

2010 **FINANCIAL** **RESULTS ANALYSIS**

TOWER Australia Group Limited

Year ended
30 September 2010

TOWER

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2010 Financial Results Analysis

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FINANCIAL SUMMARY

1.1 Operational Summary

	Ref	2H10	1H10	2H09	2H10 v 2H09 % Change	FY10	FY09	FY10 v FY09 % Change
Financial Performance								
\$million (unless stated otherwise)								
Premiums								
Sales	3.2	234.0	214.9	127.9	83%	448.9	212.5	111%
Lapses	3.2	(77.2)	(52.4)	(54.0)	43%	(129.6)	(177.8)	(27%)
Net increase in inforce premiums	3.2	156.8	162.5	73.9	112%	319.3	34.7	820%
Closing inforce premium	3.2	1,103.1	946.3	783.8	41%	1,103.1	783.8	41%
Profit								
Net earned premium and other revenue	8.1	357.4	323.7	303.6	18%	681.1	586.5	16%
Net incurred claims	8.1	(122.6)	(123.2)	(99.7)	23%	(245.8)	(181.9)	35%
Controllable expenses	8.1	(120.3)	(111.2)	(118.5)	2%	(231.5)	(225.5)	3%
Other expenses	8.1	(52.9)	(42.6)	(47.9)	10%	(95.5)	(97.4)	(2%)
Net investment income (normalised)	8.1	17.1	17.3	15.3	12%	34.4	29.5	17%
Financing costs	8.1	(7.3)	(6.2)	(4.9)	49%	(13.5)	(9.9)	36%
Tax	8.1	(19.0)	(17.9)	(11.6)	64%	(36.9)	(26.8)	38%
Underlying profit	2.1	52.4	39.9	36.3	44%	92.3	74.5	24%
Net profit after tax	2.3	59.0	28.4	19.3	206%	87.4	46.4	88%
Equity								
Net assets	6.1	850.4	699.0	680.1	25%	850.4	680.1	25%
Shares on issue (millions)		415.9	363.9	361.1	15%	415.9	361.1	15%
Embedded Value								
Embedded value	7.1	1,461.7	1,248.5	1,169.0	25%	1,461.7	1,169.0	25%
Change in embedded value (pre transfer and discount rate changes)	7.1	22.7%	26.5%	26.0%	-	22.7%	26.0%	-
Value of one year's sales	7.1	168.5	128.8	95.9	76%	168.5	95.9	76%
Capital Strength								
Gearing (%)		20.8%	24.2%	22.3%	-	20.8%	22.3%	-
Interest cover (times)		11.3	10.3	11.6	-	11.9	11.8	-
Solvency coverage (times)	6.2	2.5	2.5	2.4	-	2.5	2.4	-
Excess capital	6.1	137.8	87.5	75.8	82%	137.8	75.8	82%
Performance Ratios								
Earnings per share (cents per share)								
- Underlying profit		13.5	10.7	9.5	42%	24.1	20.1	20%
- Net profit after tax		15.2	7.6	5.1	198%	22.8	12.5	82%
Return on capital (underlying)		11.5%	9.7%	9.2%	-	10.3%	9.7%	-
Return on equity (underlying)		13.5%	11.6%	10.8%	-	12.1%	11.6%	-
Dividends per share (cents)		5.75	-	5.25	10%	5.75	5.25	10%
Life Operating Ratios (as % net premium)								
Claims ratio	3.1	36.9%	42.1%	37.0%	-	39.3%	34.4%	-
Controllable management expenses ratio	3.1	30.1%	29.1%	32.6%	-	29.7%	32.2%	-
Sales and other expenses ratio	3.1	13.6%	11.9%	14.9%	-	12.8%	15.5%	-
Combined ratio	3.1	80.6%	83.2%	84.5%	-	81.8%	82.1%	-
Insurance margin	3.1	19.4%	16.8%	15.5%	-	18.2%	17.9%	-
Investment income ratio		5.1%	4.6%	5.4%	-	4.9%	5.5%	-
Insurance Profit		24.5%	21.4%	20.8%	-	23.1%	23.4%	-
Staff numbers		1,116	1,021	1,026	9%	1,116	1,026	9%

FINANCIAL SUMMARY

Operational Summary

Key points to note include

In-force premiums:

- 41% growth in inforce premiums, including addition of AustralianSuper scheme Group life benefits effective 1 November 2009 and income protection benefits effective end of May 2010.
- Continued strong sales performance through InsuranceLine, with Alliance partner channel set to grow strongly.
- IFA sales impacted by product rationalisation and adviser transitioning activities which completed in 4Q10
- Individual life policy lapses have increased marginally but continue to be within target range and below industry.

Net earned premiums and net earned claims:

- Net earned premiums and other revenue grew by 16% year on year compared to inforce premiums that grew 41% during this period. The difference is due to the use of reinsurance on group business and timing of premium receipts.
- While year on year net claims are up 35% this is primarily a result of the increased inforce business and change in business mix, plus the adverse 1Q10 claims experience. Net claims experience reversed from an unfavourable \$4.2m in 1H10 to neutral in 2H10 driven by normalisation of death claims, and favourable individual income protection experience offsetting group salary continuance experience.

Margins

- 2H10 performance was stronger than 1H10 due to improved claims experience and the one off cost of implementing several large new group schemes in 1H10.
- Insurance margins in 1H10 were strong at 19.4% of net premiums consistent with the focus on profitable growth.
- Underwriting profit margins, including life insurance related investment income, is 23.1% of net premium.
- Expense ratios declined on comparative periods due to both changes in business mix and good cost control.
- The wealth business unit continues to simplify its operations and reduce costs leading to improved margins. Headcount within the wealth business unit has reduced by 90 since January 2009.

Profit

- Underlying profit of \$92.3m for FY10 is 24% up on prior year, and 2H10 at \$52.4m is up 44% on pcp.
- Excluding the one off adverse death claim experience in 1H10 of \$4.2m and lower project expenditure of \$2.0m, underlying profit excluding non-recurring experience items is \$94.5m up from \$77.9m in FY09.
- Net profit after tax of \$87.4m is 88% above PY, and 2H10 at \$59.0m is up 206% on 2H09. Movement in

discount rates was a significant contributor to this large increase, which is excluded from underlying profit. All underlying profit adjustments are discussed in section 2.3.

- Return on capital for the consolidate group increased to 11.5% in 2H10 and to 10.3% for FY10.
- One offs in FY10 which impacted the results were \$4.2m unfavourable claims and reinsurance, offset by \$2.0m favourable expenses. Both of these arose in 1H10 with no on off items in the second half.

Experience gains and losses (net of tax)

- Claims experience improved in 2H10 after adverse experience in 1H10.
 - Individual lump sum and income protection experience was positive in 2H10, though incidence rates on group salary continuance remain higher than pcp.
- Wealth had no experience items in 2H10, after 1H10 positive benefits of \$0.7m
- Corporate office result was in line with expectations for 2H10, with no major one off spending or acquisition activity in 2H10. 1H10 included \$1.1m of one-off expenses.

Embedded Value

- Embedded Value lifted 25% year on year reflecting positive experience and strong value created from new sales.
- Value of one year's sales increased 76% driven by both margin and volumes improvements.

Capital

- Excess capital was \$137.8m at 30 September 2010, representing an increase of \$62.0m on pcp, being net of the capital injection and capital requirements associated with organic growth
- Capital increased in FY10 following \$28.5m extra debt raised in November 2009 and \$92m of equity raised (net of associated costs) via a rights issue in July 2010.

SHAREHOLDER PROFIT

2.1 Analysis of Underlying Profit

\$million (amounts shown after tax)	Insurance	Wealth	Corporate Office	2H10	1H10	2H09	FY10	FY09	FY10 v FY09
Operating Margins									
Life insurance	58.1	-	-	58.1	43.8	39.6	101.9	86.6	18%
Wealth	-	2.5	-	2.5	5.3	3.6	7.8	0.3	large
Business unit operating margins	58.1	2.5	-	60.6	49.1	43.2	109.7	86.9	26%
Corporate office costs after tax	-	-	(4.1)	(4.1)	(6.2)	(4.4)	(10.3)	(7.4)	39%
Investment income (normalised)	-	-	1.0	1.0	1.3	0.9	2.3	1.9	21%
Financing costs	-	-	(5.1)	(5.1)	(4.3)	(3.4)	(9.4)	(6.9)	36%
Underlying profit	58.1	2.5	(8.2)	52.4	39.9	36.3	92.3	74.5	24%

Note: Previously other margins relating to the non life companies were separately disclosed. These are now included within Life Insurance or Wealth operating margins. Investment income relating to Life Insurance and Wealth segment has been allocated to those segments.

2.2 Experience Gains and Losses

\$million (amounts shown after tax)	Insurance	Wealth	Corporate Office	2H10	1H10	2H09	FY10	FY09	FY10 v FY09
Underlying profit	58.1	2.5	(8.2)	52.4	39.9	36.3	92.3	74.5	24%
Claims and reinsurance	-	-	-	-	4.2	5.0	4.2	1.2	250%
Management expenses and other	-	-	-	-	(2.0)	(0.7)	(2.0)	2.2	(191%)
Underlying profit excluding experience gains and losses	58.1	2.5	(8.2)	52.4	42.1	40.6	94.5	77.9	21%

Note: These experience items represent non-recurring differences between actual and expected profit and are adjusted due to their size or nature in order to show the underlying trend in planned margins.

2.3 Reconciliation of Net Profit after Tax to Underlying Profit

\$million (amounts shown after tax)	Insurance	Wealth	Corporate Office	2H10	1H10	2H09	FY10	FY09	2H10 v 2H09
Net profit after tax	68.7	7.7	(17.4)	59.0	28.4	19.3	87.4	46.4	88%
Discount rate changes	(10.6)	-	-	(10.6)	4.0	10.1	(6.6)	4.7	(240%)
Investment timing mismatches	-	(5.2)	-	(5.2)	0.1	4.1	(5.1)	4.0	(228%)
Normalised investment income	-	-	1.0	1.0	(0.9)	(7.9)	0.1	(1.8)	(106%)
Amortisation/impairment	-	-	8.2	8.2	8.3	10.7	16.5	21.2	(22%)
Underlying profit	58.1	2.5	(8.2)	52.4	39.9	36.3	92.3	74.5	24%

SHAREHOLDER PROFIT

Analysis of Underlying Profit

Underlying profit increased \$17.8m or 24% on prior year, and \$16.1m or 44% on 2H09. The strong performance is primarily the result of improving claims experience, cost efficiencies, effective use of reinsurance, whilst growing revenues and realising economies of scale. The 2H10 result included no significant one off items.

Underlying profit has grown at an annual compound growth rate of 22% since listing in 2006. This is consistent with embedded value growth over the same period of 24% p.a.

- **Life insurance operating margins**
 - Life insurance operating margins were \$18.5m or 47% higher than 2H09 due to normalising claims experience and lower unit costs. FY10 margins were \$15.3m or 18% higher than FY09.
- **Wealth operating margins**
 - Wealth operating margins increased \$7.5m in FY10 as 1H09 had negative experience resulting from the fall in investment markets at the time.
- **Corporate costs**
 - Corporate costs decreased \$0.3m or 7% from 2H09 but increased \$2.9m on full year basis. This was as a result of costs incurred in 1H10 and 2H09 relating to a due diligence exercise and performance payments relating to the InsuranceLine acquisition as well as increased share option expenses during FY10. No significant one off items occurred in 2H10. The annual InsuranceLine acquisition performance payment of \$1.7m p.a. has one further year to run.
- **Investment income**
 - Normalised investment income increased 21% in FY10 due to an increase in the value of investment assets held as a result reserves growing in line with the business, and the \$92m equity raising. There was also a shift from cash into higher yielding fixed interest securities during the year.
- **Financing costs**
 - Financing costs increased by \$1.7m over pcp or \$2.5m year on year due to \$28.5m increase in net debt (\$60m additional bank debt less \$31.5m convertible notes repaid) and higher interest rates in FY10.

Reconciliation of Net Profit after Tax to Underlying Profit

Adjustments made to determine underlying profit include:

- **Discount rates changes**
 - The reduction in swap rates in 2H10 has led to a \$10.6m positive impact on the calculation of policy liabilities and profit for 2H10. The FY10 impact was a \$6.6m positive impact. These are non economic gains that have been removed from underlying profit on the basis this is a volatile non-cash item not reflective of underlying value or business performance.
- **Investment timing mismatches**
 - These are non-economic gains and losses arising under IFRS largely relating to the revaluation of the value of future surrender fee income on closed wealth products (\$3.5m gain in 2H10 and \$0.1m loss in 1H10), and annuity asset and liability credit spread losses (\$1.6m gain in 2H10 and nil in 1H10). The revaluation impact is removed from underlying profit as the assets and liabilities are held for the long term and the net effect is expected to be profit and cashflow neutral for the shareholder.
- **Normalised investment income**
 - This adjustment is to bring investment income into line with long term expected earnings rates that would have been earned on the asset balances and mix of assets held during the period. Normalised investment rates of return are consistent with the rates used in the embedded Value calculation at 30 September of the preceding year. See 5.3 Corporate – Investment Income for more detail.
- **Amortisation/impairment**
 - Amortisation/impairment charges for 2H10 relate to the amortisation of intangibles arising from the PrefSure and InsuranceLine acquisitions. These intangibles are made up of the value on inforce business and software within the PrefSure and InsuranceLine businesses at time of acquisition.

LIFE INSURANCE

3.1 Life Insurance – Analysis of Profit

	2H10	1H10	2H09	2H10 v 2H09 % Change	FY10	FY09	FY10 v FY09 % Change
\$million							
Gross premium revenue	517.8	446.9	382.7	35%	964.7	738.3	31%
Reinsurance premiums paid	(188.9)	(157.9)	(117.3)	61%	(346.8)	(216.6)	60%
Fee and other revenue	3.7	3.3	3.9	(5%)	7.0	7.4	(5%)
Net earned premium and other revenue	332.6	292.3	269.3	24%	624.9	529.1	18%
Investment Income ¹	17.1	13.3	14.5	18%	30.4	28.9	5%
Gross claims expense	296.3	256.7	204.5	45%	553.0	386.6	43%
Reinsurance recoveries	(173.7)	(133.5)	(104.8)	66%	(307.2)	(204.7)	50%
Net claims incurred	122.6	123.2	99.7	23%	245.8	181.9	35%
Management expenses	95.7	82.4	82.2	16%	178.1	160.4	11%
Project expenses	4.5	2.8	5.7	(21%)	7.3	9.8	(26%)
Controllable management expenses	100.2	85.2	87.9	14%	185.4	170.2	9%
Stamp duty	17.9	13.4	12.2	47%	31.3	21.2	48%
Sales expenses (commission) and other	27.4	21.3	27.9	(2%)	48.7	61.0	(20%)
Sales and other expenses	45.3	34.7	40.1	13%	80.0	82.2	(3%)
Underlying profit before tax	81.6	62.5	56.1	45%	144.1	123.7	16%
Income tax expense	(23.5)	(18.7)	(16.7)	41%	(42.2)	(37.1)	14%
Underlying profit	58.1	43.8	39.4	47%	101.9	86.6	18%
Impact of discount rate changes	15.1	(5.7)	(14.5)	(204%)	9.4	(6.8)	(238%)
Tax on change in discount rates	(4.5)	1.7	4.4	(202%)	(2.8)	2.1	(233%)
Net profit after tax from insurance	68.7	39.8	29.3	134%	108.5	81.9	32%
Ratios (as a % of net earned premium and other revenue)							
Net claims loss ratio	36.9%	42.1%	37.0%	-	39.3%	34.4%	-
Controllable management expenses ratio	30.1%	29.1%	32.6%	-	29.7%	32.2%	-
Sales and other expenses ratio	13.6%	11.9%	14.9%	-	12.8%	15.5%	-
Combined ratio	80.6%	83.2%	84.5%	-	81.8%	82.1%	-
Insurance Margin	19.4%	16.8%	15.5%	-	18.2%	17.9%	-
Investment income ratio	5.1%	4.6%	5.4%	-	4.9%	5.5%	-
Insurance Profit	24.5%	21.4%	20.8%	-	23.1%	23.4%	-
Economic Capital	666.8	562.7	493.0	35%	666.8	493.0	35%
ROC %	18.9%	16.6%	17.0%	-	17.6%	19.5%	-

Note 1 Investment income relates to income on investment assets allocated to this business in order to meet regulatory capital requirements. Income is based on normalised investment assumptions.

LIFE INSURANCE

Life Insurance – Analysis of Profit

Underlying profit for the Life Insurance segment grew 18% in FY10 and increased 47% on 2H09.

Excluding experience items, insurance margins improved from 17.9% in FY09 to 18.2% in FY10, with a strong improvement over pcp of 15.5% to 19.4%. This was a result of claims and management expense improvements partially offset by the change in business mix towards group schemes.

Investment income is now being allocated to business units. The investment income allocation is based on income backing the assets invested to support policy liabilities. The income has increased \$1.5m year on year.

Life insurance return on capital was 17.6%, down slightly on prior year mainly due to business mix and remains within the target range.

Life Insurance – Earned Premiums

Net earned premium and other revenue increased 18% to \$332.6m.

- Group gross premiums were 52% higher than prior period mainly due to the addition of AustralianSuper in 1H10 with income protection benefits included for the last 4 months only (ie started late May 2010)
- Individual gross premiums increased by 15% from FY09 to FY10 on the back of strong sales from InsuranceLine.
- Reinsurance premiums increased with AustralianSuper being 75% reinsured. Outside of Group, reinsurance premiums are declining as a percentage of premiums due to lower reliance on reinsurance for new business since 2005.

Section 3.2 provides more detail on factors influencing the growth of inforce premiums.

Life Insurance – Claims

Claims expenses and ratios increased as anticipated due to the increased inforce business, a change in business mix with a heavier weighting of premiums towards group business.

- Net claims incurred increased by 35% over FY09 from \$181.9m in FY09 to \$245.8m in FY10. The \$63.9m growth in net claims and increase in the claims loss ratio from 34% to 39% is explained by:
 - Favourable reinsurance recoveries in FY09 of \$3.8m.
 - Unfavourable net claims experience in 1H10 of \$4.2m.
 - Growth in net earned premium of \$33.5m.
 - Change in business mix, reinsurance and scheme repricing of \$28.7m.

In 2H10 claims trended back in line with long term assumptions due to:

- IFA channel related death claims returned to expected after a poor 1Q10.
- Individual income protection claims were favourable again in the 2H10 following favourable experience over the last 2 periods. A very strong performance relative to industry trends.
- Group salary continuance claims continued to experience high incidence rates, though improving.

TOWER continues to invest in additional claims team members, merging claims systems and redesigning claims processes. This is leading to improved claims outcomes both financially for TOWER and qualitatively for claimants through a better experience.

Sensitivity of claims indicates that at period end, were experience to deteriorate, net claims would increase by:

Sensitivity Analysis \$million	As at 30-Sep-10
Impact on Annual Net Profit After Tax Assuming:	
Mortality worsening by 10%	6.8
Morbidity worsening by 10%	6.4

These changes are relatively small as a proportion of profit and would be extremely unlikely to occur over an extended period of time (ie 1-2 years) due to the long term demographic trends and the diversity of lives insured.

Life Insurance – Expenses

Controllable management expenses increased 9% over FY09, well below net earned premium growth of 18%. This led to a reduction in unit costs and the expense ratio. This improvement is due to several factors including management cost control and lower project expenditure in the period.

- Management expenses ratio was slightly improved over 2H09, while project spend was lower in FY10.
- Sales expenses were 3% lower than prior year due to lower sales from the IFA channel, higher group business where there is little commission and sales costs.

Stamp duty increased in the period in line with premium growth.

LIFE INSURANCE

3.2 Life Insurance – Premiums

	2H10	1H10	2H09	2H10 v 2H09 % Change	FY10	FY09	FY10 v FY09 % Change
\$million							
Sales							
Lump sum	69.7	60.9	67.5	3%	130.6	122.9	6%
Income protection	15.0	13.9	16.4	(9%)	28.9	30.4	(5%)
Individual life insurance	84.7	74.8	83.9	1%	159.5	153.3	4%
Group life insurance	149.3	140.1	44.0	239%	289.4	59.2	389%
Total life insurance sales	234.0	214.9	127.9	83%	448.9	212.5	111%
Lapsed premiums							
Lump sum	(41.3)	(37.8)	(36.3)	14%	(79.1)	(68.5)	15%
Income protection	(8.8)	(8.0)	(9.1)	(3%)	(16.8)	(15.2)	11%
Individual life insurance	(50.1)	(45.8)	(45.4)	10%	(95.9)	(83.7)	15%
Group life insurance	(27.1)	(6.6)	(8.6)	215%	(33.7)	(94.1)	(64%)
Total life insurance lapsed premiums	(77.2)	(52.4)	(54.0)	43%	(129.6)	(177.8)	(27%)
Net premium movements							
Lump sum	28.4	23.1	31.2	(9%)	51.5	54.4	(5%)
Income protection	6.2	5.9	7.3	(15%)	12.1	15.2	(20%)
Individual life insurance	34.6	29.0	38.5	(10%)	63.6	69.6	(9%)
Group life insurance	122.2	133.5	35.4	245%	255.7	(34.9)	833%
Total life insurance premiums movements	156.8	162.5	73.9	112%	319.3	34.7	820%
Closing In force premiums							
Lump sum	454.7	426.3	403.2	13%	454.7	403.2	13%
Income protection	140.4	134.2	128.3	9%	140.4	128.3	9%
Individual life insurance	595.1	560.5	531.5	12%	595.1	531.5	12%
Group life insurance	508.0	385.8	252.3	101%	508.0	252.3	101%
Total life insurance inforce premiums	1,103.1	946.3	783.8	41%	1,103.1	783.8	41%

3.3 Life Insurance – Ratios

	2H10	1H10	2H09	FY10	FY09
Sales as a % of inforce	25%	27%	18%	57%	28%
Value added from sales (\$million)	74.6	75.0	74.2	149.6	108.4
Sales to value ratio ⁽¹⁾	32%	35%	58%	33%	51%
Lapse rates ⁽²⁾	14.3%	12.7%	13.4%	13.5%	12.7%

Note 1 – Sales to value ratio is equal to the value added from sales divided by total life insurance sales.

Note 2 – Lapse rate excludes lapses on 100% reinsurance business.

LIFE INSURANCE

Sales and Inforce Premiums

Life Insurance – Sales

- Sales via InsuranceLine and Alliances increased due to a series of initiatives to expand lead sources via Alliance partners and improve lead conversion rates.
- IFA sales slowed in FY10 following the higher sales experience during the GFC, partly as a result of the migration of advisers to the new single on-sale product offering. The Retail Life business is well placed for 2011.
- Group Life performed well with the implementation of AustralianSuper and other major schemes during the year.

Life Insurance – Lapses

- Individual lapse rates were slightly higher but within target ranges. Lapse rates across the industry have been increasing within the IFA channel. TOWER Australia's experience, whilst below industry averages, has increased consistent with market trends.
- Lapse rates tend to be seasonal in line with adviser activity.
- There were no significant lapses in Group Life with the reduction in 2H10 due to the exclusion of commission on a large scheme from premium calculations.

Life Insurance – Annual Premiums Inforce

- Premium inforce grows generally at 8-10% organically as a result of 'age' and 'CPI' increases. Age and CPI increases are automatically added to most policies. Age increases relate to increasing premium rates as a customer ages and the cost of claims rises with the increase in expected mortality and morbidity experience. CPI increases allow customers to maintain their level of cover in line with the costs of living. Age and CPI increases contribute 8-10% to inforce premiums each year.
- Individual inforce premiums have grown in line with growth in the overall market. Growth has been stronger on Direct and Alliance business compared to the IFA channel.
- Group Life insurance inforce premiums grew largely due to the inclusion of AustralianSuper premium which came inforce in November 2009, with income protection benefits in place since end of May 2010.

WEALTH

4.1 Wealth – Analysis of Profit

	2H10	1H10	2H09	2H10 v 2H09 %Change	FY10	FY09	FY10 v FY09 %Change
\$million							
Fee and other revenue	24.8	31.4	34.3	(28%)	56.2	57.4	(2%)
Investment income	1.8	1.8	(1.9)	(195%)	3.6	(3.9)	(192%)
Controllable management expenses	13.7	14.9	16.0	(14%)	28.6	32.1	(11%)
Investment management expenses	2.7	2.4	2.2	23%	5.1	4.4	16%
Commissions and amortisation of deferred acquisition costs	7.6	7.9	7.8	(3%)	15.5	15.2	2%
Total expenses	24.0	25.2	26.0	(8%)	49.2	51.7	(5%)
Profit before taxation	2.6	8.0	6.4	(59%)	10.6	1.8	489%
Income tax expense	(0.1)	(2.7)	(2.8)	(96%)	(2.8)	(1.5)	87%
Underlying Wealth margins	2.5	5.3	3.6	(31%)	7.8	0.3	Large
Investment timing mismatches	7.3	(0.1)	(5.8)	(226%)	7.2	(5.7)	(226%)
Tax on timing mismatches	(2.1)	-	1.7	(224%)	(2.1)	1.7	(224%)
NPAT from Wealth	7.7	5.2	(0.5)	Large	12.9	(3.7)	(449%)
Ratios							
Fee and other revenue to FUM/FUA	1.8%	2.2%	2.4%	-	2.0%	2.0%	-
Controllable management expenses to net revenue	55%	47%	47%	-	51%	56%	-

4.2 Wealth – FUM/A Flow

(a) Net FUM/A Flow

	2H10	1H10	2H09	2H10 v 2H09 %Change	FY10	FY09	FY10 v FY09 %Change
\$million							
Retail superannuation	(51.6)	(57.6)	(55.6)	(7%)	(109.2)	(97.5)	12%
Corporate superannuation	(0.5)	(7.0)	0.5	(200%)	(7.5)	(80.0)	(91%)
Annuities	(7.1)	(7.3)	(12.6)	(44%)	(14.4)	(21.0)	(31%)
Bonds & other	(5.6)	(5.5)	(4.5)	24%	(11.1)	(8.7)	28%
Beacon (FUA)	7.1	(64.7)	3.8	87%	(57.6)	(25.9)	122%
Wealth net outflows	(57.7)	(142.1)	(68.4)	(16%)	(199.8)	(233.1)	(14%)

Note: The above table excludes market value movements.

(b) Fund Under Management / Advice

	2H10	1H10	2H09	2H10 v 2H09 %Change	FY10	FY09	FY10 v FY09 %Change
\$million							
Retail superannuation	1,590.1	1,677.4	1,683.4	(6%)	1,590.1	1,683.4	(6%)
Corporate superannuation	286.8	289.4	282.1	2%	286.8	282.1	2%
Annuities	114.5	114.5	118.3	(3%)	114.5	118.3	(3%)
Bonds & other	95.2	103.9	106.1	(10%)	95.2	106.1	(10%)
Beacon (FUA)	663.8	669.0	710.6	(7%)	663.8	710.6	(7%)
Total Funds Under Management/Advice	2,750.4	2,854.2	2,900.5	(5%)	2,750.4	2,900.5	(5%)

WEALTH

Wealth – Analysis of Profit

- Fee and other revenue of \$56.2m is 2% lower year on year. FUM/A which is a driver of revenue fell 5% during FY10 from a combination of market value movements and net investment outflows.
- Fee and other revenue (excluding investment timing mismatches) has been volatile in each half year over the past 2 years. This volatility is due to value of surrender fees that vary with customer behaviour and profit emerging from participating business and annuities.
- Management controllable expenses have continued to benefit from a variety of business simplification initiatives including ongoing product rationalisation, with an 11% reduction year on year.
- Other expenses made up of commission and investment management expenses were broadly in line with the movements in FUM/A.
- The investment timing mismatches are non-economic gains and losses arising under IFRS largely relating to the revaluation of the value of future surrender fee income on closed Wealth products (\$3.5m gain in 2H10 and \$0.1m loss in 1H10), and annuity asset and liability credit spread losses (\$1.6m gain in 2H10 and nil in 1H10). The revaluation impact is removed from underlying profit as the assets and liabilities are held for the long term and the net effect is expected to be profit and cashflow neutral for the shareholder.

Wealth – Cashflow and FUM/A

- The majority of the Wealth products are closed to new business and are in runoff. Net cash outflow is expected to continue as this portfolio runs down gradually over many years.

CORPORATE

5.1 Corporate – Analysis of Profit

	2H10	1H10	2H09	2H10 v 2H09 % Change	FY10	FY09	FY10 v FY09 % Change
\$million							
Investment income	20.1	17.3	15.3	31%	37.4	29.5	27%
Allocated to business units	(18.9)	(15.1)	(12.6)	50%	(34.0)	(25.0)	36%
Investment management expenses	(0.3)	(0.6)	(0.6)	(50%)	(0.9)	(1.1)	(18%)
Corporate investment income	0.9	1.6	2.1	(57%)	2.5	3.4	(26%)
Controllable management expenses	(6.4)	(8.1)	(11.8)	(46%)	(14.5)	(17.7)	(18%)
Financing costs	(7.3)	(6.2)	(4.9)	49%	(13.5)	(9.9)	36%
Profit before taxation	(12.8)	(12.7)	(14.6)	(12%)	(25.5)	(24.2)	5%
Income tax benefit / (expense)	4.6	3.5	7.8	(41%)	8.1	11.8	(31%)
Underlying profit	(8.2)	(9.2)	(6.8)	21%	(17.4)	(12.4)	40%
Normalisation of investment income	(1.5)	1.3	11.2	(113%)	(0.2)	2.5	(108%)
Amortisation	(11.8)	(11.8)	(14.3)	(17%)	(23.6)	(28.5)	(17%)
Income tax benefit / (expense)	4.1	3.1	0.3	1267%	7.2	6.6	9%
Net Profit/(loss) after tax	(17.4)	(16.6)	(9.6)	81%	(34.0)	(31.8)	7%

- Investment income increased 27% year on year and 31% on pcp as a result of higher assets invested and the switching from cash to higher yielding assets.
- Controllable management expenses are 18% down year on year, and 46% below pcp, as a result of there being no one-off expenses in 2H10.
- The FY09 and FY10 expenses include \$1.7m in costs associated with the acquisition of InsuranceLine. These costs will cease after 2011. 1H10 costs include \$1.1m expenses related to a due diligence exercise.
- Amortisation costs are analysed in Section 5.4.
- Financing costs increased due to a \$28.5m increase in net debt from November 2009 and higher average interest rates during the period.

5.2 Corporate – Financing

	Closing Balance	Matures	Security	Interest Rate	Financing Costs FY10
\$million					
Bank Debt	100.0	31 Mar 2012	Unsecured	Variable	6.4
Bank Debt	123.5	7 Nov 2011 / 12 Nov 2012	Unsecured	Variable	6.7
Convertible notes	-	N/A	Unsecured	Variable	0.4
Capitalised establishment costs	(0.1)	N/A	N/A	N/A	
Total long term debt	223.4	n/a	n/a	n/a	13.5
Tax effect	n/a	n/a	n/a	n/a	(4.0)
Financing costs after tax	n/a	n/a	n/a	n/a	9.5

- On 12 November 2009, TOWER borrowed \$60m via a 3 year senior debt facility to refinance \$31.5m of convertible notes on issue (redeemed on 17 November 2009) and to fund new business growth.
- TOWER's gearing ratio (debt / debt plus equity) was 20.8% at 30 September 2010, down from 22.3% as at 30 September 2009. The reduction is due to increased retained profits and \$92m additional equity offset by \$28.5m increase in net debt.

CORPORATE

5.3 Corporate – Investment Income

\$million	Investment Assets As at 30-Sep-10	Average Assets For 12 Months to 30-Sep-10	Actual Investment Return	Actual Investment Income Actual FY10	Normalised Investment Return	Normalised Investment Income FY10	Underlying Profit Adjustment
Cash at bank	294.7	245.0	4.5%	11.0	4.5%	11.0	-
Fixed interest securities	514.6	372.4	6.6%	24.7	5.5%	20.5	(4.2)
Equities	55.2	55.1	(1.8%)	(1.0)	9.5%	5.2	6.2
Capital supporting policyholder business	1.8	14.0	17.9%	2.5	4.5%	0.6	(1.9)
Distribution investments	1.8	0.8	-	-	9.5%	0.1	0.1
Total Investment Assets/Income (before tax)	868.1	687.3	5.4%	37.2	5.4%	37.4	0.2
Less management expenses	-	-	(0.1%)	(0.8)	(0.1%)	(0.8)	-
Net investment income before tax	868.1	687.3	5.3%	36.4	5.3%	36.6	0.2
TOTAL investment income after tax	868.1	687.3	3.7%	25.5	3.7%	25.6	0.1

Note – Investment returns are annualised and pre tax unless otherwise shown. The normalised returns are based on the assumptions used in the 30 September 2009 embedded value calculation.

- Average assets invested of \$687m were up \$150m or 28% compared to FY09 which resulted in the 28% uplift in normalised investment income in the year.
- Additional capital of \$92m was issued in a capital raising in July 2010. This is held outside of the life company as available assets to support business growth.
- \$28.5m additional debt was raised in November 2009.
- Fixed interest securities delivered strong returns in the year in line with benchmark performance. Equities underperformed the long term assumptions. These netted against each other such that normalised and actual investment income were closely matched.
- The bulk of TOWER Australia's assets are invested in Russell Investment Management managed funds.
- 98% of investment assets are denominated in A\$.
- 81% of fixed interest securities are rated AA or higher, 14% is rated A and 3% BBB.

5.4 Corporate – Amortisation Costs

\$million	Cost	Accumulated amortisation/ impairments	Written down value	Current year amortisation	Current year impairment	Approach to amortisation
Total capitalised software costs	20.3	(9.9)	10.4	(5.0)	-	Amortised in line with tax over 4 years
Total value of inforce business	168.6	(46.7)	121.9	(18.6)	-	Amortised over average term of policies of approximately 8 -10 years
Total goodwill	167.8	(4.0)	163.8	-	-	Tested at least annually for impairment
Total intangibles	356.7	(60.6)	296.1	(23.6)	-	
Tax	(50.6)	14.0	(36.6)	7.1	-	
Intangibles net of tax	306.1	(46.6)	259.5	(16.5)	-	

- Intangibles are subject to semi-annual impairment testing. During the period there were no impairment charges.
- Software and value of inforce business are amortised over their expected useful lives in line with accounting policy.

CAPITAL ANALYSIS

6.1 Analysis of Shareholder Capital

	Insurance	Wealth	Corporate Office	FY10	1H10	FY09
\$million						
Cash	135.3	45.9	113.5	294.7	161.7	322.3
Managed investments	500.1	24.3	45.4	569.8	506.0	274.7
Capital supporting policyholder business	-	1.8	-	1.8	21.9	21.6
Distribution investments	1.8	-	-	1.8	1.3	1.2
Assets generating investment returns	637.2	72.0	158.9	868.1	690.9	619.8
Policy liabilities - risk business	174.3	-	-	174.3	148.4	128.9
Policy liabilities - investments business	-	(35.1)	-	(35.1)	(59.7)	(51.8)
Deferred revenue liability – investments business	-	(70.1)	-	(70.1)	(74.0)	(77.9)
Deferred acquisition costs – investments business	-	39.4	-	39.4	42.8	46.4
Net operating assets/(liabilities)	(145.3)	(2.3)	(14.4)	(162.0)	(94.3)	(67.9)
NTA backing shareholder capital	666.2	3.9	144.5	814.6	654.1	597.5
Goodwill and intangibles	-	-	259.3	259.3	268.3	277.5
Total capital	666.2	3.9	403.8	1,073.9	922.4	875.0
External debt	-	-	(223.5)	(223.5)	(223.4)	(194.9)
Shareholder equity	666.2	3.9	180.3	850.4	699.0	680.1
Capital is split as follows:						
Economic capital	666.2	3.9	6.7	676.8	566.6	521.7
Goodwill and intangibles	-	-	259.3	259.3	268.3	277.5
Excess capital	-	-	137.8	137.8	87.5	75.8
Total capital	666.2	3.9	403.8	1,073.9	922.4	875.0
External debt	-	-	(223.5)	(223.5)	(223.4)	(194.9)
Shareholder equity	666.2	3.9	180.3	850.4	699.0	680.1

6.2 Solvency (Life Company and AFSL distribution entities)

	FY10	1H10	FY09
\$million			
NTA backing shareholder capital	712.6	637.5	567.3
Excess of provisions	(393.7)	(347.4)	(295.2)
Inadmissible assets and other deductions	(15.9)	(11.5)	(7.7)
Assets available to meet solvency requirements	303.0	278.6	264.4
Solvency reserve for life company	114.9	106.2	103.8
Solvency requirements for non-life companies	5.0	5.0	5.0
Total solvency requirements	119.9	111.2	108.8
Coverage of required solvency requirements	2.5	2.5	2.4

CAPITAL ANALYSIS

Analysis of Shareholder Capital

- The 2H10 had a number of large capital movements that can be summarised as follows:

1H10 excess capital	87.5
Add rights issue net proceeds	92.0
Less Corporate and net interest costs	(9.2)
Less Group new business	(18.0)
Less increase in capital reserves in line with business growth	(14.5)
2H10 excess capital	137.8

- The capital released from inforce business went to fund the new business growth over the period.
- The business units hold economic capital to meet regulatory and target surplus requirements plus working capital for subsidiaries. The capital in excess of economic capital together with Corporate Office surplus cash and financial assets total \$137.8m. Note that within economic capital is included shareholder capital in relation to participating business which may only be distributed in line with policyholder bonuses.
- \$92m of additional capital was raised via a rights issue in 2H10 to fund expected organic growth in the business.
- Excess capital increased during FY10 as a result of capital management initiatives undertaken to better match assets and liabilities.
- \$28.5m in additional debt was borrowed this was used to fund capital requirements for current period organic growth and did not impact excess assets.
- All debt is non-current.

Solvency

- Net Tangible Assets (NTA) backing shareholder capital increased in line with profit for the year net of dividends and a \$30m injection of capital into the life company to fund the capital strain from new business, offset by \$6m dividend paid by the life company.
- Excess of provisions is primarily driven by the movement in individual life insurance deferred acquisition costs.
- Solvency reserves were relatively stable in FY10 as a result of lower cost of guarantees and reductions in resilience reserves as FUM balances recovered. Closer matching of assets and liabilities also helped lower the capital requirements with the benefit used to fund capital requirements of new business.
- TOWER's liquidity position is good with high levels of shareholder assets being maintained in cash and the majority of the remaining assets invested within open offer funds with Russell Investment Management, Aberdeen funds and MLC enhanced cash trust.

VALUE ANALYSIS

7.1 Life Company Embedded Values

\$million	2H10	1H10	2H09	2H10 v 2H09 %Change	FY10	FY09	FY10 v FY09 %Change
Embedded Value	1,461.7	1,248.5	1,169.0	25%	1,461.7	1,169.0	25%
Growth in Embedded Value	25.0%	24.7%	29.8%	-	25.0%	29.8%	-
Growth in Embedded Value (pre transfers and discount rate changes)	22.7%	26.5%	26.0%	-	22.7%	26.0%	-
Value of one year's sales	168.5	128.8	95.9	76%	168.5	95.9	76%
Change in Embedded Value							
Embedded Value as at beginning of period	1,248.5	1,169.0	1,001.4	25%	1,169.0	900.9	30%
Expected increase in value of inforce	47.5	47.5	46.4	2%	95.0	88.8	7%
Earnings on net worth	(2.2)	2.7	12.3	(118%)	0.5	4.8	(90%)
Experience:							
- Economic	(1.9)	1.2	16.8	(111%)	(0.7)	(11.1)	(94%)
- Other	8.6	(9.9)	(22.3)	(139%)	(1.3)	(13.5)	(90%)
Changes in assumptions:							
- Economic	(12.8)	4.8	6.7	(291%)	(8.0)	(8.1)	(1%)
- Other	62.7	(29.7)	53.8	17%	33.0	55.7	(41%)
Value added from sales	74.6	75.0	60.5	23%	149.6	108.4	38%
Model changes and other	(6.9)	4.6	(4.7)	49%	(2.3)	8.8	(126%)
Embedded Value prior to:	1,418.1	1,265.2	1,170.9	21%	1,434.8	1,134.7	26%
- Discount rate	61.3	(28.8)	8.1	657%	32.5	53.6	(39%)
- Dividends/transfers	-	24.0	-	-	24.0	-	-
- Release of franking credits	(17.7)	(11.9)	(10.0)	77%	(29.6)	(19.3)	53%
Embedded Value after transfers and discount rate changes	1,461.7	1,248.5	1,169.0	25%	1,461.7	1,169.0	25%
Change in value of one year's sales							
Value of one year's sales at beginning of period	128.8	95.9	77.0	67%	95.9	62.3	54%
Change in one year's volumes and mix of business	6.2	28.8	11.2	(45%)	35.0	18.0	94%
Changes in assumptions:							
- Discount rate	10.2	(4.7)	2.1	386%	5.5	9.9	(44%)
- Economic	(0.6)	0.2	0.6	(200%)	(0.4)	(1.0)	(60%)
- Other	8.0	(3.7)	3.9	105%	4.3	3.6	19%
Product changes	15.9	11.4	-	large	27.3	-	large
Model changes and other	-	0.9	1.1	(100%)	0.9	3.1	(71%)
Value of one year's sales	168.5	128.8	95.9	76%	168.5	95.9	76%

VALUE ANALYSIS

Life Company Embedded Values

Embedded Value is equivalent to the net present value of all future cashflows expected to arise from inforce business. Future cashflows include future after tax profits, capital releases and the value of franking credits at 70%.

The Embedded Value includes the InsuranceLine distribution business to reflect that the distribution and manufacture of InsuranceLine products represents a single business.

The discount rate has reduced from September 2009 to September 2010 due to a reduction in 10 year government bond yields over this time.

Change in Embedded Value

The Embedded Value of TOWER's life businesses increased from \$1,169m at 30 September 2009 to \$1,462m at 30 September 2010. This is an increase of 25% over prior period and 23% if the change in discount rate and transfers are excluded.

The experience-other item is largely due to better than expected claims and expense experience.

The change in assumption-other item includes changes in lapse experience in older individual policies, changes in mortality claims assumptions for individual risk business and revised expense unit costs.

The value added from sales reflects growth in insurance sales, changes to product terms and reinsurance.

Change in Value of One Year's Sales

Retail and Direct improvements in sales volumes, product mix and product changes plus the increase in Group Life sales increased the value of one year's sales by 74% since FY09.

Sensitivity Analysis

The tables below set out the sensitivity of the embedded value and value of sales as at 30 September 2010 to changes in key economic and business assumptions.

Sensitivity analysis \$million	As at 30-Sep-10
Base Embedded Value	1,461.7
Embedded Value assuming:	
Discount rate 1% higher	1,381.7
Discount rate 1% lower	1,552.3
Claims incidence 10% higher	1,357.0
Investment returns 1% lower	1,445.3
Discontinuance rate 10% higher	1,359.4
Renewal expenses 10% higher	1,406.6
Base value of one year's sales	167.1
Value of one year's sales assuming:	
Discount rate 1% higher	149.6
Discount rate 1% lower	186.9
Claims incidence 10% higher	138.1
Investment returns 1% lower	163.5
Discontinuance rate 10% higher	145.9
Renewal expenses 10% higher	159.8

These sensitivities are indicative only as the variations caused by changes to assumptions are not always linear, symmetrical or independent.

VALUE ANALYSIS

7.2 Life Company Embedded Value – Assumptions

%p.a.	2H10	1H10	2H09
Investment return for underlying asset classes:			
- Cash	4.0	5.0	4.5
- Fixed interest	5.0	6.0	5.5
- Australian equities (including an allowance for franking credits)	9.0	10.0	9.5
- International equities	8.0	9.0	8.5
- Property	7.0	8.0	7.5
Inflation			
- Benefit indexation	2.75	3.0	2.5
- Expense inflation	2.75	3.0	2.5
Risk free rate – 10 year government bond	5.0%	5.8%	5.5%
Discount rate	9.0	10.0	9.5

7.3 Comparison of Value to Carrying Value

Shareholder Assets	Net Profit After Tax	Underlying Profit After Tax	Carrying Value	Embedded Value or Net Assets	Value of One Year's Sales	Valuation Basis	Enterprise Value May be Determined by:
Life company and distribution entities	119.7	108.0	712.6	1,467.7 ⁽¹⁾	167.1	Embedded Value + Multiple of Value of One Year's sales	In calculating an appraisal value take the Embedded Value and add a multiple of the value of one year's sales by an appropriate new business multiplier
Corporate Office assets	2.0	2.1	102.0	102.0	N/A	Net assets	Includes cash, debtors, creditors and tax assets at fair value
Corporate Office costs	(8.4)	(8.4)	N/A	N/A	N/A	N/A	An allowance for corporate costs should be included in an enterprise value and excluded in takeover valuation scenarios
Debt	(9.4)	(9.4)	(223.5)	(223.5)	N/A	Amortised cost	Include at fair value
Intangibles	(16.5)	-	259.3	N/A	N/A	Included above	This is a non-cash item and should be ignored in an enterprise value calculation
Franking account balance (post dividends) ⁽²⁾	-	-	-	56.8	-		Valued at 70% of face value of account balance
Total	87.4	92.3	850.4	1,403.0	167.1		Enterprise value may be determined by a multiple of embedded value or alternatively embedded plus a multiple of value of one year's sales

(1) This includes embedded value of the Life Company (\$1461.7m) and net assets of distribution entities (\$4.2m) and strategic assets (\$1.8m)

(2) This represents tax assets not currently recognised in the financial statements. In addition to the franking account TOWER has lodged a series of objections with the ATO in relation to the tax treatment of acquisitions made in the past. The amount of the tax claim including prior year and future deductions is \$72.4m. These tax assets are not disclosed as contingent assets and not recognised in the table above..

VALUE ANALYSIS

Assumptions

The assumptions used for valuing inforce business and the value of one year's sales are based on long term best estimate assumptions.

Maintenance unit costs are best estimate assumptions based on the current run rate for on-going expenses.

Discontinuance and claim (mortality and morbidity) assumptions are best estimate assumptions based on recent company experience and are consistent with those used for profit reporting.

The value of one year's sales is the value at policy issue for the actual sales volumes written over the 12 months to 30 September 2010, based on current new business policy terms and conditions, and allows for the acquisition expenses incurred over the equivalent period. Sales includes new policies as well as voluntary increases (ie. benefit increases).

Embedded Value includes contractual increases (ie. age and CPI) on existing individual policies but excludes voluntary increases.

TOWER Australia Limited is required to hold regulatory capital in excess of policy liabilities. In addition, it holds an additional amount of capital ('target surplus') based on internal requirements. In determining the economic values, the value of this capital is discounted based on the expected time it is required to be held in TOWER Australia Limited prior to being available for distribution to shareholders.

Economic assumptions are shown opposite.

Comparison of Value to Carrying Values

This table provides guidance on how the capital and embedded value information may be used to determine enterprise value. To arrive at the enterprise value per share, the enterprise value should be divided by the current number of shares adjusting for the number of share options expected to be exercised.

RECONCILIATIONS

8.1 Income Statement

Income statement sourced from the financial statements \$million	Insurance	Wealth	Corporate Office	Policy-holders	2H10	FY10	FY09
Premium Income	523.4	-	-	-	523.4	942.0	738.6
Reinsurance premiums	(193.5)	-	-	-	(193.5)	(345.0)	(209.3)
Net premium revenue	329.9	-	-	-	329.9	597.0	529.3
Investment revenue	17.0	1.8	-	4.9	23.7	119.5	88.6
Fee and other revenue	3.7	34.1	-	-	37.8	74.5	67.4
Net revenue	350.6	35.9	-	4.9	391.4	791.0	685.3
Claims expenses	(226.7)	-	-	(3.0)	(229.7)	(416.7)	(332.2)
Claims recoveries	129.8	-	-	-	129.8	222.9	179.7
Net claims expense	(96.9)	-	-	(3.0)	(99.9)	(193.8)	(152.5)
Change in policy liabilities ⁽¹⁾	25.9	(1.8)	-	21.1	45.2	(10.9)	(33.8)
Management and sales expenses	(182.9)	(24.1)	(7.1)	-	(214.1)	(404.0)	(402.6)
Net claims and operating expenses	(253.9)	(25.9)	(7.1)	18.1	(268.8)	(608.7)	(588.9)
EBITDA	96.7	10.0	(7.1)	23.0	122.6	182.3	96.4
Financing costs	-	-	(7.3)	-	(7.3)	(13.5)	(9.9)
Amortisation expense	-	-	(11.8)	-	(11.8)	(23.6)	(28.5)
Share of profits from associates	-	-	-	-	-	0.1	0.1
Profit before taxation	96.7	10.0	(26.2)	23.0	103.5	145.3	58.1
Tax expense	(28.0)	(2.3)	8.8	(23.0)	(44.5)	(57.9)	(11.7)
Net profit after tax	68.7	7.7	(17.4)	-	59.0	87.4	46.4
Add back non-cash items other timing or non-controllable items⁽¹⁾							
Discount rate changes	(15.1)	-	-	-	(15.1)	(9.4)	6.8
Investment timing mismatches	-	(7.3)	-	-	(7.3)	(7.2)	5.7
Normalised investment income	-	-	1.5	-	1.5	0.2	(2.5)
Amortisation/impairment	-	-	11.8	-	11.8	23.6	28.5
Tax expense	4.5	2.1	(4.1)	-	2.5	(2.3)	(10.4)
Underlying profit	58.1	2.5	(8.2)	-	52.4	92.3	74.5

(1) These amounts are remapped from statutory presentation to arrive at the business unit presentation used in this document. Policyholder amounts, which net to nil are excluded from the BU results.

Divisional income statements \$million	Insurance (refer S3)	Wealth (refer S4)	Corporate Office (refer S5)	Policy-holders	2H10	FY10	FY09
Net earned premium and other revenue	332.6	24.8	-	-	357.4	681.1	586.5
Net claims incurred	(122.6)	-	-	-	(122.6)	(245.8)	(181.9)
Controllable expenses	(100.2)	(13.7)	(6.4)	-	(120.3)	(228.5)	(220.0)
Other expenses	(45.3)	(7.6)	-	-	(52.9)	(95.5)	(97.4)
Investment income	17.1	1.8	1.2	-	20.1	37.4	29.5
Investment management expenses	-	(2.7)	(0.3)	-	(3.0)	(6.0)	(5.5)
Financing costs	-	-	(7.3)	-	(7.3)	(13.5)	(9.9)
Tax	(23.5)	(0.1)	4.6	-	(19.0)	(36.9)	(26.8)
Underlying profit	58.1	2.5	(8.2)	-	52.4	92.3	74.5

RECONCILIATIONS

8.2 Balance Sheet

	Insurance	Wealth	Corporate	Policyholders	FY10	1H10	FY09
Balance Sheet as reported within the financial statements \$million							
Assets							
Cash and cash equivalents	135.3	45.9	113.5	-	294.7	161.7	322.3
Receivables	131.5	(5.4)	10.8	1.3	138.2	110.4	106.2
Current tax asset	-	-	-	-	-	6.2	14.8
Financial assets at fair value through income statement	500.1	24.3	45.4	1,956.6	2,526.4	2,514.9	2,285.5
Other financial assets	1.8	-	-	-	1.8	1.3	1.2
Deferred acquisition costs	-	39.4	-	-	39.4	42.8	46.4
Other assets	0.1	-	-	-	0.1	0.1	0.1
Property, plant and equipment	1.8	-	3.0	-	4.8	4.8	5.5
Assets arising from reinsurance contracts	331.8	-	-	28.9	360.7	316.3	295.1
Deferred tax asset	7.4	7.3	(32.5)	27.8	10.0	17.6	20.9
Intangible assets	-	-	296.1	-	296.1	307.9	319.7
Total assets	1,109.8	111.5	436.3	2,014.6	3,672.2	3,484.0	3,417.7
Liabilities							
Payables	164.2	(3.2)	10.7	18.7	190.4	140.9	111.8
Current tax liability	34.2	5.6	0.7	0.7	41.2	-	-
Provisions	15.4	0.1	21.1	-	36.6	27.5	33.2
Interest bearing liabilities	-	-	223.5	-	223.5	223.4	194.9
Insurance liabilities	72.3	(0.1)	-	0.9	73.1	60.1	64.4
Deferred revenue liability	-	70.1	-	0.5	70.6	74.6	78.5
Life insurance contract liabilities	157.5	-	-	433.1	590.6	570.0	570.1
Life investment contract liabilities	-	35.1	-	1,560.7	1,595.8	1,688.5	1,684.7
Total liabilities	443.6	107.6	256.0	2,014.6	2,821.8	2,785.0	2,737.6
Net assets	666.2	3.9	180.3	-	850.4	699.0	680.1

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