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24 May 2017

Tower Limited
Typographical correction to Results Announcement documents

Tower has corrected the **attached** Media Release and Management Review for a typographical error. The original documents referred to pre-tax impacts on profit of $9.8 million relating to increases in Canterbury provisions. This has been corrected to state that the impact is post-tax.

There has also been a correction to the NZX Appendix 1 cover note, where claims provisions relating to Kaikoura earthquakes have been restated to $7.2 million after tax.

ENDS

David Callanan
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24 May 2017

TOWER REPORTS STRONG UNDERLYING RESULT & INCREASE TO CANTERBURY PROVISIONS

Tower Limited (NZX/ASX:TWR) has today reported a half year loss of $8.2 million for the half year ended 31 March 2017, impacted by further adjustments to Canterbury provisions, Kaikoura earthquake and large loss events.

Underlying profit after tax was $8.1 million, a 7.6% increase from $7.6 million in the first half of 2016.

Features of HY 2017:

- Reported half year loss of $8.2 million impacted by
    - $7.2 million post-tax impact from the Kaikoura earthquake
    - $3.6 million post-tax impact from the Tasman Tempest storms and Port Hills Fires
    - $9.8 million post-tax impact from additional Canterbury provisions reflecting ongoing complexity of the situation

- Underlying profit after tax of $8.1 million, growing 7.6% from $7.6 million in H1 16

- Business initiatives driving improvements in core metrics providing confidence in strategy and future performance targets:
    - **Growth of core book**
        - Gross written premium in core book increased 2.4% over H1 16
        - Growth of 4,949 policies in core book this half
    - **Management of claims costs**
        - Claims costs continue to show positive trends, declining $3.2m compared to H1 16, before the impact of large loss events
    - **Reduction of management expenses**
        - Management expenses reduced by $2.6m compared to H1 16

- Further progress on Canterbury with just under one third of open property claims settled in the half; Tower's Appointed Actuary, Deloitte, has advised the Board to further increase provision requirements, reducing post-tax profits by $9.8 million for the half.

- Dividend payment suspension continued

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A strong underlying business

Tower's half year result has shown that Tower's core New Zealand business is strong and that its strategic imperatives are improving the performance of the business.

A focus on customers has delivered continued growth in the core New Zealand portfolio, with the recent launch of Tower's Airpoints partnership proving attractive for both new and renewing customers. Increased attention on underwriting and attracting the right customers with better offerings has continued increasing underwriting profit. A focus on costs has delivered a reduction in Tower's expense base and closer supply chain management has reduced claims costs.

Tower Chief Executive Richard Harding is pleased with Tower's underlying performance and the continued transformation of the business.

"We are making it easier for customers to purchase insurance from us and the recent launch of our new products online has generated a significant increase in sales. While making it easier for our customers, we're also simplifying our business which is delivering improved operating performance," he said.

Mr Harding said while the reported result is disappointing, the initiatives in place across the business will help Tower achieve its high performance ambitions.

"The continued improvements we're seeing from initiatives already in place show that our strategy is working and we are well placed to continue moving the business forward," Mr Harding said.

Update on scheme vote and non-binding proposal

Tower's Board is working with Fairfax to determine the appropriate timing for a scheme vote and in the absence of a superior offer, continues to unanimously recommend this scheme.

With regard to Suncorp's non-binding proposal, due diligence has been undertaken and the Commerce Commission has advised that it will release its findings on 30 June 2017.

Tower's Board will update the market of any further development in due course but notes that any vote will occur after 30 June.

ENDS

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Tower management review – Half year to 31 March 2017

Features of half year 2017

- Reported half year loss after tax of $8.2 million impacted by adjustments to Canterbury provisions, Kaikoura earthquake and large loss events
- Underlying profit after tax of $8.1 million, an increase of 7.6 percent, from $7.6 million in H1 16
- Transformation of core business continues with business initiatives delivering growth, improved underwriting profit and lower claims and management expenses
- Further progress on Canterbury with just under one third of open property claims settled in the half; Tower's Appointed Actuary, Deloitte, has advised the Board to increase provision requirements, reducing post-tax profits by $9.8 million for the half
- Tower Limited has drawn down $30 million of a $50 million liquidity facility with BNZ and used this to strengthen Tower Insurance Limited's solvency position
- Dividend payment suspension to continue

Half year summary

Tower reported a half year loss after tax of $8.2 million for the half year ended 31 March 2017 (H1 17), compared to a loss of $8.7 million for the half year ended 31 March 2016 (H1 16). The result was impacted by further adjustments to Canterbury provisions, Kaikoura earthquake and a number of large loss events.

Despite this backdrop, Tower delivered an underlying profit after tax of $8.1 million for H1 17, an increase of 7.6% compared to H1 16.

Tower has strong underlying New Zealand and Pacific businesses. It continues to be guided by the strategic imperatives already well established in the business.

During the half, Tower continued to improve the underlying business through implementing digital initiatives, delivering better claims performance, achieving policy growth in the core New Zealand book, and reducing management expenses.

Tower continues to make solid progress settling claims in Canterbury, however, issues with EQC continue to confront the entire industry.

In September 2016, Tower had 564 property claims remaining. In the intervening 6 months, almost one third of those claims have been closed. However, new claims from the EQC continue to be received. Tower is part of an industry-wide taskforce that is improving the transparency of the number and type of outstanding claims remaining with EQC.

Against this difficult industry backdrop and challenges with Canterbury provisions in the past, Deloitte has advised Tower to increase provisions, reducing post-tax profits by $9.8 million for the half. Increases have been partially offset by additional recoveries to be gained from the EQC.

Financial performance

GROUP PROFIT SUMMARY ($m)

	H1 17	H1 16	Movement %
Gross written premium	**145.8**	**146.2**	**(0.2%)**
New Zealand underlying profit	4.7	6.0	(21.7%)
Pacific underlying profit	4.4	2.1	112%
Corporate underlying profit	(1.0)	(0.5)	(47.1%)
Total underlying profit after tax	**8.1**	**7.6**	**7.6%**
Canterbury impact	(9.8)	(2.1)	369%
Impairment of intangibles	-	(14.1)	n/a
Impact of Kaikoura earthquake	(7.2)	-	n/a
Acquisition & separation costs	(1.0)	-	n/a
Business in runoff	1.7	-	n/a
Reported loss after tax	**(8.2)**	**(8.7)**	n/a

Tower's underlying profit increased 7.6%, to $8.1 million after tax. This compares to $7.6 million in H1 16.

This increase was driven primarily by continued focus on Tower's three strategic imperatives and improvements made to the underlying business. Positive results in key focus areas demonstrates a trend of core business improvement.

New Zealand and Pacific GWP remained stable and in line with prior periods. Underlying profit in the Pacific doubled to $4.4 million compared to the same period last year due to a benign weather environment.

It is clear that the legacy of the Canterbury Earthquakes continues to overshadow the momentum building in the underlying business.

Tower's reported loss of $8.2 million after tax, compares to a $8.7 million loss in H1 16. This reflects a $9.8 million after tax impact from movement in Canterbury provisions. There were also after-tax impacts of $7.2 million for Kaikoura earthquakes and $3.6 million for the Port Hill fires and 'Tasman Tempest' storm.

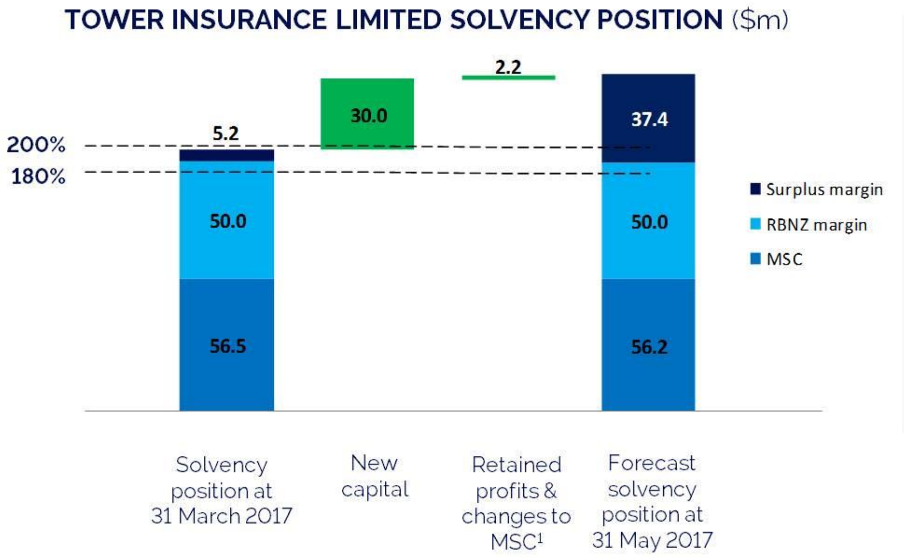
In the underlying business, Tower's claims costs reduced significantly by over $3 million, to $59.7 million, compared to H1 16. This is due to the success of initiatives launched in the past 12 months. A sharp focus on non-personnel costs saw the trend on management and sales expenses continue to decline. Expenses fell $2.6 million to $48.2 million compared to the same period last year. These savings were achieved through continued focus on efficiency and productivity, and reduced reliance on contractors and third parties.

Investment revenue fell from $4.4 million in H1 16 to $3.2 million in H1 17 as a result of lower interest rates and lower cash balances following Canterbury claims payments.

Solvency position

During May 2017, Tower Limited drew down $30 million of a $50 million liquidity facility with BNZ and used this to strengthen Tower Insurance Limited's solvency position.

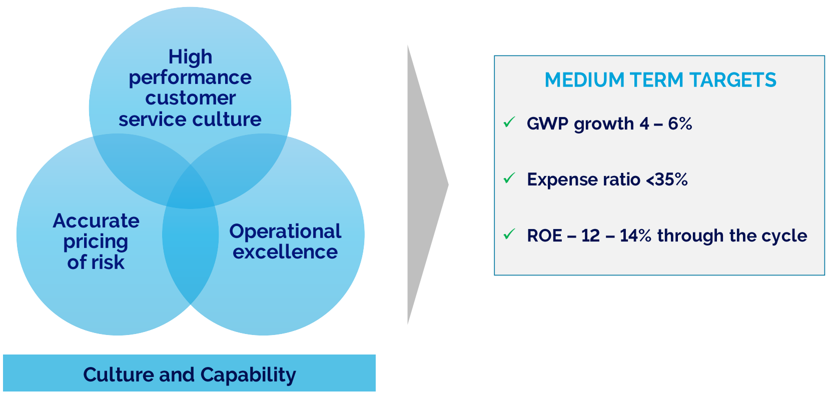
Following this drawdown, as at 31 May 2017, Tower Insurance Limited expects to hold $37.4 million over and above the minimum solvency and licence conditions required by the RBNZ. This equates to a solvency ratio of 255% and includes operating profits for April and May 2017, offset by the impact of Cyclone Debbie.



Notes:
1. Includes operating profits for April/May 2017, offset by impact of Cyclone Debbie

A strong underlying business

Tower has strong underlying New Zealand and Pacific businesses. It continues to be guided by the strategic imperatives already well established in the business.



Tower has seen solid improvements in crucial areas that will help it achieve its long-term targets:

- Focus on customers has delivered positive policy growth in Tower's core book and continues to trend upwards
- Management expenses continue the downward trend, decreasing significantly compared to the same period last year
- Tight management of claims processes and supplier networks continue delivering savings early in the financial year

Focus on customers delivers growth

Achievements

- Roll out of digital program, including quote to buy functionality, supporting core policy growth
- Launch of Airpoints partnership has proved attractive for both new and renewing customers
- Tower Direct retention has improved 1.3 percentage points compared to H1 16

Tower has continued to grow its core New Zealand portfolio adding 4,949 policies to the core book in H1 17.

Policy growth is being achieved through a combination of:

- building and refining Tower's digital offering
- working harder to attract new customers through the door, particularly in attractive segments which we will actively target
- retention improvements

The recent launch of Tower's new product suite online has enabled customers to research, quote and buy insurance from Tower through their mobile, tablet or computer, delivering a significant uplift in new business sales.

Tower's new online offering has been augmented with other innovative initiatives that are driving customer growth, including the launch of Tower's Airpoints partnership and increased marketing of the improved Trade Me Insurance platform

Since announcing the Airpoints partnership, over 17,000 customers have registered their details with Tower.

A continued focus on encouraging existing customers to stay with Tower through targeted retention initiatives and offerings has delivered an increase in retention rates for Tower Direct, up by 1.3 percentage points to 82.1% in H1 17, up from 80.8% in H1 16.

Underwriting excellence

Achievements

- Customers have more choice through a tiered product selection
- Easier for customers to purchase – less time on the phone makes them happier and increases our productivity
- Attracting the right customers is delivering positive movements in claims frequency

Increased attention on underwriting and attracting the right customers with better offerings has continued increasing underwriting profit. Tower increased pre-tax underwriting profit, excluding storms, by $4.1 million from H1 16 to $14.6 million. This positive result was impacted by the $10 million pre-tax impact from the Kaikoura earthquake and $5 million pre-tax impact from the Tasman Tempest storms and Port Hills Fires.

The increase in underwriting profit has been achieved through the re-pricing of portfolios and active targeting of profitable market segments.

Tower's new products have helped attract the right customers, with Tower experiencing a 39% reduction in claims frequency in its new comprehensive motor book when compared to its old policies, since launching in October 2016.

Claims update

Achievements

- Claims expenses decreasing despite industry-wide claims cost inflation
- Closer management of claims supply chain has delivered material savings
- Continued focus on leakage and recoveries

Tower has delivered a significant improvement in claims expenses, reducing them to $59.7 million in H1 17. This result was delivered despite New Zealand experiencing a number of large loss events during this period.

Initiatives introduced over the past 12 months have reduced Tower's claims expenses by over $3 million compared to H1 16, as a result of:

- tighter management of Tower's end-to-end claims supply chain
- simpler policy wordings enabling customers and claims teams to easily understand exactly what customers are entitled to
- continued focus on claims leakage and recoveries

Focus on management expenses

Achievements

- Increased focus on efficiency and driving greater productivity
- Lower technology expenditure for business and software support activity
- Reduced reliance on contractors and third party providers

Tower has strengthened its focus on non-personnel related costs, reducing management expenses to $48.2 million in H1 17, down from $50.8 million in H1 16.

Increased focus on cost reduction continues the positive momentum built in the past three halves and has enabled Tower to continue investing in long-term business improvement initiatives.

Tower's savings of approximately $2.6 million in its core underlying expenses compared to H1 16 has been driven by:

- Implementing new performance, development and achievement frameworks that drive performance, resulting in greater efficiency and productivity
- Identifying and reducing expenditure for business and technology support services - building capability internally
- Reducing reliance on third party providers and contractors, again building our capability to deliver sustainable savings

Tower expects expenses to continue decreasing as strategic initiatives continue to be embedded. A step change in productivity gains will be dependent on long-term IT investment.

Leveraging digital capability

With Tower's new product suite available online, access is opened to a whole new range of customers through:

- increased online presence and capability
- Trade Me Insurance and Airpoints partnerships giving access to digitally savvy customers
- tailored, targeted insurance offers for customers using digital channels

Including Tower's partnerships with digital brands, online sales are up from 9% of total transactions in March 2016, to 24% of total transactions in March 2017.

Canterbury update

The receipt of EQC over-cap claims has continued to accelerate well beyond industry expectations, offsetting the positive closure of claims.

Tower is part of an industry-wide taskforce which has been working to identify the full extent of outstanding claims remaining within the EQC.

The industry taskforce is currently reviewing approximately 8,000 EQC claims. The information uncovered is assisting Tower to identify, quantify and expedite the settlement of the last remaining claims.

In September 2016, Tower had 564 property claims remaining. In the intervening 6 months, around one third of those claims have been closed. However, new claims from the EQC continue to be received.

Despite this difficult environment, Tower is closing claims at a faster rate and settlement outcomes are in line with expectations.

Tower's independent, statutory Appointed Actuary, Rick Shaw from Deloitte, considers all liabilities and receivables relating to the Canterbury Earthquakes. The Tower Board continues to rely on this advice to enable it to establish appropriate provisions.

Against this difficult industry backdrop and challenges with provisions in the past, Deloitte has advised Tower to increase provisions. The three main drivers for this are:

- the potential for additional over-cap claims from the EQC that have been identified through the industry taskforce process
- potential for increased litigation and higher litigation costs; and
- increase in risk margins

These increases have been partially offset by additional recoveries to be gained from the EQC. As overall claims costs continue to grow, this naturally flows through to these recoveries. Deloitte has advised increasing this receivable, partly offsetting the higher risk margins.

The net result of the Appointed Actuary's recommendations is that Tower's IBNR and risk margin allowance have increased from 60% to 89% of underlying case estimates.

(NZ$m)	Mar-17	Sep-16
Case estimates	73.9	93.2
IBNR / IBNER[1]	47.4	44.0
Risk margin	18.2	11.9
Outstanding claims	**139.5**	**149.1**
Adverse development cover	43.8	43.8
Other reinsurance recoveries	2.2	7.1
EQC receivables	66.6	57.6
Total receivables	**112.5**	**108.4**
Net outstanding claims	**27.0**	**40.7**

Notes:
1. IBNR / IBNER includes claims handling expenses

While Tower is making significant progress closing claims, as previously advised, many of the remaining claims are more complex and contentious, with dispute resolution increasingly achieved through litigation.

Outlook

The challenges that face the general insurance industry remain – high claims necessitating pricing reviews, a low interest rate environment, increasing digital competition and the existing EQC framework.

Tower's strategy to transform Tower into a high performing general insurer will help deliver positive results in light of this tough market background.

Tower's Board has made the decision to delay the IT simplification programme pending the outcome of the Fairfax scheme vote and the non-binding proposal.

While a replacement IT solution is further away than planned, Tower continues to pursue all other aspects of its strategy to:

- drive GWP growth through increased focus on customers
- reduce operating expenses and claims costs
- deliver shareholder value.

Tower remains focussed on the implementation of its strategic imperatives to continue driving the transformation of the business.

APPENDIX 1

HALF YEAR PRELIMINARY ANNOUNCEMENTS AND HALF YEAR RESULTS

RESULTS FOR ANNOUNCEMENT TO THE MARKET

TOWER LIMITED	
Reporting Period	6 months to 31 March 2017
Previous Reporting Period	6 months to 31 March 2016

	Amounts (000s)	**Percentage change**
Revenue from ordinary activities	NZ$ 155,534	1.2% decrease
Loss from ordinary activities after tax attributable to shareholders	(NZ$ 8,182)	5.73% decrease
Net loss attributable to shareholders	(NZ$ 8,447)	8.05% decrease

Interim Dividend	Amount per security	Imputed amount per security
	Nil	Nil
Record Date	Not applicable	
Dividend Payment Date	Not applicable	

Comments	For the half year to 31 March 2017, Tower Limited's reported loss from ordinary activities after tax was NZ $8.2 million due to increased outstanding claims provisions in respect of Canterbury earthquakes (NZ$9.8 million after tax) and the inclusion of claim provisions relating to the Kaikoura earthquakes (NZ$ 7.2 million after tax). The loss of NZ$ 8.2 million, including minority interest profit of NZ$ 0.3 million, is a decrease of 5.73% from the prior comparable period (HY16: NZ$8.7m including minority interest profit of NZ$ 0.5 million).

Additional Information	

Refer attached 31 March 2017 unaudited Financial Statements for Tower Limited and its subsidiaries and Presentation for more detailed analysis and explanation.