

Market Information  
NZX Limited  
Level 1, NZX Centre  
11 Cable Street  
Wellington  
New Zealand

Company Announcements Office  
ASX Limited  
Exchange Centre  
Level 6, 20 Bridge Street  
Sydney NSW  
2000 Australia



21 May 2019

## **Tower Limited Half Year 2019 Results for Announcement to Market**

In accordance with NZSX Listing Rule 10.3.1, I enclose the following for release to the market in relation to Tower Limited's (NZX/ASX: TWR) Half Year 2019 Results:

1	Media Release
2	Management Review
3	NZX Appendix 1
4	Interim Financial Statements (including Independent Review Report)
5	Results Announcement Presentation
6	Results Announcement Call Script

Tower's Chairman Michael Stiasny, Chief Executive Officer Richard Harding and Chief Financial Officer Jeff Wright will discuss the half year results at 10:00am New Zealand time today.

**ENDS**

Hannah Snelling  
Company Secretary  
Tower Limited  
ARBN 088 481 234  
Incorporated in New Zealand

For further information, please contact:  
Nicholas Meseldzija  
Head of Corporate Communications  
Phone: +64 21 531 869  
Email: [nicholas.meseldzija@tower.co.nz](mailto:nicholas.meseldzija@tower.co.nz)

21 May 2019

## Tower returns to profit

### Half year 2019 highlights

**\$11.9 million**

Reported half year profit

**\$19.4 million**

Underlying profit after tax

**8.9%**

Increase in core NZ GWP

**9,383**

Increase in risks in core NZ portfolio

**44.5%**

Improved claims ratio

**38.7%**

Management expense ratio maintained

### FY19 guidance for underlying NPAT uplifted to in excess of \$26m

Kiwi insurer, Tower Limited (NZX/ASX:TWR), has today announced a half year profit of \$11.9 million after tax, a \$23.5 million improvement on the same period last year.

These results show that efforts to transform the company are paying off and have been delivered on the back of strong growth, a fairer approach to pricing and the company's continued push to become a digital insurer.

Tower Chief Executive Richard Harding says the results reflect the dedication of Tower's team who have been focussed on turning around New Zealand's only listed general insurer.

"We're on a mission to challenge the traditions and norms of a stale insurance industry and I'm pleased that it's resonating with customers and our business is growing," says Harding.

"Our drive to become a digital insurer and our fairer approach to pricing has seen online sales increase significantly. Our market share is increasing as more New Zealanders choose Tower over the others.

"The momentum we've built in the business will be accelerated by next month's launch of our new technology platform and digital offering.

Mr Harding said that the result is immensely pleasing, demonstrating the strength and opportunity that still exists in the business.

"After a number of years removing legacy issues and creating a solid platform for growth, we're now well placed to take on the large, overseas-owned insurers.

"Our new digital offering, together with prioritising a great customer experience will see us continue challenging the market. Tower is providing customers a genuinely different, Kiwi option when it comes to insurance," says Harding.

Detailed features of Tower's 2019 half year result:

- **Reported half year profit**
  - \$11.9 million after-tax reported profit
  - \$19.4 million after-tax underlying profit
  - \$4.7 million after-tax impact from CEQ provision adjustments
  - Revised guidance for underlying NPAT in FY19 is expected to be in excess of \$26m
  
- **Strong growth achieved**
  - Gross written premium in core NZ portfolio increased 8.9% on half year 2018
  - Growth of 9,383 risks in core NZ portfolio
  
- **Improved claims ratio**
  - Claims costs reduced to 44.5%, an 11 point decrease from 55.5% in half year 2018 thanks to improved pricing, underwriting and benign weather
  
- **Management expense ratio stable**
  - Management expense ratio maintained at 38.7% compared to 38.9% in half year 2018
  
- **Major technology upgrade to begin phased launch in coming weeks**
  - Full replacement of core platform with world-leading technology to launch, with new business to be on sale in coming weeks

**ENDS**

Richard Harding  
Chief Executive Officer  
Tower Limited  
ARBN 088 481 234 Incorporated in New Zealand

**For media queries, please contact:**

Nicholas Meseldzija  
Head of Corporate Communications  
Mobile: +64 21 531 869  
Email: [Nicholas.meseldzija@tower.co.nz](mailto:Nicholas.meseldzija@tower.co.nz)



## Tower management review – half year to 31 March 2019

### Features of half year 2019

- Transformation of business progressing well with solid growth driving \$23.5m turnaround
- Reported half year profit of \$11.9 million after tax
  - \$19.4m underlying profit after tax, a \$12.1m improvement on H1 18
  - Adjustments to CEQ provisions of \$4.7m after tax
- Solid GWP growth in the core New Zealand portfolio<sup>1</sup> of 8.9% on prior year, including volume growth, with 9,383 risks<sup>2</sup> added
- Significant improvement in claims costs due to underwriting and pricing enhancements, with claims expense ratio reducing to 44.5% in H1 19, down from 55.5% in H1 18
- Pacific business has returned to historic norms with reduction in claims cost achieved and return to profitable growth
- Major technology upgrade set to launch in coming weeks, with majority of work for first phase complete and now in final stages of testing
- Continued positive progress closing Canterbury earthquake claims, with open claims down to 132 on March 31 2019, from 163 on October 1 2018

1. Core NZ portfolio is the NZ business and excludes ANZ & Kiwibank legacy portfolio.



## Half year summary

The first half of the 2019 Financial Year has seen Tower return to profit, evidence that Tower's strategy to fix and grow the business is paying off.

Tower reported profit after tax of \$11.9 million for the half year ended 31 March 2019 (H1 19), demonstrates a turnaround of \$23.5 million from the half year ended 31 March 2018 (H1 18).

This result is the culmination of four years' work to turnaround Tower by fixing the foundations and challenging industry norms. Simplifying and improving all aspects of our business to differentiate the company has led to strong growth in GWP and customer numbers, reduced claims costs and contained expenses.

The continued focus on customers and improvements in digital channels added 9,383 new risks to Tower's core New Zealand portfolio, seeing core NZ GWP for the year grow 8.9% contributing to total GWP of \$169.7 million.

Implementation of risk-based pricing along with improved underwriting and pricing activity has significantly reduced claims costs. Over the last half, the claims ratio has reduced by 11 points to 44.5%, from 55.5% in H1 18.

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

\$ million	H1 19	H1 18	Change
Gross written premium	169.7	161.0	8.7
Gross earned premium	168.7	159.6	9.1
Reinsurance expense	(26.5)	(25.5)	(1.0)
<b>Net earned premium</b>	<b>142.2</b>	<b>134.1</b>	<b>8.1</b>
Net claims expense	(63.1)	(67.9)	4.8
Large events claims expense	(0.2)	(6.5)	6.3
Management and sales expenses	(55.1)	(52.1)	(2.9)
<b>Underwriting profit</b>	<b>23.9</b>	<b>7.6</b>	<b>16.3</b>
Investment and other revenue	3.4	3.8	(0.4)
Financing costs	(0.2)	(0.4)	0.2
<b>Underlying profit before tax</b>	<b>27.1</b>	<b>11.0</b>	<b>16.1</b>
Income tax expense	(7.7)	(3.7)	(4.0)
<b>Underlying profit after tax</b>	<b>19.4</b>	<b>7.3</b>	<b>12.1</b>
PeakRe settlement	0.0	(16.2)	16.2
Canterbury impact	(4.7)	(2.3)	(2.4)
Foreign tax credits write-off	(1.0)	0.0	(1.0)
Simplification programme opex	(0.4)	0.0	(0.4)
Other non-underlying costs	(1.4)	(0.4)	(1.0)
<b>Reported profit/(loss) after tax</b>	<b>11.9</b>	<b>(11.6)</b>	<b>23.5</b>

Our Pacific business has rebounded due to solid growth, improved underwriting and a benign weather environment. The claims ratio has reduced to 27.8% for H1 19.

Tower's Pacific premium has also returned to historic norms, and along with the improvement in claims costs, has resulted in a \$4m improvement in underlying profit to \$4.2 million.



While making necessary and significant investment in our business, a continued focus on costs allowed us to maintain our expense ratio at 38.7%. This investment will accelerate our growth and the first phase of our major technology upgrade will launch in the coming weeks.

Tower continues to settle claims in Canterbury, reducing open claims by 31, to 132 open claims. The CEQ portfolio is performing well and in line with expectations, with the exception of new over-cap claims from the EQC, which has resulted in a \$4.7m after tax impact on profit.

Tower transformation is progressing well. These results demonstrate the Tower Board and management team's long held belief that Tower offers an exciting platform for growth. The next phase of our transformation strategy is to leverage our exciting proposition to deliver growth and realise Tower's full potential.

## **Transformation progressing well**

Tower holds a unique position in the New Zealand insurance market, with a solid existing customer base and a clear strategic plan for growth by delivering a compelling, challenger proposition to the market. A belief that customers deserve better will see Tower turn industry norms upside down and revolutionise the way customers interact with the company.

The achievements to date show that there is a powerful platform for future growth with progress seen in crucial areas:

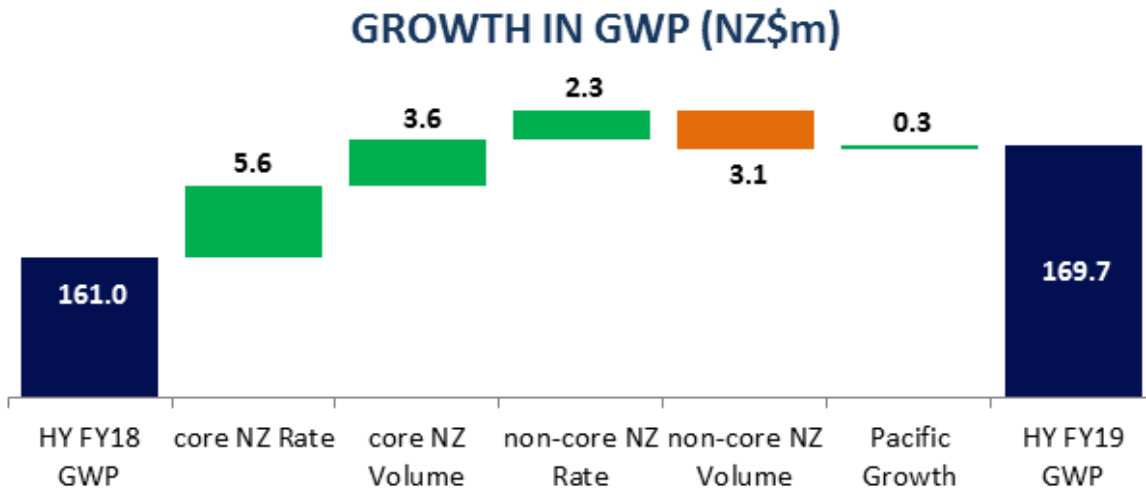
- Focus on customers has delivered strong growth
- Improved NZ claims ratio
- Improvements in the Pacific
- Management expenses controlled while investing and building capability
- Major technology upgrade set to launch

## **Focus on customers driving growth**

### Overview

- Solid GWP growth of 8.9% in core NZ portfolio with total GWP growing at 5.4%
- Growth in risks in core New Zealand book increased significantly by 9,383
- 46% of new business sales online in March 2019, up from less than 10% in FY16
- New approach to pricing combined with simple and easy products driving customer growth and improved mix

Tower's focus on customers has seen continued growth in its core New Zealand portfolio in H1 19, with 9,383 risks added to the core book and GWP increasing 8.9%.



Tower continues to offer customers simpler insurance at a fair price. Through this approach we are realising the potential that exists in the Tower brand, with more customers choosing to insure with Tower.

Core GWP is growing above industry averages, with GWP in:

- NZ House growing 7.8%, with the majority being attributable to rating
- NZ Contents growing 2.9% split between rating and volume, and
- NZ Motor growing 12.3%, with the majority being attributable to volume

We continue to see solid growth through our digital channels, with almost 50% of new business sales online in March 2019, up from 39% in March 2018. Combined with the fact that 18% of claims were lodged online in March 2019, this is further proof that our investment in digital channels is warranted.

In the Pacific, Tonga, Samoa, Vanuatu, American Samoa and the Cook Islands have returned to growth thanks to additional underwriting, pricing and marketing support for local teams. Following a number of years of remediation, we are now well placed for sustainable growth in the region.

Tower's growth is being achieved through a combination of factors, including:

- a new, fairer risk-based approach to pricing and simpler policy documents
- constant refinement of underwriting criteria enabling more granular assessment
- attracting new, profitable customers with improved and targeted offerings
- the creation of the Pacific operations centre, centralising back office functions, ensuring that the pricing and underwriting approach is consistent and minimises claims leakage.

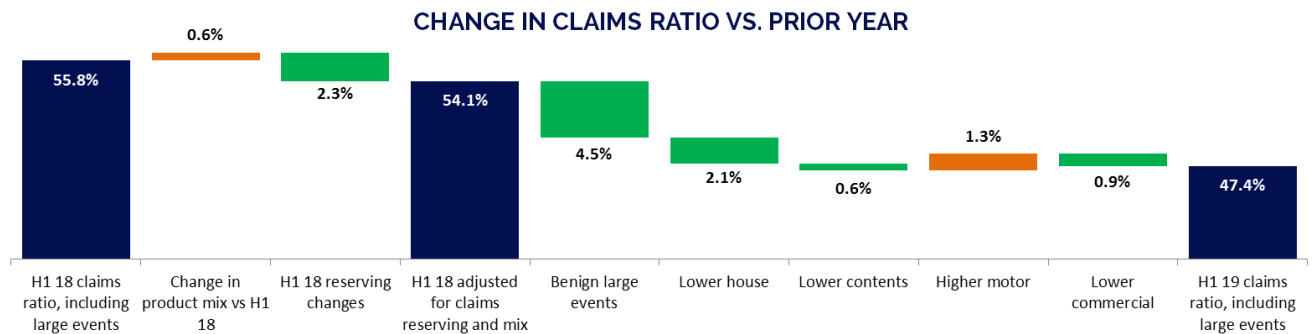


## Improved NZ claims ratio

### Overview

- Underwriting and pricing initiatives have delivered significant improvements
- Core insurance activity is offsetting inflation

New Zealand claims expenses have decreased significantly in the first half of the 2019 financial year with a number of underwriting and pricing initiatives helping to offset inflation.



A one-off adjustment relating to the 2017 financial year increased our base claims ratio in H1 18, this was a one-off issue for FY2018.

While in prior years, we've borne the brunt of severe weather, this year we've benefited from improved weather conditions with no large events to date. This has resulted in a 4.5% decrease in the NZ claims ratio.

Tower's new, simpler products and fairer, risk-based pricing approach have contributed to a reduction in NZ House and Contents claim frequency. Following a period in 2017 and 2018 of a higher number of large house fires, trends have returned to more normalised levels.

Good weather has seen more people out exploring New Zealand and as a result, in our motor portfolio, there has been an increase in claims frequency. This is mainly due to more windscreen damage as a result of increased traffic and roadworks around the country.

While this result is pleasing and significant improvements have been delivered, there is a continuing focus on refining products and pricing approaches to ensure we continue addressing claims costs.

## Improvements in the Pacific

### Overview

- Improved pricing, underwriting and risk selection is delivering results
- Vanuatu, Tonga, Samoa, American Samoa and the Cook Islands have returned to growth
- Key markets of Papua New Guinea and Fiji returning to profitability following completion of remediation activities
- Benign weather has contributed to improvement





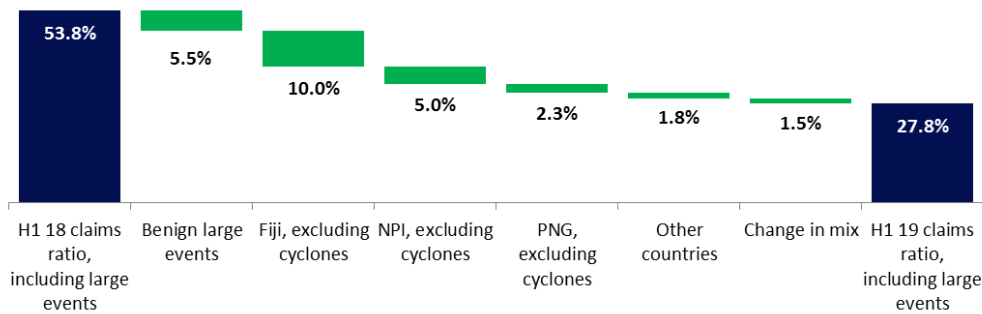
Tower's Pacific business remains strong and after being impacted by a number of severe weather events over the past few years, contributions have now returned to historic levels.

Vanuatu, Tonga, Samoa, American Samoa and the Cook Islands have returned to growth thanks to additional underwriting, pricing and marketing support for local teams.

Remediation of the Papua New Guinea portfolio to reduce risk and exposure is now complete and this portfolio is returning to profitability.

Fiji is another key market that has seen improved profitability thanks to the continued repricing of the Fiji motor book. Although growth in Fiji is slightly softer than we have previously seen, this was an important step to ensure future growth remains sustainable.

### CHANGE IN CLAIMS RATIO VS. PRIOR YEAR



Improvements in claims costs have been delivered through targeted underwriting and pricing initiatives across key markets, and, combined with a benign weather environment, have resulted in a 26% decrease in our Pacific claims ratio.

The recently launched centralised operation centre in the Pacific has helped bring greater discipline and consistency across the region ensuring growth is within our risk appetite. We remain confident that there is strong growth potential in our Pacific markets and that it will continue to make a significant contribution to Tower in the coming years.

### Management expenses controlled while investing and building capability

#### Achievements

- Management expense ratio stable while investment is made in new platform
- Additional spend directed towards growth and reducing risk

Tower has maintained its focus on costs, despite continuing to significantly invest. The management expense ratio stabilising at 38.7% in H1 19, compared to 39% in FY18.

Investment is being made to grow the business, as well as backfilling project roles, and working to mitigate any risks associated with the implementation of the new technology platform.

Tower anticipates a slight uplift in management expenses in the second half due to the increased focus on the migration of customers onto the new platform. However, once fully operational, expenses will reduce significantly.



## Major technology upgrade underway

The key to accelerating Tower's transformation is a new IT platform that enables the simplification of products and processes. This will remove complexity for frontline teams and enable the delivery of Tower's strategy.

Combined with Tower's push to move 50 - 70% of all transactions online, removing complexity from the business will deliver significant cost savings and productivity gains.

A phased implementation approach has been developed to mitigate risk and minimise any impact on customers. The launch of the first phase will occur in the coming weeks, before the end of first half of the 2019 calendar year.

Development and build of phase one is complete with the final stages of testing underway. The new system will be deployed through phone channels first, followed closely by digital channels. Completion of phase one will enable the sale of new simplified products to customers and is the core foundation piece of this programme.

Delivery of phase two components will occur in the second half of the 2019 calendar year and includes:

1. Rationalisation of products
2. Commencing the 12 month migration of existing customers to the new platform
3. Launching a customer self-service portal, allowing customers to manage their insurance online
4. Implementing streamlined claims management modules

Moving hundreds of thousands of customers to a core set of just 12 products will deliver significant benefits to our customers and efficiencies in our business. A migration of this size can pose risk if not properly managed and there is a stringent focus on managing and retaining customers through the change to minimise this risk.

Costs for the programme are developing in line with previously advised amounts and at this stage, there are no material changes to the estimated total cost.

Key benefits to be seen from Tower's new IT platform include the ability to:

- Create and deliver a unique customer experience
- Quickly deliver simple, customer focussed products
- Target specific, profitable customer segments through granular, and automated pricing and underwriting
- Charge more accurate premiums through improved access to, and use of, internal and external data
- Easily trial new products and pricing
- Rationalise products and reduce claims costs by improving the customer claims journey and overall claims management
- Significantly reduce our cost base and realise large productivity gains by moving low value transactions online
- Add value through improved employee engagement



Tower's approach to implementing this new IT platform is designed to deliver on a dual purpose – accelerate transformation and realise shareholder value.

Robust governance controls are in place for this programme, with a focus on managing delivery risk and cost trade-off. It is expected that benefits will start being realised over the 2020 financial year, with a step change expected as the customer migration is finalised and existing legacy systems decommissioned.

### Canterbury update

The CEQ portfolio is performing well and in line with expectations, with the exception of new over-cap claims from the EQC.

Open litigated claims are settling favourably and there has been a considerable reduction in new litigated claims. Tower's non-litigated claims are also settling in line with expectations.

In the past six months 67 claims have been closed, while 26 completely new over-cap claims from the EQC have been received.

While progress continues to be made in closing claims in Canterbury, the continued receipt of over-cap claims from the EQC is frustrating and has hampered efforts to close out claims once and for all.

It is not Tower's role – nor its shareholders' responsibility – to resolve and pay for situations arising from EQC's past incompetence and the negligence of its repair providers.

So while Tower will continue to treat customers fairly, it will now seek to recoup any costs incurred from settling over-cap claims from EQC where past incompetence and negligence has contributed to the claim going over-cap.

As a result of new over-cap claims from the EQC, Tower has increased provisions for the potential receipt of further over-caps. Further increases to provisions resulted in a \$4.7m after-tax P&L impact and relative to case estimates, provisions now sit at 115%.

\$ million	Mar-19	Sep-18	Mar-18
Case estimates	29.7	37.4	48.0
IBNR/IBNER <sup>1</sup>	20.3	21.4	22.0
Risk margin	9.0	9.0	10.8
Additional risk margin	5.0	5.0	10.0
Actuarial provisions	34.3	35.4	42.8
<b>Gross outstanding claims</b>	<b>64.0</b>	<b>72.9</b>	<b>90.8</b>
Ratio of provisions to case estimates <sup>2</sup>	115%	95%	89%

Tower provisions to the 75th percentile for all claims. For CEQ that increases to just above the 80th percentile with the \$5m additional risk margin.

Notes:

1. IBNR ("Incurred but not reported") / IBNER ("Incurred but not enough reported") includes claims handling expenses
2. Ratio of IBNR / IBNER plus risk margin to case estimates



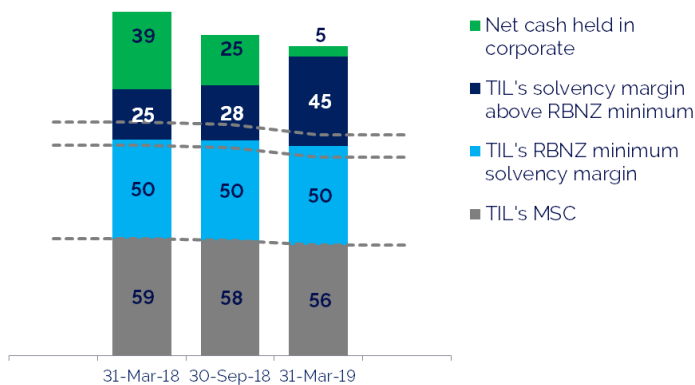
## Solvency position

Tower holds significant capital over and above the minimum regulatory requirement.

As at 31 March 2019, Tower Insurance Limited held approximately \$95 million of solvency margin, \$45 million above RBNZ requirements and equivalent to 271% of minimum solvency capital. An additional \$5 million in corporate cash was also held by Tower Limited as at 31 March 2019.

Tower Limited has negotiated a new cash advance facility, maturing in March 2023, and will utilise this facility to fund remaining IT investment

**TOWER INSURANCE LIMITED SOLVENCY POSITION PLUS NET CORPORATE CASH (\$m)**



## Outlook

Tower is focussed on progressing transformation initiatives that will continue accelerating momentum and deliver long-term shareholder value.

Tower is confident in the strength of its strategy and the performance of its underlying business. Following the pleasing performance in the first half, Tower increased its one-off guidance for FY19, to an underlying NPAT in excess of \$26 million.

This includes the following assumptions:

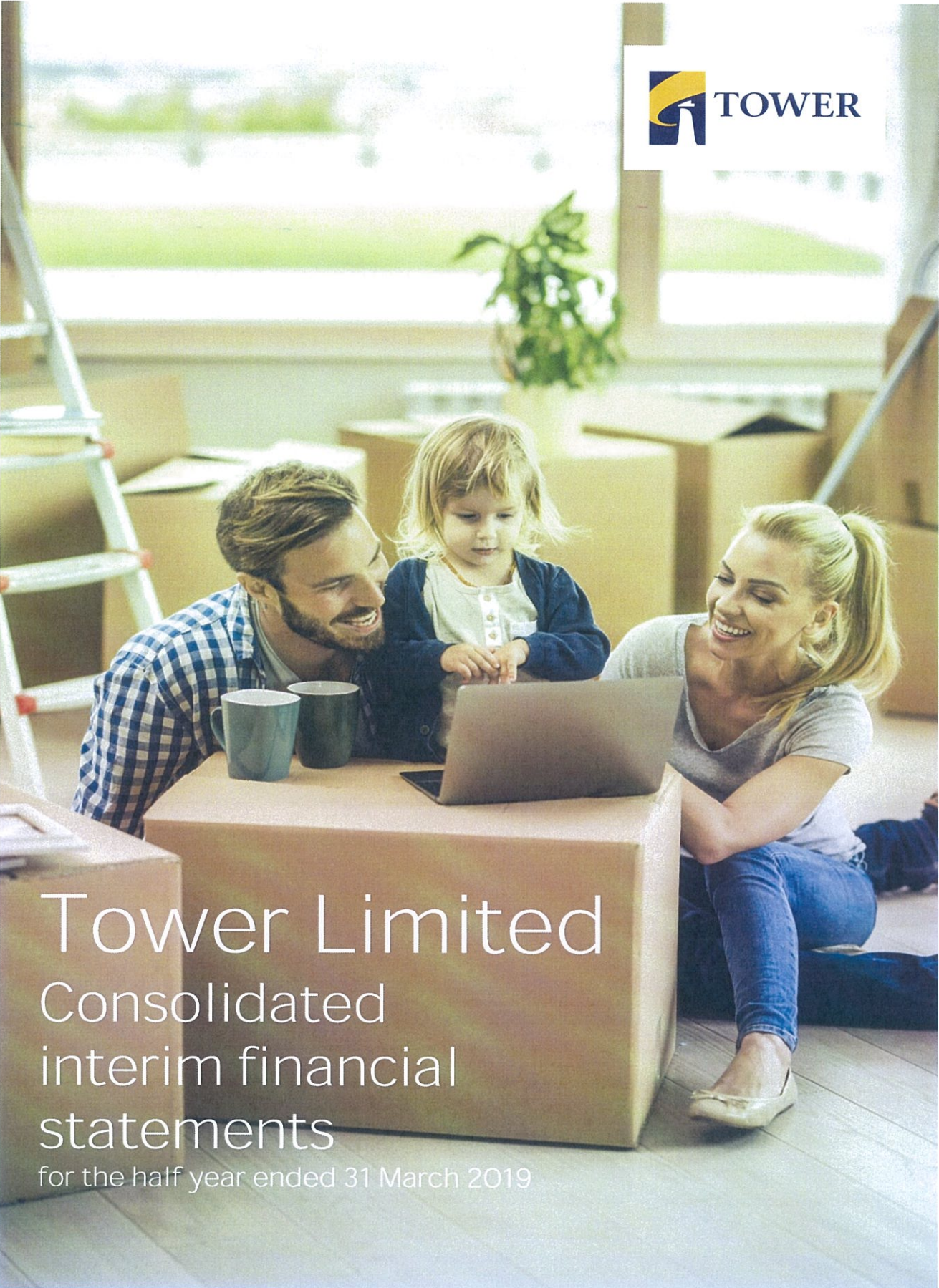
- A \$5m allowance for severe weather and large events in the second half
- Loss ratios will return to more normalised levels in the second half as we enter the winter storm period
- A minor uplift in management expenses as our transformation activity culminates.

As previously advised, no dividend will be paid in the first half of the financial year. The Board's intention is to pay between 50% and 70% of second half 2019 NPAT, where prudent to do so.

Tower's reported profit demonstrates the strength and opportunity that exists in the business and the strategic plan that will create a challenger brand that delivers significant long-term value.

<b>Results for announcement to the market</b>		
Name of issuer	Tower Limited	
Reporting Period	6 months to 31 March 2019	
Previous Reporting Period	6 months to 31 March 2018	
Currency	NZD	
	<b>Amount (000s)</b>	<b>Percentage change</b>
Revenue from continuing operations	\$175,223	7%
Total Revenue	\$175,223	7%
Net profit/(loss) from continuing operations	\$11,594	N/A
Total net profit/(loss)	\$11,594	N/A
<b>Interim/Final Dividend</b>		
Amount per Quoted Equity Security	No dividend has been proposed	
Imputed amount per Quoted Equity Security	N/A	
Record Date	N/A	
Dividend Payment Date	N/A	
	<b>Current period</b>	<b>Prior comparable period</b>
Net tangible assets per Quoted Equity Security	\$0.57	\$0.59
A brief explanation of any of the figures above necessary to enable the figures to be understood	For the six months ended 31 March 2019, Tower Limited reported a \$23.5m increase in reported profit after tax compared to the six months ended 31 March 2018. This was primarily due to the absence of an impairment charge related to the settlement of a reinsurance claim that occurred in the comparative period, and improved weather conditions in the current year. Please refer to 2019 half year results presentation for further information.	
<b>Authority for this announcement</b>		
Name of person authorised to make this announcement	Hannah Snelling, Company Secretary	
Contact person for this announcement	Nicolas Meseldzija, Head of Corporate Communications	
Contact phone number	+64 21 531 869	
Contact email address	nicholas.meseldzija@tower.co.nz	
Date of release through MAP	21 May 2019	

Unaudited financial statements accompany this announcement.



# Tower Limited

## Consolidated interim financial statements

for the half year ended 31 March 2019

TOWER LIMITED

CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 MARCH 2019

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## TOWER LIMITED

CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 MARCH 2019

## CONSOLIDATED INCOME STATEMENT

\$ thousands		Unaudited	Unaudited
For the half year ended	Note	31-Mar-19	31-Mar-18
<b>Revenue</b>			
Premium revenue	B1	168,729	159,615
Less: Outwards reinsurance expense		(26,480)	(25,476)
Net premium revenue		142,249	134,139
Investment revenue	C1	3,726	2,939
Fee and other revenue		2,768	1,418
Net operating revenue		148,743	138,496
<b>Expenses</b>			
Claims expense		90,123	98,640
Less: Reinsurance and other recoveries revenue		(7,504)	(9,745)
Net claims expense	B2, B3	82,619	88,895
Management and sales expenses		48,270	41,389
Acquisition proposal expenses		-	302
Impairment of reinsurance receivables		-	22,508
Financing expenses		209	440
Total expenses		131,098	153,534
Profit (loss) attributed to shareholders before tax		17,645	(15,038)
Tax benefit (expense) attributed to shareholders' profits		(5,736)	3,418
Profit (loss) for the half year		11,909	(11,620)
Profit (loss) attributed to:			
Shareholders		11,594	(11,535)
Non-controlling interest		315	(85)
		11,909	(11,620)
Basic and diluted profit (loss) per share (cents)		3.4	(4.1)



The above statement should be read in conjunction with the accompanying notes.



## TOWER LIMITED

CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 MARCH 2019

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

\$ thousands		Unaudited	Unaudited
For the half year ended	Note	31-Mar-19	31-Mar-18
Profit (loss) for the half year		11,909	(11,620)
Other comprehensive profit (loss)			
Currency translation differences		(1,001)	(1,491)
Other comprehensive loss net of tax		(1,001)	(1,491)
Total comprehensive profit (loss) for the half year		10,908	(13,111)
Total comprehensive profit (loss) attributed to:			
Shareholders		10,626	(12,996)
Non-controlling interest		282	(115)
		10,908	(13,111)



*The above statement should be read in conjunction with the accompanying notes.*

TOWER LIMITED  
CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 MARCH 2019  
CONSOLIDATED BALANCE SHEET

\$ thousands As at	Note	Unaudited	Audited
		31-Mar-19	30-Sep-18
<b>Assets</b>			
Cash and cash equivalents		66,969	102,001
Receivables	D1	245,974	259,607
Investments	C2	220,515	198,000
Derivative financial assets		-	271
Deferred acquisition costs		22,870	22,595
Property, plant and equipment		8,456	8,510
Intangible assets	D2	61,888	45,042
Current tax assets		13,376	13,831
Deferred tax assets		31,909	36,376
<b>Total assets</b>		<b>671,957</b>	<b>686,233</b>
<b>Liabilities</b>			
Payables		71,367	80,375
Provisions		4,166	5,789
Unearned premiums		175,606	175,551
Outstanding claims & additional risk margin		134,305	148,976
Borrowings	C3	-	-
Current tax liabilities		300	174
Deferred tax liabilities		532	589
<b>Total liabilities</b>		<b>386,276</b>	<b>411,454</b>
<b>Net assets</b>		<b>285,681</b>	<b>274,779</b>
<b>Equity</b>			
Contributed equity	E1	447,543	447,543
Accumulated losses		(46,489)	(58,077)
Reserves		(117,123)	(116,155)
<b>Total equity attributed to shareholders</b>		<b>283,931</b>	<b>273,311</b>
Non-controlling interest		1,750	1,468
<b>Total equity</b>		<b>285,681</b>	<b>274,779</b>

The interim financial statements were approved for issue by the Board on 21 May 2019.



Michael P Stiasny  
Chairman



Graham R Stuart  
Director



The above statement should be read in conjunction with the accompanying notes.

TOWER LIMITED  
CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 MARCH 2019  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

\$ thousands	Note	Unaudited					Non-controlling interest	Total Equity
		Attributed to shareholders						
		Contributed equity	Accumulated loss	Reserves	Total			
Half year ended 31 March 2019								
At the beginning of the half year		447,543	(58,077)	(116,155)	273,311	1,468	274,779	
Comprehensive income								
Profit (loss) for the half year		-	11,594	-	11,594	315	11,909	
Currency translation differences		-	-	(968)	(968)	(33)	(1,001)	
Total comprehensive income		-	11,594	(968)	10,626	282	10,908	
Transactions with shareholders								
Other		-	(6)	-	(6)	-	(6)	
Total transactions with shareholders		-	(6)	-	(6)	-	(6)	
At the end of the half year		447,543	(46,489)	(117,123)	283,931	1,750	285,681	
Half year ended 31 March 2018								
At the beginning of the half year		382,172	(51,299)	(116,454)	214,419	1,325	215,744	
Comprehensive income								
Profit (loss) for the half year		-	(11,535)	-	(11,535)	(85)	(11,620)	
Currency translation differences		-	-	(1,461)	(1,461)	(30)	(1,491)	
Total comprehensive loss		-	(11,535)	(1,461)	(12,996)	(115)	(13,111)	
Transactions with shareholders								
Net proceeds of capital raise	E1	65,375	-	-	65,375	-	65,375	
Other		-	(3)	-	(3)	-	(3)	
Total transactions with shareholders		65,375	(3)	-	65,372	-	65,372	
At the end of the half year		447,547	(62,837)	(117,915)	266,795	1,210	268,005	

The above statement should be read in conjunction with the accompanying notes.



TOWER LIMITED  
CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 MARCH 2019  
CONSOLIDATED STATEMENT OF CASH FLOWS

\$ thousands		Unaudited	Unaudited
For the half year ended	Note	31-Mar-19	31-Mar-18
<b>Cash flows from operating activities</b>			
Premiums received		169,819	152,721
Interest received		3,981	3,723
Net realised investment gains		97	321
Fee and other income received		1,889	1,418
Reinsurance received		14,828	27,402
Reinsurance paid		(29,890)	(28,369)
Claims paid		(98,422)	(111,281)
Payments to suppliers and employees		(47,899)	(44,129)
Income tax paid		(744)	(1,688)
<b>Net cash inflow from operating activities</b>	<b>C4</b>	<b>13,659</b>	<b>118</b>
<b>Cash flows from investing activities</b>			
Net (payments) proceeds from financial assets		(27,695)	4,510
Purchase of property, plant and equipment and intangible assets		(20,299)	(2,954)
<b>Net cash (outflow) inflow from investing activities</b>		<b>(47,994)</b>	<b>1,556</b>
<b>Cash flows from financing activities</b>			
Share issue net of costs	E1	-	65,775
Financing expenses		(209)	(609)
Repayment of borrowings		-	(30,000)
<b>Net cash (outflow) inflow from financing activities</b>		<b>(209)</b>	<b>35,166</b>
Net (decrease) increase in cash and cash equivalents		(34,544)	36,840
Foreign exchange movement in cash		(488)	(588)
Cash and cash equivalents at the beginning of the half year		102,001	83,876
<b>Cash and cash equivalents at the end of the half year</b>		<b>66,969</b>	<b>120,128</b>

The above statement should be read in conjunction with the accompanying notes.



PART A - INTRODUCTION

This section provides introductory information that is helpful to an overall understanding of the financial statements and the areas of critical accounting judgements and estimates included in the financial statements. It also includes a summary of Tower's financial performance by operating segment.

A1 REPORTING ENTITY AND BASIS OF PREPARATION

Entities reporting

The interim financial statements presented are those of Tower Limited (the Company) and its subsidiaries. The Company and its subsidiaries together are referred to in this financial report as Tower or the Group. The address of the Company's registered office is 45 Queen Street, Auckland, New Zealand.

Statutory base

Tower Limited is a company incorporated in New Zealand under the Companies Act 1993 and listed on the NZX Main Board and the Australian Securities Exchange. The Company is a reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

Basis of preparation

The interim financial statements of the Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), and for the purposes of NZ GAAP, the Group is a for-profit entity. They comply with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting* and consequently include a lower level of disclosure than is required for annual financial statements.

The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2018, which have been prepared in accordance with International Financial Reporting Standards and New Zealand Equivalents to International Financial Reporting Standards.

The interim financial statements for the six months ended 31 March 2019 are unaudited.

Accounting policies

Refer to Note F4 for the impact of amendments to accounting standards. Other than this, the principal accounting policies adopted in the preparation of the interim financial statements are consistent with those of the audited annual financial statements for the year ended 30 September 2018.

Changes in comparatives

Refer to Note F3 for details of change in comparatives. Changes relate to income statement reclassification, balance sheet reclassification and presentation of notes. There is no change to net assets or the 2018 profit.



## NOTES TO THE INTERIM FINANCIAL STATEMENTS

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### A2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Key areas where critical accounting estimates and judgements have been applied are noted below.

#### Claims estimation

The valuation of net outstanding claims is an area of significant judgement and estimation. Key elements of judgement included within claims estimations are: the rate of claims closure; the quantum of closed claims reopening; the level of future increases in building and other claims costs; future claim management expenses; and assessments of risk margin. With regards to the Canterbury earthquake claims, additional key elements of judgement include: apportionment of claims costs between the four main earthquake events; and the quantum of new claims being received from EQC and the average cost of these claims.

Key elements of judgement included within recoveries estimations are: the collectability of reinsurance recoveries; recoveries from EQC in respect of land damage and building costs; and the assessments of risk margin. The nature of estimation uncertainties, including from those factors listed above, mean that actual claims experience may deviate from reported results.

Refer to Note B3 for further detail on the Canterbury Earthquakes.

#### EQC recoveries

Valuation of additional EQC recoveries in respect of building costs and land damage is an area of significant judgement and estimation. Areas of judgement and subjectivity exist in assessments of: claim file review of earthquake event allocation; the quality of assessment information; litigation risk factors; and portfolio conservatism. Tower has filed a statement of claim against EQC in respect of land damage recoveries.

Refer to Note B3 for further detail on EQC recoveries for Canterbury earthquakes.

#### Deferred taxation

Deferred tax assets are recognised for all unused tax losses to the extent it is probable that taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based on the likely timing and quantum of future taxable profits.

This assessment is completed on the basis of Tower's approved strategic plans. If future profits do not occur as expected, or there is a significant change in ownership, Tower may not be able to utilise all of these tax losses.

#### Capitalised IT development costs

Capitalisation of IT development costs is an area of judgement and estimation. The application of NZ IAS 38 *Intangible Assets* includes accounting considerations required for capitalisation of IT projects. When applying NZ IAS 38, areas of judgement include consideration of recognition, impairment indicators, economic useful life, and previous Board impairment decisions.

Refer to Note D2 for further detail on the intangible assets.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## A3 SEGMENTAL REPORTING

\$ thousands	New Zealand General Insurance	Pacific Islands General Insurance	Other	Total
Half year ended 31 March 2019 (Unaudited)				
Revenue				
Revenue - external	125,613	22,024	1,106	148,743
Net Operating Revenue	125,613	22,024	1,106	148,743
Profit (loss) before tax	12,270	6,302	(927)	17,645
Tax benefit (expense)	(4,185)	(2,080)	529	(5,736)
Profit (loss) for the half year	8,085	4,222	(398)	11,909
Half year ended 31 March 2018 (Unaudited)				
Revenue				
Revenue - external	117,013	21,069	414	138,496
Net Operating Revenue	117,013	21,069	414	138,496
Profit (loss) before tax	(14,859)	508	(687)	(15,038)
Tax benefit (expense)	4,235	(1,010)	193	3,418
Loss for the half year	(10,624)	(502)	(494)	(11,620)
Total assets 31 March 2019 (Unaudited)	472,600	90,537	108,820	671,957
Total assets 30 September 2018 (Audited)	480,664	95,072	110,497	686,233
Total liabilities 31 March 2019 (Unaudited)	328,746	55,980	1,550	386,276
Total liabilities 30 September 2018 (Audited)	345,406	63,224	2,824	411,454

Tower operates predominantly in two geographical segments, New Zealand and the Pacific region. The New Zealand segment comprises general insurance business written in New Zealand. The Pacific Islands segment includes general insurance business with customers in Pacific Islands written by Tower subsidiaries and branch operations. Other includes head office expenses, financing costs and eliminations.

PART B - REVENUE AND CLAIMS

This section provides information about Tower's insurance related financial performance. Tower operates as a general insurance company and its insurance operations drive its performance and financial position.

Tower collects premiums from customers in exchange for providing insurance coverage over their assets and activities. These premiums are recognised as revenue when they are earned by Tower, with a liability for unearned premiums recognised on the balance sheet.

When customers suffer a loss that is covered by their policy, Tower will make payments to customers or suppliers, which it recognises as claims expenses. To ensure that Tower's obligations to customers are properly recorded within the financial statements, Tower recognises provisions for outstanding claims.

To manage Tower's risk and optimise its returns, Tower reinsures some of its exposure with reinsurance companies. The premiums paid to reinsurers are recognised as an expense, while recoveries from reinsurers are recognised as revenue.

B1 PREMIUM REVENUE

\$ thousands	Unaudited	Unaudited
For the half year ended	31-Mar-19	31-Mar-18
Gross written premiums	169,665	160,980
Less: Gross unearned premiums	(936)	(1,365)
Premium revenue	168,729	159,615

B2 NET CLAIMS EXPENSE

\$ thousands		Unaudited	Unaudited
For the half year ended	Note	31-Mar-19	31-Mar-18
Canterbury earthquake claims (4 key events)	B3	6,500	3,200
Other claims		76,119	85,695
Total net claims expense		82,619	88,895





## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## B3 CANTERBURY EARTHQUAKES

As at 31 March 2019 Tower has 132 claims remaining to settle (30 September 2018: 163 claims) as a result of earthquakes impacting the Canterbury region during 2010 and 2011.

The table below presents a financial representation of Tower's outstanding claims provision at 31 March 2019 in relation to the four main earthquake events.

## Canterbury earthquake insurance liability provisions

\$ thousands	Unaudited	Audited
	31-Mar-19	30-Sep-18
Gross outstanding claims	(59,000)	(67,900)
Additional risk margin	(5,000)	(5,000)
	(64,000)	(72,900)

## Additional risk margin

As at 31 March 2019, the Board has maintained an additional risk margin of \$5.0 million (30 September 2018: \$5.0 million) over and above the provision of the Appointed Actuary, which is set at the 75th percentile probability of sufficiency. The Board will continue to review this additional risk margin each half year and the \$5.0 million is expected to be released once the Canterbury outstanding claims liability has sufficiently run off.

The table below presents a financial representation of Tower's outstanding reinsurance receivables at 31 March 2019 in relation to the four main earthquake events.

## Canterbury earthquake receivables

\$ thousands	Unaudited	Audited
	31-Mar-19	30-Sep-18
Reinsurance recovery receivables	6,100	7,100
Reinsurance recoveries on risk margin	900	800
Receivable from reinsurers	7,000	7,900
EQC related to closed claims	76,200	74,000
EQC related to open claims	2,600	4,500
Risk margin on EQC receivable	(8,800)	(10,100)
Receivable from EQC	70,000	68,400
EQC payable to reinsurers on closed claims	(18,400)	(17,900)
EQC payable to reinsurers on open claims	(700)	(1,000)
Risk margin on EQC payable to reinsurers receivable	2,200	2,500
EQC payable to reinsurers	(16,900)	(16,400)
Receivable from EQC net of reinsurance	53,100	52,000
Receivable from EQC and reinsurers	60,100	59,900

## EQC recovery receivable

Tower has one significant receivable amount related to Canterbury earthquake claims, being \$70.0 million from EQC (30 September 2018: \$68.4 million). \$16.9 million of this EQC amount is payable to reinsurers which has been allowed for in payables (30 September 2018: \$16.4 million). The amount payable to reinsurers may vary depending on the balance collected from EQC. A risk margin of \$8.8 million has been allowed for on the receivable from EQC (30 September 2018: \$10.1 million).

Tower estimates the gross amount receivable due from EQC is significantly higher than the \$70.0 million, but has adopted this amount, which is the actuarial valuation of the Appointed Actuary. The method by which the actuarial valuation is completed recognises the inherent risk and uncertainty with recovery of the full gross amount.

Tower acknowledges that the EQC recoveries relating to Canterbury earthquakes are an area of significant accounting estimation and judgement, including earthquake event allocation, litigation risk factors and other actuarial assumptions.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## B3 CANTERBURY EARTHQUAKES (continued)

The table below presents the cumulative impact of the four main Canterbury earthquake events on the income statement.

\$ thousands	Note	Unaudited	Audited	Unaudited
		31-Mar-19	30-Sep-18	31-Mar-18
Cumulative expenses associated with Canterbury earthquakes:				
Earthquake claims estimate		(913,690)	(905,840)	(897,640)
Reinsurance recoveries		724,523	723,173	721,873
Claim expense net of reinsurance recoveries		(189,167)	(182,667)	(175,767)
Reinsurance expense		(25,045)	(25,045)	(25,045)
Additional risk margin		(5,000)	(5,000)	(10,000)
Cumulative impact of Canterbury earthquakes before tax		(219,212)	(212,712)	(210,812)
Income tax benefit		61,379	60,228	59,696
Cumulative impact of Canterbury earthquakes after tax		(157,833)	(152,484)	(151,116)
Recognised in current period (net of tax)				
Net claims expense	B2	(4,680)	(7,272)	(2,304)
Additional risk margin	B2		3,600	-
Impairment of receivables		-	(15,660)	(15,660)
		(4,680)	(19,332)	(17,964)

The Board are actively engaged in monitoring Canterbury earthquake developments. Board process relies on the Appointed Actuary's determination of earthquake ultimate incurred claims estimates and the derivation of estimated outcomes. Recognising relative complexities which exist within remaining open claims, the Appointed Actuary has reviewed each remaining property file with Tower claims staff. This individual claim methodology included review of the latest specialist assessment reports and scope of works to repair or rebuild properties to determine the propensity for future costs to vary. In addition, further provision was made for claims re-opening; claims moving over the EQC cap of \$100,000; claims in litigation and other claim categories.

Given the nature of estimation uncertainties (including those listed above) actual claims experience may still deviate, perhaps substantially, from the gross outstanding claims liabilities recorded as at 31 March 2019. Any further changes to estimates will be recorded in the accounting period when they become known.

The catastrophe reinsurance cover headroom remaining is included in the table below.

Date of event	Catastrophe reinsurance cover remaining	
	Unaudited	Audited
\$ thousands	31-Mar-19	30-Sep-18
June 2011	254,700	255,700
December 2011	486,700	486,900

Tower has exceeded its catastrophe reinsurance limit in relation to the September 2010 and February 2011 events.

PART C - FINANCIAL INSTRUMENTS AND LIQUIDITY

Funds provided by shareholders and collected as premiums are invested by Tower, providing a financial return and also ensuring that Tower's obligations to pay claims and expenses can be met.

This section provides information about Tower's financial instruments, including information about the cash and investments that Tower holds, its approach to managing risk for these financial instruments, and its cash flows.

C1 INVESTMENT REVENUE

\$ thousands		Unaudited	Unaudited
For the half year ended	Note	31-Mar-19	31-Mar-18
Fixed interest securities			
Interest income		3,981	3,723
Net realised loss		(207)	(160)
Net unrealised loss		(21)	(187)
Total fixed interest securities		3,753	3,376
Equity securities			
Net unrealised (loss) gain	C5	-	(745)
Total equity securities		-	(745)
Other			
Net realised gain		304	481
Net unrealised loss		(331)	(173)
Total other		(27)	308
Total interest and dividend income		3,981	3,723
Total net realised gain		97	321
Total net unrealised loss		(352)	(1,105)
Total investment revenue		3,726	2,939

C2 INVESTMENT ASSETS

\$ thousands	Unaudited	Audited
	31-Mar-19	30-Sep-18
Fixed interest securities	219,906	197,367
Equity securities	575	599
Property securities	34	34
Total investments	220,515	198,000

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## C3 BORROWINGS

\$ thousands	Currency	Interest Rate	Rollover Date (Drawn) / Maturity Date (Undrawn)	Face Value	Unamortised Costs	Carrying Value	Fair Value
As at 31 March 2019 (Unaudited)							
Bank facilities (undrawn)	NZD	Variable	27-Mar-23	30,000	-	-	-
Total borrowings					-	-	-
As at 30 September 2018 (Audited)							
Bank facilities (undrawn)	NZD	Variable	9-Sep-19	50,000	-	-	-
Total borrowings					-	-	-

## Cash advance facilities

During March 2019, the Company entered into a new \$30.0 million cash advance facility with Bank of New Zealand, which replaced an existing \$50.0 million cash advance facility that was due to expire in September 2019. This new general facility is primarily for the development and acquisition of Tower's information technology platforms, software and related assets. The facility limit will decrease from the initial \$30.0 million: to \$25.0 million on 1 July 2020; to \$20.0 million on 1 July 2021; and to \$15.0 million on 1 July 2022.

All borrowings are subject to normal terms and conditions for facilities of this nature, including financial covenants and are unsecured. The Company has fully complied with all covenants during the half year ended 31 March 2019.

## C4 RECONCILIATION OF PROFIT (LOSS) FOR THE HALF YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

\$ thousands	Unaudited 31-Mar-19	Unaudited 31-Mar-18
For the half year ended		
Profit (loss) for the half year	11,909	(11,620)
Adjusted for non-cash items		
Depreciation of property, plant and equipment	694	761
Amortisation of software	2,813	2,579
Impairment of reinsurance receivables	-	21,750
Unrealised loss on financial assets	352	1,104
Gain on disposal of property, plant and equipment	-	(19)
Change in deferred tax	4,410	(4,187)
	8,269	21,988
Adjusted for movements in working capital (excluding the effects of exchange differences on consolidation)		
Change in receivables	12,852	6,527
Change in payables	(20,161)	(16,467)
Change in taxation	581	(919)
	(6,728)	(10,859)
Adjusted for other items classified as investing / financing activities		
Financing expenses	209	609
	209	609
Net cash inflows from operating activities	13,659	118

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

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### C5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Refer below for details of valuation methods and assumptions used by Tower for each category of financial assets and liabilities.

*(i) Cash and cash equivalents*

The carrying amount of cash and cash equivalents reasonably approximates its fair value.

*(ii) Financial assets and liabilities at fair value through profit or loss*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The following fair value measurements are used:

- The fair value of fixed interest securities is based on the maturity profile and price/yield.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

*(iii) Financial assets and financial liabilities held at amortised cost*

Carrying values of loans and receivables, adjusted for impairment values, and carrying values of other financial liabilities held at amortised cost reasonably approximate their fair values.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## C5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The following tables present the Group's assets and liabilities categorised by fair value measurement hierarchy levels. There have been no transfers between levels of the fair value hierarchy during the current financial period (30 September 2018: nil).

\$ thousands	Total	Level 1	Level 2	Level 3
As at 31 March 2019 (Unaudited)				
Assets				
Investment in equity securities	575	-	-	575
Investments in fixed interest securities	219,906	-	219,906	-
Investments in property securities	34	-	34	-
Investments	220,515	-	219,940	575
Derivative financial assets	-	-	-	-
Total financial assets	220,515	-	219,940	575

As at 30 September 2018 (Audited)

Assets				
Investment in equity securities	599	-	-	599
Investments in fixed interest securities	197,367	-	197,367	-
Investments in property securities	34	-	34	-
Investments	198,000	-	197,401	599
Derivative financial assets	271	-	271	-
Total financial assets	198,271	-	197,672	599

At 31 March 2019, the Level 3 category includes investment in equity securities of \$575,000 (30 September 2018: \$599,000). This investment is in unlisted shares of a company which provides reinsurance to Tower. The fair value is calculated based on the net assets of the company from the most recently available financial information, adjusted for market conditions. The following table represents the changes in Level 3 instruments:

\$ thousands	Investment in equity securities	
	Unaudited	Audited
As at	31-Mar-19	30-Sep-18
Opening balance	599	1,412
Total gains and losses recognised in profit and loss	-	(745)
Foreign currency movement	(24)	(46)
Disposals	-	(22)
Closing balance	575	599

The following table shows the impact of increasing or decreasing the combined inputs used to determine the fair value of the level 3 investments by 10%:

\$ thousands	Carrying Amount	Favourable changes of 10%	Unfavourable changes of 10%
As at 31 March 2019 (Unaudited)			
Investment in equity securities	575	58	(58)
As at 30 September 2018 (Audited)			
Investment in equity securities	599	60	(60)

PART D - OTHER BALANCE SHEET ITEMS

This section provides information about assets and liabilities not included elsewhere.

D1 RECEIVABLES

\$ thousands	Unaudited	Audited
	31-Mar-19	30-Sep-18
Premium receivables	140,029	141,578
Reinsurance recovery receivables	18,905	32,600
Claim recoveries and unearned reinsurance premiums	11,345	11,616
Trade receivables	170,279	185,794
EQC receivables	70,541	69,272
Other	5,154	4,541
Total receivables	245,974	259,607

D2 INTANGIBLE ASSETS

IMPAIRMENT TESTING FOR SOFTWARE UNDER DEVELOPMENT

Software under development includes expenditure relating to the development of a new core IT platform, digital enhancements, communications technology and work to extend the useful life of other IT assets. Software under development is subject to impairment testing and no impairment loss has been recognised in 2019 (30 September 2018: Nil). In assessing the recoverable amount for software under development, Management has based its assumptions on the five year projections covered by Tower's 2019-2023 operating plans, including an assessment of additional revenue and expense savings expected to be generated by each asset. These assumptions are determined from a variety of sources, including Management's past experience, comparison of key metrics to industry baselines, sensitivity of revenues to changes in drivers and analysis of current expenditure that can be reduced. Management has not put any value on projected cash flows beyond a five year period. A discount rate of 12% has been used in the valuation (30 September 2018: 12%).

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

## D2 INTANGIBLE ASSETS (continued)

\$ thousands	SOFTWARE				Total
	Goodwill	Acquired	Internally developed	Under development	
Half year ended 31 March 2019 (Unaudited)					
Cost					
Opening balance	17,744	5,382	37,645	22,502	83,273
Additions	-	-	-	19,659	19,659
Transfers	-	179	6,229	(6,408)	-
Closing balance	17,744	5,561	43,874	35,753	102,932
Accumulated amortisation:					
Opening balance	-	(4,698)	(33,533)	-	(38,231)
Amortisation charge	-	(117)	(2,696)	-	(2,813)
Closing balance	-	(4,815)	(36,229)	-	(41,044)
Net book value					
Cost	17,744	5,561	43,874	35,753	102,932
Accumulated amortisation	-	(4,815)	(36,229)	-	(41,044)
Closing net book value	17,744	746	7,645	35,753	61,888
Year Ended 30 September 2018 (Audited)					
Cost					
Opening balance	17,744	5,097	37,045	4,484	64,370
Additions	-	-	-	19,026	19,026
Disposals	-	-	-	(74)	(74)
Transfers	-	285	600	(885)	-
Transfers to property, plant and equipment	-	-	-	(49)	(49)
Closing balance	17,744	5,382	37,645	22,502	83,273
Accumulated amortisation:					
Opening balance	-	(4,501)	(28,535)	-	(33,036)
Amortisation charge	-	(197)	(4,998)	-	(5,195)
Closing balance	-	(4,698)	(33,533)	-	(38,231)
Net book value					
Cost	17,744	5,382	37,645	22,502	83,273
Accumulated amortisation	-	(4,698)	(33,533)	-	(38,231)
Closing net book value	17,744	684	4,112	22,502	45,042



PART E - CAPITAL

This section provides information about Tower's capital structure.

E1 CONTRIBUTED EQUITY

\$ thousands	Unaudited	Audited
	31-Mar-19	30-Sep-18
Opening balance	447,543	382,172
Issue of share capital	-	70,838
Costs of capital raise	-	(5,467)
Total contributed equity	447,543	447,543

On 14 November 2017 the Company invited its eligible shareholders to subscribe to a rights issue of 1 new share for every 1 existing share held at the record date on 22 November 2017 at a price of NZD0.42 (or AUD0.39) for each new share. The issue was fully subscribed on 20 December 2017.

Represented by:

Number of shares	Unaudited	Audited
	31-Mar-19	30-Sep-18
Opening balance	337,324,300	168,662,150
Issued shares	-	168,662,150
Total shares on issue	337,324,300	337,324,300

Ordinary shares issued by the Group are classified as equity and are recognised at fair value less direct issue costs. All shares rank equally with one vote attached to each share. There is no par value for each share.

E2 SOLVENCY REQUIREMENTS

The methodology and bases for determining the solvency margin are in accordance with the requirements of the Solvency Standard for Non-life Insurance Business published by the Reserve Bank of New Zealand. The minimum solvency capital required to be retained by Tower Insurance Limited Group to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 is shown below. Actual solvency capital exceeds the minimum solvency capital requirement for the Tower Insurance Limited Group and Tower Insurance Limited, refer below.

\$ thousands	Tower Insurance Limited		Tower Insurance Limited Group	
	Unaudited	Unaudited	Unaudited	Audited
	31-Mar-19	30-Sep-18	31-Mar-19	30-Sep-18
Actual solvency capital	150,800	136,476	173,067	156,765
Minimum solvency capital	55,569	58,298	70,841	74,344
Solvency margin	95,231	78,178	102,226	82,421
Solvency ratio	271%	234%	244%	211%

The Reserve Bank of New Zealand imposed a condition of license requirement for Tower Insurance Limited to maintain a minimum solvency margin of \$50.0 million. At 31 March 2019 the reported solvency margin was higher than this minimum amount for both Tower Insurance Limited and Tower Insurance Limited Group.

TOWER LIMITED  
CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 MARCH 2019  
NOTES TO THE INTERIM FINANCIAL STATEMENTS

E3 NET ASSETS PER SHARE

\$ dollars	Unaudited	Audited
	31-Mar-19	30-Sep-18
Net assets per share	0.85	0.81
Net tangible assets per share	0.57	0.57

PART F - OTHER DISCLOSURES

This section includes additional disclosures which are required by financial reporting standards.

F1 CONTINGENT LIABILITIES

The Group is occasionally subject to claims and disputes as a commercial outcome of conducting insurance business. Provisions are recorded for these claims or disputes when it is probable that an outflow of resources will be required to settle any obligations. Best estimates are included within claims reserves for any litigation that has arisen in the usual course of business.

The Group has no other contingent liabilities.

F2 SUBSEQUENT EVENTS

There were no subsequent events after balance date.

F3 CHANGE IN COMPARATIVES

Comparative information has been reclassified to achieve consistency with the current year presentation. Changes relate to income statement reclassification. There is no change to net assets or the 2018 profit.

*Income Statement - corrections of claims expense and reinsurance recoveries revenue*

Claims expense and reinsurance and other recoveries revenue in the Income Statement have each been adjusted by \$30.6m, reducing claims expense to \$98.6m and reinsurance and other recoveries revenue to \$9.7m. This change corrects adjustments that were made in the comparative period to record the claims provisions relating to the Canterbury earthquakes and more accurately reflects the apportionment of the movement in claims provisions between claims expense and reinsurance recoveries. There is no change to net claims expense. The changes in the Canterbury earthquakes provisions were correctly reflected in financial statements for the year ended 30 September 2018. Changes for consistency have also been made to the Statement of Cash Flows.

*Statement of Cash Flows - reclassification between cash and cash equivalents and investments*

In the Statement of Cash Flows comparative period, the cash and cash equivalents balance at the beginning of the half year has been reduced by \$19.0m and cash and cash equivalents balance at the end of the half year has been reduced by \$22.5m to reflect a reclassification of term deposits with maturity dates greater than 3 months but less than 12 months from cash and cash equivalents to investments. The difference between these amounts has resulted in a decrease to the net proceeds for financial assets of \$3.5m.

*Statement of Cash Flows - reclassification between premiums received and reinsurance paid*

Premiums received and reinsurance paid in the Cash Flow Statement have each been adjusted by \$0.2m, reducing premiums received to \$152.7m and reinsurance paid to \$28.4m. This change is a result of reclassifications between insurance liabilities and other receivables.

TOWER LIMITED  
CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 MARCH 2019  
NOTES TO THE INTERIM FINANCIAL STATEMENTS

F4 IMPACT OF AMENDMENTS TO ACCOUNTING STANDARDS

The following new Accounting Standards, the adoption of which had no material financial impact on the Group, are applicable for the current reporting period.

Accounting Standard	Description
NZ IFRS 9	<i>Financial Instruments</i>
NZ IFRS 15	<i>Revenue from contracts with customers</i>

*NZ IFRS 9 Financial Instruments*

For Tower, NZ IFRS 9 *Financial Instruments* became effective for the period beginning on 1 October 2018, replacing the existing accounting requirements for financial instruments under IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IFRS 9 introduces changes to the classification and measurement of financial instruments, replaces the 'incurred loss' impairment model with a new 'expected loss' model when recognising expected credit losses on financial assets, and imposes new general hedge accounting requirements. NZ IFRS 9 specifically excludes from its scope the rights and obligations arising from insurance contracts, as defined under NZ IFRS 4 *Insurance Contracts*.

Tower has applied NZ IFRS 9 retrospectively, with no material change to the carrying amount of its financial instruments when measured under the requirements of NZ IFRS 9.

Tower's financial instruments that are classified at fair value through profit or loss on initial recognition, and which are subsequently re-measured to fair value at each reporting date, are classified on this basis because they back general insurance liabilities and measuring them at fair value significantly reduces a potential measurement inconsistency which would arise if the assets were measured at amortised cost or fair value through other comprehensive income.

For debt instruments carried at amortised cost, Tower assesses the expected credit losses on a forward looking basis, and have amended the impairment methodology for subsequent measurement depending on whether there has been a significant increase in credit risk. Financial assets that are held for collection of contractual cashflows where those cashflows represent solely payments of principal and interest are measured at amortised cost.

The measurement bases of Tower's financial assets and liabilities under NZ IAS 39 and NZ IFRS 9, showing changes in classification of Tower's financial instruments, are as follows:

Asset/Liability	Measurement basis under NZ IAS 39	Measurement basis under NZ IFRS 9	Carrying amount under NZ IAS 39 and NZ IFRS9*
Cash and cash equivalents held by corporate entities	Amortised cost	Amortised cost	7,296
Cash and cash equivalents held by insurance companies	Amortised cost	Fair value through profit or loss	59,673
Investments	Fair value through profit or loss	Fair value through profit or loss	220,515
Claim recoveries	Amortised cost	Amortised cost	3,141
Derivative financial assets	Fair value through profit or loss	Fair value through profit or loss	-
Trade and other payables	Amortised cost	Amortised cost	71,367
Borrowings	Amortised cost	Amortised cost	-

\* The reclassifications of the financial instruments on adoption of NZ IFRS 9 did not result in any material changes to carrying amounts.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

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F4 IMPACT OF AMENDMENTS TO ACCOUNTING STANDARDS (continued)

*NZ IFRS 15 Revenue from Contracts with Customers*

NZ IFRS 15 *Revenue from Contracts with Customers* became effective for the period beginning on 1 October 2018, with no material impact to Tower. NZ IFRS 15 introduces a single model for the recognition of revenue based on when an entity satisfies the contractual performance obligations by transferring a promised good and service to a customer. It does not apply to insurance contracts and financial instruments. Hence the majority of Tower's revenue is not impacted by this change. Revenue from contracts with customers, as defined by NZ IFRS 15, is disclosed as 'Fee and other income' in the consolidated income statement. There has been no material change in the measurement of 'Fee and other income' on implementation of NZ IFRS 15 as the existing recognition and measurement of revenue under the applicable contracts meets the requirements under the new standard.



## *Independent review report*

To the shareholders of Tower Limited

### *Report on the consolidated interim financial statements*

We have reviewed the accompanying consolidated interim financial statements of Tower Limited (the “Group”) on pages 2 to 22 which comprise the consolidated balance sheet as at 31 March 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half year ended on that date, and selected explanatory notes.

### *Directors’ responsibility for the consolidated interim financial statements*

The Directors are responsible on behalf of the Group for the preparation and presentation of these consolidated interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

### *Our responsibility*

Our responsibility is to express a conclusion on the accompanying consolidated interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group. These services are assurance services in respect of solvency and insurance returns and agreed upon procedures in respect of voting at the Annual Shareholders Meeting and an insurance return. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence. We have no other interests in the Group.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that these consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 March 2019, and its financial performance and cash flows for the half year then ended, in accordance with IAS 34 and NZ IAS 34.



*Who we report to*

This report is made solely to Tower Limited's shareholders, as a body. Our review work has been undertaken so that we might state to Tower Limited's shareholders those matters, which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

A handwritten signature in black ink, appearing to read 'Priyanka Hasleopas', written in a cursive style.

Chartered Accountants  
21 May 2019

Auckland



# 2019 half year results

21 May 2019  
Tower Limited

Michael Stiasny  
Chairman

Richard Harding  
Chief Executive Officer

Jeff Wright  
Chief Financial Officer

# Chairman's update



## **Tower has returned to profit – transformation progressing well**

- Customer-centric focus is transforming Tower, providing an exciting platform for growth and delivering improved results
- Strong growth in underlying profit as overall business improves
- Delivery of leading technology will accelerate transformation trajectory

## **Uncertainty in Canterbury needs to end**

- Progressing customer claims remains a priority
- Existing situation is unsustainable and unacceptable
- Tower is actively pursuing solutions to address this issue

## **Focus on consumer trust and confidence continues**

- Tower's high customer trust is driven by transparent approach to change
- Tower is a New Zealand listed company – independent of any Australian owner – with strong ethical business practices





# 2019 first half achievements

Richard Harding  
Chief Executive Officer

# Tower returns to profit



## Solid growth drives \$23.5m turnaround

- ✓ Solid core NZ growth
- ✓ Strong digital sales continue

## Significant improvement in claims ratio

- ✓ Underwriting and pricing improvements delivered
- ✓ Pacific claims returned to historic norms

## Other achievements

- ✓ Pacific profit returns to historic levels
- ✓ Major technology upgrade on schedule and will launch in coming weeks
- ✓ Management expense ratio maintained
- Canterbury progressing well, but new over-cap claims continue

Key metrics	H1 19	H1 18
Gross written premium (GWP)	\$169.7m	\$161.0m
Growth in GWP	5.4%	10.4%
Growth in GWP in core NZ portfolio <sup>1</sup>	8.9%	16.2%
Increase in risks in core NZ portfolio <sup>1</sup>	9,383	9,613
Claims expenses	\$63.3m	\$74.4m
Claims expense ratio	44.5%	55.5%
Open Canterbury earthquake claims	132	253
After-tax CEQ provision adjustments	\$4.7m	\$2.3m
Management expense ratio	38.7%	38.9%
Underlying profit after tax	\$19.4m	\$7.3m
Reported profit / (loss) after tax	\$11.9m	(\$11.6m)

1. Core NZ portfolio is the NZ business and excludes ANZ & Kiwibank legacy portfolio

# More customers choosing Tower



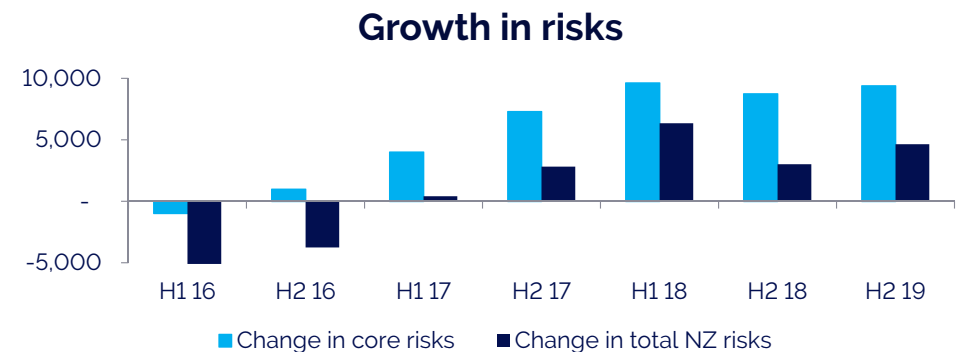
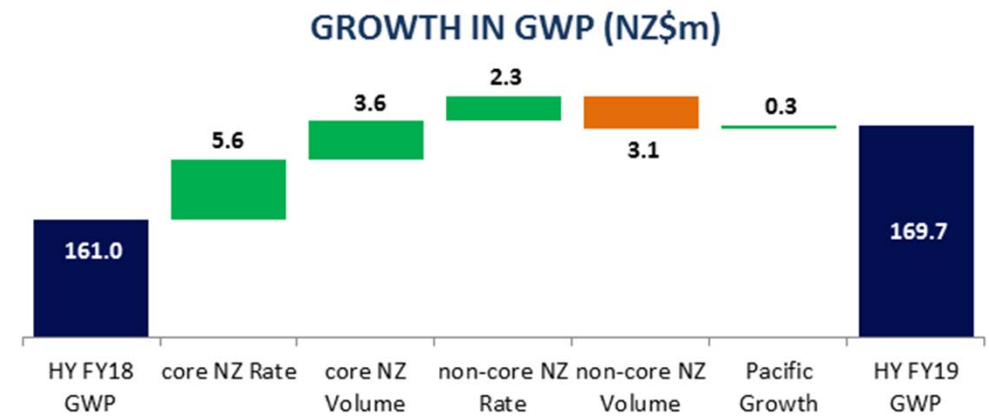
- 8.9% GWP growth in core NZ portfolio
- Total GWP has grown 5.4% through higher volumes and improved rating

✓ GWP growth across all NZ products, compared to prior half:

- NZ House has grown 7.8%
- NZ Contents is up 2.9%
- NZ Motor has grown 12.3%

✓ Continued strong growth in risk numbers, increasing 9,383 this half

✓ Pacific growth continues in line with expectations, returning to historical norms



# Digital sales up to almost 50%

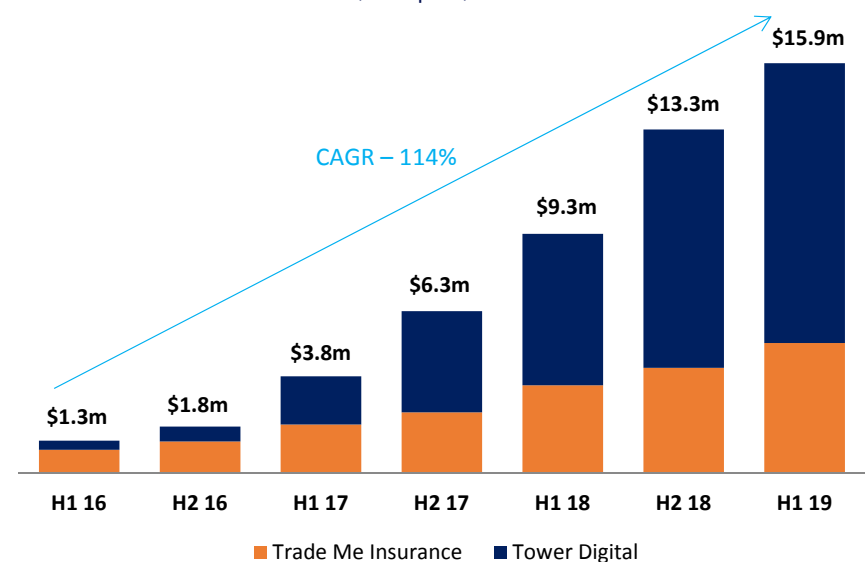


- **GWP from digital channels has grown at compound annual growth rate of 114% over past 3 years**

- ✓ Digital sales increased to almost 50% of new business for March 2019, up from 39% in March 2018
- ✓ Significant improvement in retention through digital channels, up 2.7 percentage points on prior half
- ✓ 18% of claims lodged online in March 2019 further evidence of digital transformation
- ✓ Continued investment in digital capability by shifting to agile operating model

**Digital offering is attracting more customers with lower cost to acquire. We continue to target an industry leading goal of 50 - 70% of all transactions online**

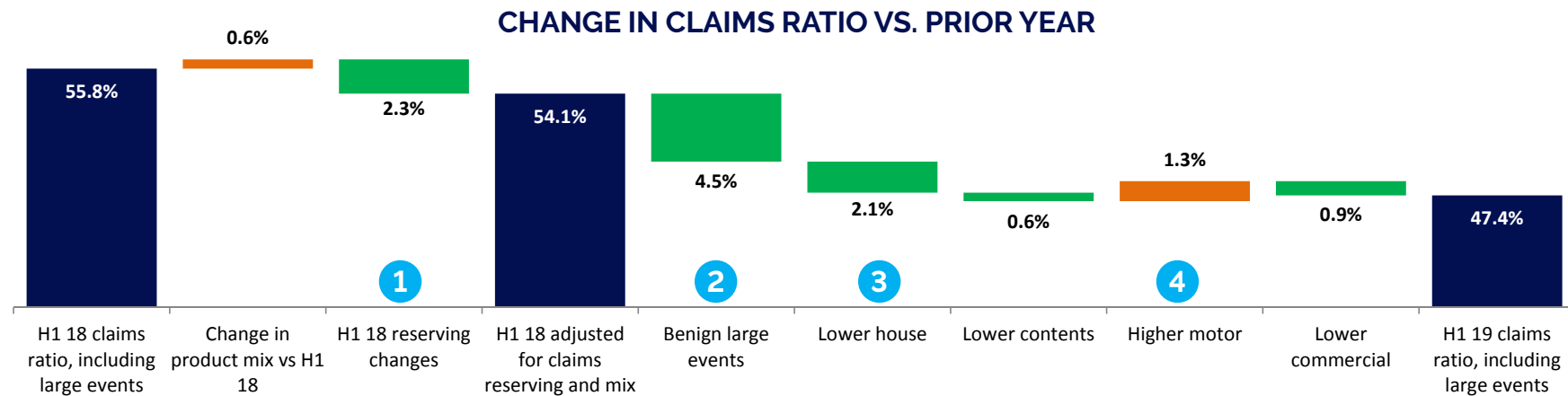
**GWP BY HALF THROUGH DIGITAL CHANNELS (NZ\$m)**



# Improved NZ claims ratio



- Underwriting and pricing initiatives have delivered significant improvements
- Targeting core insurance activity to offset inflation



- 1 H1 18 results included non-recurring increases to reserves from the prior year (FY17) due to updated reserving methodology.
- 2 Benign weather environment and no large events in H1 19 has contributed to improved claims ratio.
- 3 Improvement in NZ House claim ratio a result of continued focus on underwriting, along with benefits from risk based pricing. The impact of large house fires has reduced to more usual levels.
- 4 Higher NZ Motor claim ratio due to a marginally increased claims frequency. This was driven by higher windscreen claims over the summer period due to traffic volumes and roadworks in certain regions. Ongoing pricing improvements will help to offset inflation.

Note: Pricing changes include increases for higher risk homes, asbestos, higher risk drivers, as well as more granular rating for vehicle categories. Ongoing underwriting improvements include refinements to risk selection criteria and meth contamination policy limits.

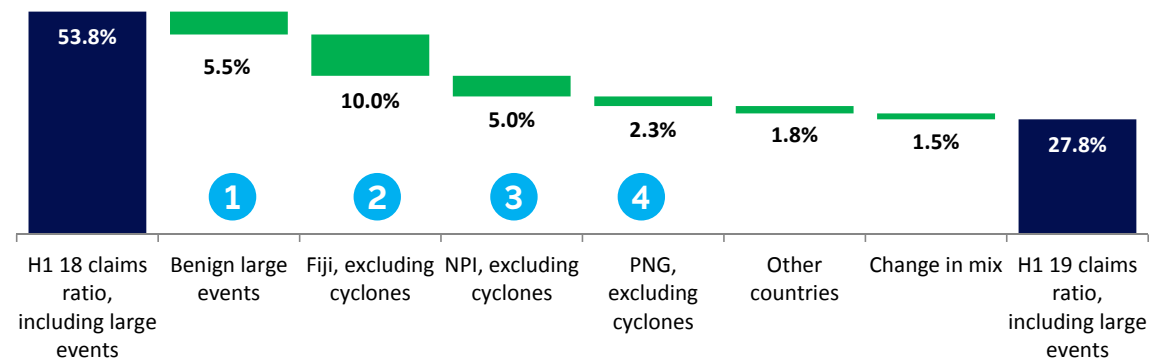
# Improvements in Pacific



- Improved pricing, underwriting and risk selection is delivering results
- Benign weather across Pacific contributed to improvement

- ✓ Pacific GWP growth in targeted markets
- ✓ Key markets of Papua New Guinea and Fiji returning to profitability following completion of remediation and repricing
- ✓ Strongest growth achieved in Vanuatu, Tonga and the Cook Islands
- ✓ Significant improvement in claims ratio

CHANGE IN CLAIMS RATIO VS. PRIOR YEAR



- 1 Benign weather environment and no large events in H1 19 has contributed to improved claims ratio.
- 2 Cost control initiatives in the Fiji motor book have delivered significant benefits. A better claims experience in house fires has also contributed to a favourable claims ratio.
- 3 A lower result in Tower's NPI brand was largely due to a better claims experience in the commercial portfolio, with fewer large commercial fires.
- 4 A favourable result in settlement of outstanding commercial claims has resulted in a lower claims ratio for PNG.

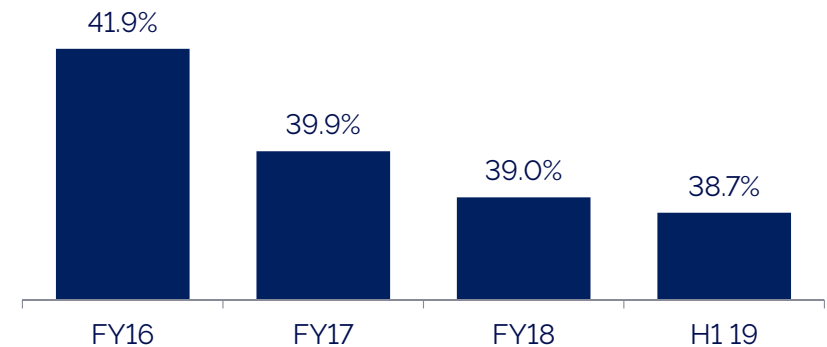
Note: Pricing changes include increases for Fiji Motor, and moving under-priced PNG Commercial Fire to standard rates. Underwriting improvements include the establishment of a centralised Pacific Underwriting team and refined underwriting guidelines for new business and renewals.

# Building capability while controlling costs



- **Management expense ratio stable while investment is made in new platform**
- **Additional spend directed towards growth and reducing risk**
- Continued enhancements in lifting workforce capability and capacity
- Implementing new, agile-led, operating model
- Ongoing investment in:
  - Addressing and investing in protection from cyber security risks
  - Acquiring new customers and brand partners
  - Essential IT hardware upgrades
- Management expenses expected to lift slightly in second half as customers are migrated to new platform

**GROUP MANAGEMENT EXPENSE RATIO<sup>1</sup>**



1. For management reporting Tower includes claims handling expenses in Management Expense Ratio

**Continued focus on expenses and digital capability will enable achievement of long term MER target of <35%**

# Tech upgrade set to launch



## **New business will be on sale on new platform in coming weeks**

- Phased delivery and implementation approach underway
- Customers who call Tower will start having access to our new insurance platform, new products and telephone system in the coming weeks
- Ramp-up approach will see new digital interface deployed following initial release of new platform to phone-based teams

## **Focus turns to delivery of second phase by end of calendar year**

- Second phase will include online claims lodgement portal and digital self-service insurance
- Customer migration will commence in second half, with customers moving to new platform on policy renewal
- Legacy systems to be decommissioned after customer migration
- Ongoing focus to reduce risk associated with implementation

## **New platform will drive growth and reduce costs**





# Financial performance

Jeff Wright  
Chief Financial Officer

# Financial performance Consolidated Group



## GROUP PROFIT SUMMARY (NZ\$m)

\$ million	H1 19	H1 18	Change
Gross written premium	169.7	161.0	8.7
Gross earned premium	168.7	159.6	9.1
Reinsurance expense	(26.5)	(25.5)	(1.0)
<b>Net earned premium</b>	<b>142.2</b>	<b>134.1</b>	<b>8.1</b>
Net claims expense	(63.1)	(67.9)	4.8
Large events claims expense	(0.2)	(6.5)	6.3
Management and sales expenses	(55.1)	(52.1)	(2.9)
<b>Underwriting profit</b>	<b>23.9</b>	<b>7.6</b>	<b>16.3</b>
Investment and other revenue	3.4	3.8	(0.4)
Financing costs	(0.2)	(0.4)	0.2
<b>Underlying profit before tax</b>	<b>27.1</b>	<b>11.0</b>	<b>16.1</b>
Income tax expense	(7.7)	(3.7)	(4.0)
<b>Underlying profit after tax</b>	<b>19.4</b>	<b>7.3</b>	<b>12.1</b>
PeakRe settlement	0.0	(16.2)	16.2
Canterbury impact	(4.7)	(2.3)	(2.4)
Foreign tax credits write-off	(1.0)	0.0	(1.0)
Simplification programme opex	(0.4)	0.0	(0.4)
Other non-underlying costs	(1.4)	(0.4)	(1.0)
<b>Reported profit/(loss) after tax</b>	<b>11.9</b>	<b>(11.6)</b>	<b>23.5</b>

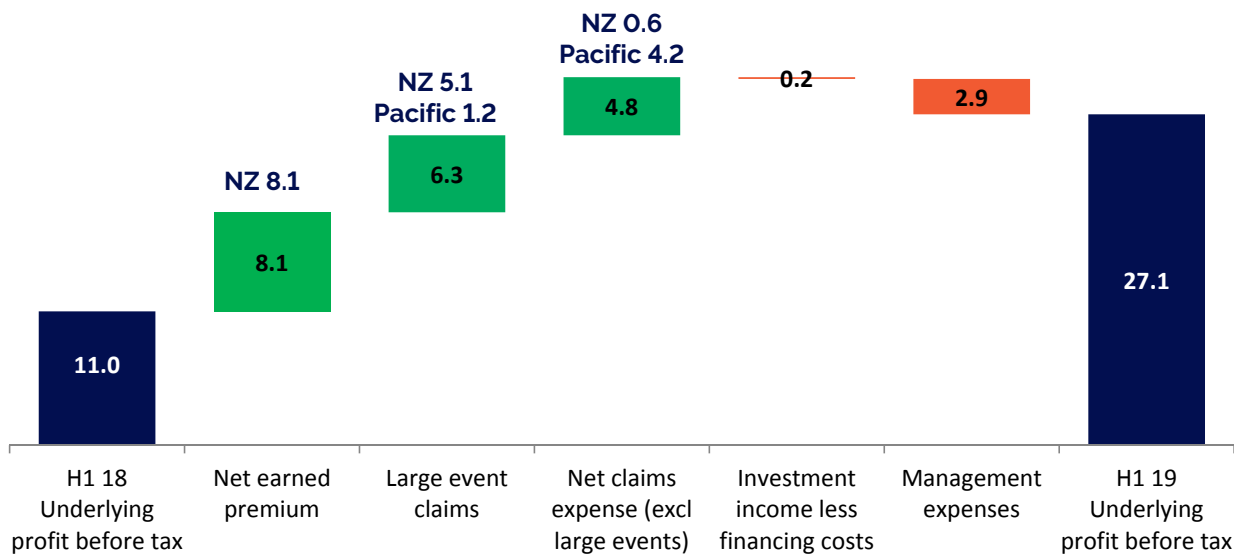
- Reported after tax profit of \$11.9m, a \$23.5m improvement on prior year
- \$12.1m improvement in underlying profit after tax
- Strong growth in GWP, of \$8.7m, and GEP, of \$9.1m, reflects ongoing successful turnaround in New Zealand business
- Claims costs, excluding large events, reduced \$4.8 million
- Management and sales expenses controlled
- Canterbury P&L impact of \$4.7m after tax

Key ratios	H1 19	H1 18	Change
Reinsurance / gross earned premiums	15.7%	16.0%	0.3%
Claims ratio excluding large events	44.4%	50.6%	6.2%
Claims ratio	44.5%	55.5%	11.0%
Expense ratio	38.7%	38.9%	0.2%
Combined ratio	83.2%	94.4%	11.2%

# Movement in underlying profit before tax



MOVEMENT IN UNDERLYING PROFIT BEFORE TAX (NZ\$m)



- Net earned premium higher due to growth in core book and new pricing approach
- No large events in the half, reducing claims expense
- Improvements in pricing and underwriting have contributed to lower claims expenses, excluding large events
- Management expenses increased in line with business growth

# Financial performance New Zealand



## NEW ZEALAND PROFIT SUMMARY (NZ\$m)

\$ million	H1 19	H1 18	Change
Gross written premium	141.6	133.2	8.3
Gross earned premium	139.6	131.5	8.2
Reinsurance expense	(18.1)	(18.0)	(0.1)
<b>Net earned premium</b>	<b>121.6</b>	<b>113.5</b>	<b>8.1</b>
Net claims expense	(57.4)	(58.0)	0.6
Large events claims expense	(0.1)	(5.2)	5.1
Management and sales expenses	(44.5)	(42.8)	(1.8)
<b>Underwriting profit</b>	<b>19.5</b>	<b>7.5</b>	<b>12.0</b>
Investment and other revenue	3.2	2.9	0.2
<b>Underlying profit before tax</b>	<b>22.6</b>	<b>10.4</b>	<b>12.2</b>
Income tax expense	(6.1)	(2.8)	(3.3)
<b>Underlying profit after tax</b>	<b>16.5</b>	<b>7.6</b>	<b>8.9</b>

Key ratios	H1 19	H1 18	Change
Claims ratio excluding large events	47.2%	51.1%	3.9%
Claims ratio	47.4%	55.8%	8.4%
Expense ratio	36.6%	37.7%	1.1%
Combined ratio	84.0%	93.5%	9.5%

- Underlying profit increased by \$8.9m on prior year
- 6.3% increase in GWP a result of customer growth, risk-based pricing approach and strong retention
- Underwriting and pricing improvements, and a benign weather environment led to a 8.4% decrease in claims ratio and 9% decrease in net claims expense
- Management expenses contained, resulting in a 1.1% decrease in expense ratio on prior year
- 9.5% reduction in NZ combined operating ratio

# Financial performance Pacific



## PACIFIC PROFIT SUMMARY (NZ\$m)

\$ million	H1 19	H1 18	Change
Gross written premium	28.1	27.8	0.3
Gross earned premium	29.1	28.1	1.0
Reinsurance costs	(8.4)	(7.5)	(0.9)
<b>Net earned premium</b>	<b>20.7</b>	<b>20.7</b>	<b>0.0</b>
Net claims expense	(5.7)	(9.8)	4.2
Large events claims expense	(0.1)	(1.3)	1.2
Management and sales expenses	(9.1)	(8.7)	(0.4)
<b>Underwriting profit</b>	<b>5.8</b>	<b>0.9</b>	<b>5.0</b>
Investment revenue and other revenue	0.5	0.4	0.1
<b>Underlying profit before tax</b>	<b>6.3</b>	<b>1.3</b>	<b>5.0</b>
Income tax expense	(2.1)	(1.0)	(1.1)
<b>Underlying profit after tax</b>	<b>4.2</b>	<b>0.2</b>	<b>4.0</b>
<b>Key ratios</b>	<b>H1 19</b>	<b>H1 18</b>	<b>Change</b>
Claims ratio excluding large events	27.4%	47.6%	20.2%
Claims ratio	27.8%	53.8%	26.0%
Expense ratio	44.0%	42.0%	(2.0%)
Combined ratio	71.8%	95.8%	24.0%

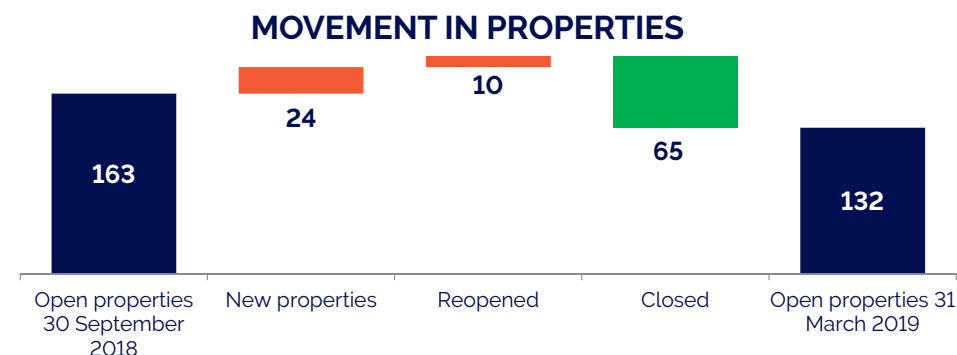
- Underlying profit after tax returns to historic levels, a \$4m increase on H1 18
- Continued profitable growth due to improved pricing and risk selection
- Revenue growth was strongest in Vanuatu, Tonga and the Cook Islands
- Significant improvement in net claims expense and claims ratio due to improved pricing and underwriting, a benign weather environment and fewer commercial fires

# Canterbury earthquakes update



- Continued progress with 65 claims closed in first half

- Outstanding claims reduced from 163 to 132
- Open litigated claims settling favourably
- Considerable reduction in new litigated claims
- Non-litigated claims continue to settle in line with expectations
- Higher than expected over-cap claims received from EQC has resulted in strengthening of provisions, resulting in \$4.7m after-tax P&L impact
- In addition to the increase in provision for higher level of future over-cap claims, Tower will be taking action to address this issue
- Additional uncertainty managed through solvency capital held by Tower



\$ million	Mar-19	Sep-18	Mar-18
Case estimates	29.7	37.4	48.0
IBNR/IBNER <sup>1</sup>	20.3	21.4	22.0
Risk margin	9.0	9.0	10.8
Additional risk margin	5.0	5.0	10.0
Actuarial provisions	34.3	35.4	42.8
<b>Gross outstanding claims</b>	<b>64.0</b>	<b>72.9</b>	<b>90.8</b>
Ratio of provisions to case estimates <sup>2</sup>	115%	95%	89%

**Notes:**

1. IBNR ("Incurred but not reported") / IBNER ("Incurred but not enough reported") includes claims handling expenses
2. Ratio of IBNR / IBNER plus risk margin to case estimates



# Future outlook

Richard Harding  
Chief Executive Officer

# Challenging the market to grow



- Digital challenger positioning enables achievement of medium-term targets



## Medium-term operating targets:

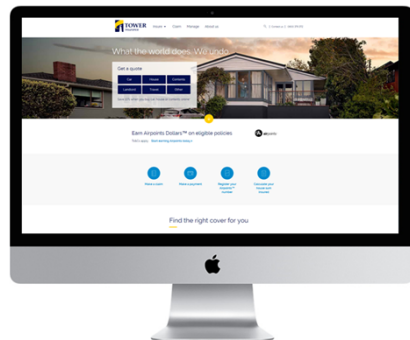
- GWP growth of 8-10%
- Combined Operating Ratio < 85%
- Return on equity of 14 – 16%



# 2019 second half priorities



## 1. Drive digital transformation



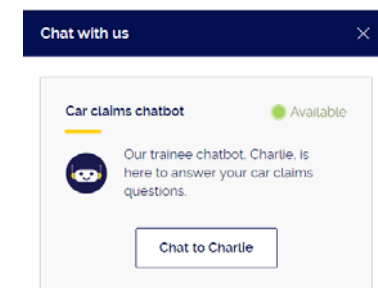
## 2. Keep driving growth



## 3. Improve profitability



## 4. Continue controlling expenses



# Uplifted FY19 financial outlook



- **Solid growth expected to continue**
- **Claims ratio expected to stabilise**
- Strong business performance and benign weather environment in first half leads Tower to uplift its one-off guidance for underlying NPAT, which is now expected to be in excess of \$26m\* in FY19
- Key assumptions include:
  - A \$5m allowance for large events
  - Loss ratios return to more normalised levels in second half
  - A minor uplift in management expenses as transformation activity culminates
- In respect to the 2019 financial year, and as previously advised, no dividend will be paid in the first half of the financial year. The Board's intention is to pay between 50% and 70% of second half 2019 NPAT, where prudent to do so.

\*Some previously disclosed costs relating to Tower's technology upgrade, such as training and migration, are unable to be capitalised. Tower estimates that \$3-\$5m before tax will be included as non-underlying expenses in the second half of the 2019 financial year.



# Appendices



# Reconciliation between underlying profit after tax and reported profit after tax



\$ million	H1 19 underlying profit	Non- underlying items (1)	Claims handling expenses (2)	Other items (3)	H1 19 reported profit
Gross written premium	169.7				169.7
Gross earned premium	168.7				168.7
Reinsurance expense	(26.5)				(26.5)
<b>Net earned premium</b>	<b>142.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>142.2</b>
Net claims expense	(63.3)	(9.7)	(9.6)		(82.6)
Management and sales expenses	(55.1)	(0.6)	9.6	(2.2)	(48.3)
<b>Underwriting profit</b>	<b>23.9</b>	<b>(10.4)</b>	<b>0.0</b>	<b>(2.2)</b>	<b>11.4</b>
Investment and other revenue	3.4	0.9		2.2	6.5
Financing costs	(0.2)				(0.2)
Underlying profit before tax	27.1	(9.4)	0.0	0.0	17.6
Income tax expense	(7.7)	1.9			(5.7)
<b>Underlying profit after tax</b>	<b>19.4</b>	<b>(7.5)</b>	<b>0.0</b>	<b>0.0</b>	
Canterbury impact	(4.7)	4.7			
Foreign tax credits write-off	(1.0)	1.0			
Simplification programme opex	(0.4)	0.4			
Other non-underlying costs	(1.4)	1.4			
<b>Reported profit/(loss) after tax</b>	<b>11.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>11.9</b>

## 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 the Tower's financial performance between periods.
- Tower has applied a consistent approach to measuring underlying profit in the current and comparative periods.
- "Reported profit after tax" is calculated and presented in accordance with GAAP and is taken from Tower Limited's unaudited interim financial statements for the half-year ended 31 March 2019.

## Notes on reconciling items:

1. Non-underlying items are shown separately in Tower's management reporting, yet included within other lines (depending on the nature of the item) in the financial statements.
2. In Tower's management reporting, indirect claims handling expenses are reported within 'management and sales expenses'. In the financial statements, indirect claims handling expenses are reclassified to 'net claims expense'.
3. Certain items of revenue are netted off 'management and sales expenses' in Tower's management reporting, and are reclassified to 'other revenue' in the financial statements. This primarily relates to commission received by Tower.

# New Zealand revenue

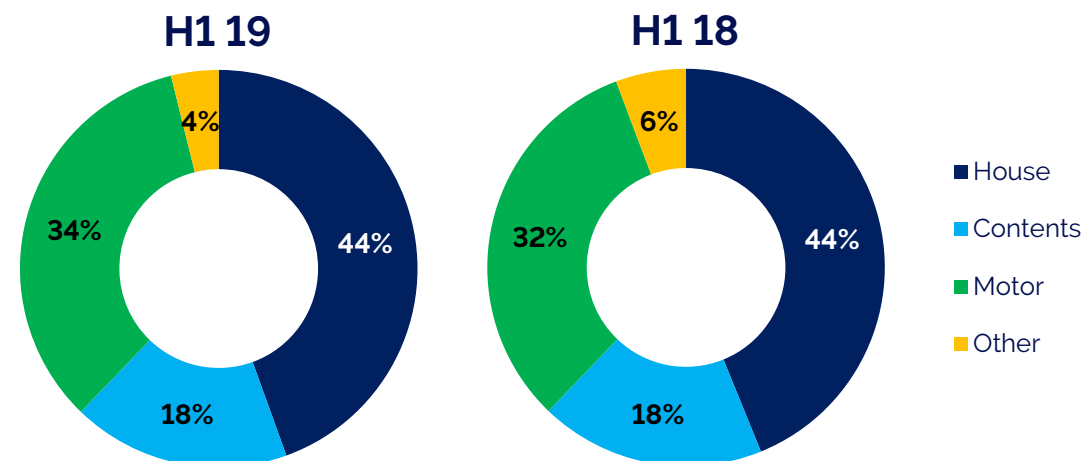


NZ GWP (\$m)	H1 19	H1 18	Change
Core	112.5	103.3	8.9%
Non-core	29.1	30.0	-2.9%
<b>Total NZ business</b>	<b>141.6</b>	<b>133.2</b>	<b>6.3%</b>

Risk counts (000s)	H1 19	H1 18	Change
Core	400.4	382.3	4.7%
Non-core	86.6	97.1	-10.8%
<b>Total NZ business</b>	<b>487.0</b>	<b>479.3</b>	<b>1.6%</b>

NZ GWP (\$m)	H1 19	H1 18	Change
House	63.0	58.4	7.8%
Contents	25.1	24.4	2.9%
Motor	48.0	42.8	12.3%
Other	5.5	7.6	-28.2%
<b>Total NZ business</b>	<b>141.6</b>	<b>133.2</b>	<b>6.3%</b>

GROSS WRITTEN PREMIUM BY PRODUCT %



**Notes:**

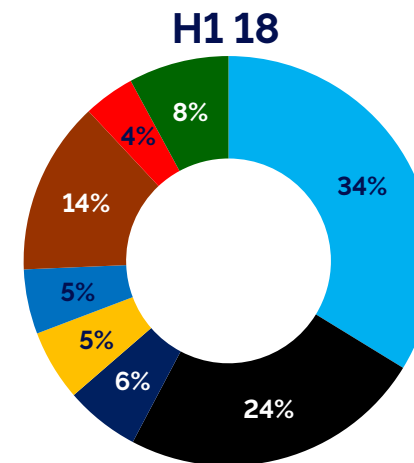
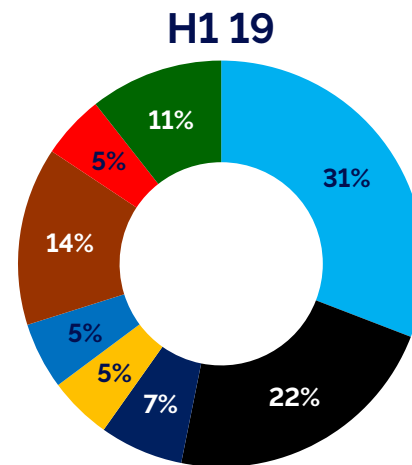
1. Tower's 'core' portfolio refers to the NZ business excluding the ANZ Bank and Kiwibank portfolios. The 'non-core' segment refers to the ANZ Bank and Kiwibank portfolios.
2. The term 'risks' refers to an item of property insured, such as a house, motor vehicle, or the contents at a specified address. This is distinguishable from 'policies', as one policy might cover several risks, for example, a commercial motor vehicle policy that covers multiple motor vehicles.

# Pacific revenue by country



## GROSS WRITTEN PREMIUM (NZ\$m)

Country	H1 19	H1 18
Fiji	8.7	9.4
Papua New Guinea	6.3	6.7
Cook Islands	1.9	1.6
Solomon Islands	1.4	1.6
Samoa	1.5	1.4
American Samoa	4.0	3.8
Tonga	1.4	1.1
Vanuatu	3.0	2.2
<b>Total</b>	<b>28.1</b>	<b>27.8</b>

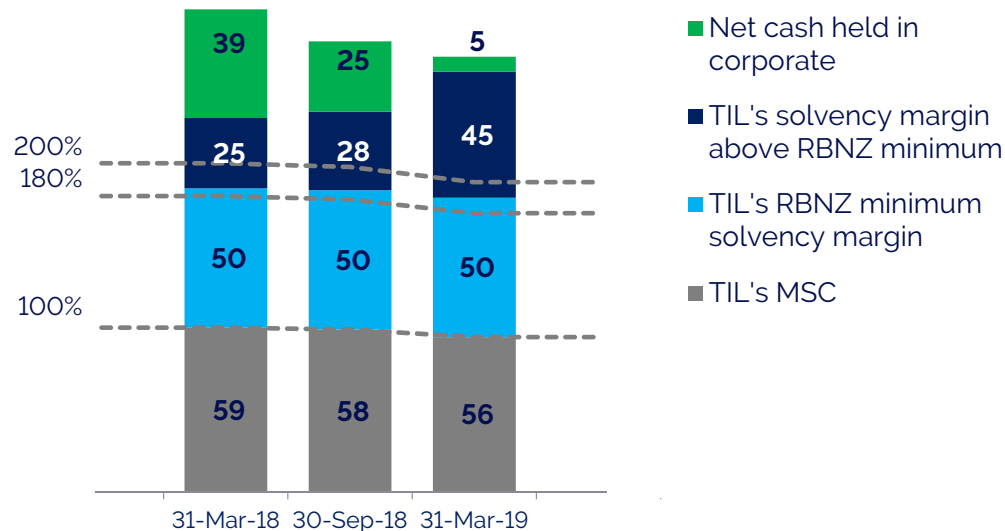


# Improved solvency position



- Strong capital position has been maintained
- Funding in place to support continuing investment

**TOWER INSURANCE LIMITED SOLVENCY POSITION PLUS NET CORPORATE CASH (\$m)**



- ✓ Tower Insurance Limited (TIL) has \$95m of solvency margin, which is equivalent to 271% of minimum solvency capital
- ✓ TIL's solvency margin has increased by \$17m since 30 September 2018, and is now \$45m above RBNZ minimum requirements
- ✓ At 31 March 2019, Tower Limited also held \$5m in net cash in its corporate entities
- ✓ Tower Limited has negotiated a new cash advance facility, maturing in March 2023, and will utilise this facility to fund remaining IT investment
- ✓ Tower's strong capital base supports growth while providing a buffer against legacy risks

# Balance sheet Tower Group



\$ million	31 March 2019	30 September 2018	Movement \$	Movement %
Cash & call deposits	67.0	102.0	(35.0)	(34.3%)
Investment assets	220.5	198.2	22.3	11.2%
Deferred acquisition costs	22.9	22.6	0.3	1.2%
Intangible assets	61.9	45.0	16.8	37.4%
Other operational assets	299.7	318.3	(18.6)	(5.9%)
<b>Total assets</b>	<b>672.0</b>	<b>686.2</b>	<b>(14.3)</b>	<b>(2.1%)</b>
Policy liabilities & insurance provisions	309.9	324.5	(14.6)	(4.5%)
Other operational liabilities	76.4	86.9	(10.6)	(12.1%)
<b>Total liabilities</b>	<b>386.3</b>	<b>411.4</b>	<b>(25.1)</b>	<b>(6.1%)</b>
<b>Total equity</b>	<b>285.7</b>	<b>274.8</b>	<b>10.9</b>	<b>4.0%</b>

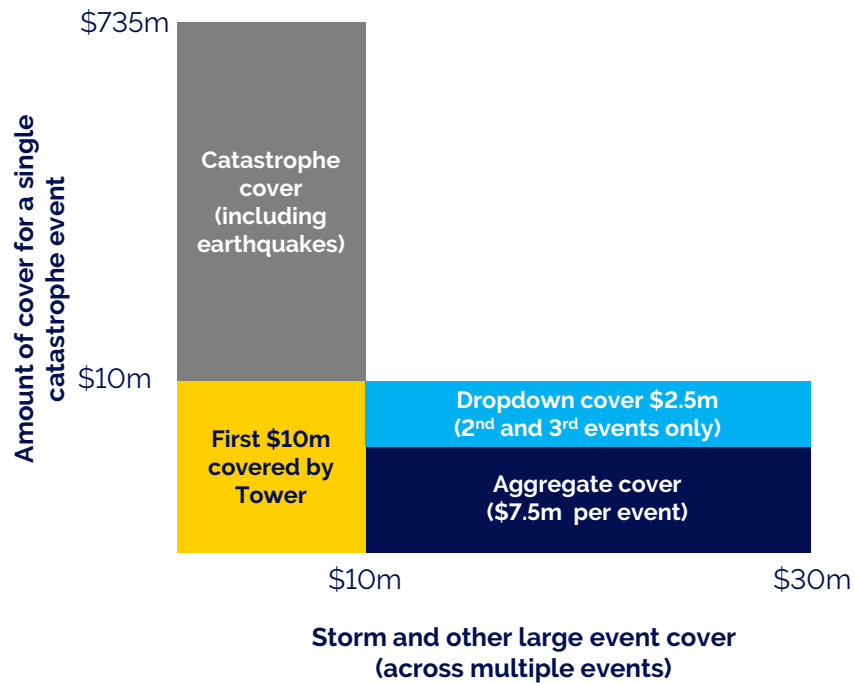


# Reinsurance structure overview



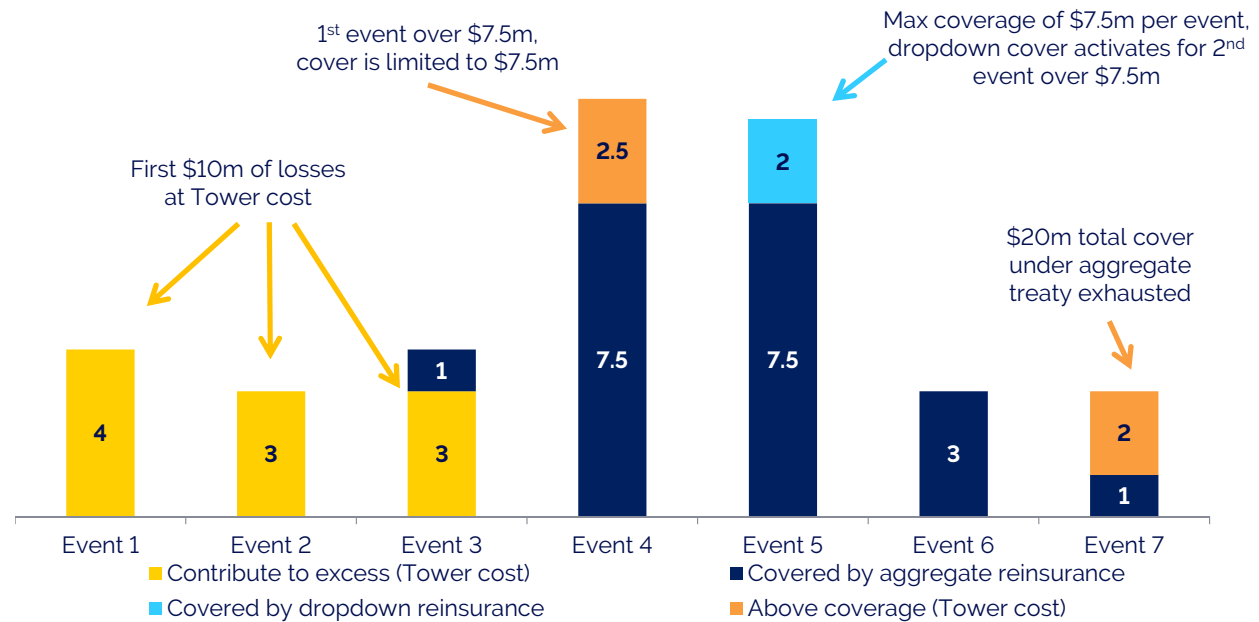
Our reinsurance structure reduces volatility from large events

## High-level reinsurance structure overview



## Aggregate cover overview for FY19

- Minimum event size of \$1m to qualify, max of \$7.5m per event
- \$20m cover once \$10m excess filled
- No coverage for earthquake in New Zealand
- Drop-down cover for 2<sup>nd</sup> and 3<sup>rd</sup> event over \$7.5m to bridge gap between aggregate cover and catastrophe cover (including earthquake)



# 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 2019, 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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This document contains certain forward-looking statements. Such statements relate to events and depend on circumstances that will occur in the future and are subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including, among others: the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxation; industrial disputes; and war and terrorism. These forward-looking statements speak only as at the date of this document.

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## MICHAEL STIASSNY

### **SLIDE 2: CHAIRMAN'S UPDATE**

Good morning and thank you for making the time to join us this morning.

With me in Auckland is our Chief Executive Officer, Richard Harding and our Chief Financial Officer, Jeff Wright who will take you through the half year results and answer your questions.

I am pleased to open today's call with the news that our transformation strategy has seen Tower return to profit.

Richard joined Tower four years ago and in that time, he and his team have been relentless in stabilising and transforming this iconic Kiwi insurer.

We have long held the view that Tower is undervalued. Today's results are the culmination of significant work to remove legacy issues, refocus and grow the business and implement core insurance fundamentals. Our goal has been to recreate a profitable company that delivers shareholder value and we are succeeding.

Richard and his team are driving an ambitious plan to transform Tower and have New Zealanders and Pacific Islanders see us in a new light, and set the bar for how insurance "should" be.

The company is being repositioned as a contemporary, challenger brand underpinned by a customer-focused, digital-first strategy to successfully compete in the 21st century insurance market place.



With the number of customers using our digital channels to engage with and purchase Tower products growing exponentially, we have proof that our confidence in user-friendly technology is well placed. And, with the upcoming launch of our new technology platform, Tower will have the final building block in place to accelerate growth.

Significant progress is being made on the Canterbury portfolio, however you will note additional provisioning. Despite litigated and non-litigated claims settling in line with expectations, seven years on and we continue to receive over-cap claims from EQC.

The latest relate to the reopening of closed claims due to reassessment of the original scope of works, or the need to remediate poor workmanship and faulty repairs.

We have worked constructively with the Government – and will continue to do so – to push for EQC reforms that we are confident will produce better, fairer results for New Zealanders. However, we now believe the time has come to take a different tack.

It is not our role – nor our shareholders' responsibility – to resolve and pay for situations arising from EQC's past incompetence, and the negligence of its repair providers.

So while Tower will continue to treat customers fairly, we will now seek to recoup any costs incurred from settling over-cap claims from EQC where past incompetence and negligence has contributed to the claim going over-cap.



The status quo is unacceptable and while the quantum has reduced, we want to be in a position to provide shareholders with clarity.

One of the most gratifying aspects of today's result is that it's representative of the trust and confidence our customers place in us. That's no small ask at a time when financial services have hit a reputational all-time low, particularly on the back of the findings of the Australian banking Royal Commission.

Being Kiwi – and independent of the big Australian brands – also helps.

However, Tower's transformation which is centred on making things easier and better for customers is the real reason. It's quite simple – treating people fairly, openly and honestly engenders trust and loyalty and makes a strong foundation for any business.

That's the strength of the Tower brand, and it will continue to propel the business forward.

On behalf of the Board I'd like to thank Richard and the management team for their sustained efforts to deliver a strategy that has seen Tower return to profitability.

I'll now hand over to Richard and Jeff, who will take you through the results and outlook before we take questions.



## [RICHARD HARDING](#)

### **SLIDE 3: 2019 FIRST HALF ACHIEVEMENTS TITLE SLIDE**

Thank you Michael and good morning everyone.

### **SLIDE 4: TOWER RETURNS TO PROFIT**

The first half of the 2019 Financial Year has seen Tower return to profit.

I am pleased to let you know our strategy to fix and grow the business is paying off. Today we have reported a half year profit of \$11.9 million after tax, a \$23.5 million improvement on the same period last year.

Underlying profit after tax increased \$12.1 million, to \$19.4 million, a result of our relentless focus on improving all aspects of our business, underwriting excellence and driving growth.

This result is the culmination of four years' work to turn Tower around by fixing the foundations and challenging industry norms.

These results demonstrate the inherent strength of the business and the future potential that exists in the Tower brand.

Our determination to deliver something better to customers has been noticed and we are growing at above market averages. Gross Written Premium in the core New Zealand portfolio increased by 8.9%, and total GWP reached \$170 million across New Zealand and the Pacific.



Continued implementation of risk-based pricing along with improved underwriting and a benign weather environment has significantly reduced claims costs. Over the last half, our claims ratio has reduced to 44.5%, an 11 point reduction from 55.5% in the first half of 2018.

Our Pacific business has returned to historical norms, with a return to solid growth, improved underwriting and a benign weather environment delivering better results.

Today's result includes a \$4.7 million after-tax expense for increased Canterbury provisions, principally due to EQC over-cap claims.

While making necessary and significant investment in our business we've also maintained our expense ratio at 38.7%.

This investment will accelerate our growth and the first phase of our major technology upgrade will launch in the coming weeks.

This is an exciting milestone for Tower and while projects of this nature contain risk and complexity, we are managing this with robust governance controls.

Our business has turned around and our transformation is progressing well. These results demonstrate the long held belief of the Tower Board and management team, that Tower offers an exciting platform for growth.

As I mentioned earlier, this is the result of four years of work where we've significantly reduced legacy risks, fixed the business and built a solid, future-focussed platform.



The next phase of our transformation strategy is to leverage and grow the business. We are ready to create an exciting proposition that delivers growth and realises Tower's full potential.

## **SLIDE 5: MORE CUSTOMERS CHOOSING TOWER**

In a market dominated by overseas-owned and controlled insurers we are starting to offer customers a genuinely different, better, Kiwi alternative, and this focus is driving solid growth in our core book.

The growth we have achieved is significant, adding over 9,000 risks to our core New Zealand portfolio, in stark contrast to 2016 where we were losing customers.

This positive momentum has driven continued growth with GWP in the core portfolio growing 8.9% and total GWP growing 5.4%.

Core GWP is growing above industry averages, with GWP in:

- NZ House growing 7.8%, with the majority being attributable to rating
- NZ Contents growing 2.9% split between rating and volume, and
- NZ Motor growing 12.3%, with the majority being attributable to volume

This is being achieved through a combination of factors, including:

- a new, fairer risk-based approach to pricing and simpler policy documents
- constant refinement of underwriting criteria enabling more granular assessment, and





- attracting new, profitable customers with improved and targeted offerings.

The growth we have achieved is the result of offering customers simpler insurance at a fair price. Through this approach we are starting to realise the potential that exists in the Tower brand.

Growth in the Pacific has returned to historical levels and following a number of years of remediation we are now well placed to grow sustainably in the region.

Over the coming twelve months we see a positive growth and pricing environment in New Zealand and the Pacific, which will lead to further improved profitability.

## **SLIDE 6: STRONG DIGITAL SALES CONTINUE**

In 2016 we began our digital transformation journey and since then I have consistently said that digital will drive the future growth of Tower.

We have continued to place significant effort into attracting new customers and improving this channel's performance.

Our efforts to become a digital insurer continue to pay dividends, with 48% of all new business coming through our digital channels in March. This compares to less than 10% during 2016.

In the last twelve months we have delivered significant growth, with GWP through digital channels reaching \$15.9 million in the first half, a compound annual growth rate of 114% since we started in 2016. This is thanks to continuous improvement of our digital channels.



Our recently improved digital claims lodgement process and innovations like our claims chatbot, Charlie, has resulted in 18% of claims being lodged online in March 2019, with additional increases since. This is further proof that our investment in digital channels is well made.

Digital remains one of the most crucial, foundations of our business moving forward.

It enables differentiation, agility, innovation and growth, and the launch of our new platform in the coming weeks will accelerate our progress.

### **SLIDE 7: IMPROVED NZ CLAIMS RATIO**

New Zealand claims expenses have decreased significantly in the first half of the financial year with a number of underwriting and pricing initiatives helping to offset inflation.

As you can see on this slide, there are four key things that have contributed to this positive result.

Last year we informed you of an adjustment relating to the 2017 financial year which increased our base claims ratio, this was a one-off issue for FY 2018.

While in prior years, we've borne the brunt of severe weather, this year we've benefited from improved weather conditions with no large events to date. This has resulted in a 4.5% decrease in our claims ratio.

Our new, simpler products and fairer, risk-based pricing approach have contributed to a reduction in NZ House and Contents claim frequency.



Following a period in 2017 and 2018 of a higher number of large house fires, trends have returned to more historic levels.

Good weather also means more people out exploring New Zealand and as a result, in our motor portfolio, we have seen an increase in claims frequency.

As anyone driving around New Zealand, especially those in Auckland, can attest, it sometimes feels like there are more orange traffic cones than Kiwis. The large number of roadworks currently underway along with the increased traffic on the road has caused more windscreen damage which is the main driver of increased motor claims frequency.

While our result is pleasing and we have delivered significant improvements, we remain focussed on refining our products and pricing approach to ensure we continue addressing claims costs.

## **SLIDE 8: IMPROVEMENTS IN PACIFIC**

Our Pacific business remains strong and we continue to believe that there is unrealised potential here.

Having been impacted by a number of severe weather events over the past few years, contributions from our Pacific business have now returned to historic levels.

Vanuatu, Tonga, Samoa, American Samoa and the Cook Islands have returned to growth thanks to additional underwriting, pricing and marketing support for our local teams.



Remediation of the Papua New Guinea portfolio to reduce risk and exposure is now complete and this portfolio is returning to profitability.

Continued repricing of the Fiji motor book has led to improved profitability. Although slightly softer growth than we have previously seen, this was an important step to ensure future growth remains sustainable.

Improvements in claims costs have been delivered through targeted underwriting and pricing initiatives across our key markets, and, combined with a benign weather environment, have resulted in a 26 point decrease in our Pacific claims ratio.

Our recently launched operation centre in the Pacific has helped bring greater discipline and consistency across the region ensuring we grow within our risk appetite.

We remain confident that there is strong growth potential in our Pacific markets and that it will make a significant contribution to Tower in the coming years.

## **SLIDE 9: BUILDING CAPABILITY WHILE CONTROLLING COSTS**

I'm pleased to report that we have maintained our expense ratio at 38.7%, while continuing to significantly invest.

We are investing in the business to drive long term value, and as we've outlined previously, a major component of this is new technology.



Expenses remain steady as we continue to grow the business, as well as backfilling project roles, and working to mitigate any risks associated with the implementation of our new technology platform.

While we anticipate a slight uplift in the second half due to the increased focus on the migration of our customers onto the new platform, once fully operational, our expenses will reduce significantly.

### **SLIDE 10: TECH UPGRADE SET TO LAUNCH**

Just over twelve months ago we announced our commitment to invest in a new technology platform that will deliver a step change in results.

We have been working at pace to deliver against aggressive timeframes and at our recent Annual Shareholder Meeting I advised of the phased implementation approach we are undertaking.

With the launch of the first phase to occur in the first half of the 2019 calendar year, this approach was designed to minimise business risk and mitigate any potential negative impacts on our customers.

I am pleased to let you know that we will deliver phase one in the next few weeks, which will see us selling new business on our new system.

The development and build of this phase is complete and we are in the final stages of testing. We will be deploying the system through our phone channels first, followed closely by our digital channels.

Completion of phase one will enable us to sell our new simplified products to customers and is the core foundation piece of this programme.



Delivery of Phase 2 components will occur in the second half of the 2019 calendar year and includes:

1. Rationalisation of our products
2. Commencing the 12 months migration of our existing customers to the new platform
3. Launching a customer self-service portal, allowing customers to manage their insurance online, just like you do with online banking; and
4. Implementing streamlined claims management modules

The most significant impact will be migrating our customers to our new platform and our new products over a 12 month period.

Moving hundreds of thousands of customers to a core set of just 12 products will deliver significant benefits to our customers and efficiencies in our business.

A migration of this size can pose risk if not properly managed. Therefore, through our phased delivery approach we will increase the focus on managing and retaining our customers through the change to minimise this risk.

Delivery of the programme through this phased approach, as well as a number of additional components will be delivered before the end of the 2019 calendar year.

Costs for the programme are developing in line with previously advised amounts and at this stage, there are no material changes to the estimated total cost.



We continue to tightly manage the programme through robust governance controls, with a focus on managing delivery risk and cost trade-off. We expect benefits to start being realised over the 2020 financial year, with a step change expected as we finalise customer migration and decommission existing legacy systems.

I will now hand over to Jeff who will take you through our financial results in more detail.



## JEFF WRIGHT

### **SLIDE 11: FINANCIAL PERFORMANCE TITLE SLIDE**

Thank you Richard and good morning everyone

### **SLIDE 12: FINANCIAL PERFORMANCE CONSOLIDATED GROUP**

Looking at the consolidated results, we can see that continued growth, improved claims costs and the removal of legacy issues in prior years has enabled Tower to return to profit.

We have achieved solid growth this half of \$8.7 million in gross written premium and a \$8.1 million increase in net earned premium. Claims costs have reduced \$11.1 million with underlying profit after tax improving by \$12.1 million.

Adjustments to Canterbury provisions has resulted in an \$4.7 million after-tax impact to our reported profit.

Overall, this has resulted in a reported profit of \$11.9 million after tax, a significant improvement, up \$23.5 million on the same period last year.

In addition to the strong reported results, our combined ratio has decreased to 83.2%, 11.2 points lower than the same period last year.

### **SLIDE 13: MOVEMENT IN UNDERLYING PROFIT**

Slide 13 details the key drivers of the increase in underlying profit before tax from the first half of 2018, to the first half of 2019.





The strong growth is reflected in the \$8.1m increase in net earned premiums, a combination of growth in our core and our risk-based pricing approach.

Risk based pricing has resulted in the growth of our portfolio in Auckland while also reducing our exposure to high-risk areas by an annualised figure of 16%.

Premiums are now at the point in Wellington where the unfair cross-subsidisation will be largely removed over the next 12 months as we roll out changes following the EQC deductible change.

Our fairer approach to pricing has also allowed us to grow our total house sum insured exposure by 17% in the low risk areas like Auckland and Taranaki

It is clear this strategy is working and will continue to deliver growth and reinsurance efficiency in future.

On this slide you can also see the improvement in both large event claims and BAU claims costs.

Pricing and underwriting initiatives contributed to a \$4.8 million before-tax improvement in net claims expenses, while benign weather resulted in a \$6.3 million before-tax improvement in large event claims costs.

A small increase in management expenses is attributable to ongoing investment and increased marketing activity to acquire new customers.



So as you can see, this is a strong result, delivered by an ongoing focus on our strategy.

#### **SLIDE 14: FINANCIAL PERFORMANCE NEW ZEALAND**

The majority of growth in Tower's GWP occurred in our NZ markets, with \$8.3 million growth achieved in gross written premium.

A change in mix and more efficient reinsurance is seeing more gross earned premium flow through to net earned premium, with an \$8.1 million improvement in NEP.

Improvements in claims costs also contributed to our solid results, with a total reduction of \$5.7 million in claims expenses compared to the same period last year.

We are pleased that our investment in the business is resulting in growth and underwriting and pricing initiatives are delivering improvements in our combined operating ratio, decreasing to 84% for the half.

As Richard mentioned earlier, we expect a small increase in management expenses in the second half as we migrate our customers to the new core technology platform.

#### **SLIDE 15: FINANCIAL PERFORMANCE PACIFIC**

We are satisfied to see contributions from our Pacific business return to historic levels.

Growth in Pacific was mixed, with good growth in Vanuatu, Tonga and the Cook Islands, which was offset by the continued deliberate shedding



of higher risk commercial lines in Papua New Guinea and remediation of the Fiji motor portfolio.

Overall, Pacific gross written premium was almost flat at \$28.1 million, but quality of business has improved.

A benign weather environment and less commercial fires across the islands have resulted in a significant improvement in claims costs. Total claims costs across the Pacific reduced \$5.4 million.

The slight increase in management expenses is primarily due to the continued investment in the Pacific operations centre.

While the overall result for the Pacific is a return to historic norms, we are confident that there remains opportunity in the Pacific business and that it will continue to contribute significantly to group profit.

### **SLIDE 16: CANTERBURY EARTHQUAKES UPDATE**

In most respects, the CEQ portfolio is performing well and in line with expectations, with the exception of new over-cap claims from the EQC.

Open litigated claims are settling favourably and there has been a considerable reduction in new litigated claims. Our non-litigated claims are also settling in line with expectations.

In the past six months we have closed 65 claims, while receiving 24 completely new over-cap claims from the EQC.

While we continue to make progress closing claims in Canterbury, as Michael has said, the continued receipt of over-cap claims from the EQC



is frustrating and has hampered our efforts to close out claims once and for all.

As a result of new over-cap claims from the EQC, we have increased provisions for the potential receipt of further over-caps. As you can see, the further increases to provisions, relative to case estimates now sits at 115%.

Tower provisions to the 75th percentile for all claims which for CEQ, increases to just above the 80th percentile with the \$5m additional risk margin.

We manage additional uncertainty through the level of solvency capital, which you can see on slide 25. As at 31 March 2019, Tower Insurance held \$45 million above MSC and the \$50 million licence condition, which the Board notes, leaves Tower well positioned to manage uncertainty.

Thank you and I will now hand over to Richard who will provide an update on our strategic plan.



## [RICHARD HARDING](#)

### **SLIDE 17: FUTURE OUTLOOK TITLE SLIDE**

### **SLIDE 18: CHALLENGING THE MARKET TO GROW**

Over the past four years we have fixed the business and turned Tower around, despite the distractions of takeovers, legacy issues and unprecedented weather events.

We now have a strong and stable base to work from and are moving to implement our strategy that leverages our technology and allows us to truly challenge the market.

We now have the clear air necessary to create a company that challenges the traditional insurance industry norms, and uses this differentiation and challenger positioning to drive substantial growth.

Our customers have told us that New Zealand insurers are complacent and that they think we're all the same. Too hard to deal with and playing on an un-level playing field.

We believe that people deserve better.

Our strategy is built on this belief and we are now creating a company that sets the bar for how insurance should be.

But, it's the right thing to do and it is going to drive industry wide change and deliver growth for Tower.



Our belief that people deserve better means we need to create stunningly simple products, new systems and simpler processes that enable amazing claims experiences.

We're going to turn industry norms on their head,

- We're getting rid of big words and complex policies
- We're simplifying pricing and discounts, making it even fairer, and
- And we're creating an employee culture that always pushes for better and is there to help set things right when they go wrong.

We will set the bar for how insurance should be.

And you have already seen and heard great evidence of this:

- Our simple policies have won plain English awards, so customers can now easily understand what they're covered for
- We implemented a fairer way to price insurance – so you pay fairly for the specific level of risk your property faces
- We've entered into a major new national partnership with Paralympics New Zealand – aligning ourselves with an organisation that we aspire to be like, high performance, empathetic, and proud to be Kiwi
- And internally we've seen significant shifts in our culture and engagement – our people are passionate about doing things differently and that is delivering these good outcomes

And this is just the start.



This time next year, Tower will be radically different because our priorities all drive us forward in a way that's significantly better than the norm.

We will grow the business and deliver shareholder value by challenging the traditional insurance industry, and we believe that delivering against our strategy will enable us to achieve our medium-term operating targets.

### **SLIDE 19: 2019 SECOND HALF PRIORITIES**

Our plan is already driving change and transforming the business. Our four key priorities for the coming year will see us keep growing and continue to position ourselves differently.

Our first priority is to complete our IT and digital transformation.

Completion of our technology upgrade and our digital transformation will accelerate our growth opportunities, improve customer experience, and combined with our push to move 50 - 70% of all transactions online, will deliver significant cost savings and productivity gains.

Secondly, we will continue driving growth and our belief that people deserve better will build on the past six consecutive halves of growth. We will continue to price more fairly, deliver amazing claims experiences and improve efficiency and profitability.

In the Pacific, our new operations centre will support local teams through improved product, pricing and underwriting capability to ensure we grow sustainably and reduce claims leakage.



Third, we will ramp up underwriting and pricing improvements to drive profitability. One of the most important things we will do is to start the 12 month migration of customers from our existing platforms onto our new, single core platform. Customers will benefit from new, simpler policies and amazing claims experiences, which will lead to improved profitability.

And lastly, we will continue to control expenses and invest in growth. A focus on automation and grassroots innovation will improve efficiency by removing duplication and repetitive tasks, allowing our teams to focus on adding value.

Successful delivery against these priorities will build on the already strong growth seen in the underlying business.

## **SLIDE 20: UPLIFTED FY19 FINANCIAL OUTLOOK**

As you can see, the work we are doing sets us up well for the future and the delivery of our new IT platform will accelerate our momentum into a digital-challenger.

Tower is confident in the strength of its strategy and the performance of its underlying business and following pleasing performance in the first half, has increased its one-off guidance for FY19, to an underlying NPAT in excess of \$26 million.





This includes the following assumptions:

- A \$5m allowance for severe weather and large events in the second half
- Loss ratios will return to more normalised levels in the second half as we enter the winter storm period
- A minor uplift in management expenses as our transformation activity culminates.

In respect to the 2019 financial year, and as previously advised, no dividend will be paid in the first half of the financial year. The Board's intention is to pay between 50% and 70% of second half 2019 NPAT, where prudent to do so.

Today's reported profit demonstrates the strength and opportunity that exists in the Tower business. You can be confident that our strategic plan will create a challenger brand that delivers you significant long-term value.

Before I ask for questions, I want to thank the Tower Board for their continued support and the Tower team for the effort they have put in and the continuous improvement we have seen as a result.

Thank you.

**ENDS**