

TOWER Australia Group Limited

FY10 Results Presentation

7th Consecutive year of delivering strong & consistent performance.

- > Jim Minto – Managing Director
- > John de Zwart – Chief Financial Officer
- > 25 November 2010

TOWER

TOWER Australia has delivered consistent performance

FY10 Financial highlights

- Underlying profit of \$92.3m up 24%
- Earnings per share up 20% to 24.1 cents
- Insurance margins strong at 18.2% of net premium

2010 Business highlights

- Claims experience has normalised, strengthening claims management
- Strong growth in group life premiums, with margins being maintained
- Market leading propositions across all market segments
- Good scale and simplification benefits achieved

TOWER Australia has delivered strong growth in financial measures

\$m (unless stated otherwise)	FY10	FY09	% change	CAGR (since listing)
Underlying Profit ¹	92.3	74.5	↑ 24%	22%
Reported NPAT	87.4	46.4	↑ 88%	29%
Dividend per share (cps)	5.75	5.25	↑ 10%	10%
Underlying EPS (cps)	24.1	20.1	↑ 20%	18%
Return on Capital	10.3%	9.7%	↑ 6%	6%
Embedded Value	1,461.7	1,169.0	↑ 25%	24%
Value of One Year's Sales	168.5	95.9	↑ 76%	49%
Inforce Premiums	1,103.1	783.8	↑ 41%	15%
Combined Ratio	81.8%	82.1%	↓ 1%	n/a
Insurance Margin	18.2%	17.9%	↑ 2%	n/a

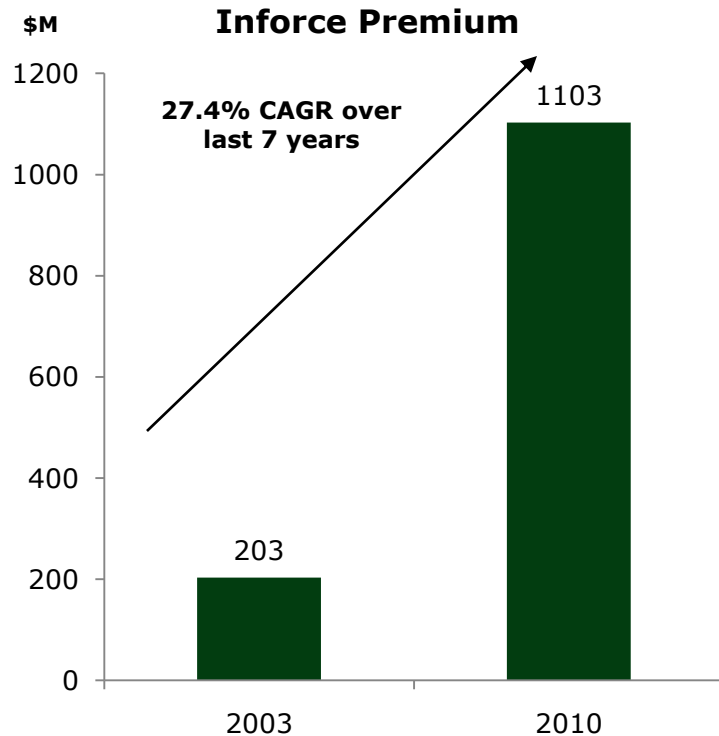
¹ Before non cash items and after normalisation of investment income

2010 operational achievements

- Simplification
 - 8 superannuation funds to 1
 - 4 claims systems to 1
 - 3 on-sale products to 1 in Independent Financial Adviser channel
- Favourable income protection claims experience during the GFC
- AustralianSuper and other significant clients successfully transitioned to business as usual
- Retained all major existing clients on renewal
- Lapse rates better than industry across all channels
- Successful equity raising to fund future growth
 - 6 new life insurance distribution alliances partnerships
 - 1 new Industry Fund effective 1 December 2010

Strong track record – building a sustainable business

TOWER AUSTRALIA'S SUCCESS TO DATE



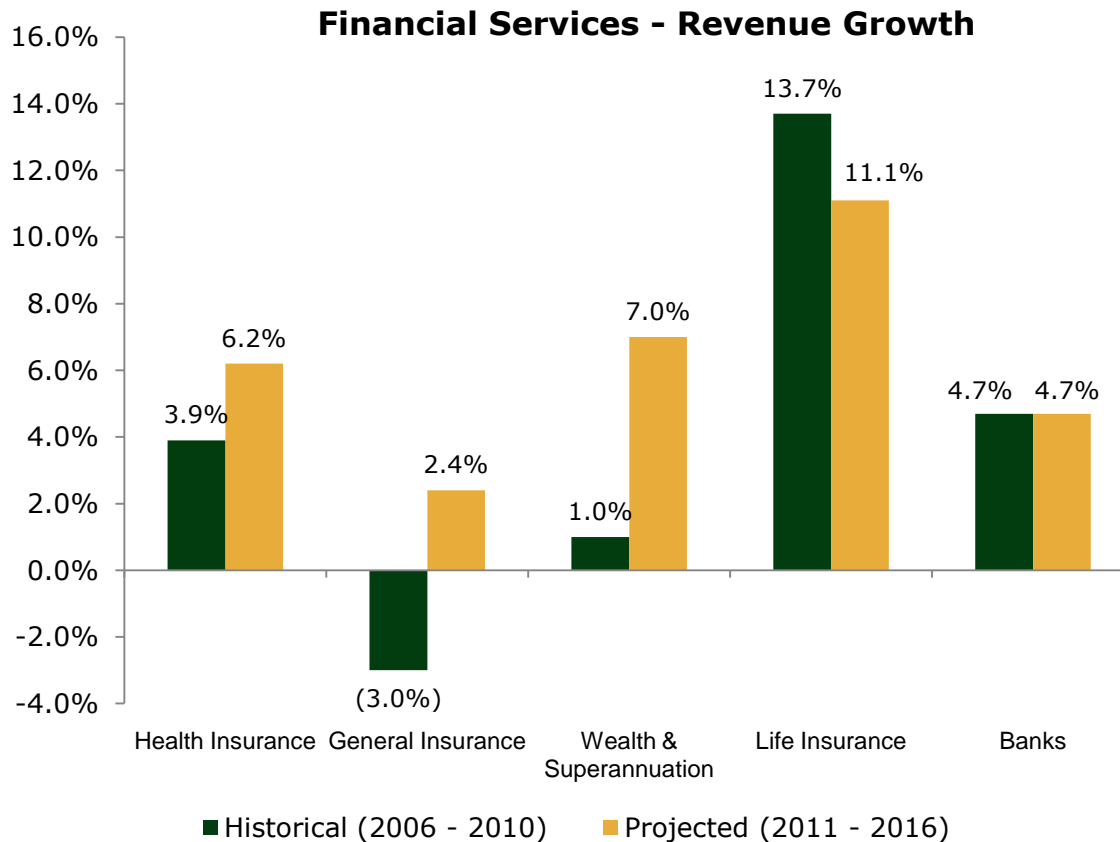
Some Key Milestones

- 2010 Virgin Money alliance
- 2010 \$1b inforce premium
- 2009 AustralianSuper mandate
- 2008 Acquisition of InsuranceLine
- 2008 NIB alliance
- 2008 Dai-ichi Life cornerstone shareholding
- 2007 First automated online and phone based underwriting
- 2006 Separation from TOWER New Zealand
- 2006 Acquisition of PrefSure Life
- 2003 \$200m inforce premium

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TOWER Australia's Market & Positioning

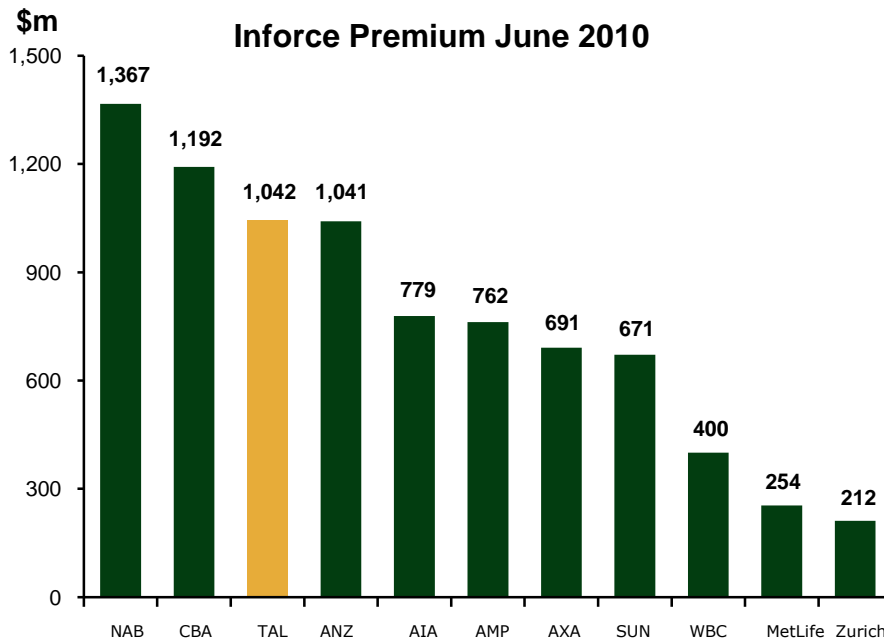
Life insurance – the most attractive financial services sector



- Life insurance is the most attractive market in Australian financial services
- Highly regulated market with cost plus pricing
- Stable and consistent revenue streams during all economic conditions

Source: IBIS world, Plan for Life and Rice Warner

TOWER Australia – growing twice as fast as market

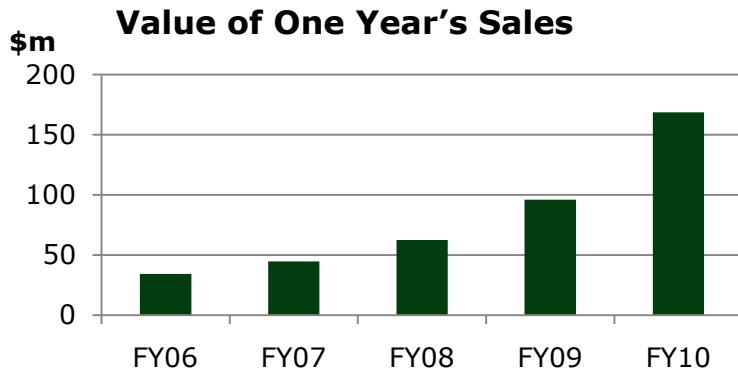


2003 Inforce Premium \$m	640	598	203	440	63	316	500	368	208	76	84
CAGR	11%	10%	26%	13%	43%	13%	5%	9%	10%	19%	14%

Source: Plan for Life – June 2010

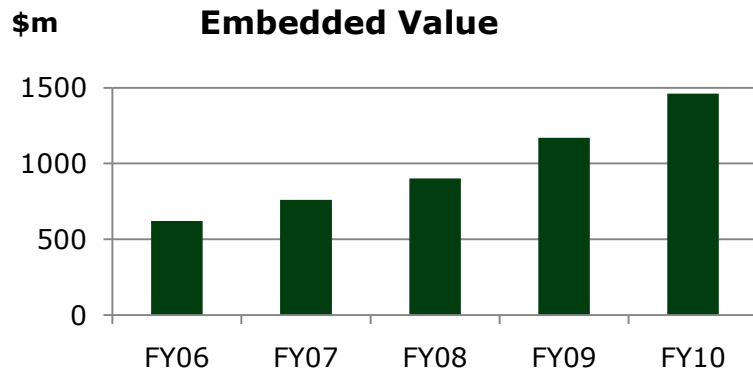
- TOWER Australia has moved from 8th largest (2003) to 3rd largest in 2010 and 1st for new business
- Only Australian listed life insurance specialist
- Focus on life insurance has enabled consistent outperformance
- Industry evolving rapidly in terms of distribution and servicing models
- TOWER Australia continues to invest heavily to be more customer friendly and easier to deal with
- Insures more than 2.3 million lives (~1 in 5 working Australians)

TOWER Australia is growing revenue & value



Value of One Year's Sales

- Up 76% year on year to \$169m. CAGR 49% over last 5 years.
- Strong new business value improvements in all business lines. Key drivers:
 - Improved product margins (\$27.2m)
 - Increased sales volumes (\$35.0m)
 - Discount rate change (\$5.5m)

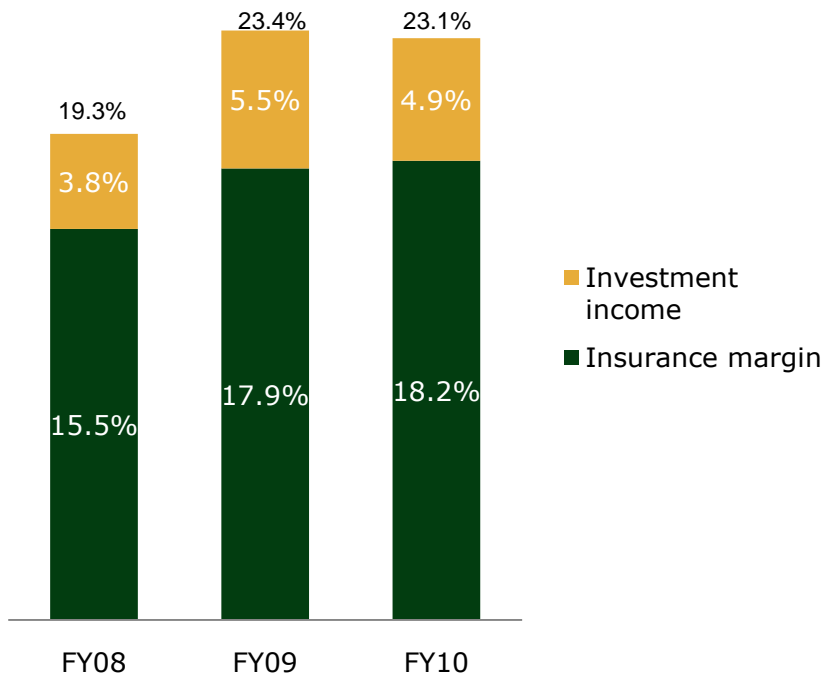


Embedded Value

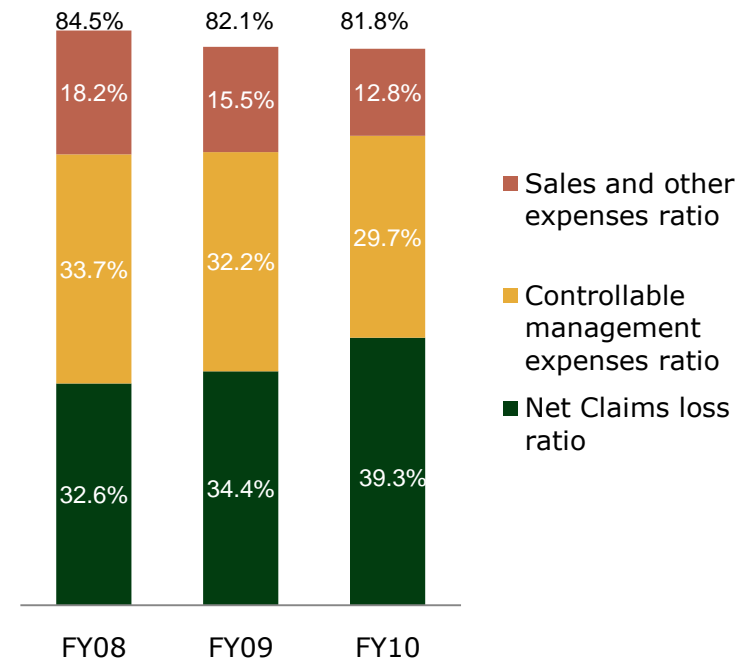
- Up 25% yoy, CAGR of 24% over last 5 years
- Key drivers:
 - Value of new business (\$149.6m)
 - Improving scale efficiencies and margin improvements (\$25.0m)
 - Discount rate change (\$32.5m)

Delivering strong margins via improved efficiency

Life Insurance Profit Margins



Life Insurance Combined Ratio



Note:
 Insurance Margin = $[1 - (\text{Net claims incurred} + \text{controllable expenses} + \text{sales and other expenses}) / (\text{net earned premium} + \text{other fee revenue})] \%$
 Investment Income % = $\text{Investment income allocated to insurance segment} / (\text{net earned premium} + \text{other fee revenue})$
 Expense ratios = $\text{Expense} / (\text{net earned premium} + \text{other fee revenue})$

Distribution model – competitive positions in all key channels

**Market
Leading
Offerings**

Best Call Centre 2010
Australian Banking &
Finance

Best Overall Life
Insurance – Plan for
Life Benchmark
Report Aug 2010

Group Insurer of the
Year – Super Review
2010

2.3 million lives insured

Direct to Customer

>3,000 Independent
Advisers

10 Industry Funds
650 Corporate Plans
10 Master Trusts

8 Alliance Partners

Channels

**Direct
(InsuranceLine,
Alliances)**

**Intermediated
(Dealers, Advisers)**

**Group and
Workplace**

**Channel
Drivers**

- Simple “no advice” products
- Strong direct-to-market capabilities
- Call centre execution

- Service
- Partnerships
- Technology
- Product design
- Innovative processes

- Partnerships
- Business-to-Business technology
- Solutions design

Broadest and most diversified Life insurance distribution capability in Australia

Outlook

TOWER Australia's Future State Vision

Profitable growth and Business Simplification

11%
Return on Capital

- Grow scale efficiencies
- Enhance management information
- Grow business partnerships
- Enhance customer experience
- Rationalise non-core or unprofitable business lines and systems
- Improve claims management
- Reinsurance efficiency

Enhancing Partner and Customer Experience

12%
Return on Capital

- Next generation claims excellence
- Preferred partner in all channels
- Strong growth phase for our alliance partners
- Next generation MIS capabilities developed
- Manage regulatory change

Excelling at Service and Delivering above Market returns

13%
Return on Capital

- Operational excellence (marketing, underwriting, customer service, claims)
- Single view of customer
- Single operational system
- Industry leading culture
- Market leading margins

Strong Brands, Conservative Capital and Risk Management

Year 1

Year 2 - 3

Year 3 - 5

Next steps to realising TOWER Australia's Future State Vision

Profitable growth and Business Simplification

Grow scale efficiencies

Enhance Management Information

Grow business partnerships

Enhance customer experience

Rationalise non core or unprofitable business lines and systems

Improve claims management

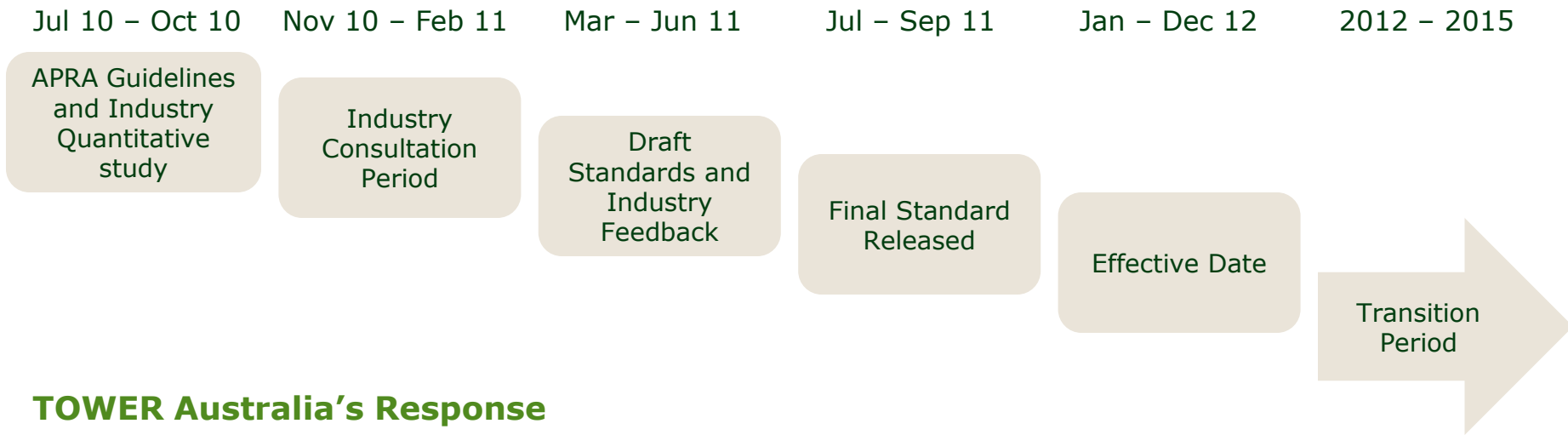
Reinsurance efficiency

2011 initiatives

- Leverage infrastructure
- Protect and grow business line margins
- Expand management information capability
- Grow existing and new long term distribution relationships (e.g. nib and Virgin Money)
- Develop leading partnering capabilities in intermediated markets
- Product innovation in the direct market to meet changing market needs
- Enhanced service standards (i.e. 24hrs claims promise in Direct)
- Explore and expand 2 new direct sales opportunities
- Increase focus on retention strategies in IFA channel
- Rationalise 4 legacy corporate super investment products to modern product
- Rationalise 2 legacy personal investment products to modern product
- Decommissioning ALIS, IFA legacy administration system
- Enhance claimant experience
- Implement operational management tools
- Begin process automation
- Leverage reinsurance to maximise risk adjusted returns

Proposed changes to capital standards

Indicative Timetable



TOWER Australia's Response

- Participate in industry and individual lobbying of APRA and Treasury
- Engage key group clients whose members will be impacted
- Develop mitigation strategies
- Reflect in product pricing on rate renewal if additional capital required

Impact

APRA's timing, intent and response to Quantitative Study and industry feedback unclear. TOWER Australia will seek to maintain appropriate rate of return on capital in its product pricing or by offsetting capital cost against other cost savings

Potential changes to commissions

- Ripoll, Cooper and the Federal Labor government have recommended removing commissions from superannuation products
- No explicit recommendation has been made in respect to life insurance products sold via superannuation or in respect to commissions for non-super life insurance products
- TOWER Australia supports remuneration structures which allow customers to fund advice in an efficient manner including commissions
- TOWER Australia is working with the Financial Services Council to develop protocols for adviser remuneration to enhance sustainability and choice of remuneration models
- TOWER Australia argues any changes need to be net favourable i.e. better aligning adviser and customer interests
- No adverse financial impact likely to arise for TOWER Australia.

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TOWER Australia **FY10 Financial** **Performance**

Life insurance – TOWER Australia's core business

Life insurance

- Profit \$101.9m
- Embedded value \$1,389m
- \$168.5m value of one year's sales
- RoC 17.6%



Wealth

- Profit \$7.8m
- Embedded value \$73m (closed to new business and running off at ~5%p.a.)
- RoC >100%



Corporate Office & Debt

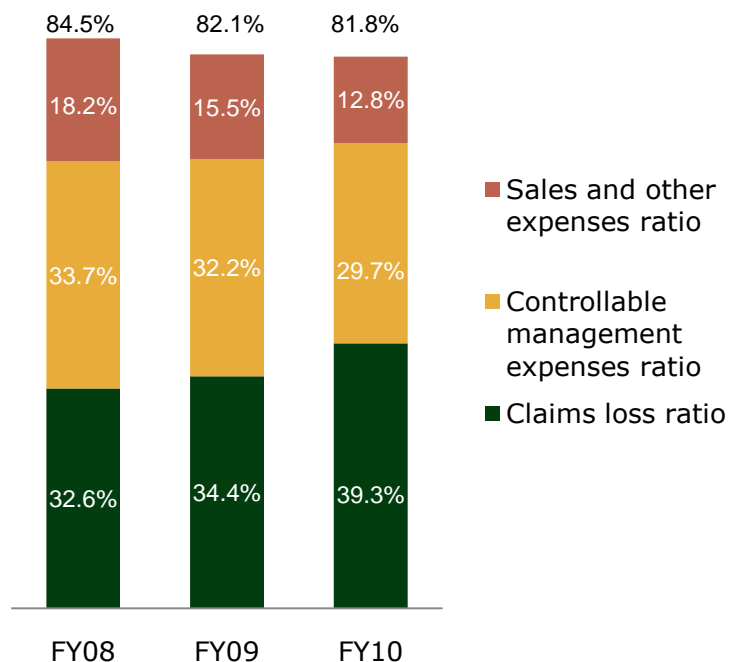
Profit (\$17.4m)
(includes interest costs of \$9.4m)

Strong FY10 financial result

\$M	FY10	FY09	Change
Operating margins	109.7	86.9	26%
Corporate expenses	(10.3)	(7.4)	39%
Normalised investment income	2.3	1.9	21%
Financing expenses	(9.4)	(6.9)	36%
Underlying profit	92.3	74.5	24%
Non cash items/normalised investment	(4.9)	(28.1)	
NPAT	87.4	46.4	88%
EBITDA	182.3	96.4	89%
<i>Return on Capital</i>	10.3%	9.7%	
<i>Earnings per Share</i>	24.1	20.1	20%

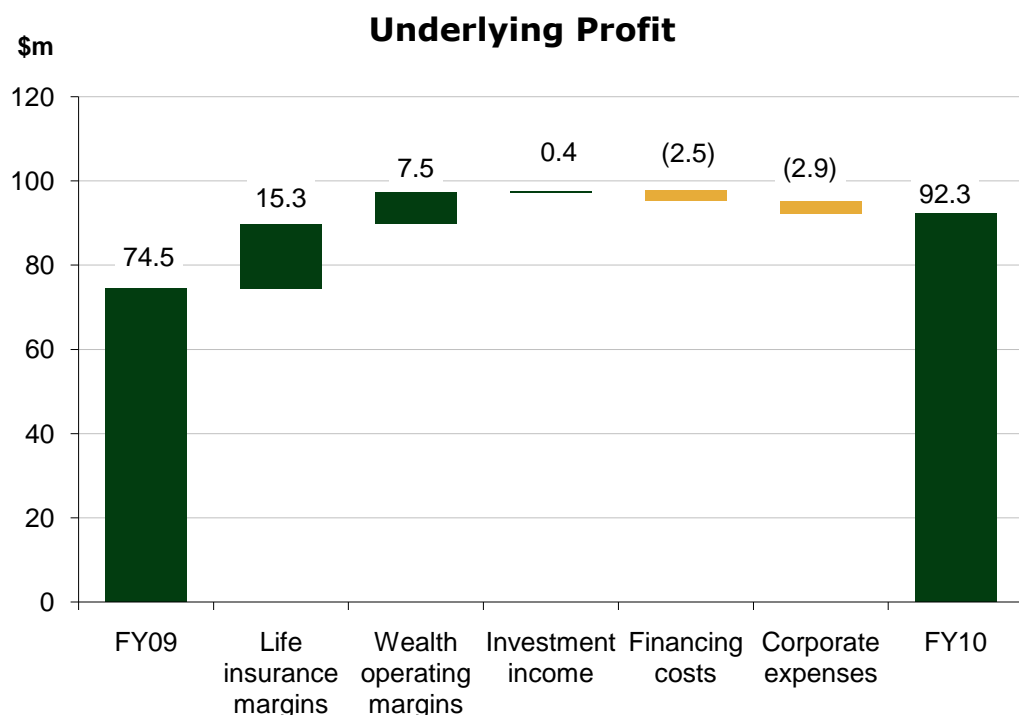
Attractive margins

Life Insurance Combined Ratio



- Sales and other expenses ratio declined 2.7% due to:
 - Lower sales from IFA channel
 - Growth in group business with low sales related costs
- Controllable management expenses ratio reduced 2.5% due to:
 - Changing business mix
 - Scale efficiencies in group and IFA channels
- Claims loss ratio increased 4.9% due to:
 - Change in business mix, reinsurance and scheme repricing
 - Unfavourable one offs in 1H10 versus favourable one offs in 1H09

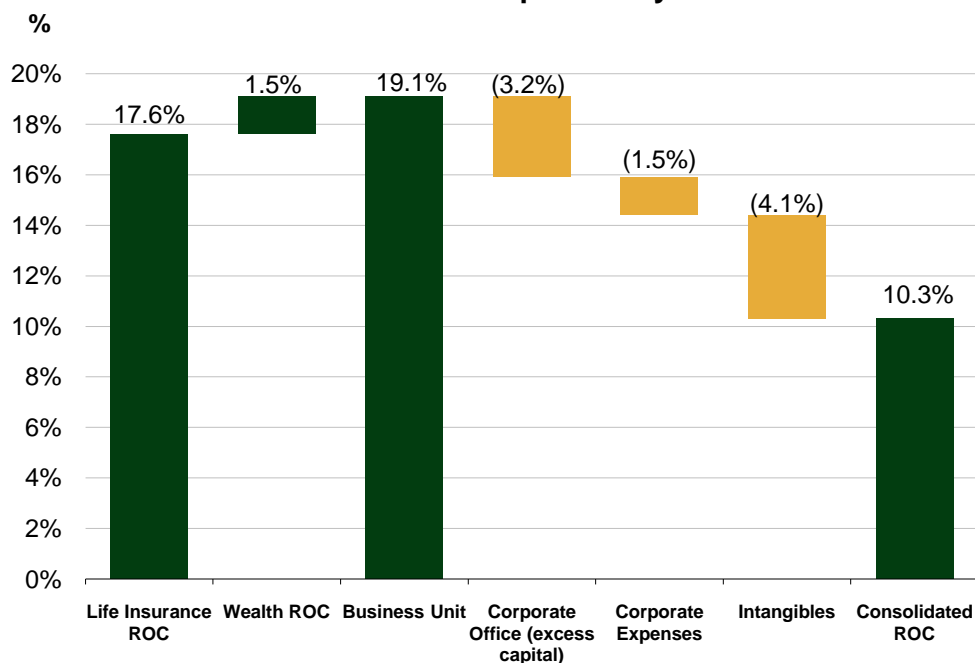
Underlying profit growth



- Life insurance margins reflect:
 - 18% net premium growth
 - Operating efficiencies
- Partially offset by
 - 1H10 death claims (\$4.2m)
 - Set up and stamp duty costs for new group schemes in force for only part of the year
- Wealth operating margins stabilised in line with investment markets
- Corporate expenses include:
 - One-off due diligence costs (1H10)
 - Prior year acquisition related costs
- Life insurance margins from 2010 new business will be fully reflected in 2011.

Return on Capital (Underlying)

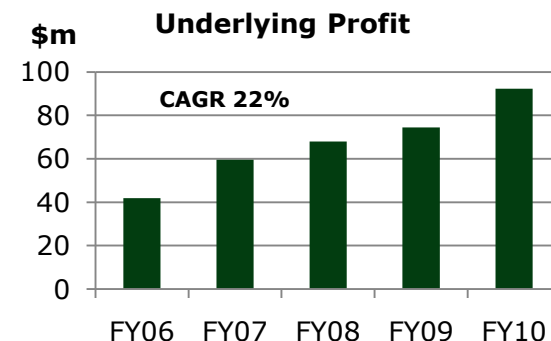
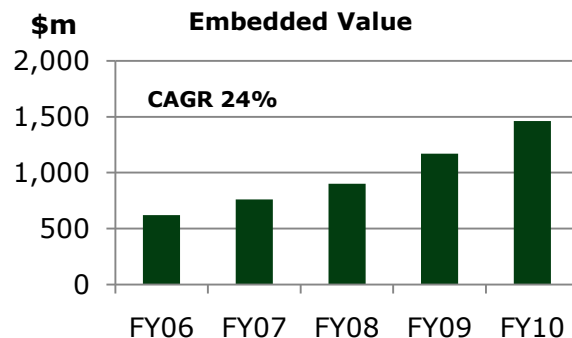
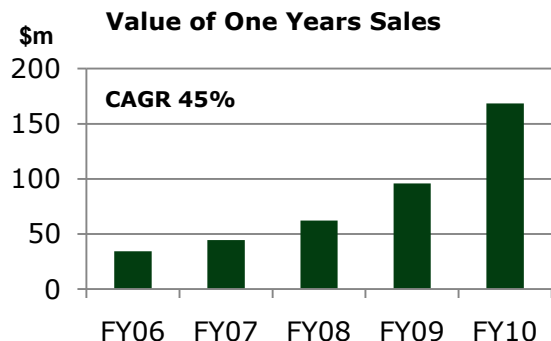
Return on Capital Analysis



	Profit	Closing Capital/ Equity	ROC/ ROE
\$m			
Life	101.9	666.2	17.6%
Investments	7.8	3.9	139.3%
Business Unit - Subtotal	109.7	670.1	19.1%
Corporate Office (excess capital)	2.3	144.5	2%
Corporate expenses	(10.3)	-	n/a
Intangibles	-	259.3	n/a
Subtotal (ROC)	101.7	1,073.9	10.3%
Debt	(9.4)	(223.5)	(4.2)
TAGL Consolidated (ROE)	92.3	850.4	12.1%

Note: ROC and ROE are calculated by dividing profit by the average capital/equity

Value and profit linkages

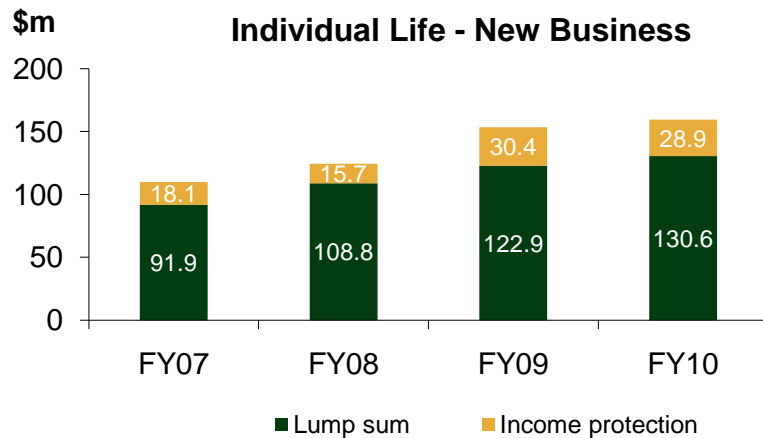


- Leading market propositions generates above industry sales and customer retention
- Rationalised product offerings drive increased value
- Efficient use of reinsurance generates improved returns and capital efficiency
- Efficient underwriting platforms improve customer experience, increase sales, lower costs and provide more reliable underwriting outcomes

- Fast growing inforce premium generates:
 - Value added from new sales
 - Unit cost efficiencies on inforce portfolio
- Embedded Value represents the net present value of future cashflows
- 80% of premium is expected to be inforce in 10 years time due to age and CPI increases
- Future cashflows include profit, capital returns and 70% of the value of imputation credits

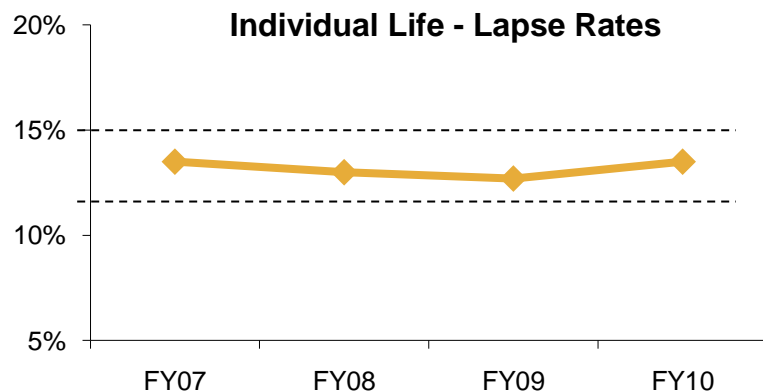
- 99% correlation between Embedded Value growth and underlying profit growth allowing for a one year delay (i.e. profit release is based on prior year's Embedded Value)
- Strongly growing Embedded Value will lead to similar growth in underlying profit subject to experience items

Life insurance – business drivers



Individual New Business

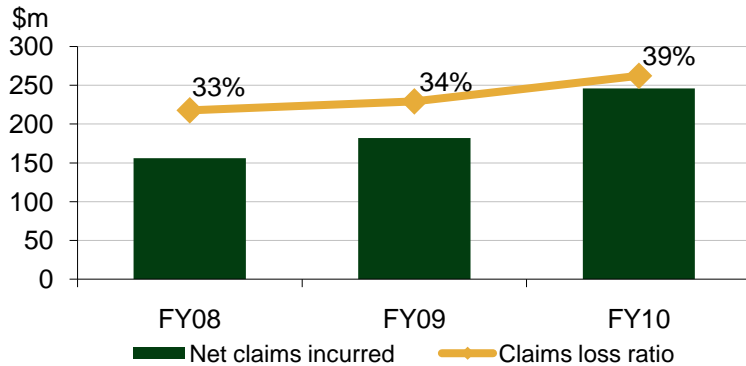
- Good sales growth in Direct and Alliances
- Slowdown in IFA sales due to:
 - Transition to single product
 - General slow down in adviser sales activity following strong sales in FY09



Individual Lapse Rates

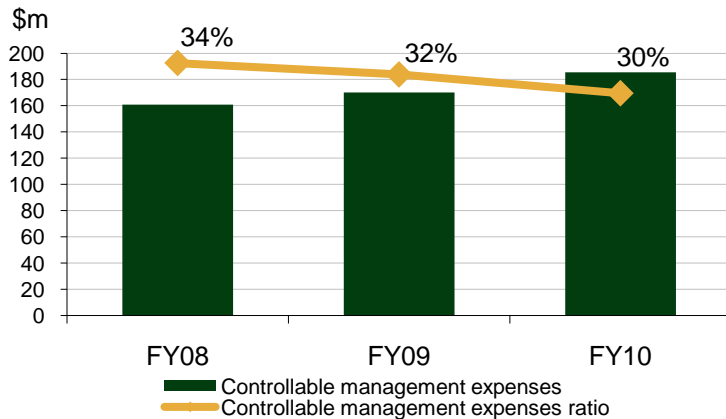
- Lapses held relatively stable despite lapses increasing across the IFA market
- Better than market lapse rates in all channels

Life insurance – business drivers



Net Claims

- Claims cost growing with growth in premiums and changes in business mix
- Overall, claims experience neutral in 2H10
- Impact of GFC peaked in late 2009 and early 2010



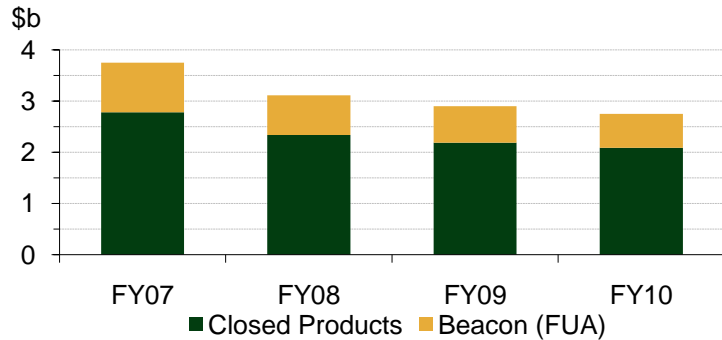
Management Expenses

- Costs held relatively stable while gross premiums have grown 41%
- Focus on cost constraint, business simplification initiatives and lower project costs
- Change in business mix with Group and Direct having lower costs to administer

Life insurance – Claims Experience

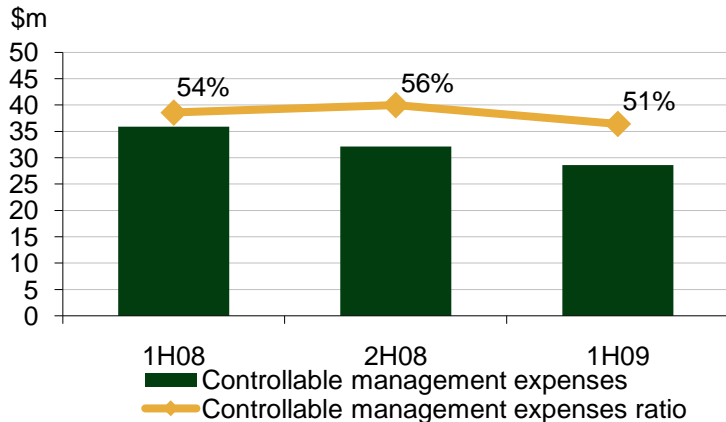
	2007-2008	2009	2010	Outlook	
Individual	- Lump sum	• Slightly favourable	• Poor experience 4Q09	• Poor experience 1Q10 • Favourable experience 2-4Q10	• Slowly improving mortality rates
	- Income protection	• Neutral	• Slightly favourable due to improved termination experience	• Slightly favourable experience with improved termination experience offsetting higher incident rates	• Improving claims management capabilities providing neutral to favourable experience
Group	- Lump sum	• Slightly favourable	• Neutral	• Neutral	• Neutral with scheme pricing adjusting to reflect experience
	- Income protection	• Favourable with scheme repricing to reflect experience	• Neutral with prices reflecting cost of claims	• Adverse experience peaking in 2Q10 • 2H10 improving experience	• Incidence rate normalising in short term
Claims Management	<ul style="list-style-type: none"> • Management restructure of claims in mid 2008 • In response to GFC in late 2008 began recruitment of: <ul style="list-style-type: none"> • Quality control • MIS analyst • Lowered cases per claims staff 	<ul style="list-style-type: none"> • Developed MIS <ul style="list-style-type: none"> • High risk claims • High potential claims • Performance benchmarks • Produced detailed sensitivity analysis • Lowered cases per claims staff • Improved training and skills • Standardised claims process 	<ul style="list-style-type: none"> • Developed claims triage process • Increased claims staff by 20+ • Began claims transformation program • Collapsed 4 claim systems to 1 • Developed service levels 	<ul style="list-style-type: none"> • Claims simplification and automation • Management information feeding into product design • Up skill claims team • Improve customer experience • Lower cost of claims relative to peers 	
NPAT Impact	\$3m	(\$4m)	(\$4m) – all in 1H10		

Investments – business drivers



Funds Under Management / Advice

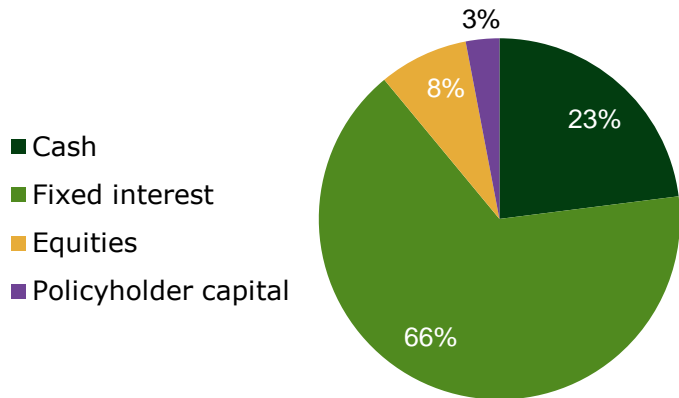
- FUM/A has partially recovered from the investment market falls in 2008 and early 2009
- Most products closed to new customers and gradually running off



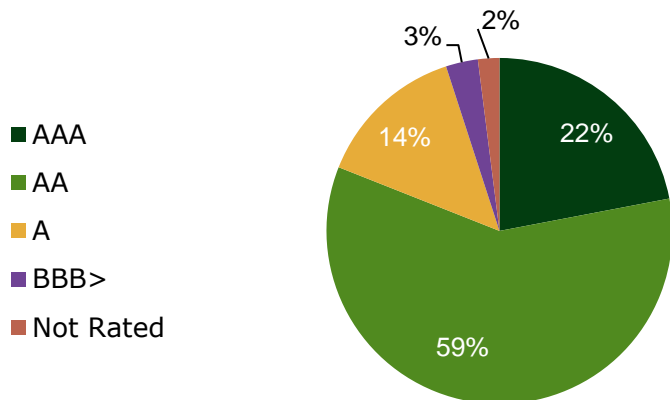
Management Expenses

- Focus on simplification leading to favourable expense outcomes
- Products migrated off one administration system

Shareholder investment assets



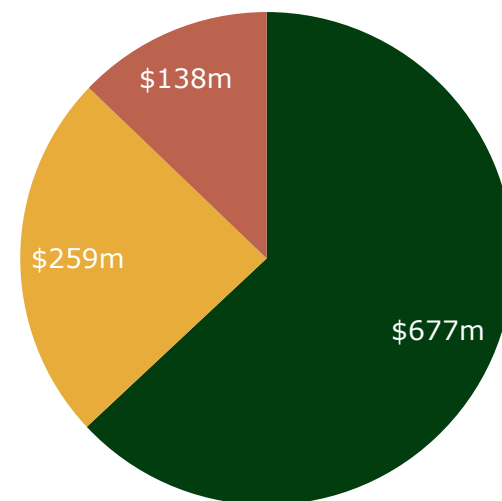
High Quality Fixed Interest Portfolio



- TOWER Australia has a conservative investment strategy
- Shareholder investment assets of \$868m are primarily invested in cash and high grade fixed interest securities
- 98% of shareholder assets invested in \$A denominated assets
- High quality investment assets primarily managed by 11 funds. 9 of which out performed benchmarks
- No defaults in portfolio during last 2 years
- \$2bn of policyholder funds invested in Russell managed funds with asset risk borneset by customer

Capital management – disciplined approach

- Capital position is strong
- Solvency coverage ratio of 2.5 times
- Switched shareholders funds back to long term investment risk profile (i.e. cash to fixed interest) in 2Q10. Further transfers will occur in 1H11
- No exposure to low quality European assets within shareholder investment funds
- New \$60m bank facility used to refinance Convertible Notes and fund new business growth in November 2009
- Strong risk management culture with low tolerance to asset and liability mismatches
- \$92m Entitlement Offer to strengthen capital position for expected organic growth over next 3 years
- Capital will be injected into Life company by TAGL in 1H11 due to a significant new alliance partner and a significant new group scheme being secured



- Regulatory & Economic Capital
- Intangibles / Goodwill
- Available Assets

Summary

Financial

- Underlying profit up 24%
- Earnings per share up 20%
- Life Insurance margin an attractive 18.2% of net premium

Operations

- Excellent claims management performance with favourable income protection experience during adverse economic conditions
- Market leading propositions in all channels leading to strong new business and lower lapse rates
- Business simplification initiatives progressing well and generating significant efficiencies

Outlook

- Full benefit of 2010 growth and simplification flowing into profit and margins
- Above market growth expected to continue
- Improving returns on capital
- Normal claims experience
- Investment income lifting with additional investable capital

Appendix

FY10 profit – underlying & NPAT reconciliation

A\$m	FY10	FY09	FY10 v FY09 Change	Comments
Net Profit after Tax	87.4	46.4	88%	
Discount rate changes	(6.6)	4.7	(240%)	Long term swap rates fell over FY10
Investment timing mismatches	(5.1)	4.0	(228%)	Non-cash item – Market movement impacts on classic wealth products
Normalised investment income	0.1	(1.8)	(106%)	FY10 shareholder investment income was in line with plan
Amortisation/impairment	16.5	21.2	(22%)	FY10 had no impairment charges
Underlying Profit	92.3	74.5	24%	

FY10 profit – experience gains & losses analysis

A\$m (amounts shown after tax)	FY10	FY09	FY10 v FY09 Change	Comments
Underlying Profit	92.3	74.5	24%	
Claims and Reinsurance (gain)/loss	4.2	1.2	250%	1Q FY10 had negative experience on individual lump sum and group salary continuance. Experience in 2H10 in line with long term assumptions
Management expenses and other (gain)/loss	(2.0)	2.2	(191%)	1Q10 had lower project expenses. FY09 included one-off due diligence costs
Underlying Profit excluding experience items	94.5	77.9	21%	

Life insurance – financial performance

A\$m	FY10	FY09	FY10 v FY09 Change	Comments
Net earned premium & other income	624.9	529.1	18%	Growth in inforce premium of 41% offset by increased reinsurance an new group schemes
Net claims incurred	245.8	181.9	35%	Increase in line with premium growth and change in business mix, plus negative claims experience in 1H10 versus favourable experience in 1H09
Sales and other expenses	80.0	82.2	(3%)	Lower commission on IFA business, plus change in business mix to Group Business with lower sales expenses
Controllable management expenses	185.4	170.2	9%	Effective cost management resulted in economies of scale
Profit before tax	144.1	123.7	16%	
Income tax expense	(42.2)	(37.1)	14%	
Underlying profit	101.9	86.6	18%	
Claims ratio	39.3%	34.4%		Change in business mix and unfavourable experience in 1H10 versus favourable experience in 1H09
Controllable management expenses ratio	29.7%	32.2%		Effective cost management and business mix changes
Underlying profit before tax margin	18.2%	17.9%		

Investment business – financial performance

A\$m	FY10	FY09	FY10 v FY09 Change	Comments
Fee and other revenue	56.2	57.4	(2%)	Broadly in line, FUM balance down 5% due to net outflows
Controllable management expenses	28.6	32.1	(11%)	Benefiting from simplification initiatives
Investment management expenses	5.1	4.4	16%	Lower expenses in FY09 due to poor investment returns during GFC
Commissions & amortisation of deferred acquisition costs	15.5	15.2	2%	In line with prior year
Profit before tax	10.6	1.8	489%	
Income tax expense	(2.8)	(1.5)	87%	
Underlying profit	7.8	0.3	Large	
Fee and other revenue to FUM/FUA	2.0%	2.0%		Consistent with FY09
Controllable management expenses to net revenue	51.0%	55.9%		Benefiting from business simplification and cost control

Capital analysis and funding position

A\$m (unless stated otherwise)	FY10	FY09	FY08
Regulatory capital	676.8	521.7	474.9
Excess capital	137.8	75.8	79.5
NTA backed shareholder capital	814.6	597.5	554.4
Goodwill and intangibles	259.3	277.5	144.8
Total capital	1,073.9	875.0	699.2
External debt (all non-current)	(223.5)	(194.9)	(99.7)
Shareholders equity	850.4	680.1	599.5
Gearing (Debt/(Debt+Equity))	20.8%	22.3%	14.3%
Interest cover (times)	11.9	11.8	12.3
Assets available for solvency (life company only)	303.0	264.4	236.6
Coverage of required minimum solvency levels	2.5	2.4	2.5

- Regulatory capital held to meet regulatory and target surplus requirements plus working capital for subsidiaries

Debt position

Maturity Profile of \$223.5m Debt Facility per Lender



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