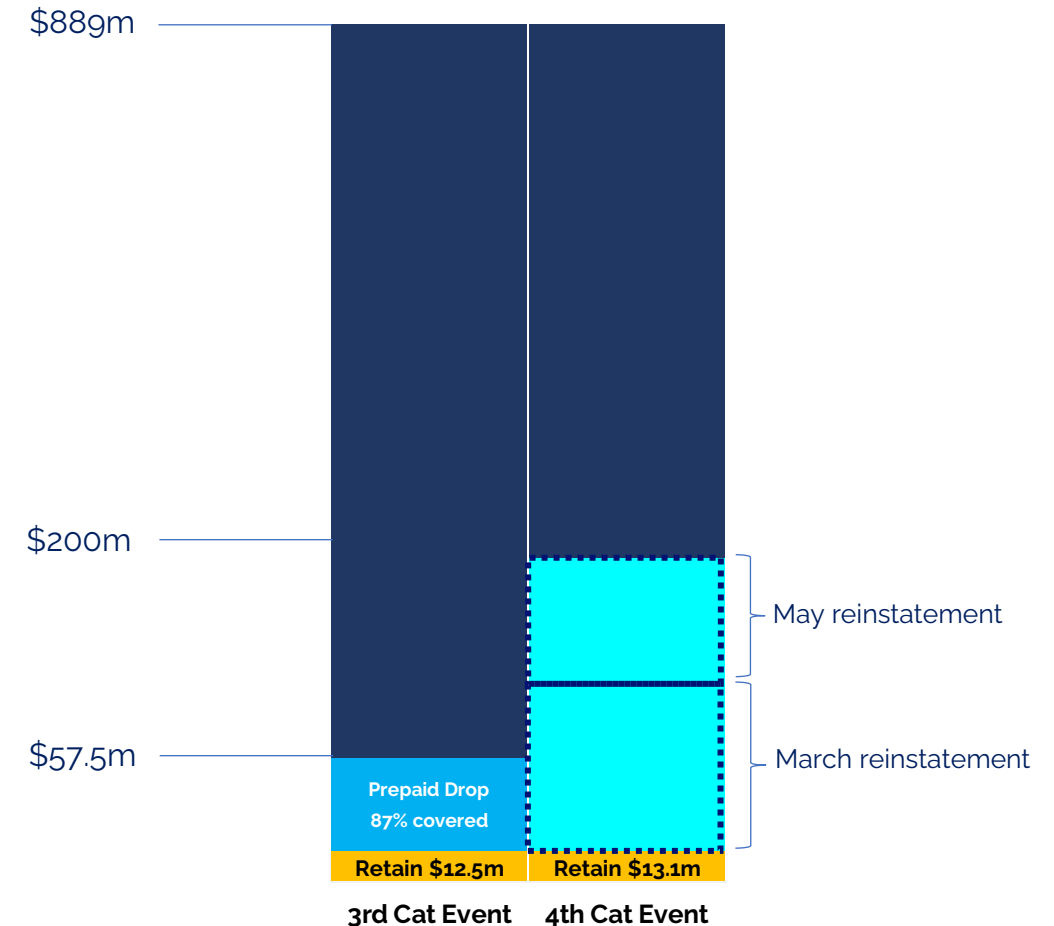
ASSET PROFILE – ALL CASH & INVESTMENTS



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 by 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

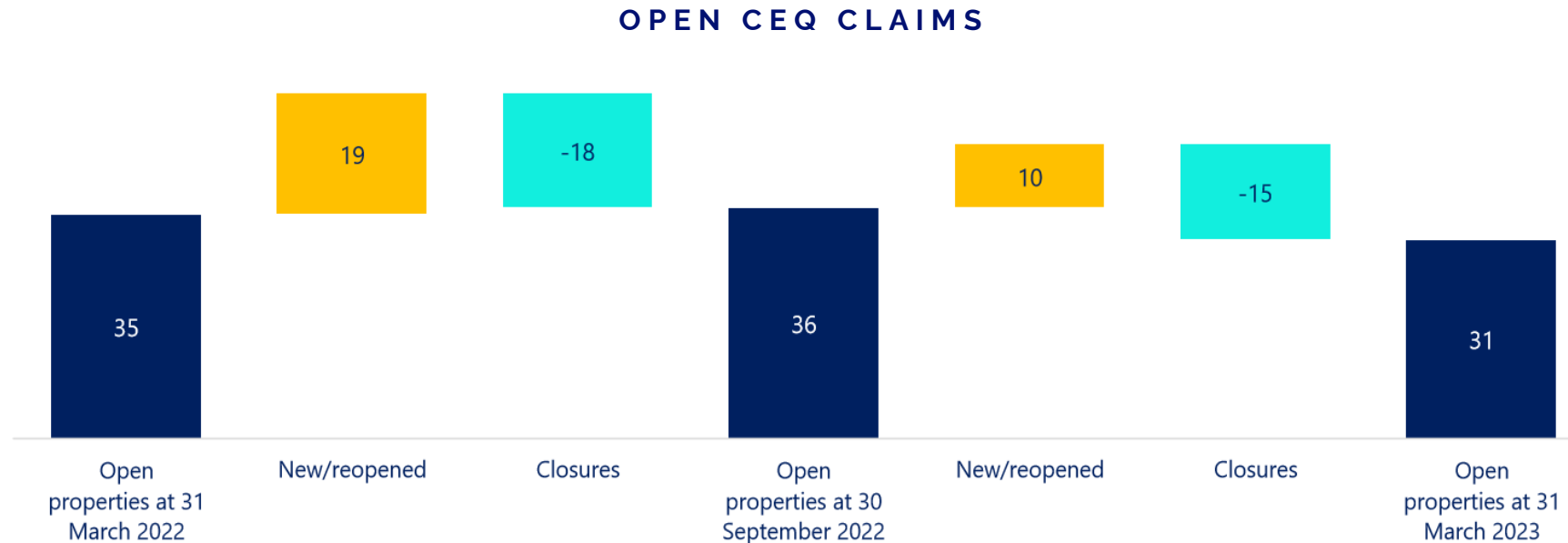
Reinsurance programme supports resilience

- Reinsurance expected to cover up to \$276m of large events costs in HY23
- \$187m of catastrophe cover has been reinstated
- Catastrophe reinsurance of \$889m each for two further events available for the balance of FY23
- Reinstatement cost included in full year guidance, expensed portion of reinstatement included in HY23 result
- Future year retention limits and programme premium increases mitigated due to 3 year rolling contracts



Tower would have further exposure to a third catastrophe event in the FY23 financial year to the extent claims costs for Cyclone Gabrielle exceed \$57.5m to the catastrophe treaty. A third event would incur an excess of \$12.5m as well as a 13.25% share of losses between \$12.5m and \$57.5m.

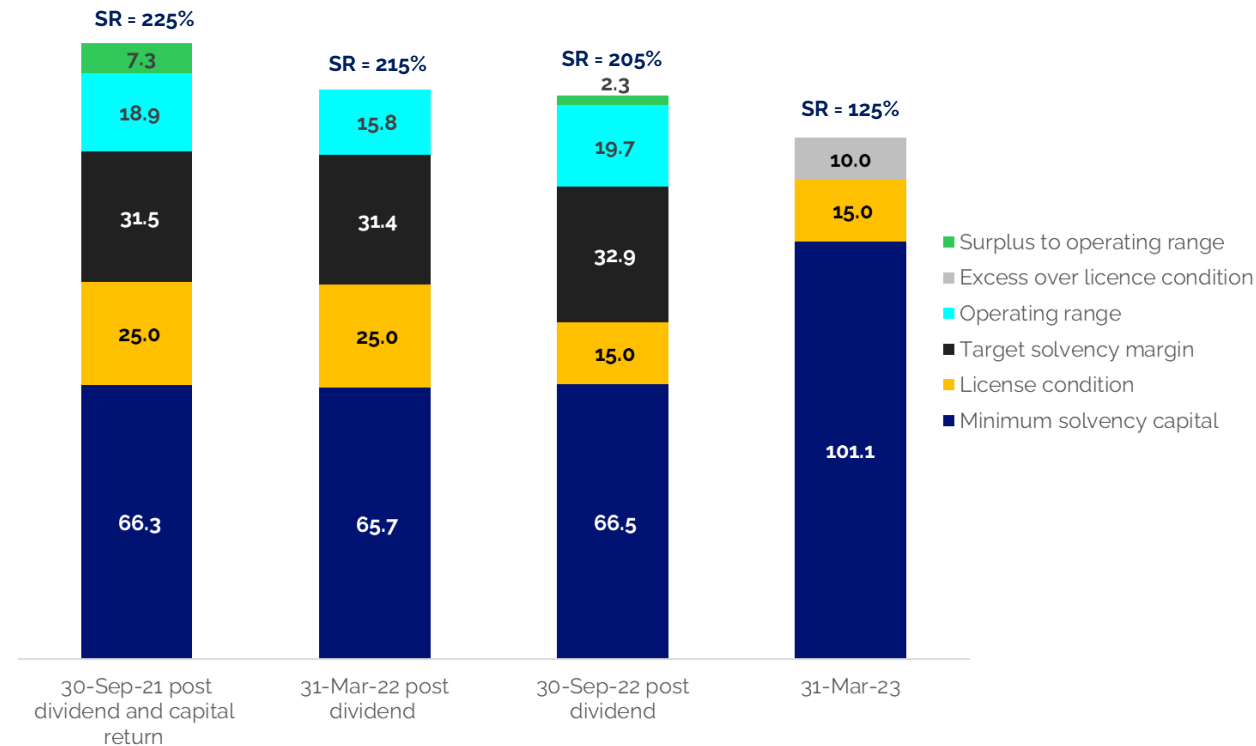
Canterbury earthquake claims reducing



- Adverse P&L charge of \$1m after tax as a non-underlying item
- Steady progress in closing claims with 31 properties open as at 31 March 2023 vs 35 at March 2022
- Numbers of new claims have reduced over the half
- Remaining gross outstanding claims provision is \$22.1m down from \$24.5m at September 2022

Capital and solvency position

TOWER SOLVENCY - NZ PARENT (\$m)



- Minimum solvency capital increased due to increased catastrophe risk and capital required for open catastrophe claims
- Solvency ratio of 125%, \$25m above RBNZ minimum solvency capital, but below historical operating range
- Solvency position for full year FY23 is projected to improve due to expected profit and settlement of event claims
- A- credit rating reaffirmed in April 2023 by AM Best

Note 1: SR = Solvency ratio – the ratio of actual solvency capital to minimum solvency capital

Full year guidance

FY23 Guidance

GWP growth

15% - 20%
(excluding Tower PNG)

Large events allowance

\$50m

Underlying NPAT

(assuming \$50m large events allowance is used)

\$8m-\$13m

Dividend¹

Decision will be made when full year results are finalised

Note 1: Tower's ordinary dividend policy is to pay a stable annual dividend to shareholders that aims to be in the range between 60-80% of "adjusted earnings" (defined as the reported full year Net Profit After Tax (NPAT) plus acquisition amortisation and unusual items) for the Tower consolidated group, where prudent to do so.

Looking forward

Blair Turnbull
Chief Executive Officer



Investing in future resilience and sustainability

SCALING PARAMETRIC

**Fiji, Tonga,
Samoa**

Partnering with United Nations

REDUCED SCOPE 1 & 2
EMISSIONS BY

59%

to 98.5tCO₂ in HY23,
on track to meet 2025
21% reduction target

LEADING GLOBAL ESG
BENCHMARK

**Targeting B Corp
certification**

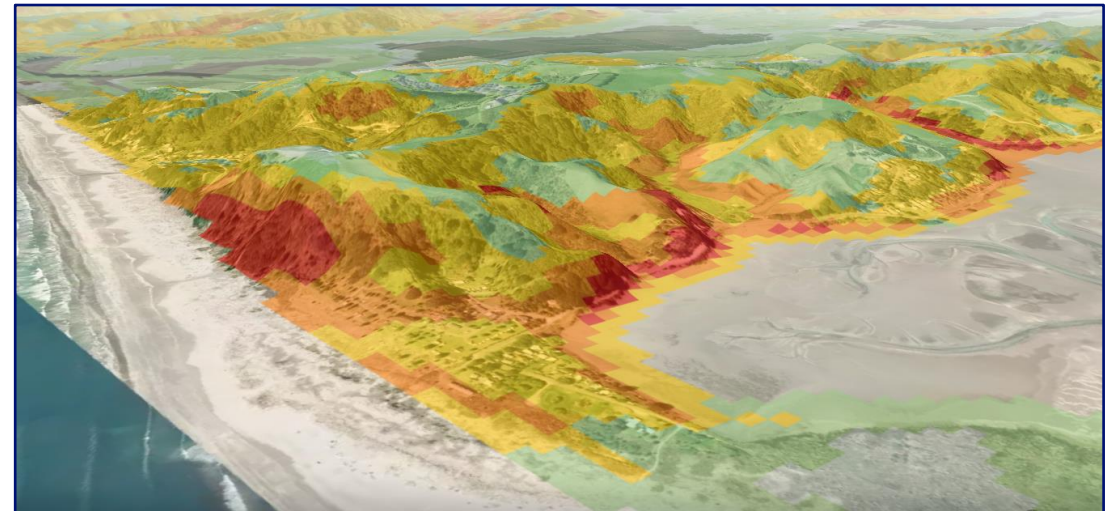
in FY24

PROGRESSING CLIMATE
CHANGE STRATEGY

**Climate-related
Financial
Disclosures**

First disclosure
required FY24

Continually developing hazard modelling



Landslide, coastal storm surge risk-based pricing launching
second half, 2023

Positioned to deliver long-term earnings

- Robust risk management and rating actions
- Targeted customer and premium growth
- Enhanced margin through efficiency and organisational improvements
- Mitigating large event impacts
- Investing for resilience and sustainability
- Attractive earnings and dividends over the longer term

Questions?

The image shows a person from a side profile, looking at a laptop. The laptop screen displays the TOWER insurance website interface. The interface is clean and modern, with a white background and blue accents. At the top, there's a navigation bar with the TOWER logo, 'Overview', 'Billing', 'Contact us', 'Account details', 'Log out', 'Make a claim', and 'Get a quote' buttons. The main content area is titled '37 Komai Street, Hamilton' and 'House Plus'. It features a 'Policy details' section with a table showing 'Current' and 'Renewal' periods, 'Period of insurance', 'Total premium', 'Sum insured', and 'Excess'. A 'Billing' section shows the 'Next instalment' of \$151.70 on 17 Nov 2021. A 'Risk profile' section shows 'Earthquake' as Low and 'Flood' as Medium. A 'People' section lists 'farheen fatima' as the policy holder and 'Relative' as who lives there. A '+ Add New' button is visible at the bottom of the policy details section.

TOWER

Overview Billing

37 Komai Street, Hamilton

House Plus

Policy details

Current	Renewal
Effective from 02 Nov 2021	Effective from 02 Nov 2022
02 Nov 2021 to 02 Nov 2022	02 Nov 2022 to 02 Nov 2023
\$1,241.02 per year	\$1,325.02 per year
Show premium breakdown	Show premium breakdown
\$634,300.00	\$669,300.00
\$400.00	\$400.00
View other policy excess	View other policy excess
None	None
You do not have any special features specified on this policy	You do not have any special features specified on this policy

Sum insured

Excess

Finance providers

Special features

People

Policy holder(s)

Who lives there

farheen fatima
Relative

farheen fatima
Relative

Make a claim

Policy number: P0019742851

Renewal Effective from 02 Nov 2022

Billing

Next instalment
\$151.70
On 17 Nov 2021

Go to billing

Risk profile

Modelling by [RIS](#)

We've identified the following risks for your property

Earthquake Low

Flood Medium

View details

To make a change on your policy click the icon. If you have upcoming changes on your policy go to the latest version to edit your policy. For any questions or if you need help with your policy please select the option below.

+ Add New

Reconciliation between underlying profit after tax and reported profit after tax

\$ million	HY23 underlying profit	Non- underlying items (1)	Reclasses (2)	Papua New Guinea (3)	HY23 reported profit
Gross written premium	245.0	(2.5)		(0.6)	241.9
Gross earned premium	233.0	(2.5)		(0.8)	229.8
Reinsurance expense	(32.2)		(3.4)	0.3	(35.3)
Net earned premium	200.9	(2.5)	(3.4)	(0.5)	194.5
BAU claims expense	(103.6)	(1.4)	(13.4)	0.0	(118.4)
Large events	(33.9)				(33.9)
Large event reinsurance reinstatement	(3.4)		3.4		
Management and sales expenses	(65.6)	(1.2)	12.5	0.2	(54.0)
Net commission expense	(5.0)			0.0	(5.0)
Underwriting (loss)/profit	(10.6)	(5.1)	(0.9)	(0.2)	(16.8)
Net investment income	6.3			(0.0)	6.3
Other income	0.3	1.0	0.9	(0.0)	2.2
Underlying profit before tax	(4.0)				
Income tax expense	0.7	0.1		0.1	0.9
Profit after tax from discontinued operation	0.0	2.2		0.1	2.3
Underlying (loss)/profit after tax	(3.3)				
Canterbury impact	(1.0)	1.0			
Gain on sale of operations and building	3.0	(3.0)			
Customer remediation provision	(1.8)	1.8			
Other non-underlying costs	(2.0)	2.0			
Reported (loss)/profit after tax	(5.1)	0.0	0.0	0.0	(5.1)

Underlying and reported (loss)/profit:

- "Underlying (loss)/ 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 (loss)/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
- "Reported (loss)/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 2023

- (1) Non-underlying items include net impact of Canterbury earthquake valuation update, customer remediation provision 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, FX gains/losses from other income to management expenses, and reinsurance reinstatement costs as reinsurance expenses
- (3) Papua New Guinea business treated as discontinued operations for statutory purposes

Disclaimer

This presentation has been prepared by Tower Limited to provide shareholders with information on Tower's business. This document is part of, and should be read in conjunction with an oral briefing to be given by Tower. A copy of this webcast of the briefing is available at <http://www.tower.co.nz/investor-centre/>. It contains summary information about Tower as at 31 March 2023 which is general in nature, and does not purport to contain all information a prospective investor should consider when evaluating an investment. It is not an offer or invitation to buy Tower shares. Investors must rely on their own enquiries and seek appropriate professional advice in relation to the information and statements in relation to the proposed prospects, business and operations of Tower. The data contained in this document is for illustrative purposes only. Past performance is not a guarantee of future performance and must not be relied on as such. The information in this presentation does not constitute financial advice.

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