

A photograph of a young man with dark, curly hair and a light beard, wearing a light-colored polo shirt. He is laughing heartily, looking upwards and to the right. His arms are crossed. The background is a warm, dimly lit interior, possibly a restaurant or cafe, with a glowing pendant light hanging from the ceiling. The overall mood is joyful and relaxed.

Because...

A man with curly hair and a beard, wearing a light blue polo shirt and a white apron, stands in a bakery. He is smiling broadly and looking upwards and to the right. His arms are crossed. The background shows shelves of various breads and cakes, a hanging light fixture, and a framed picture on the wall.

# ...it makes sense to work to our strengths

There's no point trying to play everyone else's game. There's every point in recognising where and why we're competitive, and using those strengths to our advantage to deliver maximum value for stakeholders.

# 06

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TOWER Group

TOWER AUSTRALIA

Life Insurance  
Investments

TOWER NEW ZEALAND

General Insurance  
Health & Life Insurance  
Investments

This Annual Report is dated  
8 December 2006

## WORKING TO A PLAN

Last year you may recall we identified a 7-step plan to rebuild value for shareholders through good compounding growth returns and more competitive strengths across the business. We are more than satisfied with the gains we have made.

	Our 7-step plan for 2006	Progress
1	Continued improvement in returns from our businesses in both countries.	The 2006 result is a lift of over 50% in profit and we're well on the way to improving our return on capital.
2	Improved service levels in the New Zealand insurance businesses.	Marked improvement in customer service in the last 12 months especially in New Zealand where service was below standard in 2005.
3	Renewal of claims management experience, both in the general insurance and the health & life businesses required.	Positive customer feedback reinforces the improvements being made here with more progress expected.
4	Better operating earnings from the New Zealand insurance businesses.	Good improvements in TOWER Health & Life and solid progress in General Insurance – although adverse storm-related claims hindered our operating earnings turnaround. We have also strongly strengthened the New Zealand Investments operating earnings.
5	Reduced cost bases in our New Zealand businesses.	We are reducing costs as quickly as we can without hindering service levels or impacting adversely on growth opportunities.
6	Monitoring of expenses in Australia.	We have continued to keep a close eye on these, given the changes we are making in the Australian market.
7	Strong competitive strategy development across all our businesses.	Well in hand. Over the next year we will lift these competitive strategies to higher levels still, look to further strengthen returns in the investment businesses and seek growth opportunities across insurance lines.

Having proven our ability to fight our way back from the disappointments of a few years ago, separation of the businesses of TOWER in New Zealand and Australia will enable both companies to enhance their returns and continue to reward shareholders. We have rebuilt our competitive strengths and margins in New Zealand to the point where there is good ongoing confidence in our future. In Australia high levels of growth have improved our competitive position and market presence.

## KEY FINANCIAL HIGHLIGHTS

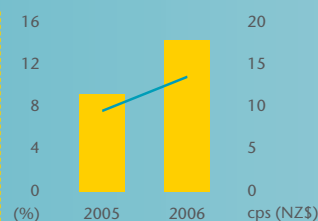
FOR 2006

(All figures in this Annual Report are New Zealand Dollars, unless otherwise stated. The figures have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) for the first time. For further detailed analysis TOWER Limited's Investor Report is available on the TOWER Limited website [www.towerlimited.com](http://www.towerlimited.com).)

**\$63.5 million net profit after tax: up 55% excluding the profit from the spin-off of Australian Wealth Management in 2005. Increased profits from each business unit: TOWER Health & Life up 47%, TOWER Australia up 45%, TOWER New Zealand Investments up 39% and TOWER Insurance up 14%. Strong growth in in-force premium from \$638 million to \$1,063 million: growth in premiums in the health (+14%) and the group risk business (+17%) in New Zealand along with a significant lift in premium in Australia (+124%) following the PrefSure merger. 10.8% return on equity: compared with 7.5% in 2005. Good progress in renewal of New Zealand businesses: building competitive positions that will be leveraged for growth. Acquisition of PrefSure: strengthened TOWER's competitive position in the Australian life insurance market - now third largest life insurer. November 2006 - geographic separation of TOWER's New Zealand and Australian businesses: to enable each company to pursue independent focused strategies and create future shareholder value.**

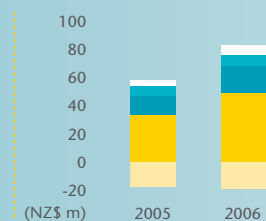
### RETURN ON EQUITY AND EARNINGS PER SHARE (Normalised Net Profit After Tax)

■ Earnings per share (NZ\$)  
■ Return on Equity (%)  
cps = cents per share



### NET PROFIT AFTER TAX (By Business Unit)

■ TNZ Investment  
■ TNZ General Insurance  
■ TNZ Health & Life  
■ TOWER Australia  
■ Head Office & Other



A young girl with blonde hair and a pink headband is the central figure. She is wearing a pink tweed jacket and skirt with a pink ruffled hem. She is carrying several shopping bags, including a large floral one and a brown paper one. A small black and white Chihuahua dog is sitting inside a black and white bag she is carrying. The background is a simple indoor setting with a dark blue wall.

# ...bigger isn't always best

Scale alone is not something that benefits customers. Specialist knowledge and real customer understanding, supported by great technical skills and memorable service - these are the things that really count today.

KEITH BARTON  
CHAIRMAN



Dear Shareholders

In the financial year to September 2006, TOWER has again lifted its overall performance to achieve an improved net profit after tax of \$63.5 million, up 55% from \$40.9 million in 2005 (excluding the profits from the sale of Australian Wealth Management). Market growth in Australia was accelerated by the acquisition of PrefSure, while New Zealand continued to make steady gains in a market that is growing at more moderate rates.

### FURTHER PROGRESS

Overall, we made further progress during the year. The year has seen a large work agenda with the continued renewal of our New Zealand businesses, the acquisition of PrefSure, the continued growth in Australia and the work on the separation proposal being key aspects. While there is more work to be done in the renewal of the New Zealand business the early signs of improvements in service delivery levels are pleasing. The year has also seen some lift in operating margins although these are not yet at desired levels. The New Zealand team is now stronger at various levels with new management and leadership.

In Australia the merger with PrefSure has shown pleasing progress and is substantially complete. The Australian company is well placed as a life insurance specialist to move forward in 2007.

### RELEASING VALUE THROUGH SEPARATION

The big news for this year has been the decision to separate the businesses of TOWER in New Zealand and Australia, in order to release value and allow each to flourish in its own environment. The Board did not take this decision lightly, and examined a number of options before deciding that the geographic separation of the businesses had strong potential to create important future value for TOWER shareholders.

TOWER's New Zealand and Australian businesses possess different characteristics, operations and strategies and there are few natural operational synergies that have been gained from working together. The separation enables each company to focus on its own strategies for growth with direct access to funding and capital markets as needed. We expect this to provide greater longer term value in the separate businesses. We also believe that separation simplifies the structures of both companies and improves business transparency, allowing investors in the future to more easily understand and evaluate the performance and potential of each company and to better value each accordingly in relation to their true worth.

We are delighted that shareholders voted so positively in favour of the separation; and with the businesses now listed in New Zealand and Australia, investors will have the ability to choose whether to invest directly in either or both companies based on the investment characteristics that best meet their own objectives.

### ACKNOWLEDGING OLAF O'DUILL

My predecessor as Chairman, Olaf O'Duill, retired during the year. I would like to take this opportunity to draw attention to the extraordinary energy and level of insight that Olaf brought to the role during a very difficult period. Olaf was Chairman through the period of remediation of TOWER. On behalf of the Board I wish to thank him for all that he has done.

### THANKS

Our last report as a single company also seems a most apt time to acknowledge the work and energy of my fellow Directors. They, together with our management team and our external advisors, have worked diligently to bring about the separation.

Finally, let me thank the hard working people right across the business who continued to give of their best in the most challenging of times. Our new era is due in no small part to the energy you have put into the business, particularly over the past three years, to see us through tough times.

### MUCH TO BE CONFIDENT ABOUT

Much has changed for TOWER since its inception in 1869, and while separation is a significant initiative, it is not the first time that TOWER has taken courageous decisions in order to do the best for its shareholders.

Shareholders can be confident that separation creates two businesses with competent boards, strong management, sound competitive positions, robust balance sheets and most importantly, the real potential to grow value in coming years.

In 2007 each company will consider the question of dividend payments. It has been more efficient under the former TOWER structure to see shareholder value build in the share price but this will be considered separately by each business in future.

Rob Flanagan has joined TOWER Limited as Chief Executive Officer and we wish him all the best. He has a strong record of management and will serve TOWER Limited shareholders well.

Jim Minto is now Managing Director TOWER Australia Group Limited having stepped down as Managing Director of TOWER Limited from 20th November. I thank him for his commitment and successful leadership of TOWER Limited from early 2005. I know he is looking forward to the challenge of continuing the growth of the Australian business.

Thank you for your support of TOWER.

A handwritten signature in black ink, appearing to read 'Keith Barton'.

Keith Barton  
Chairman



...other peoples shoes  
don't always fit

It's best to do what suits you most. We work in those sectors of the markets where we believe we really do add value for customers. TOWER's future strategies in both Australia and New Zealand focus on making more of everything we offer.



JIM MINTO  
GROUP MANAGING DIRECTOR

Dear Shareholders

It's been a busy and productive 12 months as we continued to lift the performance of our business and the value we delivered to shareholders. We have tightened our strategic direction across the whole business, focusing on specialisation in particular markets and strengthening our competitive positions. In Australia we have grown strongly, acquired PrefSure, and accelerated on the gains made last year. The New Zealand business too, under new leadership, has staged a strong comeback, with better performances all round resulting in a higher operating profit and good improvements in customer service.

As the 2006 year ends with formal separation of the two businesses, it is pleasing to report a year of excellent returns. Net profit of \$63.5 million for the year to 30 September 2006 is a good result, a pleasing improvement on last year that bodes well for the next chapter of TOWER.

#### PLAYING TO OUR INDIVIDUAL STRENGTHS

We were pleased shareholders strongly supported our business separation proposal. Separating the New Zealand and Australian businesses will, we believe, enable each company to grow faster with focused strategies, simpler and easier to value businesses and stronger balance sheets.

Although the separation will raise capital of A\$160 million through a renounceable rights issue, the key aim of the initiative is not just to raise capital. In fact TOWER in Australia has already had its credit rating raised by Standard & Poors to A-, reflecting the stronger financial position that we have built over the past two years. We were also pleased to see ratings lift to A- for TOWER Life NZ Ltd. Separation will help us lower the costs in each business leaving more cash on the balance sheets and enabling each business to pursue further growth and improve capabilities. The capital raised by TOWER Australia will also be used to facilitate the refinancing and reshaping of our existing group debt structures.

Those with a sense of history may even choose to see this separation as something of a 'back to the future' initiative. After all, TOWER was originally a New Zealand business going back to 1869 and it was the profits from New Zealand that enabled us to establish and fund the emerging business in Australia. Now though, with Australia flourishing, it's time to bring the profits home to investors in both countries. We are confident that shareholders will be the winners – a belief shared by our major shareholder, GPG, which has given this separation its full support, and fully underwritten the accompanying cash issue.

#### GOOD OPPORTUNITIES AHEAD

I'm pleased to report that this year we have made strong progress towards achieving our 2008 operational goals. We've recognised that, as a mid size business, we need to be competitive, to act quickly, execute well and outpace the market. That requires specialisation. We also need to proactively extract value; in other words, to really make the most of what we have. Finally, focusing on the capabilities and dynamics inherent in each market is critical to achieving our other two objectives. All three ideas support the separation arguments.

Building leading market positions in insurance and investment requires us to work to our strengths, monitor and respond quickly and well to developments in each of our markets and then to execute our strategies better than our competitors.

In New Zealand that will mean capitalising on premium growth opportunities in particular sectors in which we are strong, and being there with compelling life insurance offerings as New Zealanders look to acquire more of the cover they find they need. In investment the introduction of Kiwi Saver and the heralded tax changes both point to stronger growth over time. All of these developments point to ways for us to sustainably lift performance and brand preference with a New Zealand business that is New Zealand listed, New Zealand focused and New Zealand based. Rob Flannagan took up the role to lead

# \$63.5 million

NET PROFIT AFTER TAX

*This compared to last year's profit of \$40.9 million (excluding Australian Wealth Management)*

# +55%

NET PROFIT AFTER TAX

*Excluding Australian Wealth Management*

A young boy in blue patterned pajamas is brushing his teeth in a bathroom. A dog is sitting on the floor nearby. The scene is set in a modern bathroom with white tiles and a glass shower enclosure.

# ...a healthy future requires commitment today

Our decision to separate our businesses shows that we have the confidence and the discipline to recognise our potential and to find tangible and practical ways to continue to move forward, with vision and momentum.



JOHN DE ZWART  
CHIEF FINANCIAL OFFICER

the New Zealand business in November 2006 and this means new energy and perspectives that are New Zealand focused will continue to be added to that business. We welcome Rob to TOWER New Zealand and look forward to shareholders benefiting from his proven experience.

In Australia we've already enjoyed two years of strong growth and we believe there are better growth and performance opportunities available. Australian market capitalisation has increased significantly, with year end results better than we expected. In particular, PrefSure, with its powerful market presence in group and platform markets, has proven a good strategic fit with TOWER's predominantly retail presence, giving us arguably the best strategic footprint in the Australian life market, and reinforcing our credentials as a life and niche investment specialist in Australia. TOWER is now Australia's third largest life insurer by premiums in force and one of the fastest growing, based on new business volumes. TOWER Australia was also named Money Management's Risk Company of the Year 2006. Those are excellent credentials for that business as we separate.

#### SUMMARY OF RESULTS

Year Ended 30 September 2006

NZ\$ million	2006	2005	% Change
Business unit operating earnings	56.7	35.5	+60
Corporate expenses	(9.3)	(9.9)	-6
Investment returns	29.2	24.6	+19
Financing expenses	(10.9)	(9.3)	+17
Amortisation of intangibles	(2.2)	-	-
<b>Net profit after tax (excluding AWM)</b>	<b>63.5</b>	<b>40.9</b>	<b>+55</b>
Profit from AWM	-	78.4	-
<b>Net profit after tax</b>	<b>63.5</b>	<b>119.3</b>	<b>-47</b>

AWM = Australian Wealth Management

#### MY THANKS

A company the size of TOWER depends on the energy of its people and their engagement for success. Our people have led the turnaround of the business over the last couple of years and I want to take this opportunity to pay tribute to their commitment and motivation in the face of restructuring and upheavals. My thanks to all of our staff – past and present – who helped us arrive at this point.

The Board too has been instrumental in guiding the company through difficult times. My thanks to all the members of the Board for their guidance of the business through torrid early times. The company we are today is in no small part a direct result of the strategic insights and robust governance that our Board has provided.

This is a good time for each business to forge its own future. Thank you to all our investors for your continued faith in TOWER and for your shareholding and support. We recognise that at times in recent years your loyalty has been challenged, but we are confident that separation will see continued re-invigoration of the businesses and improved returns for you.

Our thanks too to all our customers. We will continue to look to do our best by you.

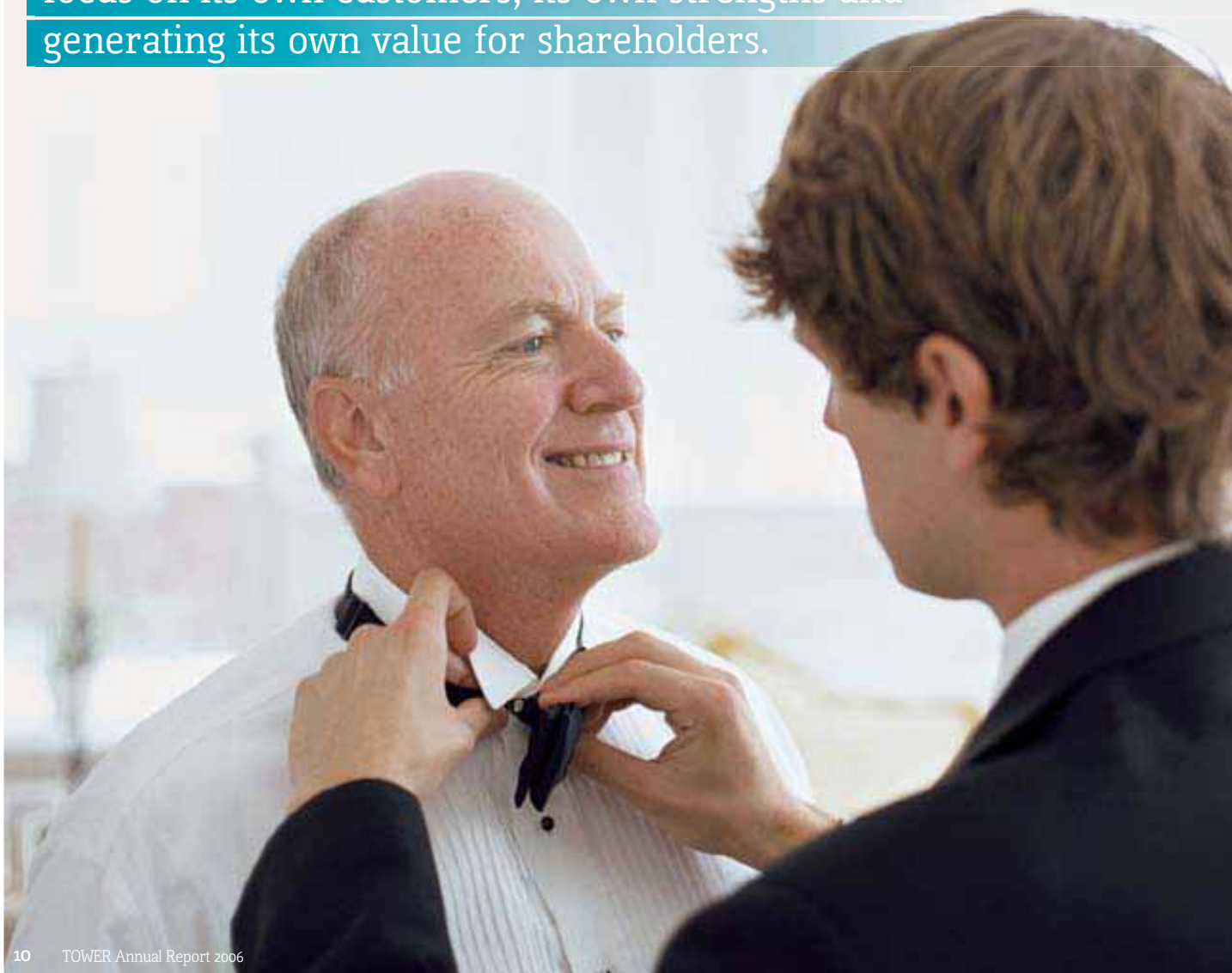
Finally, a note on changes in roles for the year ahead. As I noted earlier TOWER Limited is now managed by Rob Flannagan. I have moved to Australia as Managing Director of TOWER Australia Group Limited, with John de Zwart, the former Group Chief Financial Officer, taking the role of CFO of the Australian listed company. Other Chief Executive positions in the existing business lines are unaffected.

Best wishes

Jim Minto  
Group Managing Director

# ...forward sometimes points to where you were

TOWER was originally a New Zealand company. Australia grew to become an asset in its own right. Separation will enable each business to now focus on its own customers, its own strengths and generating its own value for shareholders.





JIM MINTO  
MANAGING DIRECTOR

A MESSAGE FROM THE INCOMING MANAGING DIRECTOR

Having led the trans-Tasman Group for the last two years, I'm looking forward to continuing the development of the three Australian businesses and improving their competitive position. The acquisition of PrefSure in 2006 means we start the next phase to achieve our vision to be the leading specialist life insurance business in Australia with a significantly larger footprint and wide-ranging synergy and channel opportunities. Reworking our investment strategies and systems will also help to build a credible and profitable investment proposition. I'm looking forward to capitalising on a market that presents us with plenty of opportunities.



Jim Minto

TOWER Australia delivered another strong result this year with net profit after tax improving once again in both absolute and percentage terms from A\$30.8 million last year to A\$42.8 million as a result of continuing strong performance in operating margins and increased investment returns.

In fact TOWER Australia's operating earnings have steadily improved since 2004 thanks to a combination of cost reductions, improved lapse rates, increased sales, re-pricing of products and the decision to exit unprofitable lines.

TOWER Australia is now the third largest Australian life insurer following the PrefSure merger. As at 30 June 2006 TOWER was the number one ranked group life insurer with a 17.1% share of in-force premiums and the number five ranked Retail life insurer with a 9.4% share of in-force premiums. TOWER Australia's combined market share increased to 10.5% as at 30 June 2006.

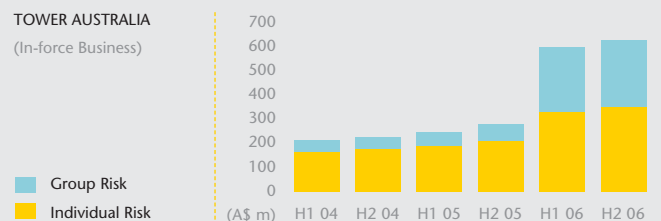
The business enters the new era of being a standalone entity with a strong balance sheet, including low gearing, conservative shareholder asset mix, low exposure to investment market fluctuations and significant free cash reserves, as well as an experienced and focused Board and management team.


PERFORMANCE TABLE

Year Ended 30 September 2006

NZ\$ million	2006	2005	% Change
In-force premiums	612.0	273.2	+124
Margins from insurance contracts	23.2	12.3	+89
Margins from investment contracts and other business	6.0	2.5	+140
Operating earnings (net of tax)	29.2	14.8	+97
Investment returns	13.6	16.0	-15
<b>Net profit after tax</b>	<b>42.8</b>	<b>30.8</b>	<b>+39</b>

TOWER AUSTRALIA  
(In-force Business)





...this is not the  
end it's really just the  
next beginning

The surest sign that we really are confident about our futures lies in the fact that we look forward to pursuing them separately.



DAVID CALLANDER  
CEO - RETAIL LIFE



GEOFF BLACK  
CEO - ALLIANCES &  
GROUP LIFE

#### LIFE BUSINESS

Growth continues at a pace. The business has consistently exceeded the risk market's natural growth of 10% pa for the past three years – achieving double those rates and more in the past two years. Key reasons for the underlying growth rates include the continuing strength of the Australian economy, increasing personal debt and income levels, higher consumer need for insurance cover, rising personal wealth and the growth of personal superannuation savings with associated life insurance.

Yet at the same time as the market continues to expand, there is still significant underinsurance. The gap between the life insurance cover Australians hold, and the likely cover that would be required to protect them against financial risk remains considerable.

For these reasons we continue to see attractive growth prospects in the Australian life insurance risk market, and unique opportunities for the business to build shareholder value by leveraging its expertise and market-leading position.

The acquisition of PrefSure, one of the highlights of the current financial year, moved TOWER Australia up to Australia's third largest life insurer by in-force premium, and one of the fastest growing, based on new business volumes. We fully expect to achieve further earnings improvements through realising more business synergies and lowering the infrastructure costs associated with legacy systems and products. There's no doubt that significant business simplification opportunities exist. For example, we will implement a single group life system by the end of 2006 and our goal is to streamline our core IT (Information Technology) systems over the next three years.

We have some important strengths and it is vital we capitalise on these in the years ahead. For example, we need to leverage our current sales channel strategies with astute business-to-business partnering, because specialisation will be an important factor in outperforming the market. We also have a robust and rapidly expanding distribution network that we need to continue to grow, at the same time as we look for new alliance and channel opportunities. Product innovation and leadership will continue to be important in maintaining our competitive position, and there is no doubt that service will continue to represent a strong ongoing value driver, when it is directly aligned with the interests and concerns of dealers and advisors.



GAVIN PEARCE  
CEO - INVESTMENTS

#### INVESTMENTS

TOWER Australia's investment business centres on a strong niche strategy based around our existing Life distribution channels, though with increasing focus on smaller dealer groups and licence holders. In addition, the company outsources some of its administration platform capability and uses its wholly-owned subsidiary, Beacon, to leverage further sales in other areas. Our asset management capability is delivered using external investment managers on a multi-manager basis.

The Australian superannuation market is currently worth A\$905 billion. It is growing strongly with new funds contributed by, or on behalf of, members and strong investment returns that continue to lift the value of funds invested. Superannuation is expected to enjoy continued strong growth, driven on by 9% Compulsory Superannuation Guarantee contributions, the tax advantages offered through salary sacrifice and the dynamics of an aging population looking to secure themselves a better future.

Tower Australia currently has A\$3.3 billion in funds under management.

Recognising that significant value can be released through robust optimisation strategies, TOWER Australia is now re-allocating traditional and unit linked products to achieve higher returns. Over the year ahead we expect growing funds under management and business transformation initiatives to drive productivity improvements. We look forward to more market product rationalisation, which we expect to be supported by legislation.

#### OUTLOOK

TOWER Australia sees itself as well positioned for industry consolidation within the Australian life insurance industry. We have strong products, a growing presence, good prospects, and a leadership team that is motivated to achieve further success.

Over the coming year the business will focus on:

- increasing sales through financial advisors;
- maintaining mastertrust growth and margins by enhancing our services;
- developing alliances, both current and new, to further capitalise on the under-insurance gap;
- launching new retail and corporate superannuation investment offerings to our channel partners;
- outsourcing appropriate back office activities;
- simplifying the business and lowering fixed costs; and
- enhancing our product margins and return on equity.

We look forward to reporting back on our progress.



ROB FLANNAGAN  
CHIEF EXECUTIVE OFFICER  
NEW ZEALAND

#### A MESSAGE FROM THE RECENTLY APPOINTED CHIEF EXECUTIVE OFFICER

TOWER has been one of the most powerful names in the New Zealand insurance market. Many New Zealanders are still very loyal to the brand. Having recently joined TOWER to take up the role of Chief Executive New Zealand, I'm determined to see this company rekindle some of that fire. There's no doubt that determination is there. Over the last year and a half the people in this company have achieved a significant performance turnaround. Now we will build on that momentum across our service lines to sustain our growth.

Healthy finances, clear strategies and motivated people are assets I never underestimate. There won't be a miracle. But by year's end I'm confident we'll have made sure and steady progress.

Rob Flannagan

TOWER New Zealand's businesses have continued to participate in the major transformation started 18 months ago, following initiatives undertaken by the new management teams to focus on securing markets, gaining and winning back customers, achieving competitive service, and making our operations as efficient as possible. The journey's not over by any means, but we can confidently say that the business has stabilised. Over the next year we'll look to further lift service levels and satisfaction ratings as we seek to restore the TOWER brand to the market position we aspire to.

Growth this year across the businesses was not rapid, but it was consistent, it was above natural market levels and we are confident that it will steadily pick up over the next year.

Health and life insurance sales have shown signs of improvement although they are still not at our desired levels. TOWER Health & Life showed a strong profit turnaround, improving 47% on last year's result, with net profit after tax of \$19.1 million.

TOWER Insurance had a mixed year, as the New Zealand general insurance sector became more volatile. Net profit after tax this year was \$7.9 million (compared with \$6.9 million last year). Underlying underwriting profits were again challenged by major storm claim events but ended the year with a \$7.2 million profit.

TOWER New Zealand Investments achieved further improvements in its results, with net profit after tax improving from \$4.9 million last year to \$6.8 million in 2006.

Our goal now is to focus more closely on our customers' and distributors' needs, to better understand their behaviours and choices, and to align our service proposition to them. The opportunity separation presents is for us to focus solely on what New Zealanders need, and to use those insights to our market advantage.

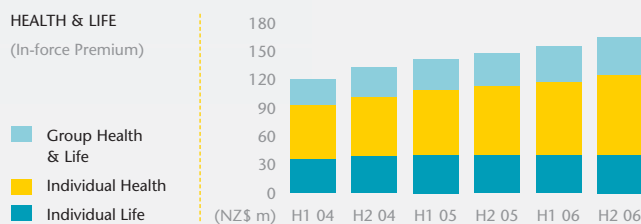
The Pacific continues to be an important part of our business. This has been a profitable business with good margin returns in an area where we have high market penetration. Underwriting is key, given the effects that weather can have in the region, but we know the Pacific well and our underwriting skills are very good.



STEVE BOOMERT  
CEO - HEALTH & LIFE



TONY HILDYARD  
CEO - INVESTMENTS



HEALTH & LIFE

TOWER New Zealand's Health & Life business is a leading participant in the group life, retail and group health markets. The business is positioned with intermediaries as a specialist health insurer with product extensions in life insurance. With a 16% market share of the health insurance market (by lives covered) and 14% market share (by revenue) of the group life insurance market, the business is the second largest player in the Health Insurance market and has enjoyed strong growth.

Good progress has been made this year in restoring health margins, lifting service capabilities and rebuilding sales momentum. The Life business has had mixed performances: Group Life exceeded sales and retention expectations, but there has been a slower turnaround in individual sales.

To secure ongoing growth in these markets we are developing new strategies in both markets. In Life in particular, we are looking to improve retention rates as a priority, and resources have been committed to drive this. Over the next year we'll also focus on new distribution opportunities in the Life business and further develop aligned current channels to support more growth.

Continued product innovation and leadership are vital if we are to maintain our current competitive positions.

At the same time we will look to streamline efficiencies through incremental improvements in claims management, pricing and health margin management. New systems and processes will also drive productivity improvements. These will include further automation and the combination of our two Life systems into one over the next two years.

HEALTH & LIFE PERFORMANCE TABLE

Year Ended 30 September 2006

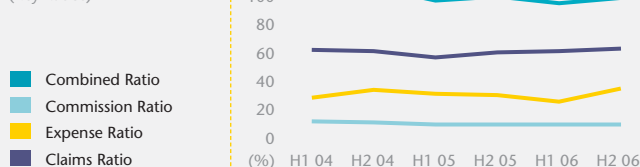
NZ\$ million	2006	2005	% Change
In-force premium	164.7	147.8	+11
Operating earnings from Life	13.3	12.4	+7
Operating earnings from Health	3.0	(0.6)	+500
Investment returns	2.8	1.2	+56
<b>Net profit after tax</b>	<b>19.1</b>	<b>13.0</b>	<b>+47</b>

GENERAL INSURANCE PERFORMANCE TABLE

Year Ended 30 September 2006

NZ\$ million	2006	2005	% Change
Net premiums	178.5	168.5	+6
Incurred claims	(109.7)	(100.9)	+9
Expenses	(61.6)	(66.0)	-7
Underwriting profit	7.2	1.6	+350
<b>Net profit after tax</b>	<b>7.9</b>	<b>6.9</b>	<b>+14</b>

## GENERAL INSURANCE (Key Ratios)



## GENERAL INSURANCE

TOWER is a top four participant in the New Zealand retail general insurance market and also operates in the commercial insurance market in the Pacific Islands. The General Insurance division has a 10% market share of the New Zealand personal lines, general insurance market and enjoys a strong competitive position in the Pacific Islands. Premiums in force at year end were \$198.7 million.

The business has experienced weak underwriting profits this year, caused mainly by losses on New Zealand home insurance, although these have been partly offset by strong earnings from motor and from business in the Pacific Islands. Price increases over the past 18 months are expected to see underwriting performance improve however, and claims management is also improving.

We see direct distribution as one of our key growth platforms over coming years. Redevelopment of our direct sales distribution strategy and brand started in the second half of 2006, and is continuing. At the same time we are investing further in growing our business to business partnering skills to underpin our alliance partner business base. We have strong core alliance partnerships in place already. Our plan now is to maximise the mutual benefits from these arrangements.

New product and market opportunity strategies, underpinned by investment in process renewal, are expected to generate service and productivity improvements at the same time as we focus on lifting our operating margins with strong product management and pricing.

In the Pacific Islands we will continue to ensure that the general insurance business we provide delivers healthy risk adjusted returns with careful underwriting.

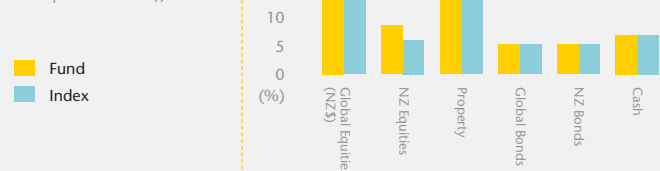
## INVESTMENTS PERFORMANCE TABLE

Year Ended 30 September 2006

NZ\$ million	2006	2005	% Change
Funds under management	5,305	5,150	+3
Total income	52.8	51.6	+2
Total expenses	42.1	44.6	-6
Operating earnings	10.7	7.0	+53
<b>Net profit after tax</b>	<b>6.8</b>	<b>4.9</b>	<b>+39</b>

## INVESTMENTS

(Fund Management Performance versus Benchmark (12 months to 30 September 2006))



## INVESTMENTS

The New Zealand Investments business is a leading wholesale fund manager in the New Zealand market and has received many industry rewards over the years. Once again this year we delivered superior investment performance for the \$5.3 billion we have in funds under management.

A major reinvestment in the business over recent times has seen outsourcing of investment registry and system functions, streamlining of investment offerings through the sale or closure of non-performing products, and a revamping of our current product to make them as attractive and competitive as possible. These changes have taken place in tandem with productivity improvements, achieved through continued simplification of the business model and systems.

One of the great strengths of this business has been its ability to develop and provide market-leading products for niche sectors. We expect upcoming tax changes to make these more attractive from 2007. We also intend to capitalise on the changes occurring in the investment markets—for example, the introduction of the tax incentivised superannuation saving scheme, KiwiSaver, should result in a healthy increase in investment activity.

On the wholesale side we will look to leverage TOWER's position as a market-leading wholesale asset manager.

## OUTLOOK

TOWER in New Zealand is a business that is in improving shape and feeling positive about its future. At year end the Company has a strong balance sheet, low debt, stabilised market shares and is well positioned to take advantage of the good indications of growth in its key markets.

Over the next year we will continue to focus on improving profit margins and growing our market share of new business in order to increase shareholder value through higher returns on capital and increased dividends.

To do this the Health & Life business will continue developing aligned and new distribution channels and improving its customer retention; General Insurance will focus on investing in the brand, service improvements, profitable product pricing, improving retention, and claims management; and Investments will aim to continue its award-winning investment performance, launch its KiwiSaver offering and implement further back-office simplification and outsourcing.

  
Rob Flannagan  
CEO

### TOWER PEOPLE

As a mid-sized business, TOWER is dependent for success on its teams working to a tight focus and strong delivery of strategy. For those reasons we have done everything we can to continue to build a strong overall team, to foster a culture that values performance and to encourage leadership qualities in promising individuals.

Performances by our people have played a pivotal role in this year's good results.

In New Zealand staff numbers have been rebuilt and the business is now well resourced, despite continued tightness in the employment market.

In Australia the merger with PrefSure has brought an injection of more specialist skills into the business, not only adding to our overall resourcing but also deepening and broadening our knowledge assets. Those skills proved invaluable in a year of continued high growth and strong demand, enabling us to deliver very high standards to an expanding customer base.

As outlined in last year's Report we focused strongly this year on developing a performance culture supported by an incentive programme that cascades through all levels of the organisation. Individuals have also been encouraged to lift their own ongoing performance and development within a framework that emphasises goal setting and measurement together with feedback to assist with personal development.

Like any service-driven business we are only as competitive as the people we have and the experiences we provide. Separation will enable staff in both businesses to focus on using their skills to continue looking after their customers in their market. It will be challenging - but as our people have already shown, they are more than capable of achieving what is required.

### IN THE COMMUNITY

TOWER firmly believes in being committed to the communities in which it does business. Being active and involved in community partnerships which enhance the places where people work and relax is a priority that the company takes seriously.

Over the past two years TOWER's sponsorship portfolio has been closely reviewed and re-evaluated and this process will continue. TOWER believes that by setting high standards and being involved with dynamic and professional organisations its relationships will help enrich the wider community. Our current sponsorships are enduring ones that also give certainty and development opportunities to the organisations we support.

TOWER remains the Principal Sponsor of the world class TOWER New Zealand Youth Choir and TOWER Voices New Zealand, its sister Choir. Travelling nationally and internationally the reputation of these Choirs is second to none, thanks to the rigorous and demanding standards set by both Dr Karen Grylls (Artistic Director) and the young singers themselves.

TOWER's long-standing sponsorship of the Arts has been an award winning strategy and for the past decade TOWER has proudly presented one of the most outstanding exhibition spaces in New Zealand – The TOWER Gallery at the Museum of New Zealand Te Papa Tongarewa. This relationship will celebrate its 10th anniversary in 2008.

Towards the end of 2005 the TOWER Season of The Nutcracker, performed by the Royal New Zealand Ballet, took centre stage in eight towns and cities around New Zealand attracting huge accolades – as did the 2006 TOWER Season of Giselle. As part of our commitment to extend the experience of the performing Arts to heartland New Zealand TOWER will proudly sponsor TOWER Tutus on Tour in February-April 2007. Splitting into two touring groups the Royal New Zealand Ballet will take the TOWER Tutus' programme to almost 50 towns across the country.

TOWER's companies also continue to individually support a number of activities and organisations such as awards and conferences. Iconic events like the Ellerslie Flower Show continue to be a major undertaking for TOWER Insurance.

TOWER's Board (Board) and executive management have a responsibility to achieve the highest standards of corporate performance, ethical behaviour and accountability. The Board has adopted and developed corporate governance structures and practices that are consistent with best practice and ensure the integrity of the governance framework, with continual reassessment of its practices against these standards. Where developments arise in corporate governance, the Board is committed to review TOWER's practices and incorporate changes where appropriate to ensure TOWER maintains best practice governance structures.

#### COMPLIANCE WITH GOVERNANCE REQUIREMENTS AND RECOMMENDATIONS

As TOWER's securities are listed on the New Zealand and Australian Stock Exchanges, TOWER adheres to New Zealand Exchange Limited's (NZX) Listing Rules; the NZX Corporate Governance Best Practice Code; the New Zealand Securities Commission Corporate Governance Principles and Guidelines; the Australian Stock Exchange Limited's (ASX) Listing Rules; and the ASX Corporate Governance Council Best Practice Recommendations.

For the reporting period to 30 September 2006, TOWER considers its corporate governance practices have complied with the NZX Corporate Governance Best Practice Code and the ASX Corporate Governance Council Best Practice Recommendations.

Copies of the principal governance documents and more detail about TOWER's governance practices are available on TOWER's website at [www.towerlimited.com](http://www.towerlimited.com) under 'Corporate Governance'.

#### HOW TOWER'S BUSINESS PRACTICES REFLECT CORPORATE GOVERNANCE BEST PRACTICE

##### Role of the TOWER Board of Directors

The Board, elected by TOWER's shareholders, is responsible for the performance of the TOWER Group (Group) as a whole. In practice, this is achieved through formal delegation to the Group Chief Executive Officer (Group CEO) and to its three Board committees (Audit and Compliance Committee, Remuneration and Appointments Committee, and Investment Committee – the role of each of these committees is outlined on pages 24 and 25).

The day-to-day leadership and management of the Group is undertaken by the Group CEO and senior executives. The Group CEO has also formally delegated certain functions to senior management to ensure consistent and efficient decision-making across the Group. Executives have no power to do anything which the Group CEO cannot do pursuant to his delegations. Within this formal delegation framework those executives who report directly to the Group CEO have authority to sub-delegate certain authorities to their direct reports. The Board meets regularly with management to provide strategic guidance for TOWER and effective oversight of management.

Each year the Board holds a strategy session with senior management to review TOWER's business direction. The application of these strategies within each business area is reviewed regularly at Board meetings.

The Board is primarily governed by the Board Charter, Board Protocols and the Code of Ethics. The Board Charter records the Board's roles and responsibilities, the Board Protocols describe internal Board procedures for efficient decision-making and the Code of Ethics ensures decision-making is in accordance with TOWER's values. These documents can be found under 'Corporate Governance' on TOWER's website at [www.towerlimited.com](http://www.towerlimited.com).

The Board Charter records that the primary role of the Board is to effectively represent and promote the interests of shareholders with a view to enhancing growth and returns across the Group, adding long-term value to TOWER's shares. The Board Charter has been formally amended this year so that when fulfilling its roles and responsibilities, the Board is now required to have appropriate regard to TOWER's values, the concerns of its shareholders, its relationships with significant stakeholders and the communities and environment in which it operates.

The Board reserves certain functions to itself, as outlined in the Board Charter. These include:

- determining the Group's strategic objectives, and approving the annual operating plans, financial targets and capital expenditure plans;
- assessing and monitoring performance, including management's performance against the strategic objectives, operating plans and financial targets;

- approving all changes to the Group's corporate structure where these are of strategic importance;
- determining Group financial and treasury strategies and policies, including approving all dividend policies and distributions to shareholders, lending and borrowing, tax, and investment and Foreign Exchange policies;
- determining the Group risk management policies and framework and the Group information technology strategies and policies;
- approving capital expenditure, operating expenditure, asset acquisitions and divestments, and settlement of legal proceedings, in all cases where this is outside the normal course of business and/or above delegated limits;
- approving all transactions relating to major business and company acquisitions, mergers and divestments; and
- approving the Group CEO's appointment and remuneration.

#### BOARD COMPOSITION, NOMINATIONS AND APPOINTMENTS

##### Board composition

At 30 September 2006 the Board included seven non-executive Directors. TOWER's Constitution requires a minimum of six Directors and a maximum of nine. At least two Directors have to be New Zealand resident.

The Group Remuneration and Appointments Committee is responsible for identifying Directors for appointment to the Board to ensure there is an appropriate blend of commercial skills and experience to govern and add value to the TOWER businesses. The Committee is also responsible for the Board Protocols which have been established to facilitate the effective operation of the Board. Current Directors contribute significant commercial, financial, legal and investment skills to the Board. Directors' profiles are on pages 22 to 24.

##### Role of Chairman

The Chairman's role is to lead and manage the Board so that it operates effectively, and to facilitate interaction between the Board and the Group CEO. The Group CEO is charged with the day-to-day leadership and management of the TOWER Group.

The Chairman of the Board is elected by the Directors. The Board supports the separation of the roles of Chairman and Group CEO and these roles have always been separate at TOWER. Keith Barton was appointed Chairman following Olaf O'Duill's retirement on 30 June 2006. Keith Barton is also Chairman of the Group Remuneration and Appointments Committee. Effective from 19 December 2006 Tony Gibbs was appointed Chairman of TOWER Limited replacing Keith Barton who retired to become Chairman of TOWER Australia Group Limited following the completion of the separation of TOWER Limited and TOWER Australia Group Limited.

##### Nominations, appointments and ongoing education

The Remuneration and Appointments Committee recommends to the Board suitable candidates for appointment as Directors. The Committee will consider, among other things:

- a candidate's experience as a Director;
- his/her skills, expertise and competencies (including in the financial services industry);
- the extent to which those skills complement the skills of existing Directors;
- their ability to devote sufficient time to the directorship; and
- the candidate's reputation and integrity.

On appointment to the Board, Directors receive a formal letter of appointment outlining their duties and obligations and are provided induction information about TOWER in the form of a Director's Manual. The Director's Manual contains a historical background on TOWER and its operations, information about how the Group is structured, details of TOWER's Directors' and officers' insurance, the Board Charter and other TOWER corporate governance policies. The induction process also involves one-on-one discussions with the Chairman, other Directors and briefings from senior management to help new Directors participate actively in Board decision-making at the earliest opportunity.

To ensure ongoing education, Directors are regularly informed of developments that affect TOWER's industry and business environment, as well as Company and legal issues that impact the Directors themselves. The Directors receive comprehensive board papers and briefing information before Board meetings including a report from the Group CEO and divisional reports from the CEO of each business unit. Directors have unrestricted access to management and any additional information they consider necessary for informed decision-making. The Company Secretary is usually the first point of contact for such requests.

Senior management also attends each meeting to provide presentations to the Board and answer any queries Directors may have. This allows the Board to understand the practical issues affecting TOWER and the impact of these issues on its performance.

Directors are expected to develop their skills, competencies and industry knowledge by taking responsibility for their continuing education.

A Director may obtain independent professional advice relating to the affairs of TOWER or his/her responsibilities as a Director or Board Committee member.

Where the Director has the approval of the Board Chairman or Committee Chairman to obtain independent professional advice, TOWER will meet the reasonable costs of the advice.

### Director Independence

The Board Protocols require that a majority of the Board are independent Directors. The Board regularly assesses the independence of each Director based on the interests disclosed by them. For this purpose Directors are required to immediately advise the Board of any new or changed relationships so the Board can make this assessment.

Based on the NZX Listing Rules and the ASX Corporate Governance Council Best Practice Recommendations, the Board Protocols define a Director as being independent if he/she is a Non-executive Director who does not have any direct or indirect interest or relationship that could, or could reasonably be perceived to:

- reasonably influence, in a material way, his/her decisions relating to TOWER; or
- materially interfere with his/her ability to act in TOWER's best interests.

Examples of relationships that remove independence are relationships with a material TOWER customer, supplier, professional advisor or substantial shareholder. Currently, the Board considers that five of the Directors are independent, namely: Bill Falconer, Susie Staley, John Spencer, Keith Barton and Denis Wood. Keith Barton resigned from the TOWER Limited Board on 19 December 2006.

The Board considers Gary Weiss and Tony Gibbs are not independent as a result of their appointment to the TOWER Board by Guinness Peat Group, a substantial shareholder of TOWER. Gary Weiss resigned from the TOWER Limited Board on 19 December 2006.

In accordance with TOWER's Constitution, Directors with an actual or potential conflict of interest are required to disclose the conflict and may still attend meetings but will abstain from voting.

### Retirement and re-election

At least one-third of the total number of Directors must retire from office by rotation and, if they choose, stand for re-election by shareholders at the Annual Meeting. The Directors who retire each year are those who have been in office longest since their last election. If two Directors have held office for equal terms and cannot agree who will retire, it is determined by lot. Susie Staley and Tony Gibbs are due to retire by rotation and stand for re-election at the 2007 Annual Meeting. The Board unanimously supports the re-election of these Directors.

In addition, all Directors appointed by the Board since the last Annual Meeting to fill a casual vacancy must stand for election. Therefore, Mike Jefferies will seek election following his appointment by the Board in December 2006. Shareholders will be provided with relevant information on the Directors standing for re-election prior to the Annual Meeting to enable them to make informed decisions when voting.

Olaf O'Duill retired as a Director (and Board Chairman) during the year.

### Board and Committee Performance Review

The Board recognises that the performance of the Directors, Board Committees and the Group Managing Director are crucial to TOWER's success and to the interests of shareholders. The Board reviews its own composition and performance and that of the Board Committees in accordance with the terms of the Board Charter. The Remuneration and Appointments Committee is responsible for the performance management and annual appraisal of the Group CEO and individual Directors. Evaluations may be carried out by an external consultant. Further details regarding the Group CEO's performance review and remuneration are set out on page 28.

### Director share ownership

All Directors are required by TOWER's constitution to hold TOWER shares. Directors are required to comply with TOWER's Insider Trading Guidelines when purchasing and disposing of TOWER securities. The number of shares held by each Director and their dealings in TOWER securities during the financial year are disclosed on page 37 in the Regulatory Disclosures section.

### Indemnities and Insurance

TOWER has given Deeds of Indemnity to Directors for potential liabilities and costs they may incur for acts or omissions in their capacity as Directors. Directors' and Officers' liability insurance is in place for Directors and employees acting on behalf of TOWER and its subsidiaries. While the insurance covers risks arising out of acts or omissions of Directors and employees acting for TOWER, it does not cover dishonest, fraudulent or malicious acts or omissions, or criminal liability.

### Attendance at Board and Committee Meetings

The Board held 10 scheduled meetings during the year from 1 October 2005 - 30 September 2006 and six special meetings. Mike Jefferies attended six scheduled Board meetings as an alternate Director for Gary Weiss and Tony Gibbs. Director attendance at the Board meetings is set out on page 26. The Company Secretary attends all Board and Committee meetings. She is responsible for taking accurate minutes of each meetings and ensuring that Board procedures are observed.



**BILL FALCONER LLB, CNZM**  
NON-EXECUTIVE DIRECTOR

APPOINTED: 31 DECEMBER 2003  
LAST RE-ELECTED – 2006

BOARD COMMITTEE MEMBERSHIPS: MEMBER OF AUDIT AND COMPLIANCE COMMITTEE, MEMBER OF TAL AUDIT AND COMPLIANCE COMMITTEE

INDEPENDENT

Mr Falconer joined TOWER's Board in December 2003. He has had a successful career as a public servant, lawyer and company director. He is currently the Chairman of Hellaby Holdings Limited, Kiwifruit International Limited, Oyster Bay Marlborough Vineyards Limited and a Director of Westfield Trust (NZ) Limited. He is also a Board member of the New Zealand Symphony Orchestra and Chairman of the Meat Industry Association. He is resident in Cambridge, New Zealand.



**DENIS WOOD MA (HONS) ECONOMICS**  
NON-EXECUTIVE DIRECTOR

APPOINTED: 27 MAY 2005  
ELECTED – 2006

BOARD COMMITTEE MEMBERSHIPS: CHAIRMAN INVESTMENT COMMITTEE

INDEPENDENT

Denis Wood was appointed to the Board in May 2005 and is Chairman of the Investment Committee. He has a wide ranging skill set and extensive experience across a broad range of investment areas, from investment management to investment banking. Mr Wood was previously an executive Director at Ernst & Young Corporate Finance Limited and prior to that he was an Executive Director at UBS Warburg. Mr Wood is currently Chairman of Pike River Coal Limited and Mercy Healthcare Auckland Limited. He is resident in Auckland, New Zealand.



**GARY WEISS LLB (HONS), LL.M (DISTINCTION), JSD (CORNELL UNIVERSITY, NEW YORK)**  
NON-EXECUTIVE DIRECTOR

APPOINTED: 27 MARCH 2003  
LAST RE-ELECTED – 2005

BOARD COMMITTEE MEMBERSHIPS: MEMBER OF THE INVESTMENT COMMITTEE

NOT INDEPENDENT

Dr Weiss was elected to TOWER's Board in 2003 and has considerable international business experience and is a highly respected commercial lawyer in Australia and New Zealand.

Presently the Executive Director of Guinness Peat Group plc, he is Chairman of Ariadne Australia Limited, MEM Group Limited and Coats plc (UK), and is a Director of Guinness Peat Group plc (UK), Canberra Investment Corporation Limited, Capral Aluminium Limited, Premier Investments Limited, Tag Pacific Limited, Westfield Management Limited, Westfield Holdings Limited and Westfield America Management Limited. He was formerly a Director of Allgas Energy Limited, ASC Limited, Australis Media Limited, The Colonial Motor Company Limited, Metals Exploration Limited, Pacific Sports Entertainment Limited, Physicians Insurance Company of Ohio, Rubicon Limited and Major Events Board (Premier's Department NSW). Dr Weiss was also formerly a Director of Industrial Equity Limited and Industrial Equity (Pacific) Limited (until October 1988), and the Australian and international arms of Brierley Investments Limited Group (BIL). He is resident in Sydney, Australia.



**JIM MINTO CA**  
EXECUTIVE DIRECTOR

APPOINTED: 22 NOVEMBER 2005  
ELECTED – 2006

BOARD COMMITTEE MEMBERSHIPS: MEMBER OF THE INVESTMENT COMMITTEE

NOT INDEPENDENT

Mr Minto joined TOWER in 1988 when he was appointed Managing Director of Trustees Executors, the New Zealand Trust Company then owned by TOWER and later renamed TOWER Trust. Through to November 2002 Mr Minto held, at various times, the positions of Managing Director TOWER Trust, Managing Director TOWER Managed Funds, Managing Director TOWER Health and Life and Chief Executive TOWER New Zealand.

In November 2002 Mr Minto was appointed Chief Executive of TOWER Australia to turn that business around following the loss announcement at that time. He led that business through till early 2005. The competitive position had been restored, restructuring and rebuilding of the competitive position achieved and the business rebuilt to profitability and strong levels of growth.

Mr Minto was appointed TOWER Group Chief Executive Officer with effect from 1 March 2005 and Group Managing Director from October 2005.

Mr Minto had been a member of a number of boards ranging from school to financial and charitable boards. He is a Director of TOWER Group companies and also a Director of AFG in Australia. Mr Minto is resident in Auckland, New Zealand.

Mr Minto resigned as a Director on 19 December 2006 following completion of the separation of TOWER Australia Group Ltd.



**JOHN SPENCER BCOM, FCA**  
NON-EXECUTIVE DIRECTOR

APPOINTED: 1 OCTOBER 2003  
LAST RE-ELECTED – 2006

BOARD COMMITTEE MEMBERSHIPS: CHAIRMAN AUDIT AND COMPLIANCE COMMITTEE, CHAIRMAN OF TAL AUDIT AND COMPLIANCE COMMITTEE

INDEPENDENT

Mr Spencer joined TOWER's Board in October 2003 and has been Chairman of the Audit and Compliance Committee since 1 December 2003. He brings to the Board significant financial and commercial expertise gained over many years from senior management positions he has held with a number of major companies in New Zealand and overseas. Prior to the formation of Fonterra he was the Chief Executive Officer of New Zealand Dairy Group. Mr Spencer is Chairman of Tainui Group Holdings Limited and Telfer Young Limited, Deputy Chairman of the National Institute for Water and Atmospheric Research (NIWA), Solid Energy New Zealand Limited and the Accounting Standards Review Board, and a Director of WEL Networks Limited and Waikato Regional Airport. He is a past director of the Institute of Chartered Accountants, receiving the 'Valued Contribution to the Profession' award in 2002. He is resident in Wellington, New Zealand.



**DR KEITH BARTON BSC (HONS, CLASS 1), PHD (UNIVERSITY OF NSW)**  
CHAIRMAN UNTIL 19 DECEMBER 2006

APPOINTED: 30 OCTOBER 2001  
LAST RE-ELECTED – 2005

BOARD COMMITTEE MEMBERSHIPS: CHAIRMAN OF DIRECTORS, CHAIRMAN OF THE REMUNERATION AND APPOINTMENTS COMMITTEE

INDEPENDENT

Dr Barton joined TOWER's Board in late 2001 and served as Chairman of the Audit and Compliance Committee for most of 2003. He has served on public company boards since 1990 and is currently a Director of Air Liquide Australia Limited, Amcor Limited and Coles Myer Limited. He is also on the Board of Vision Australia, a not-for-profit company providing services to the blind and vision impaired. Dr Barton was previously Chairman of Goodman Fielder Limited, Non-executive Director of Colonial Limited and Keycorp Limited, and Executive Director of James Hardie Industries Limited, F.H. Faulding Limited and CSR Limited. Prior to retiring from full-time employment in 1999, he had a long career in a variety of manufacturing industries (BHP, GD Searle, CSR, James Hardie) in Australia and overseas. For the last seven years until retirement he was Chief Executive Officer and Managing Director of James Hardie Industries Limited. He is resident in Sydney, Australia.



**MIKE JEFFERIES BCOM, CA**  
NON-EXECUTIVE DIRECTOR

APPOINTED: 19 DECEMBER 2006

BOARD COMMITTEE MEMBERSHIPS: MEMBER OF THE INVESTMENT COMMITTEE

NOT INDEPENDENT

Mr Jefferies is a chartered accountant with extensive experience in finance and investment. In recent years he has been an Executive Director of MEM Group Limited and has previously acted as Managing Director for Aurora Gold Limited and Otter Gold Mines Limited. He is currently Chairman of TAFMO Limited, a Non-executive Director of Australian Wealth Management Limited and Metals Exploration Limited and a Senior Executive of GPG. He is resident in Perth, Australia.



**SUSIE STALEY LLB (OTAGO)**  
NON-EXECUTIVE DIRECTOR

APPOINTED: 1 OCTOBER 1999  
LAST RE-ELECTED – 2004

BOARD COMMITTEE MEMBERSHIPS: MEMBER OF THE REMUNERATION AND APPOINTMENTS COMMITTEE, MEMBER OF THE INVESTMENT COMMITTEE

INDEPENDENT

Ms Staley was elected to TOWER Corporation's Board in 1996. She served on several due diligence committees for the Group and was Chairman of the capital raising programme in 2003 and the separation project in 2006.

A property and business lawyer, Susie Staley has a background in strategic management and brings a wide range of business and corporate experience to the Board. She is currently Chairman of Maritime New Zealand, a Director of Global Technologies (NZ) Limited and a Trustee of University of Otago Foundation Trust. She was formerly the Chairman of Ngai Tahu Property Management Limited and a Director of Dunedin International Airport and PGG Wrightson Limited.

Susie is an Accredited Director and a Fellow of the New Zealand Institute of Directors as well as a Fellow of the New Zealand Institute of Management. She is resident in Dunedin, New Zealand.



**TONY GIBBS**  
CHAIRMAN FROM 19 DECEMBER 2006

APPOINTED: 27 MARCH 2003  
LAST RE-ELECTED – 2005

BOARD COMMITTEE MEMBERSHIPS: MEMBER OF THE  
REMUNERATION AND APPOINTMENTS COMMITTEE

NOT INDEPENDENT

Mr Gibbs was elected to TOWER's Board in 2003 and brings a 25-year history of a diverse range of management and directorship experience to the Board covering mergers, acquisitions, divestments and restructuring. He is Chairman of Turners & Growers Limited and Staveley Inc, and a Director of the following companies: Coats plc, Coats Holdings Limited, Guinness Peat Group plc, Guinness Peat Group New Zealand Limited, GPG Forests Limited, GPG Shares Limited, Turners & Growers Fresh Limited, Ithaca Custodians Limited, Ezypeel Mandarins Limited, Aeneid Seventeen Limited and Vector Limited. Mr Gibbs was previously Chairman of a number of companies including: AGB McNair Limited, Tyndall Life NZ Limited, Turners Auctions Limited, Tenon Limited and the New Zealand Guardian Trust Co Limited (Deputy Chairman). He is a former director of companies including The Colonial Motor Company Limited, Tyndall Australia Limited, Wrightson Limited, Enza Limited, Staveley Industries plc and Rubicon Limited. He is resident in Auckland, New Zealand.

#### BOARD COMMITTEES

The Board has three standing Committees: the Audit and Compliance Committee, the Remuneration and Appointments Committee, and the Investment Committee. Other Committees are established from time to time to examine specific issues as required by the Board.

The Committees are governed by written terms of reference, which detail their specific functions and responsibilities. Copies of each Committee's terms of reference are available on TOWER's website at [www.towerlimited.com](http://www.towerlimited.com) under 'Corporate Governance/ Board Committees'. The terms of reference for each Committee are reviewed annually.

The Committees make recommendations to the Board. They have no decision-making ability except where expressly provided by the Board. The Board annually confirms the membership and Chairmanship of each of the Committees. The experience and skills of the individual Committee members are set out in the Directors' profiles on pages 22 to 24. Member attendance at each Committee meeting is set out on page 26.

#### Audit and Compliance Committee

MEMBERS: JOHN SPENCER (CHAIRMAN), BILL FALCONER  
AND DENIS WOOD

TOWER has a structure to independently verify and safeguard the integrity of the Group's financial reporting. The principal components of this are the Audit and Compliance Committee, the external and internal auditors, and the certifications provided to the Board by the Group CEO and the CFO.

The Audit and Compliance Committee's Terms of Reference include the following duties and responsibilities to:

- independently and objectively review the financial information presented by management to the Board, the external auditors and the public;
- review draft half year and annual financial statements and supporting narrative, and the external auditor's report, and make recommendations to the Board as to their adoption;
- oversee the performance of the external auditor and to be satisfied as to its independence;
- review the effectiveness and efficiency of management processes, Group risk management and internal financial controls and control systems;
- monitor and review compliance with regulatory and statutory requirements and obligations;
- supervise the internal audit function and to receive regular reports from the internal auditors on risks, exposures and statutory compliance;
- maintain open and direct lines of communication with the external and internal auditors; and
- make recommendations to the Board as to the appointment and discharge of the external auditor.

The Audit and Compliance Committee meets with the internal auditors four times during the financial year and the external auditors six times.

The Terms of Reference for the Audit and Compliance Committee require that the Committee has a minimum of three suitably qualified Non-Executive Directors, the majority of whom are independent. The Group CEO cannot be a member of the Committee. The Board appoints the Chairman of the Committee, who cannot also be Chairman of the Board.

Following each meeting the Chairman of the Committee provides a report to the Board. The Chairman also provides an annual report summarising the Committee's activities, findings, recommendations and results for the past year.

## Remuneration and Appointments Committee

MEMBERS: KEITH BARTON (REPLACED OLAF O'DUILL AS CHAIRMAN DURING THE FINANCIAL YEAR), SUSIE STALEY AND TONY GIBBS

The Remuneration and Appointments Committee advises the Board in respect of a number of matters, including:

- the appointment and succession of Board Directors, and Director remuneration; and
- the Group CEO and senior executive appointments, termination, performance appraisal and remuneration.

The Terms of Reference were amended in August 2006 so as to require the Audit and Compliance Committee to assist the Board in developing and monitoring the Group's corporate governance policies and procedures. The Terms of Reference for the Remuneration and Appointments Committee require that the Committee comprise a minimum of three suitably qualified Non-Executive Directors. The Board appoints the Chairman of the Committee, who must be a Non-Executive Director. The Group CEO cannot be a member of the Committee.

Following each meeting the Chairman of the Committee provides a report to the Board. The Chairman also provides an annual report summarising the Committee's activities, findings, recommendations and results for the past year.

Details of TOWER's remuneration policies for Directors and Senior Executives is set out on pages 27 and 28.

## Investment Committee

MEMBERS: DENIS WOOD, GARY WEISS, JIM MINTO, MIKE JEFFERIES AND SUSIE STALEY.

The Investment Committee has various duties and responsibilities, including:

- reviewing investment policy for TOWER shareholder and policyholder funds;
- reviewing risk management policy and statements in respect of investment management, including derivative policy;
- considering the establishment, adjustment or deletion of limits and counter-party approvals, and the scope of financial instruments to be used in the management of TOWER's investments;
- reviewing the appointment of external investment managers;
- monitoring investment and fund manager performance; and
- monitoring compliance with investment policies and client mandates.

The Terms of Reference for the Investment Committee require that the Committee comprise a minimum of two suitably qualified Non-Executive Directors, and the Group CEO. Other suitably qualified individuals may be appointed at the Board's discretion, as was the case with Mike Jefferies. The Board appoints the Chairman of the Committee, who must be a Non-Executive Director but cannot also be Chairman of the Board.

Following each meeting the Chairman of the Committee provides a report to the Board. The Chairman also provides an annual report summarising the Committee's activities, findings, recommendations and results for the past year.

## Executive Management Committee

In addition to the Board Committees discussed above, TOWER's Executive Management Committee meets monthly and comprises the Group CEO, the CFO and the Chief Executive Officer of each of TOWER's three business units. The Committee's role is to make recommendations to the Group CEO on operational and business issues.

## 2005/2006 TOWER Limited Directors' Attendance Record

	TOWER Limited Board <sup>1</sup>		Group Investment Committee		Group Remuneration and Appointments Committee		Group Audit and Companies Committee	
	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended	Number of Meetings Held	Number of Meetings Attended
Total	10		3		3		4	
Keith Barton <sup>2</sup>	10	10			1	1	3	3
Bill Falconer	10	10						
Mike Jefferies <sup>3</sup>	10	6	3	2				
Olaf O'Duill <sup>4</sup>	10	7			2	2		
John Spencer	10	10					4	4
Denis Wood <sup>5</sup>	10	10	3	3			1	1
Tony Gibbs	10	9			3	3		
Gary Weiss	10	6	3	2				
Susie Staley	10	10	3	3	3	3		
Jim Minto <sup>6</sup>	10	9	3	3				

<sup>1</sup> During the year there were 10 scheduled TOWER Board meetings (including a strategic session with senior management.)

<sup>2</sup> Keith Barton retired from the Group Audit and Compliance Committee in June 2006 and was appointed to the Group Remuneration and Appointments Committee as Chairman in June 2006.

<sup>3</sup> Mike Jefferies is an alternative Director for Tony Gibbs and Gary Weiss. He is also a member of the Group Investment Committee.

<sup>4</sup> Olaf O'Duill retired as a Director in May 2006.

<sup>5</sup> Denis Wood was appointed to the Group Audit and Compliance Committee in June 2006.

<sup>6</sup> Jim Minto was appointed Group Managing Director from November 2005.

## REMUNERATION

TOWER's remuneration policies aim to attract and retain talented and motivated Directors and employees who will contribute to enhanced Group performance. TOWER aims to provide employees with remuneration that is competitive, equitable and related to the achievement of individual, team and business unit objectives. TOWER rewards high performing staff for providing superior performance.

The following section discusses TOWER's remuneration policies and arrangements for Non-Executive Directors, the senior executives and staff in general.

#### The Remuneration & Appointments Committee role regarding remuneration

The Remuneration and Appointments Committee is responsible for assisting and advising the Board in relation to:

- the Group CEO's remuneration;
- the remuneration strategy, structure and policy;
- setting Non-Executive Directors' remuneration; and
- setting Board Committee Members' fees.

The Committee is also responsible for determining the remuneration packages of Senior Executives, after receiving the Group CEO's recommendation.

#### Non-executive Directors

The Board's policy is to remunerate Directors at a similar level to comparable Australasian companies, but with a small premium to reflect the complexity of the insurance/financial services sector. At the Annual Meeting in February 2004 shareholders approved an increase in Director remuneration to the current maximum of NZ\$900,000 per annum. TOWER seeks external advice when reviewing Board remuneration. The Remuneration and Appointments Committee is responsible for reviewing Directors' fees.

The annual fees are currently paid as follows:

Board Chairman	NZ\$85,000 for chairing the TOWER Limited Board; and NZ\$45,000 for chairing the Australian Joint Board.
Non-Executive Directors	NZ\$50,000 for sitting on TOWER Limited's Board; and NZ\$28,570 for sitting on the Australian Joint Board.

Non-Executive Directors are paid additional annual fees for sitting on Board Committees as follows:

Chairman of the Audit and Compliance Committee	NZ\$15,000
Committee Members	NZ\$9,000
Chairman of the Remuneration and Appointments Committee	NZ\$7,500
Committee Members	NZ\$5,000
Chairman of the Investment Committee	NZ\$7,500
Committee Members	NZ\$5,000

Additional fees may be paid to Non-Executive Directors for one-off tasks and/or additional appointments where required for example, sitting on a due diligence committee.

The remuneration policy for Non-Executive Directors does not include participation in either a share or share option plan.

#### RETIREMENT ALLOWANCES

Particular TOWER Directors are entitled to a retirement allowance on their retirement from the TOWER board. At the 2004 Annual Meeting shareholders approved an increase in the maximum amount of Directors' fees. In exchange for the increase and to provide greater transparency for remuneration the Board resolved that retirement allowances would cease to accrue from 1 October 2003. Allowances are paid as a lump sum on retirement from the Board. The retirement allowance is calculated by dividing the relevant Director's number of years service by nine and multiplying the result by the Director's remuneration for a three year period.

The retirement allowances which have accrued are:

Olaf O'Duill	\$48,375 paid on retirement from the Board on 30 June 2006.
Susie Staley	\$101,101 to be paid on retirement.

*Note: To be eligible for a retirement allowance a Director needs to be in office for at least three years prior to 1 October 2003. For this reason no other TOWER Directors are eligible for a retirement allowance.*

#### 2005/2006 TOWER Limited Directors' Remuneration and Benefits

TOWER Limited Board	2006	2006	2005	2005
	<i>Directors' Fees</i>	<i>Other</i>	<i>Directors' Fees</i>	<i>Other</i>
Dr Keith Barton	98,708	-	87,570	12,020 <sup>4</sup>
Bill Falconer	87,570	-	87,570	-
Tony Gibbs	83,570	-	83,570	-
Olaf O'Duill	106,827	48,375 <sup>1</sup>	137,500	-
Susie Staley	83,570	-	83,570	12,100 <sup>4</sup>
John Spencer	93,570	-	93,570	-
Dr Gary Weiss	83,570	-	83,570	-
Denis Wood	115,554	-	29,240	-
Jim Minto	-	1,262,914 <sup>2</sup>	-	1,143,295
Mike Jefferies	-	5,000 <sup>3</sup>	-	-

<sup>1</sup> Ceased to be a TOWER Limited Director during 2006. Includes retirement payment.

<sup>2</sup> Executive Director, received salary rather than Director's fees.

<sup>3</sup> Alternative Director for Tony Gibbs and Gary Weiss. Fees for membership of the Group Investment Committee.

<sup>4</sup> Includes due diligence fees.

#### SENIOR EXECUTIVE AND GROUP CEO'S REMUNERATION

##### Principles behind TOWER's Senior Executive Remuneration

At the core of the TOWER Senior Executive Remuneration framework are clearly structured balanced and transparent rewards and incentives that work to drive heightening levels of individual, divisional and Group performance. Performance at TOWER is seen as achieving outcomes that meet or exceed TOWER's business objectives, demonstrate TOWER's values and increase TOWER's shareholder return.

TOWER's Senior Executive Remuneration philosophy provides remuneration packages that allow for market conditions and the qualities and value that an individual employee brings to their role. By adopting a robust and strategic approach to remuneration, TOWER aims to attract and retain top executive talent.

### The components of Senior Executive Total Remuneration

TOWER's Senior Executive total remuneration (Total Remuneration) is made up of three components. These are:

- Annual Remuneration being a fixed salary and benefits;
- Short Term Incentive of a cash bonus; and
- Long Term Incentive of TOWER share options.

### Senior Executive Remuneration Benchmarking and Positioning

At TOWER Senior Executive Remuneration is regularly benchmarked against a variety of leading external industry data sources representing comparable Australasian companies in the financial and insurance sectors. TOWER positions Senior Executives' Total Remuneration potential within the 65th percentile range of the market with exceptional performers receiving Total Remuneration at or near the 75th percentile of the market.

### Annual Remuneration

Annual Remuneration paid to Senior Executives includes a base salary, set benefits and employer superannuation contributions for Australian Executives. Annual Remuneration accounts for approximately 35 to 44% of Senior Executives' Total Remuneration. Other benefits that may be included as part of Senior Executives' Annual Remuneration include car parking, mobile phone, living allowances (where applicable), Death/Total Protection Disability and Salary Continuance Insurances and product discounts.

### Short Term Incentive

The Short Term Incentive component of Senior Executive remuneration is a cash bonus.

The Short Term Incentive accounts for approximately 28 to 46% of Senior Executives' Total Remuneration.

Senior Executives participate in TOWER's Annual Incentive Programme (AIP) which all TOWER employees participate in. The AIP is incentive-driven with a cash bonus being paid on the achievement of predetermined personal and business goals. For Senior Executives the target incentive under the AIP begins at 50% of Annual Remuneration with a maximum of 97.5% payable for exceptional achievement above set goals. The Group CEO has a higher proportion of 'at risk' remuneration, with his Short Term Incentive target being 60% of his Annual Remuneration with a maximum of 117% of his Annual Remuneration being payable for exceptional achievement.

Senior Executives are set Group, divisional and individual performance targets and objectives.

Performance measures for the group component include net profit, operating profit and growth in funds under management in New Zealand or Australia, depending on where the Senior Executive is based. Divisional performance measures are set against the profit and growth performance of each Executive's specific division. Individual performance targets are set for each Senior Executive by the Group CEO and could include objectives

relating to their role and the particular challenges being faced by that part of the business.

### Calculation of the Short Term Incentive

An assessment is made of the Executive's performance against the agreed individual performance target and an appropriate individual performance index is assigned (ranging from 0 to 1.5). 40% of the Short Term Incentive is based on Divisional Performance and 60% is based on Group performance. The Short Term Incentive is then calculated by multiplying the Group and Divisional performance indices by the individual performance index. The Group CEO and the Remuneration and Appointments Committee's forward all recommendations for Annual Incentive payments for Senior Executives to the Board for approval.

### Group CEO's Remuneration

Mr Minto's employment ceased with TOWER Limited on 30 November 2006 in anticipation of the separation.

In line with TOWER's Senior Executive Remuneration policy discussed above, Jim Minto's employment package includes Annual Remuneration, a Short Term Incentive and a Long Term Incentive.

Mr Minto's annual salary effective 1 March 2005 was NZ\$750,000 plus a NZ\$100,000 dual location allowance. The Short Term Incentive component of his remuneration is a target bonus of 60% of his base annual salary which is paid on achievement of various performance targets.

The Board considers it crucial that Mr Minto also have an effective long term equity-based incentive and reward component in his remuneration package. As at 30 September 2006 Mr Minto held 1,500,000 options to purchase TOWER shares subject to the meeting of certain performance hurdles. Further details about Mr Minto's options and how they will be effected by TOWER's geographic separation is set out on page 30.

As part of TOWER's geographic split in November 2006 Mr Minto left TOWER Limited to take up the position of Group Managing Director of TOWER Australia. TOWER has appointed Rob Flannagan as the Chief Executive Officer of the New Zealand business post separation. Mr Flannagan's annual base salary will be \$750,000 per year with a target bonus of \$375,000, which will relate to targets set by the Board after the separation.

Mr Flannagan will also receive options to purchase TOWER shares, which will have specific performance hurdles to be set by the Board shortly after the separation.

## Annual and Short Term Remuneration paid to Senior Executives in the year ending 30 September 2006

Executive	Annual Remuneration	Short Term Remuneration (cash bonus)	Total	Other Benefits received <sup>1</sup>
Jim Minto	856,328	400,000	1,256,328	6,586
John de Zwart	429,927	139,463	569,390	54,693
William Giesbers <sup>2</sup>	165,270	172,215	337,485	
Pieter Lindhout	404,031	85,000	489,031	
Tony Hildyard	358,551	146,250	504,801	
Steve Boomert	343,363	46,000	389,363	
David Callander	409,743	149,687	559,430	54,418
Geoff Black	207,148	512,831	719,979	32,012
Grahame Evans	358,788	96,745	455,533	57,146

<sup>1</sup> Other benefits may include items such as medical care, housing, cars and free or subsidised goods or services.

<sup>2</sup> William Giesbers also received termination benefits to the value of \$369,028.

### LONG TERM INCENTIVE

The Long Term Incentives offered to Senior Executives are share Options under the New Zealand and Australian TOWER Limited Executive Share Option Scheme (2004)<sup>1</sup> (Scheme). The Scheme is designed to encourage a long term results focus and to encourage Senior Executive retention. The Long Term Incentive accounts for approximately 20% to 27% of a Senior Executive's Total Remuneration. Participation is limited to the most senior members of management who can directly make a significant impact to TOWER and its share price performance. The granting of options will be considered annually and granted if considered appropriate.

Under the Scheme options are issued by the Board to executives in Australia and New Zealand (in New Zealand this occurs via a Trustee) that allow relevant Executives to purchase TOWER shares at a set price once the options are vested and a performance hurdle has been achieved. The issue price for which the options can be exercised will normally be the average market price over the five trading days prior to the Board's decision to grant the options. Typically, options will vest three years following their issue and will have an exercise period of three years from their vesting date.

The performance hurdle which is required to be achieved is total shareholder return and must exceed 10% per annum compounded annually from the date the options are granted until the exercise period for the options commences (Performance Hurdle).

#### 2004 issue<sup>2</sup>

In 2004 the Board issued options to approximately 40 senior managers across the group. As a consequence of the separation of Australian Wealth Management Limited (AWM) from TOWER in

February 2005, the number of options on issue at the time of the separation and their exercise price were adjusted in accordance with the terms of the option scheme and ASX and NZX Listing Rules. This required that benefits conferred on option holders by the grant of options remained, as far as practicable, the same after the capital restructure as before it. With the ensuing reduction in options, the exercise price per option was reduced from NZ\$1.53 to NZ\$1.40 for options issued in 2004 under the Scheme.

The exercise date and exercise period of the options remains unchanged for those executives who were not AWM executives. The exercise period begins on 1 April 2007 and expires on 31 March 2010.

The Board considered a new exercise period for AWM Executives was appropriate as the AWM executives had no choice but to leave the TOWER Group. They were granted a new exercise period commencing on the day AWM listed on ASX, expiring 90 days later.

#### 2005

In 2005 the Board issued options to 11 Senior Executives. The exercise price is NZ\$2.13, with the options granted in two tranches to encourage improved performance over time and maximise shareholder value. The options can only be exercised if the performance hurdle is met. For the first tranche the exercise period begins on 9 August 2008, while for the second tranche the exercise period begins on 9 August 2009.

#### 2006

In April 2006 options were issued by the Board to 18 Senior Executives. The exercise price is NZ\$2.55. Again, options will only be exercised if the performance hurdle is met. The exercise period begins on 5 April 2009.

<sup>1</sup> The Board resolved to terminate the Executive Option Scheme (1999) and advance the expiry of options issued under it. One option holder did not consent to the lapse and retained options. All other options granted under the Executive Option Scheme (1999) have lapsed.

<sup>2</sup> At the Annual Meeting in February 2004 shareholders gave their approval to issue Keith Taylor 1.5 million options to purchase an equivalent number of ordinary TOWER shares at an exercise price of \$1.39 per option with a vesting date of 30 September 2005 and a lapse date of 30 September 2006. Following the AWM separation the exercise price of these options was adjusted from NZ\$1.39 to NZ\$1.23, with the number of options dropping from 1,500,000 to 1,297,500. The options vested when Mr Taylor ceased employment with TOWER and were exercisable for a 90-day period starting 30 September 2005.

**SEPARATION**

With the separation of the Australian and New Zealand businesses the options held by executives will change. For the issue of options which occurred in 2004 and 2005 each executive was offered the chance to retain the same interests in the business of Australia and New Zealand by retaining options to acquire a proportion of shares in TOWER (52.4 TOWER shares for each 100 options held) and TOWER Australia (69.27 TOWER

Australia shares for each 100 options held). The issue of options in 2006 will lapse for Australian executives and these options will be replaced by TOWER Australia options. New Zealand executives will retain their options on the existing terms for the 2006 issue.

The following tables set out the options held by CEOs and Senior Executives as at 30 September 2006, and changes that will occur post separation.

**Year ending September 2006**

<i>Executive</i>	<i>Number of options issued</i>	<i>Options after separation adjustment</i>	<i>Issue price</i>	<i>Exercise period/ Options Expire</i>
Geoff Black	800,000	0	NZ\$2.55	5 April 2009/4 April 2012

**Year ending September 2005**

<i>Executive</i>	<i>Number of options issued</i>	<i>Options after separation adjustment</i>	<i>Issue price</i>	<i>Vesting/ Exercise periods</i>
Jim Minto	721,500	0	NZ\$2.13	9 August 2008/10 August 2011
John de Zwart	400,000	0	NZ\$2.13	9 August 2008/10 August 2011
	100,000	0	NZ\$2.13	9 August 2009/10 August 2012
Pieter Lindhout	400,000	400,000	NZ\$2.13	9 August 2008/10 August 2011
	400,000	400,000	NZ\$2.13	9 August 2009/10 August 2012
Tony Hildyard	200,000	200,000	NZ\$2.13	9 August 2008/10 August 2011
	200,000	200,000	NZ\$2.13	9 August 2009/10 August 2012
Steve Boomert	300,000	300,000	NZ\$2.13	9 August 2008/10 August 2011
	300,000	300,000	NZ\$2.13	9 August 2009/10 August 2012
David Callander	400,000	0	NZ\$2.13	9 August 2008/10 August 2011
	100,000	0	NZ\$2.13	9 August 2009/10 August 2012

**Year ending September 2004**

<i>Executive</i>	<i>Number of options issued</i>	<i>Options after separation adjustment</i>	<i>Issue price</i>	<i>Exercise period/ Options Expire</i>
Jim Minto	778,500	407,934	NZ\$1.40	1 April 2007/31 March 2010
John de Zwart	346,000	181,304	NZ\$1.40	1 April 2007/31 March 2010
Tony Hildyard	173,000	173,000	NZ\$1.40	1 April 2007/31 March 2010
David Callander	346,000	181,304	NZ\$1.40	1 April 2007/31 March 2010

**Total options issued to Specified Executives**

<i>Executive</i>	<i>Total options issued</i>	<i>Options after separation adjustment</i>
Jim Minto	1,500,000	407,934
John de Zwart	846,000	181,304
Pieter Lindhout	800,000	800,000
Tony Hildyard	573,000	573,000
Steve Boomert	600,000	600,000
David Callander	846,000	181,304
Geoff Black	800,000	0

### Specified Senior Executives' Key Employment Contract terms

Below is a general summary of key employment contract terms for Senior Executives:

Length of Contract	Open-ended employment contract term.
Annual Remuneration	Base salary, employer superannuation (Australia) and other specified benefits. Base salary is reviewed annually by the Remuneration and Appointments Committee.
Short Term Incentive	Component of remuneration and performance-based. Cash bonus payable on achievement of predetermined goals and objectives.
Long Term Incentive	Can be a component of remuneration. Grants made wholly at TOWER's discretion.
Resignation	Generally 3 or 6 months written notice from the Senior Executive.
Retirement	Entitlements such as leave accruals (including Long Service Leave in Australia) are payable on retirement.
Termination on notice TOWER	Generally 3 or 6 months written notice from TOWER.
Termination for serious misconduct	TOWER may terminate employment immediately for serious misconduct.
Redundancy	Notice requirement as per the individual Senior Executive's employment contract. Redundancy entitlement may be payable under the terms of the individual's employment contract or under TOWER's redundancy policy.
Death or disability	Pro rata Incentive paid on Death or Disability.
Superannuation	Superannuation is paid to Australian Senior Executives in accordance with the Superannuation Guarantee Act.

### TOWER'S STAFF REMUNERATION

#### Principles behind general employee remuneration

TOWER provides its employees with remuneration that is competitive, equitable, transparent and linked to the achievement of individual, team and business unit objectives. In addition to base salary and incentive payments the TOWER remuneration programme also extends to benefits, non-cash recognition awards, and career progression. At TOWER we:

- are committed to ensuring internal equity whilst allowing flexibility to recognise individual contributions;
- are committed to regularly monitoring the external market to ensure remuneration rates are supporting our talent attraction and retention strategies;
- are committed to maximising the quality of our communication processes around remuneration issues whilst carefully protecting the confidentiality of individual remuneration details. This includes providing employees with access to information and rationales behind remuneration decisions;
- are committed to reinforcing a high performance and results based culture where pay increases, incentives and bonus payments are measured and made around the achievement of predetermined individual, team or business area goals and objectives; and
- recognise that different reward structures may be appropriate for different employee groups.

TOWER's general employee remuneration has two primary components; Annual Remuneration, being a base salary, and an Annual Incentive, being a cash bonus.

#### Annual Remuneration

TOWER's policy is to pay Annual Remuneration between the median to 65th percentile range of the market. For some premium roles Annual Remuneration is fixed in the upper quartile of the market as a reflection of talent supply and quality.

#### Annual Incentive

All TOWER employees participate in the Annual Incentive Programme (AIP) with a cash bonus being payable following the achievement of predetermined goals and objectives. Under AIP Target Incentives range from 10% to 20% of Annual Remuneration in accordance with role type.

## Employee Remuneration in Bands of \$10,000 (NZ\$) for the year ended 30 September 2006

Bands	2005/2006			2004/2005		
	NZ	AUS	Total	NZ	AUS	Total
2,610,000-2,619,999	0	0	0	1*(1)	0	1
1,250,000-1,259,999	1	0	1	0	0	0
1,140,000-1,149,999	0	0	0	1	0	1
1,010,000-1,019,999	0	0	0	1*(1)	0	1
1,000,000-1,009,999	0	0	0	0	1*(1)	1
920,000-929,999	1*(1)	0	1	0	0	0
860,000-869,999	0	0	0	1	0	1
830,000-839,999	0	0	0	1*(1)	0	1
780,000-789,999	0	1	1	0	0	0
700,000-709,999	1*(1)	0	1	0	0	0
680,000-689,999	0	0	0	1	0	1
670,000-679,999	0	1*(1)	1	0	0	0
630,000-639,999	0	0	0	1*(1)	0	1
610,000-619,999	0	1	1	0	0	0
600,000-609,999	0	1	1	0	0	0
590,000-599,999	0	1	1	0	0	0
550,000-559,999	0	1	1	0	0	0
540,000-549,999	0	0	0	0	1	1
530,000-539,999	0	0	0	0	1	1
510,000-519,999	0	0	0	0	1	1
500,000-509,999	1	1	2	0	0	0
480,000-489,999	1	0	1	0	1	1
460,000-469,999	0	1*(1)	1	0	0	0
450,000-459,999	0	1*(1)	1	0	1*(1)	1
430,000-439,999	1*(1)	0	1	2	0	2
420,000-429,999	1	0	1	0	0	0
400,000-409,999	0	0	0	0	1	1
390,000-399,999	2*(1)	2*(1)	4	0	1	1
380,000-389,999	1	1	2	0	0	0
350,000-359,999	0	0	0	0	1	1
340,000-349,999	0	1*(1)	1	1	0	1
320,000-329,999	0	1	1	1	0	1
310,000-319,999	1	0	1	0	0	0
300,000-309,999	2*(2)	3	5	2*(2)	1	3
290,000-299,999	1	1	2	1	0	1
280,000-289,999	1	5*(1)	6	2*(1)	1	3
270,000-279,999	1	2	3	2*(1)	1	3
260,000-269,999	1	2	3	1	0	1
250,000-259,999	0	3	3	1*(1)	2	3
240,000-249,999	2	3*(1)	5	5*(5)	7*(1)	12
230,000-239,999	3	1	4	2*(2)	4*(1)	6
220,000-229,999	2	2	4	2*(2)	1	3
210,000-219,999	3*(1)	4	7	1*(1)	5*(2)	6
200,000-209,999	3	6*(2)	9	3*(2)	4*(4)	7
190,000-199,999	3*(2)	5*(1)	8	5*(4)	3*(2)	8
180,000-189,999	1	5	6	4*(3)	6	10
170,000-179,999	7*(1)	11	18	3*(2)	6	9
160,000-169,999	4	7*(1)	11	2*(2)	7*(2)	9
150,000-159,999	6*(3)	8*(1)	14	6*(1)	11*(2)	17
140,000-149,999	7*(1)	14*(1)	21	6*(2)	8*(1)	14
130,000-139,999	7*(1)	14	21	4	16*(1)	20
120,000-129,999	16*(2)	18*(1)	34	7	14	21
110,000-119,999	16*(3)	14*(3)	30	16*(4)	21*(1)	37
100,000-109,999	18*(1)	18	36	16*(6)	20*(5)	36
Total	115	160	275	102	148	250

\* Includes retirement/termination payments. Number in brackets indicates the number of employees whose remuneration includes retirement/termination payments. Note the remuneration bands are expressed in NZ dollars with the columns for Australia converted at an average exchange rate for the period of 0.8786.

#### AUDIT AND RISK MANAGEMENT AT TOWER

##### RISK MANAGEMENT

TOWER has established a framework to identify, assess, monitor and manage risk. At the forefront of this are the internal audit and compliance processes, and the comprehensive risk management process for each operating company. The Risk Management Charter establishes the framework to ensure a formal and consistent process of risk identification, assessment, mitigation, management and acceptance, and a regular review of risk is carried out across the Group. The Risk Profile describes the material financial and non-financial risks for the Group and how they are managed. Each company has documented its key risks and action plans to mitigate them. These processes are incorporated into the regular strategic review process.

The Audit and Compliance Committee is responsible for monitoring Group risks and exposures, and compliance with statutory obligations. The executive management team regularly reports to the Committee on risk management.

##### Internal audit

TOWER has appointed a Chief Internal Auditor who reports directly to the Chairman of the Audit and Compliance Committee and has full access to other Committee members and the Board. The Committee approves the Internal Audit Charter that governs the internal audit function across the Group.

The Internal Audit Charter formally records the delegations the Audit and Compliance Committee has made to the Chief Internal Auditor in relation to the internal control systems and processes of the Group businesses. The Audit and Compliance Committee approves the appointment and removal of the Chief Internal Auditor following the Group CEO's recommendation.

The internal auditors help the Board (via the Audit and Compliance Committee) and the Group exercise good corporate governance and meet their regulatory obligations by providing them with independent assurance of the adequacy and effectiveness of internal control systems and processes within TOWER. The internal auditors have unrestricted access to TOWER information and staff, and are completely independent of the activities and operations they audit.

##### EXTERNAL AUDIT

The TOWER Board is fully committed to ensuring the quality and independence of the external audit process. As part of this process TOWER encourages full and frank disclosure and discussions between the Board, TOWER's internal auditors, management and the external auditor (PricewaterhouseCoopers (PwC)).

PwC was re-appointed as auditor by shareholders at the Annual Meeting in 2006 to audit the TOWER and Group Financial Statements.

A formal engagement letter with PwC sets out the respective obligations and responsibilities of PwC and the Directors in relation to preparation and audit of financial statements, and the integrity of the Group's financial systems. The Board also has a formal External Audit Independence Policy that includes the provision of non-audit services by the external auditor. This policy specifies which services the external auditor may and may not provide TOWER. The policy is overseen by the Audit and Compliance Committee. The External Audit Independence Policy is available on TOWER's website at [www.towerlimited.com](http://www.towerlimited.com) under the 'Corporate Governance' section.

Non-audit services provided by PwC to the Group during the accounting period did not, in TOWER's opinion, affect auditor independence. The non-audit services related to issues which had the potential to impact TOWER's accounting and tax treatment. PwC is also required to provide the Audit and Compliance Committee with an annual certification of its continued independence, and in particular confirm that it has not carried out any engagements during the year which would impair its professional independence.

Representatives from TOWER's external auditor will be present at the Annual Meeting and will be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

PwC was paid NZ\$2,721,000 for audit-related work and NZ\$803,000 for non-audit related work (refer to Note 7 of the Financial Statements on page 55).

##### GROUP CORPORATE GOVERNANCE POLICIES AND PROCEDURES

To support the Board's aims of developing and fostering corporate governance practices which are consistent with best practice, TOWER has developed a number of Group corporate governance policies that apply to all Directors and employees of TOWER. Summaries of some of these policies are discussed on the following page and where indicated copies are available on TOWER's website at [www.towerlimited.com](http://www.towerlimited.com) under the 'Corporate Governance' section.

## ETHICAL AND RESPONSIBLE BEHAVIOUR

TOWER is committed to meeting its legal and other obligations to stakeholders, including shareholders, employees, customers, policyholders and the wider community.

Maintaining TOWER's reputation for honesty and fairness is crucial to its success as a financial services business. The Board has adopted a Code of Ethics which is an important tool for achieving these aims as it sets out the minimum standards of conduct and behaviour TOWER expects of its Directors, executives and employees and requires them to adhere to these standards. The Code of Ethics is available to staff both on the TOWER website and through the induction process. The types of behaviour addressed in the Code of Ethics include:

- avoiding situations in which personal interest interfere or appear to interfere with the interests of TOWER;
- using a person's position at TOWER's or TOWER's information or property for personal gain;
- safeguarding the confidentiality of all TOWER non-public information; and
- complying with all applicable legal requirements and ensuring that behaviour is appropriate while conducting TOWER's business.

Any person who becomes aware of a breach or suspected breach of the Code of Ethics is required to report it to their manager immediately and the Corporate Disclosure Officer, who will investigate and take appropriate action as necessary.

In addition to the Code of Ethics TOWER has a Reporting and Investigation of Fraud, Corruption and Misconduct Policy which is applicable to all staff. The policy sets out TOWER's approach to the way in which suspicions/allegations of fraud, corruption and/or misconduct within the Group are to be reported by staff and how TOWER will deal with such incidents. The Policy provides that TOWER will ensure that a person who, in good faith, makes an allegation of misconduct under the Policy will not be personally disadvantaged by having made the report (for example, be subject to disciplinary action such as dismissal or demotion).

TOWER also has a Group-wide Fit and Proper Policy. TOWER's Fit and Proper Policy is aimed at ensuring that Group companies are appointing people with the appropriate skills, knowledge, experience and integrity to perform in the roles held by 'Responsible Persons'. Responsible Person roles include Directors of subsidiary companies, senior managers, company secretaries, actuaries, or auditors. The Fit and Proper Policy requires each company within the TOWER group to demonstrate that an appropriate process has been followed to ensure that people appointed into these types of positions are 'fit and proper' to fulfill the roles.

## Insider Trading

Legal restrictions and TOWER's Insider Trading Policy do not allow trading and dealing in TOWER securities while Directors and employees are in possession of information that has not been released to the public and that is likely to have a material effect on the price of TOWER securities. There are supplementary guidelines for Directors and designated employees (usually Senior Executives) requiring prior consent to trade, and specifying periods when trading is allowed (following half year and full year announcements). A copy of TOWER's Insider Trading Policy is available on TOWER's website at [www.towerlimited.com](http://www.towerlimited.com).

## Compliance Charter

TOWER's approach to compliance is recorded in the TOWER Compliance Charter. The Charter sets out the key compliance responsibilities of TOWER's Directors, executives, staff and contractors in all their business dealings. The Charter promotes TOWER's commitment to sound corporate governance by strongly endorsing a responsible compliance environment for all of its staff. TOWER recognises that a responsible approach to corporate governance and compliance provides a foundation for business reputation and stakeholder confidence.

## Market and Shareholder Communication

TOWER recognises that public confidence in the integrity of TOWER is based on continuous, full and open disclosure of information about its activities to the market and relevant stakeholders. TOWER's Corporate Disclosure Policy provides for a planned, pro-active communication programme with shareholders and the wider investment community. A copy of TOWER's Corporate Disclosure Policy is available on TOWER's website at [www.towerlimited.com](http://www.towerlimited.com). TOWER believes this communication programme assists in creating a fully informed market and enhances shareholder value. TOWER's Corporate Disclosure Policy provides that only authorised spokespersons can communicate on behalf of TOWER with the investment community, shareholders and the media.

TOWER has policies and procedures in place designed to ensure that:

- all investors have equal and timely access to material information concerning TOWER;
- company announcements are factual and presented in a clear and balanced way; and
- TOWER complies with the continuous disclosure requirements of the ASX and NZX.

The Corporate Disclosure Officer is accountable for compliance with disclosure obligations. Announcements of financial results, changes in profit forecasts and other material market announcements require Board approval. Usually the Disclosure Committee, comprising TOWER senior management and the Chairman of the Board, decide whether information is material and requires market release.

TOWER's corporate website, [www.towerlimited.com](http://www.towerlimited.com), provides information to shareholders and investors about the Group. The website includes copies of past Annual Reports, results announcements, Investor Reports, media releases (including NZX and ASX Announcements), and general TOWER information.

The website provides web casts of shareholder meetings, speeches and briefings given by the Chairman and the Group CEO, and financial results and presentations.

TOWER has established an email register on its website so shareholders who wish to receive information from TOWER electronically can register to do so. TOWER's Share Registry has also established an email register to provide electronic copies of documents, such as the Annual Report, to shareholders.

### Announcements

TOWER makes the following regular announcements to the market and shareholders:

- full year results are announced in late November;
- TOWER's Annual Report is sent to shareholders in December;
- TOWER's Notice of Annual Meeting is sent to shareholders in early January;
- half year results are announced in late May; and
- half year reports are sent to shareholders in late June.

### REGULATORY DISCLOSURES

#### Credit Rating

TOWER Limited has a Standard and Poors credit rating of BBB and AM Best credit rating of bbb-.

#### New Zealand Exchange (NZX) Waivers

Throughout the accounting period TOWER was granted the following waivers by NZX:

TOWER Separation – NZX Regulation granted waivers regarding the proposed separation of TOWER Limited into separate New Zealand and Australian businesses including waivers from:

- a. Listing Rule 7.6.6 from the requirement to obtain separate approval to the Proposal from foreign shareholders (to the extent necessary to obtain approval from foreign shareholders for the buyback of TOWER shares under the Proposal).
- b. Listing Rule 8.1.7 – NZX Regulation granted waivers regarding alteration of the share options exercise price (to the extent necessary to enable the reconstruction as set out in the scheme book).

#### Shareholder Analysis

TOWER's shares are quoted on both the NZX and ASX. As at 30 November 2006, 102 TOWER shareholders held less than A\$500 (ie, less than a marketable parcel as defined in the ASX Market Rules) of TOWER shares.

#### Total Voting Securities

As at 30 November 2006 TOWER had 188,517,027 ordinary shares on issue. TOWER's ordinary shares each carry a right to vote on any resolution or a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney. Voting may be conducted by show of hands or poll.

#### On Market Buyback

As at 30 November 2006 there was no current on-market buyback.

#### Capital Bond Holders

The total number of holders of Capital Bonds as at 30 November 2006 was 4,531.

#### Capital Note Holders

The total number of holders of Capital Notes as at 30 November 2006 was 2,561.

### Substantial Security Holder

The following security holder had given notice pursuant to the Securities Markets Act 1988 that it is a substantial security holder in TOWER and holds a 'relevant interest' in the number of securities noted:

- Guinness Peat Group plc (Ithaca (Custodians) Limited) and Guinness Peat Group Shares Limited. As at 30 November 2006 the holding was 37,335,486 ordinary shares (19.80%).

### Principal Shareholders

The names and holdings of the 20 largest registered TOWER shareholders as at 30 November 2006 are:

	<i>Ordinary Shares</i>	<i>% of Issued Capital</i>
1 Ithaca (Custodians) Limited	34,275,906	18.18
2 National Nominees New Zealand Limited	13,838,774	7.34
3 Westpac Custodian Nominees Limited	6,099,840	3.24
4 Citibank Nominees (New Zealand) Limited	5,752,848	3.05
5 ANZ Nominees Limited	5,346,071	2.84
6 JP Morgan Nominees Australia Limited	4,906,204	2.60
7 National Nominees Limited	4,719,754	2.50
8 Westpac Banking Corporation – Client Assests No.2 – A/C NZCSD	3,556,889	1.89
9 ANZ Nominees Limited – A/C NZCSD	3,326,200	1.76
10 Suncorp Custodian Services Pty Limited	3,210,245	1.70
11 Guinness Peat Group Shares Limited	3,059,580	1.62
12 Accident Compensation Corporation	2,244,287	1.19
13 Ten Custodians Limited – A/C NZCSD	1,474,166	0.78
14 Citicorp Nominees Pty Limited	1,337,461	0.71
15 NZ Superannuation Fund Nominees Limited – A/C NZCSD	1,100,389	0.58
16 Westpac NZ Shares 2002 Wholesale Trust – A/C NZCSD	1,060,098	0.58
17 Premier Nominees Limited	984,025	0.52
18 Cogent Nominees Pty Limited	983,774	0.52
19 New Zealand Equity Nominee Pool – A/C NZCSD	969,400	0.51
20 Aust Executor Trustees NSW Limited	955,434	0.51

### 2005/2006 Shareholder Statistics (as at 30 November 2006)

<i>Domicile</i>	<i>Number of holders</i>	<i>Percentage</i>	<i>Number of shares</i>	<i>Percentage</i>
New Zealand	45,215	71.49	125,052,164	66.33
Australia	17,226	27.24	62,551,598	33.18
Other countries	804	1.27	913,265	0.49
<b>Total</b>	<b>63,245</b>	<b>100.00</b>	<b>188,517,027</b>	<b>100.00</b>

<i>Size of holdings</i>	<i>Number of holders</i>	<i>Percentage</i>	<i>Number of shares</i>	<i>Percentage</i>
1 - 1,000	50,999	80.64	17,735,600	9.41
1,001 - 5,000	10,091	15.96	20,147,355	10.69
5,001 - 10,000	1,185	1.87	7,896,996	4.19
10,001 - 100,000	882	1.39	19,318,318	10.25
100,001 and over	88	0.14	123,418,758	65.46
<b>Total</b>	<b>63,245</b>	<b>100.00</b>	<b>188,517,027</b>	<b>100.00</b>

## TOWER LIMITED DISCLOSURES

### Interests Register

Each company in the Group is required to maintain an Interests Register in which the particulars of certain transactions and matters involving the Directors must be recorded. The Interests Register for TOWER Limited is available for inspection on request.

Details of matters that have been entered in the Interests Register by individual Directors during the accounting period are outlined in the table of Directors' disclosures below. An 'interested' Director may not vote on a matter in which he or she is interested unless the Director is required to sign a certificate in relation to that vote pursuant to the Companies Act 1993, or the matter relates to a grant of an indemnity pursuant to s162 of the Companies Act 1993.

### Disclosure of Interest by TOWER Limited Directors

During the financial year Directors disclosed interest, or a cessation of interest, in the following entities pursuant to section 140 of the Companies Act 1993.

Keith Barton	Citect Corporation Limited	Resigned as a Director
Bill Falconer	Restaurant Brands NZ Limited	Resigned as a Director
Tony Gibbs	NGC Holdings Limited	Appointed as a Director
John Spencer	Telfer Young Limited	Appointed as Chairman
	Waikato Regional Airport Limited	Appointed as a Director
	Unidata Pty Limited	Resigned as a Director
Susie Staley	Dunedin International Airport Limited	Resigned as a Director
	Ngai Tahu Property Management Limited	Resigned as Chairman
	PGG Wrightson Limited	Resigned as Director
Gary Weiss	Australian Wealth Management Limited	Resigned as a Director
Denis Wood	Pike River Coal Limited	Appointed as a Director and Chairman

### Particulars entered in the TOWER Limited Interests Register

During the financial year particulars of the following transactions were entered in the Interests Register pursuant to sections 161 and 162 of the Companies Act 1993.

- The agreement relating to the indemnity given by TOWER to Jim Minto. By way of explanation TOWER's Constitution includes an indemnity to all Group employees and Directors. These agreements deal with practical matters should the indemnity be called upon, such as safeguarding anti access to documents, appointment of counsel and payments of amounts due.
- The renewal of the Group Directors' and Officers' Liability Insurance and Professional Indemnity insurance cover for the benefit of Group Directors and employees.

### Use of company information by Directors

No member of the Board of TOWER Limited, nor of any subsidiary, issued a notice requesting to use information received in his or her capacity as a Director which would not have otherwise been available to that Director.

## DIRECTORS' TRADING IN TOWER SECURITIES

TOWER Limited Directors disclosed the following acquisitions and disposals of relevant interests in TOWER securities during the financial year, pursuant to section 148 of the Companies Act 1993.

### Disclosure of Trading in TOWER securities for the year ended 30 September 2006

Director	No of Shares acquired	No of Shares disposed	Consideration paid (\$NZ except where indicated)	Date of acquisition/ disposition
Keith Barton	20,000**	-	AUD \$33,000.00	4 November 2005
Olaf O'Duill*	30,000**	-	AUD \$50,400.00	9 November 2005
Denis Wood	20,000	-	\$40,003.50	25 November 2005

\* Retired as a Director during the financial year.

\*\* Acquired/disposed by an associated person.

No Director has an interest in any TOWER Finance Limited Capital Bonds.

## Directors' Holdings of TOWER Securities 30 September 2006

Director	Ordinary Shares		Capital Notes	Capital Bonds
	Beneficial	Associated Persons		
Keith Barton		80,550		
Bill Falconer	10,514			
Tony Gibbs	1,110	71,250,928		
Denis Wood	40,000			
John Spencer	6,920		30,000	
Susie Staley	10,351			
Gary Weiss	1,009	71,250,928		
Jim Minto	11,698			
Mike Jefferies*	4,037	71,250,928		

\* Mike Jefferies was an alternate Director for Gary Weiss and Tony Gibbs

## OTHER MATTERS

**Limits on Acquisition of Securities under New Zealand law**

TOWER undertook to the ASX, at the time it granted TOWER a full listing (July 2002), to include the following information in its Annual Report. Except for the limitations detailed as follows TOWER securities are freely transferable under New Zealand law.

The New Zealand Takeovers' Code imposes a general rule by which an acquisition of more than 20% of the voting rights in TOWER or an increase of an existing holding to 20% or more can only occur in certain permitted ways. These include a full or partial takeover offer in accordance with the Takeovers Code, an acquisition or an allotment approved by an ordinary resolution of shareholders, a creeping acquisition (in defined circumstances and compulsory acquisition once a shareholder owns or controls 90% or more of the voting rights in TOWER).

The New Zealand Overseas Investment Act and related regulations determine certain Investments in New Zealand by overseas persons. Generally the Overseas Investment Office's consent is required if an 'overseas person' acquires TOWER shares or an interest in TOWER shares of 25% or more of the shares on issue or, if the overseas person already holds 25% or more, the acquisition increases that holding.

The New Zealand Commerce Act is likely to prevent a person from acquiring TOWER shares if the acquisition would or would be likely to, substantially lessen competition in a market.

**Corporations Act 2001 (Australia)**

TOWER is not subject to Chapters 6, 6A, 6B or 6C of the Corporations Act 2001 (Australia) dealing with the acquisition of shares (such as substantial holdings and takeovers).

**Donations**

During the financial year the TOWER Group in New Zealand paid NZ\$11,891 in donations to various charities and organisations.

**Annual Meeting of Shareholders**

TOWER Limited's Annual Meeting of Shareholders will be held at the Ellerslie Events Centre, 80-100 Ascot Avenue, Greenlane East, Auckland, New Zealand on Thursday, 8 February 2007 at 10am.

#### TOWER SUBSIDIARY COMPANY DIRECTOR DISCLOSURES

In relation to TOWER Limited's subsidiary companies the Companies Act 1993 requires TOWER to disclose, during the year to 30 September 2006, particulars of entries in the Interests Register, the total remuneration and value of other benefits paid to subsidiary Directors, the number of employees who received more than \$100,000, donations made by the subsidiaries and amounts paid to the auditors.

Apart from some overseas subsidiaries, which are required to have local residents as Directors, no wholly-owned subsidiary has Directors who are not employees of TOWER. No employee

appointed as a Director of a subsidiary receives any remuneration or other benefits in his/her role as a Director. The number of such employees who are paid more than \$100,000, as a result of employee remuneration, is included in the remuneration table on page 32. Auditor fees are paid on behalf of the Group as disclosed in the financial statements.

During the financial year there were no entries in any TOWER subsidiary company Interest Register pursuant to section 140 of the Companies Act 1993.

#### Remuneration and benefits paid to TOWER subsidiary company Directors

	2006		2005	
	<i>Directors' Fees</i>	<i>Other</i>	<i>Directors' Fee</i>	<i>Other</i>
Aniseto Chan Ting			2,246	-
Reginald Fowler			28,322 <sup>1</sup>	2,549 <sup>1</sup>
Garth McIlwain	1,164	-	1,429	-
Peter Lewinsky			16,759 <sup>1</sup>	1,659 <sup>1</sup>
John Prescott			22,331 <sup>1</sup>	2,010 <sup>1</sup>
Michael Reid			2,246	
Norman Paul Snr			2,246	
Paul Teisserie			24,300 <sup>1</sup>	2,406 <sup>1</sup>
Peter Timmins			26,416 <sup>1</sup>	2,377 <sup>1</sup>
	<b>1,164</b>	<b>-</b>	<b>126,295</b>	<b>11,001</b>

<sup>1</sup> Includes payments made from 1/10/04 to 11/02/05 when AWM separated from TOWER.

# Financial Statements

For the year ended 30 September 2006

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# Audit Report



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## **Auditors' Report**

To the shareholders of TOWER Limited

We have audited the financial statements on pages 42 to 96. The financial statements provide information about the past financial performance, changes in equity and cash flows of the Company and Group for the year ended 30 September 2006 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 46 to 52.

### **Directors' Responsibilities**

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 September 2006 and their financial performance, changes in equity and cash flows for the year ended on that date.

### **Auditors' Responsibilities**

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

### **Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors.

### **Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 42 to 96:
  - (i) comply with generally accepted accounting practice in New Zealand;
  - (ii) comply with International Financial Reporting Standards; and
  - (iii) give a true and fair view of the financial position of the Company and Group as at 30 September 2006 and their financial performance, changes in equity and cash flows for the year ended on that date.

Our audit was completed on 29<sup>th</sup> November 2006 and our unqualified opinion is expressed as at that date.

Chartered Accountants

Sydney

# Income Statements

For the year ended 30 September 2006

( New Zealand dollars in thousands )

	Note	Group		Company	
		2006	2005	2006	2005
<b>Revenue from continuing operations</b>					
Premium revenue from insurance contracts		363,840	341,048	-	-
Less: Outwards reinsurance expense		(28,199)	(35,065)	-	-
Net premium revenue	3	335,641	305,983	-	-
Investment revenue	4	87,783	105,536	122	(5,006)
Fee and other revenue	5	48,912	47,683	-	-
<b>Net operating revenue</b>		<b>472,336</b>	<b>459,202</b>	<b>122</b>	<b>(5,006)</b>
Claims expense		249,971	249,818	-	-
Less: Reinsurance recoveries revenue		(7,612)	(11,099)	-	-
Net claims expense	6	242,359	238,719	-	-
Change in life insurance contract liabilities	27	(6,119)	17,897	-	-
Change in life investment contract liabilities	27	3,524	2,113	-	-
Management and sales expenses	7	177,384	176,493	3,265	4,684
<b>Net claims and operating expenses</b>		<b>417,148</b>	<b>435,222</b>	<b>3,265</b>	<b>4,684</b>
Amortisation expense		1,131	1,275	-	-
Financing costs	7	15,258	15,416	1,558	6,081
<b>Profit/(Loss) before taxation</b>		<b>38,799</b>	<b>7,289</b>	<b>(4,701)</b>	<b>(15,771)</b>
Income tax expense/(credit)	8	23,645	13,270	(1,643)	(6,072)
<b>Profit/(Loss) from continuing operations</b>		<b>15,154</b>	<b>(5,981)</b>	<b>(3,058)</b>	<b>(9,699)</b>
Profit from discontinued operations including AWM	40	49,404	126,113	-	-
<b>Profit/(Loss) for the year</b>		<b>64,558</b>	<b>120,132</b>	<b>(3,058)</b>	<b>(9,699)</b>
Loss attributable to minority interests		(1,064)	(802)	-	-
<b>Profit/(Loss) for the year attributable to shareholders</b>		<b>63,494</b>	<b>119,330</b>	<b>(3,058)</b>	<b>(9,699)</b>

		NZ cents	NZ cents
Basic and diluted earnings per share <sup>(2) &amp; (3)</sup>	39	17.66	31.57
Basic and diluted earnings per share on continuing operations <sup>(2) &amp; (4)</sup>		3.92	(1.79)
Basic and diluted earnings per share on discontinued operations <sup>(2) &amp; (5)</sup>		13.74	33.36

Notes <sup>(1)</sup> Revenue and expenses from Australian insurance and wealth management business (AWM) have been classified as profit from discontinued operations for 2006 and 2005. Financing and corporate costs continue to be classified as continuing operations.

<sup>(2)</sup> Earnings per share is based on the weighted average of 359.6 million (30 September 2005: 378.0 million) fully paid equivalent shares on issue.

<sup>(3)</sup> Earnings per share on continuing operations in the period to 30 September 2006 excludes profits from TOWER Australia.

<sup>(4)</sup> Earnings per share in the year to 30 September 2005 includes \$73.0 million (6.10 cents per share) from the gain on disposal of Australian Wealth Management.

<sup>(5)</sup> Earnings per share on discontinued activities in the period to 30 September 2005 includes profits from Australian Wealth Management (including the gain on disposal) and TOWER Australia.

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

# Balance Sheets

As at 30 September 2006

( New Zealand dollars in thousands )


	Note	Group		Company	
		2006	2005	2006	2005
<b>Assets</b>					
Cash and cash equivalents	31	53,484	703,970	2,018	135
Receivables	9	123,800	209,870	259,433	326,923
Financial assets at fair value through income statement	10	1,283,281	3,756,844	-	-
Assets of disposal group classified as held for sale	40(a)	4,371,696	-	-	-
Other assets held for sale	12	-	49,817	-	-
Other financial assets	14	-	-	188,871	188,871
Investment property	11	2,114	21,395	-	-
Deferred acquisition costs	15	53,275	133,700	-	-
Other assets		231	97	-	-
Property, plant and equipment	16	4,311	10,596	-	-
Assets arising from reinsurance contracts	27	32,240	39,819	-	-
Non current tax asset	8(b)	50,163	50,163	-	-
Deferred tax asset	8(c)	53,279	107,456	9,914	8,273
Intangible assets	13	34,264	164,290	-	-
<b>Total Assets</b>		<b>6,062,138</b>	<b>5,248,017</b>	<b>460,236</b>	<b>524,202</b>
<b>Liabilities</b>					
Payables	17	251,644	403,629	5,665	68,388
Current tax liabilities		16,206	10,132	-	-
Liabilities of disposal group classified as held for sale	40(a)	3,792,936	-	-	-
Provisions	18	8,436	26,911	-	391
Interest bearing liabilities	19	198,434	199,488	-	-
Insurance liabilities	20	240,868	243,956	-	-
Deferred tax liabilities	8(c)	44,164	95,311	-	-
Other liabilities	21	21,927	22,748	-	-
Deferred revenue liability		-	117,774	-	-
Life insurance contract liabilities	27	811,725	1,260,627	-	-
Life investment contract liabilities	27	46,425	2,320,503	-	-
<b>Total Liabilities</b>		<b>5,432,765</b>	<b>4,701,079</b>	<b>5,665</b>	<b>68,779</b>
<b>Net Assets</b>		<b>629,373</b>	<b>546,938</b>	<b>454,571</b>	<b>455,423</b>
<b>Equity</b>					
Contributed equity	22	913,368	911,772	913,368	911,772
Retained profits	23	(349,716)	(410,549)	(461,866)	(458,808)
Reserves	24	61,804	42,550	3,069	2,459
<b>Total equity attributed to shareholders</b>		<b>625,456</b>	<b>543,773</b>	<b>454,571</b>	<b>455,423</b>
Minority interests		3,917	3,165	-	-
<b>Total Equity</b>		<b>629,373</b>	<b>546,938</b>	<b>454,571</b>	<b>455,423</b>
		NZ \$	NZ \$		
Net asset backing per share.		1.75	1.53		
Gearing <sup>(1)</sup>		23.97%	26.73%		

Note: <sup>(1)</sup> Gearing is defined as total interest bearing liabilities to total interest bearing liabilities plus equity.

<sup>(2)</sup> The above consolidated balance sheet for 2006 has not been prepared on a consistent basis with 2005. This is due to the accounting treatment for discontinued operations whereby the 2006 assets and liabilities of the discontinued operations are presented as single line items where as the 2005 comparatives have not been restated (note 1(AF)).

The financial statements were approved for issue by the Board on 29 November 2006.

  
Keith Barton  
Chairman

  
John Spencer  
Director

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

# Statements of Changes in Equity

For the year ended 30 September 2006

( New Zealand dollars in thousands )

	Note	Group		Company	
		2006	2005	2006	2005
<b>Total equity at the beginning of the financial year</b>		<b>546,938</b>	<b>543,552</b>	<b>455,423</b>	<b>591,865</b>
Profit for the year		63,494	119,330	(3,058)	(9,699)
Movements in retained profits:					
Reclassification of foreign currency translation reserve relating to the sale of Australian Wealth Management Limited	23	-	(14,800)	-	-
Reclassification of foreign currency translation reserve relating to the repayment of Trans Tasman inter-company loan	23	-	(9,840)	-	-
Post acquisition retained earnings of liquidated subsidiaries	23	(2,661)	-	-	-
Other	23	-	(162)	-	-
<b>Total movements in retained profits</b>		<b>60,833</b>	<b>94,528</b>	<b>(3,058)</b>	<b>(9,699)</b>
Movements in reserves:					
Exchange differences on translation of foreign operations	24	19,501	39,763	-	-
Realisation of foreign currency translation reserve on liquidated subsidiaries recognised in profit	24	(529)	-	-	-
Movement in share based payments reserve	24	610	1,825	610	1,825
Movement in asset revaluation reserve	24	(328)	328	-	-
<b>Total movements in reserves</b>		<b>19,254</b>	<b>41,916</b>	<b>610</b>	<b>1,825</b>
<b>Total recognised income and expense for the year</b>		<b>80,087</b>	<b>136,444</b>	<b>(2,448)</b>	<b>(7,874)</b>
Transactions with equity holders in their capacity as equity holders:					
Shares issued	22	1,596	2,422	1,596	2,422
Distribution of Australian Wealth Management shares <sup>(1)</sup>	22	-	(130,990)	-	(130,990)
Change in minority interest		752	(4,490)	-	-
<b>Movements in equity for the financial year</b>		<b>82,435</b>	<b>3,386</b>	<b>(852)</b>	<b>(136,442)</b>
<b>Total equity at the end of the financial year</b>		<b>629,373</b>	<b>546,938</b>	<b>454,571</b>	<b>455,423</b>

Note: <sup>(1)</sup> In February 2005 shares in the listed Australian Wealth Management company were transferred to existing TOWER shareholders and 55.7 million TOWER Limited shares were cancelled as part of the separation of this business.

The above statements of changes in equity should be read in conjunction with the accompanying notes.

# Statements of Cash Flows

For the year ended 30 September 2006

( New Zealand dollars in thousands )

	Note	Group		Company	
		2006	2005	2006	2005
<b>Cash flows from operating activities</b>					
Premiums received		142,450	781,626	-	-
Reinsurance paid		(27,708)	(33,178)	-	-
Interest received		28,055	113,119	122	(82)
Dividends received		36,523	57,202	-	-
Investment income		100,313	111,258	-	-
Non-life company fee income		88,202	117,326	-	-
Claims expenses		(255,444)	(689,368)	-	-
Reinsurance received		9,848	9,694	-	-
Payments to suppliers and employees		(139,935)	(379,862)	291	(9,131)
Interest paid		(2,263)	(15,337)	-	(6,081)
Income taxation received/(paid)		(14,907)	(407)	-	(147)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>31(b)</b>	<b>(34,866)</b>	<b>72,073</b>	<b>413</b>	<b>(15,441)</b>
<b>Cash flows from investing activities</b>					
Net proceeds/(payments) for financial assets		(133,387)	(44,632)	-	-
Proceeds from disposal of AWM business		-	97,089	-	-
Net proceeds/(payments) for purchase of property, plant and equipment		(667)	(3,771)	-	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(134,054)</b>	<b>48,686</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of equity share capital	22	1,596	2,422	1,596	2,422
Repayment of borrowings		-	(8,550)	-	-
Net advances to subsidiaries		-	-	(121)	13,047
Proceeds from borrowings		-	-	-	-
<b>Net cash inflow/(outflow) from financing activities</b>		<b>1,596</b>	<b>(6,128)</b>	<b>1,475</b>	<b>15,469</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(167,324)</b>	<b>114,631</b>	<b>1,888</b>	<b>28</b>
Cash and cash equivalents at beginning of year		701,077	586,301	135	107
Less: Cash and cash equivalents of discontinued operations	40	(480,897)	-	-	-
Effect of exchange rate change on cash and cash equivalents		-	145	(5)	-
<b>Cash and cash equivalents at end of year</b>	<b>31(a)</b>	<b>52,856</b>	<b>701,077</b>	<b>2,018</b>	<b>135</b>

Note The Statement of cashflow presents the net changes in cash flow for both financial assets and property, plant and equipment. TOWER considers that knowledge of gross receipts and payments is not essential to understanding certain activities of TOWER and it is considered acceptable to report only the net changes in cash flow for these items. This is based on the fact that either the turnover of these items is quick, the amounts are large, and the maturities are short or, in the case of property, plant and equipment, the value of the sales are immaterial.

The above cash flow statements should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied to all the periods presented, unless otherwise stated.

### BASIS OF PREPARATION

TOWER Limited has elected to early adopt New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for the reporting period commencing 1 October 2005.

This financial report has been prepared in accordance with NZ IFRS New Zealand Companies Act 1993 and the Financial Reporting Act 1993.

### *Compliance with International Financial Reporting Standards (IFRS)*

Compliance with NZ IFRS ensures that the consolidated financial statements and notes of TOWER Limited comply with IFRS.

This is the first financial report to be prepared in accordance with NZ IFRS and comparatives for the year ended 30 September 2005 have been restated accordingly. NZ IFRS 1 'First time adoption of New Zealand Equivalents to International Financial Reporting Standards' has been applied when preparing these financial statements with the following elections:

- **Business combinations** – carrying value of goodwill as at 30 September 2004 is deemed to be the cost.
- **Share based payments** – NZ IFRS has only been applied to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Reconciliations and descriptions of the effect of transition from previous NZ GAAP to NZ IFRS on the Group's equity and net income are provided in Note 42.

The financial statements have been prepared on a fair value basis with any exceptions noted in the accounting policies below.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of TOWER Limited ("company" or "parent entity") as at 30 September 2006 and the results of all subsidiaries for the year then ended. TOWER Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the consolidated entity has control, being the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

The results of any subsidiaries acquired during the year are consolidated from the date on which control is transferred to the consolidated entity and the results of any subsidiaries disposed of during the year are consolidated up to the date control ceases.

The acquisition of controlled entities is accounted for using the purchase method of accounting.

The share of net assets of controlled entities attributable to minority interests is disclosed separately in the balance sheet and income statement.

Intercompany transactions and balances between Group entities are eliminated on consolidation.

### *Investment in associates*

Investment in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method, after initially being recognised at cost. An associate is an entity that the consolidated entity has significant influence, but not control, over (usually accompanied by shareholdings of between 20 and 50 per cent).

### PRINCIPLES UNDERLYING THE CONDUCT OF LIFE INSURANCE BUSINESS

The life insurance operations of the Group comprise the selling and administration of contracts which are classified as either life insurance contracts or life investment contracts. Contracts that include both investment and insurance elements are separated into these two elements and reported accordingly.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the life insurer, and the financial risks are substantially borne by the life insurer. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held. While the underlying assets are registered in the name of the life insurer and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the investment performance. The life insurer derives fee income from the administration of investment-linked policies.

Participating policyowner benefits, both vested and unvested, are treated as expenses when incurred and liabilities until paid.

### SPECIFIC ACCOUNTING POLICIES

#### (A) PREMIUM REVENUE

##### *Life Insurance Contracts*

Premiums on life insurance contracts are separated into their revenue and deposit components. Where it is not practicable to split out the two components all premiums have been recognised as revenue. Where policies provide for the payment of amounts of premiums on specific due dates, such premiums are recognised as revenue when due. Unpaid premiums are recognised as revenue only during the days of grace or where secured by the surrender values of the policies concerned. Other premiums are recognised as revenue on a cash received basis.

##### *Life Investment Contracts*

Under life investment contracts the life companies receive deposits from policyholders which are then invested on behalf of the policyholders. No premiums are recognised as revenue. Fees deducted from members accounts are accounted for as fee revenue.

### **General Insurance**

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract.

The proportion of premiums not earned in the income statement at the reporting date is recognised in the balance sheet as unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

### **(B) FEE AND OTHER REVENUE**

Fee revenue on investment contracts and other services provided by the Group is recognised in the period the services are provided.

### **(C) INVESTMENT REVENUE**

Investment revenue is recognised as follows:

#### ***Dividends and distributions***

Revenue is recognised when the right to receive payment is established. Dividends are recorded as income at the date the shares become "ex-dividend".

#### ***Property Income***

Property income is recognised on an accrual basis.

#### ***Interest Income***

Interest income is recognised on an effective interest method.

#### ***Fair value gains and losses***

Fair value gains and losses on financial assets at fair value are recognised through the Income Statement.

### **(D) CLAIMS EXPENSE**

#### ***Life Insurance Contracts***

Claims are recognised when the liability to a policyholder under a life insurance contract has been established or upon notification of the insured event. Claims are separated into their expense and withdrawal components. Claims on risk business are treated as an expense and are recognised when a liability to the policyholder is established.

#### ***Life Investment Contracts***

There is no claims expense in respect of investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Other claim amounts are similar to withdrawals and as such do not relate to the provision of services or the bearing of risk. Accordingly, they are not expenses and are treated as movements in life insurance contract liabilities.

#### ***General Insurance Contracts***

Claims expenses are recognised when claims are notified.

### **(E) BASIS OF EXPENSE APPORTIONMENT**

All operating expenses in respect of life insurance or life investment contracts have been apportioned between policy acquisitions, policy

maintenance and investment management expenses with regard to the objective when incurring the expense and the outcome achieved.

The apportionment process is adopted by applying the following methodology:

- (i) Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned.
- (ii) Commission expenses that cannot be allocated to a class of business, for example volume bonuses, are apportioned on the basis of new business and renewal commissions of each class, allowing for limits implied by the basis of adviser remuneration.
- (iii) Investment expenses are apportioned to the classes of business on the mean balance of assets under management.
- (iv) Other expenses that cannot be allocated to a particular class of business are apportioned to the classes of business based on appropriate cost drivers, including number of new policies issued and related premiums, number of new units issued, mean balances of assets under management, average number of policies in-force and time and activity based allocations.

### **(F) POLICY ACQUISITION COSTS**

#### ***Life insurance contracts***

The actuary, in determining the life insurance contract liabilities, takes account of the deferral and future recovery of acquisition costs which are capitalised by way of movement in life insurance contract liabilities, then amortised over the period in which they will be recoverable.

#### ***Other contracts***

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs are initially recorded in the income statement, with any amounts to be deferred then taken to the balance sheet as a Deferred Acquisition Cost (DAC).

Deferred acquisition costs are recognised for the products noted below.

#### ***Superannuation and Medical Products***

The acquisition costs of establishing contracts for certain superannuation and medical products are deferred. These costs are amortised over the periods of expected future benefit. A comparison to recoverable value is carried out annually, with any variance below carrying value taken to the Income Statement in that year.

#### ***General Insurance Products***

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

#### ***Life Investment Contracts***

Incremental acquisition costs incurred in acquiring a life investment contract are deferred, as an asset on the balance sheet, and amortised over the periods of expected future benefit.

# Notes to the Financial Statements

For the year ended 30 September 2006

## (G) OUTWARDS REINSURANCE

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment.

## (H) FINANCING COSTS

Financing costs include interest on external debt (borrowing costs), the impact from hedging borrowing costs and amortisation of transaction costs.

## (I) TAXATION

### *Current Tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

### *Deferred tax*

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted for each jurisdiction. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are not recognised for temporary differences arising on investments in controlled entities where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### *Income tax for investment contracts and life insurance contracts business*

The income tax expense recognised in the income statement reflects tax imposed on shareholders as well as policyholders. Arrangements made with some superannuation funds results in TOWER making payments to the Australian Taxation Office (ATO) in relation to contributions tax arising in those funds. The amounts paid are classified as claims expense.

### *Income tax for other business*

The income tax expense for all other business is the tax payable on taxable income for the current period, based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

## *Tax Consolidation*

TOWER Limited and its New Zealand wholly-owned subsidiaries comprise a New Zealand tax consolidated group of which TOWER Limited is the head entity. In Australia, TOWER Australia Group Limited is the head entity of the tax consolidated group comprised of TOWER Australia Group Limited and its wholly-owned subsidiaries. PrefSure Holdings Limited is not part of the tax consolidated group.

Under tax consolidation the head entity assumes the following balances from subsidiaries within the tax consolidated group:

- current tax balances arising from external transactions recognised by entities in the tax-consolidated group which occurred after implementation date; and
- deferred tax assets arising from unused tax losses and unused tax credits recognised by entities in the tax-consolidated group which occurred after implementation date.

Assets and liabilities which arise as a result of balances transferred from entities within the tax consolidated group to the head entity are recognised as related party balances receivable and payable in the balance sheet. The recoverability of balances arising from tax funding agreements is based on the ability of the tax-consolidated group to utilise the amounts recognised by the head entity.

## *GST*

All revenues, expenses and assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

Cashflows are included in the Cashflow Statement on a gross basis and the GST component of cashflows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cashflows.

## (J) FOREIGN CURRENCY

### *Functional and presentation currencies*

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. The consolidated Group financial statements are presented in New Zealand dollars.

### *Transactions and balances*

In preparing the financial statements of the individual entities transactions denominated in foreign currencies are translated into the reporting currency using the exchange rates in effect at the transaction dates. Monetary items receivable or payable in a foreign currency, including forward exchange contracts, are translated at reporting date at the closing exchange rate.

Translation differences on non-monetary items such as financial assets held at fair value through profit or loss are reported as part of their fair value gain or loss.

Exchange differences arising on the settlement or retranslation of monetary items at year end exchange rates are recognised in the Income Statement.

### **Consolidation**

For the purpose of preparing consolidated financial statements the assets and liabilities of subsidiaries with a functional currency different to the Company are translated at the closing rate at the balance sheet date. Income and expense items for each subsidiary are translated at a weighted average of exchange rates over the period, as a surrogate for the spot rates at transaction dates. Exchange differences are taken to the Foreign Currency Translation Reserve and recognised in the Statements of Changes in Equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate with movements recorded through the Foreign Currency Translation Reserve in the Statements of Changes in Equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the Income Statement.

### **(K) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities on the Balance Sheet.

### **(L) RECEIVABLES**

Receivables are recognised initially at fair value. Due to the short term nature of these assets the recoverable value, i.e. allowing for doubtful debts, will generally be the fair value.

### **(M) PROPERTY, PLANT AND EQUIPMENT**

#### **Plant and Equipment**

Plant and equipment is initially recorded at cost including transaction costs and subsequently measured at cost less any subsequent accumulated depreciation and impairment losses. Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of any residual amounts, over their useful lives.

The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount.

### **(N) FINANCIAL ASSETS BACKING INSURANCE BUSINESS**

The Group has determined that:

- all assets held within the statutory funds of the life insurance companies are assets backing the policy liabilities of the life insurance business;
- all assets within the general insurance companies are held to back general insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries; and
- all assets within the health insurance company are held to back health insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries.

As these assets are managed under the Group's Risk Management Statement on a fair value basis and are reported to the Board on this basis, they have been valued at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as follows:

- Cash assets and bank overdrafts are carried at face value which approximates fair value;
- Shares, fixed interest securities, options and units in trusts listed on stock exchanges are valued at the quoted bid price of the instrument at Balance Sheet date;
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable traded investments at balance date;
- Unlisted unit trusts are recorded at fund managers' quoted redemption prices;
- Receivables are carried at book value, which is the best estimate of fair value as they are settled within a short period;
- Directly held investment property, which is property held to earn rentals and/or for capital appreciation and is not occupied by the Group, is carried at fair value supported by valuations carried out every three years.

### **(O) OTHER FINANCIAL ASSETS**

Other financial assets are carried at historic cost.

### **(P) INTANGIBLES**

#### **Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the entity acquired, at the date of acquisition.

Following initial recognition, goodwill on acquisition of a business combination is not amortised but is tested for impairment bi-annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with NZ IFRS 14 Segment Reporting.

Any impairment is recognised immediately.

On disposal of an entity the carrying value of any associated goodwill is included in the calculation of the gain or loss on sale.

# Notes to the Financial Statements

For the year ended 30 September 2006

## **Software**

Application software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the software.

## **Present value of in-force business (PVIF)**

Present value of in-force business represents the amount paid by the Group to purchase in-force life policies within a business combination. The present value of in-force business has a finite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated to allocate the cost of in-force business over the estimated useful lives which vary from 8 to 20 years from date of acquisition.

## **(Q) IMPAIRMENT OF NON FINANCIAL ASSETS**

Assets that have an indefinite useful life are not subject to amortisation and are tested bi-annually for impairment. Assets with a definite useful life are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

## **(R) ACQUISITION OF ASSETS**

Identifiable assets acquired and liabilities assumed in business combination are measured at fair value at acquisition date with any excess of cost over the fair value of the net assets acquired recognised as goodwill on the balance sheet.

If there is negative goodwill then this is recognised directly in the Income Statement.

## **(S) DERIVATIVE FINANCIAL INSTRUMENTS**

All derivatives are recognised at fair value through profit or loss (refer note 29).

## **(T) LEASED ASSETS**

### **As lessor**

Rental income on operating leases is recognised as income in the periods the services are provided and the amounts are receivable.

Initial direct costs incurred in initiating the lease are added to the carrying value of the leased asset and amortised on a straight line basis over the term of the lease.

### **As lessee**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the services are received over the period of the lease.

Benefits received and receivable for entering into an operating lease are recognised on a straight line basis over the term of the lease.

## **(U) BORROWINGS**

Interest bearing debt and overdrafts are initially measured at fair value, net of transaction costs incurred and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

## **(V) PAYABLES**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unsettled.

## **(W) PROVISIONS**

Provisions are only recognised when the Group has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

## **(X) EMPLOYEE ENTITLEMENTS**

Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, annual leave and long service leave, but excludes share-based payments. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided up to the balance date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities which have terms to maturity approximating the terms of the related liability.

## **(Y) CAPITAL GUARANTEES**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the Income Statement.

TOWER provides capital guarantees to certain funds. Where these are assessed to be embedded derivatives, a financial liability is recognised in the value of such liabilities.

## **(Z) LIFE INVESTMENT CONTRACT LIABILITIES**

Investment contract premiums are separated into their revenue and deposit components.

### **Financial Instrument Liability**

The deposit element is initially recognised at fair value. Fair value is determined by estimating the amount payable under the contract for any premiums received less any current or future exit penalties.

The fair value is measured as the higher of the current surrender value and an estimate of the discounted future maturity benefit payable in respect of that deposit.

The current surrender value is the amount which the contract holder is entitled to receive upon immediate surrender. This equates to the premiums received less any surrender penalties.

When calculating the discounted future maturity benefit, the surrender penalty is calculated per the terms of the contract. For regular premium contracts the calculation is based on a discounted cash flow that incorporates the ultimate total redemption less future deposits receivable. The resulting surrender penalty differs to the penalty that would be applied if the contract immediately lapsed leading to a different financial instrument liability.

The deposit element, or financial instrument liability, is subsequently measured at fair value, with any change in value being recognised in the Income Statement.

#### **Deferred Revenue Liability (DRL)**

Accounting standards contemplate a situation where there is a difference between the consideration (premiums) received from a policyholder and the sum of the fees and financial liability recognised upon receipt. As there are few entry fees, the focus for TOWER is the difference between the premium and the increase in the financial liability.

Accounting standards define this as part of the Management Services Element (MSE).

The difference between the consideration received and the fair value of the deposit element relates to future management services revenue and is initially recognised on the Balance Sheet as Deferred Revenue Liability (DRL).

Fees received are deferred and recognised as revenue over the life of the contract.

#### **(AA) LIFE INSURANCE CONTRACT LIABILITIES**

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS).

Under MoS the excess of premium received over claims and expenses ('the profit margin') is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder ('the service'), hence the term Margin on Services. The movement in life insurance contract liabilities recognised in the Income Statement reflects the planned release of this margin.

Life insurance contract liabilities are ordinarily determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The policy liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future. When the benefits under the life insurance contract liability are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate on those assets. Where the benefits are not linked to the performance of the backing assets, a risk free discount rate is used. The risk free discount rate is determined by the Appointed Actuary or Chief Actuary based on the government bond rate, or the inter bank zero coupon mid swap rates, depending on the nature, structure and term of the contract liabilities.

The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date.

#### **(AB) GENERAL INSURANCE LIABILITIES**

Outstanding claims are measured at the central estimate of the present value of expected future payments after allowing for inflation and superimposed inflation and discounted at the risk free rate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs. Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs. In addition a risk margin is added to the claims provision to recognise the inherent uncertainty of the central estimate.

Provision has been made for the estimate of claim recoveries from third parties in respect of general insurance business.

Liability adequacy testing is performed in order to recognise any deficiencies in the income statement arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance conditions. Liability adequacy is performed at a portfolio level of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

#### **(AC) CONTRIBUTED EQUITY**

Ordinary shares issued by the Group are classified as equity and are recognised at fair value less direct issue costs.

#### **(AD) SHARE BASED PAYMENTS**

The Group issues share-based compensation packages to senior executives as part of their remuneration packages.

##### **Share options vesting before 1 October 2004**

No expense is recognised in respect of the options or shares issued to employees for nil consideration. Shares issued following the exercise of options are recognised at that time and the proceeds received allocated to share capital.

##### **Share options vesting on or after 1 October 2004**

These options are measured at fair value at grant date and expensed on a straight-line basis over the period during which the employee becomes unconditionally entitled to the options, based on the estimate of shares that will eventually vest. Fair value at grant date is measured using a binomial model, taking into account the specific conditions of the options issued. The determination of fair value excludes the impact of any non-market vesting conditions which are allowed for in assumptions about the number of options that are expected to be exercisable. When an expense is recognised there is an equal and opposite entry made to the share option reserve in equity. When the options are exercised the receipt of the exercise price is transferred to share capital.

Where there is a tax deduction allowable in relation to the share option scheme this is recognised in the Income Statement, to the extent of the tax credit commensurate to the expense recognised in the Income Statement, with the balance reported through the share option reserve in equity.

Where terms are changed during the period that increase the cost of the options then this is recognised over the remaining vesting period. Where terms are changed during the period that decrease the cost of the options then there is no change to the expense recognised.

# Notes to the Financial Statements

For the year ended 30 September 2006

## (AE) SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different to those of segments operating in other economic environments.

## (AF) NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively and a view to resale. The results of discontinued operations are presented separately on the face of the income statement for 2006 and 2005 has been restated for comparative purposes. The assets and liabilities of the discontinued operations are presented separately from other assets and liabilities on the face of the balance sheet.

## (AG) EARNINGS PER SHARE

### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group makes estimates and assumptions 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. The key areas where critical accounting estimates are applied are noted below. It has been determined that no critical accounting judgements have been made in the year.

### (A) POLICY LIABILITIES

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Company shares experience on mortality, morbidity, persistency and investment results with its customers, which can offset the impact of these factors on profitability from those products. Details of specific actuarial policies and methods are set out in note 27.

### (B) CLAIMS LIABILITIES UNDER GENERAL INSURANCE CONTRACTS

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Group.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events giving rise to the

claims has happened. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based on statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Group processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks;
- medical and technological developments.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Group has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based on the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 28.

#### **(C) ASSETS ARISING FROM REINSURANCE CONTRACTS**

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

#### **(D) PREPAID TAX LOSSES**

Refer to note 8 for an explanation on assumptions supporting the carrying value of prepaid tax assets.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 3. PREMIUM REVENUE

(New Zealand dollars in thousands)

	Group		Company	
	2006	2005	2006	2005
Life insurance contract premiums	80,518	76,583	-	-
Less: Deposits recognised as an increase in policy liabilities	(11,489)	(11,588)	-	-
<b>Life insurance contract premiums recognised as revenue</b>	<b>69,029</b>	<b>64,995</b>	-	-
General insurance premiums	194,963	186,134	-	-
Health insurance premiums	99,848	89,919	-	-
	<b>363,840</b>	<b>341,048</b>	-	-
Less: Reinsurance ceded	(28,199)	(35,065)	-	-
<b>Total net premium revenue</b>	<b>335,641</b>	<b>305,983</b>	-	-

## 4. INVESTMENT REVENUE

Interest income	29,725	26,758	122	1,086
Dividend income	37,025	14,600	-	-
Property income	1,975	4,534	-	-
Net fair value gains on financial assets at fair value through profit or loss	19,058	59,644	-	(6,092)
<b>Total investment revenue</b>	<b>87,783</b>	<b>105,536</b>	<b>122</b>	<b>(5,006)</b>

## 5. FEE AND OTHER REVENUE

Investment and management fees	47,980	47,543	-	-
Other revenue	932	140	-	-
<b>Total fee and other revenue</b>	<b>48,912</b>	<b>47,683</b>	-	-

## 6. CLAIMS EXPENSE

Life insurance claims	88,311	93,012	-	-
Life investment contract payments	4,794	7,401	-	-
<b>Total life claims and payments</b>	<b>93,105</b>	<b>100,413</b>	-	-
Less: Withdrawals recognised as a decrease in policy liabilities	(21,815)	(27,142)	-	-
<b>Life insurance claims recognised as expense</b>	<b>71,290</b>	<b>73,271</b>	-	-
General insurance claims	120,441	115,872	-	-
Health insurance claims	58,240	60,675	-	-
	<b>249,971</b>	<b>249,818</b>	-	-
Less: Reinsurance proceeds received	(7,612)	(11,099)	-	-
<b>Total net claims expense</b>	<b>242,359</b>	<b>238,719</b>	-	-

## 7. OTHER EXPENSES

(New Zealand dollars in thousands)

	Group		Company	
	2006	2005	2006	2005
<b>(A) MANAGEMENT AND SALES EXPENSES</b>				
<b>Life insurance contracts</b>				
Policy acquisition expenses:				
Commission	4,112	5,594	-	-
Other acquisition expenses	4,931	4,613	-	-
Policy maintenance expenses:				
Commission	4,309	2,844	-	-
Other acquisition expenses	9,585	8,865	-	-
Investment management expenses	-	587	-	-
<b>Total life insurance expenses</b>	<b>22,937</b>	<b>22,502</b>	<b>-</b>	<b>-</b>
<b>Life investment contracts</b>				
Policy acquisition expenses:				
Commission	-	-	-	-
Other acquisition expenses	-	-	-	-
Policy maintenance expenses:				
Commission	132	-	-	-
Other acquisition expenses	-	-	-	-
Investment management expenses	-	-	-	-
<b>Total life investment expenses</b>	<b>132</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other non-life expenses</b>	<b>154,315</b>	<b>153,990</b>	<b>3,265</b>	<b>4,684</b>
<b>Total management and sales expenses</b>	<b>177,384</b>	<b>176,493</b>	<b>3,265</b>	<b>4,684</b>
<b>Included in total management and sales expenses are the following:</b>				
Amortisation of deferred acquisition costs	17,252	15,016	-	-
Bad debts written off	186	-	-	-
Change in provision for doubtful debts	434	(101)	-	-
Depreciation:				
Office equipment and furniture	1,298	1,579	-	-
Motor vehicles	68	105	-	-
Computer hardware and software	1,744	5,959	-	-
Directors' fees	682	798	682	748
Donations	12	19	-	-
Employee benefits expense	54,909	57,939	-	-
Net foreign exchange loss	(124)	537	(124)	1,169
Project costs	-	2,131	-	-
<i>Auditors remuneration</i>				
Fees paid to parent auditors:				
Audit of financial statements	2,507	1,609	220	90
Audit of trust accounts	214	65	-	-
Other assurance related services	803	139	77	-
Other services	-	238	-	-

The audit fees above include those incurred by both the New Zealand and Australian businesses.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 7. OTHER EXPENSES (CONTINUED)

(New Zealand dollars in thousands)

	Group		Company	
	2006	2005	2006	2005
<b>(B) FINANCING COSTS</b>				
Interest expense	17,425	17,583	1,558	6,081
Other costs	(2,167)	(2,167)	-	-
<b>Total financing costs</b>	<b>15,258</b>	<b>15,416</b>	<b>1,558</b>	<b>6,081</b>

## 8. TAXATION

### (A) CURRENT TAX EXPENSE

<b>Analysis of taxation expense</b>				
Current taxation	13,747	23,890	(1,643)	(2,801)
Deferred taxation	6,505	(6,938)	-	-
Under/(over) provided in prior years	3,393	(3,682)	-	(3,271)
<b>Income tax expense for the year from continuing operations</b>	<b>23,645</b>	<b>13,270</b>	<b>(1,643)</b>	<b>(6,072)</b>
<b>Analysis of taxation expense – continuing and discontinuing operations</b>				
Continuing operations	23,645	13,270	(1,643)	(6,072)
Discontinued operations – operating profit	40,385	37,275	-	-
<b>Income tax expense for the year</b>	<b>64,030</b>	<b>50,545</b>	<b>(1,643)</b>	<b>(6,072)</b>
The tax expense recognised can be reconciled to the accounting profit as follows:				
<b>Profit before taxation</b>				
Continuing operations	38,799	7,289	(4,701)	(15,771)
Discontinuing operations	89,789	163,388	-	-
<b>Total profit before taxation</b>	<b>128,588</b>	<b>170,677</b>	<b>(4,701)</b>	<b>(15,771)</b>
Income tax at the current rate of 33% (2005: 33%)	42,434	56,324	(1,551)	(5,205)
Taxation effect of non-deductible expenses/non-assessable revenue:				
Life insurance companies permanent differences	24,508	13,952	-	-
Australian non life insurance companies tax rate adjustment	(2,694)	(2,295)	-	-
Recognition of prior period current tax	3,393	(3,682)	-	(3,271)
Non life insurance companies permanent differences	(8,936)	(13,754)	-	2,403
Permanent differences arising from transactions with discontinued businesses	5,325	-	(92)	-
<b>Income tax expense</b>	<b>64,030</b>	<b>50,545</b>	<b>(1,643)</b>	<b>(6,073)</b>

The Group taxation expense includes both tax on shareholder profits and on returns attributed to policyholders.

### (B) NON CURRENT TAX ASSET

#### Prepaid life company tax

Under New Zealand life insurance tax rules the group is required to pay tax in relation to its own profits and on behalf of policyholders. Tax paid by the Group on its taxable profits can be used to satisfy the policyholder tax liability. Due to tax on policyholder liabilities exceeding tax on Group taxable profits it has been necessary to prepay income tax resulting in a prepaid tax asset.

This prepaid tax can be used to satisfy tax liabilities on future Group taxable profits in excess of policyholder tax liabilities and is not affected

by shareholder continuity requirements. The directors have assessed the appropriateness of the carrying value of the asset including the likely period over which the Group is expected to utilise this prepaid tax asset using the following assumptions:

- Growth in TOWER NZ operating profits 3.0% to 7.0% (per annum)
- Investment returns 3.6% to 5.7% (net of taxation)
- Tax Rate 33%

The assumptions are consistent with those used in calculating the embedded values of the life companies and fair values of the non-life companies.

Based on the above assumptions the Directors estimate the prepaid asset will be recovered in full against future Group tax liabilities by 2013. Changes in the above assumptions could impact on the timeframe in which the prepaid tax asset would be utilised by the Group. If the actual taxable income of the trading companies were below Directors' estimates by 20% the prepaid tax asset would be fully utilised by 2015.

While the Directors have considered the timeframe for realisation of the prepaid tax asset based on future profits from the group's existing business activities, the timeframe for realising the prepaid tax asset can also be affected by future actions such as business acquisitions or changes in tax legislation.

### (C) DEFERRED TAX ASSETS AND LIABILITIES

( New Zealand dollars in thousands )

2006	Opening balance at 1 October	Assets/ Liabilities held for sale	Charged/ (credited) to profit and loss	Charged to equity	Acquisition/ disposal of subsidiary	Exchange differences	Closing balance at 30 September
<b>Movements in deferred taxation assets</b>							
Deferred revenue liability	24,152	(24,152)	-	-	-	-	-
Provisions and accruals	8,556	(4,961)	(515)	7	-	-	3,087
Unrealised losses	26,581	-	(9,142)	-	-	-	17,439
Policyholder reserves	17,933	(7,134)	1,879	-	-	-	12,678
Tax losses	7,474	-	9,984	-	-	-	17,459
Other	22,760	(16,615)	(3,528)	-	-	-	2,617
<b>Total deferred tax assets</b>	<b>107,456</b>	<b>(52,862)</b>	<b>(1,321)</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>53,279</b>
<b>Movements in deferred taxation liabilities</b>							
Deferred costs	44,556	(24,350)	(146)	-	-	-	20,060
Fair value	32,065	(32,065)	-	-	-	-	-
Unrealised gains	18,098	-	5,778	-	-	-	23,876
Other	592	84	(448)	-	-	-	228
<b>Total deferred taxation liabilities</b>	<b>95,311</b>	<b>(56,331)</b>	<b>5,184</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,164</b>
<b>2005</b>							
<b>Movements in deferred taxation assets</b>							
Deferred revenue liability	24,372	-	(929)	-	-	709	24,152
Provisions and accruals	7,762	-	586	56	-	152	8,556
Unrealised losses	30,880	-	(4,294)	(5)	-	-	26,581
Policyholder reserves	16,027	-	1,708	-	-	197	17,933
Tax losses	-	-	7,474	-	-	-	7,474
Other	48,468	-	(13,876)	-	(12,796)	964	22,760
<b>Total deferred tax assets</b>	<b>127,509</b>	<b>-</b>	<b>(9,330)</b>	<b>51</b>	<b>(12,796)</b>	<b>2,022</b>	<b>107,456</b>
<b>Movements in deferred taxation liabilities</b>							
Deferred costs	37,564	-	6,298	-	-	659	44,556
Fair value	17,787	-	13,604	-	-	674	32,065
Unrealised gains	13,282	-	4,593	-	-	223	18,098
Other	6,254	-	(5,693)	-	-	31	592
<b>Total deferred taxation liabilities</b>	<b>74,887</b>	<b>-</b>	<b>18,801</b>	<b>-</b>	<b>-</b>	<b>1,623</b>	<b>95,311</b>

# Notes to the Financial Statements

For the year ended 30 September 2006

## 8. TAXATION (CONTINUED)

### (C) DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

#### Utilisation of deferred tax assets

The Group has a deferred tax asset (DTA) of \$53.3 million (2005: \$107.5 million). The level of tax losses/expenditures arising in the next two years was projected in order to determine the level of DTA increase in this period. The amount was added to the projected DTA's at balance date in order to establish the level of tax liability required to fully absorb current and future anticipated DTAs. The Group projected the level of taxable income the Tax Group expected to generate over the next two year period. The

excess of tax liabilities over DTAs was calculated. An excess indicates that the Group has sufficient taxable income to utilise all DTAs and therefore the DTA recognised in these accounts is valid.

Included in the DTA are tax losses relating to the New Zealand Group. These tax losses are available to carry forward provided the required continuity of shareholders is maintained. A benefit of NZ\$17.5 million attributable to tax losses of \$53.0 million has been recognised as an asset that is expected to be recoverable against future taxable income of the Group. There are also unrealised taxable gains within the Group, if these were realised they would significantly reduce or eliminate the overall tax loss immediately.

### (D) IMPUTATION CREDIT ACCOUNT

( New Zealand dollars in thousands )

	Group	
	2006	2005
Opening balance	586	2,338
Attached to dividends received	17,037	12,865
Taxation paid	1,246	8,014
Other including transfers to Policyholder Credit Account	(16,941)	(22,631)
<b>Closing balance</b>	<b>1,928</b>	<b>586</b>

The Group Imputation Credit Account reflects the imputation credits held by the Parent as the representative member.

### (E) POLICYHOLDER CREDIT ACCOUNT

Opening balance	24,000	14,000
Previous year's policyholder tax liability	(20,936)	(12,176)
Transfer from Imputation Credit Account	20,000	22,176
<b>Closing balance</b>	<b>23,064</b>	<b>24,000</b>

The Policyholder Credit Account enables TOWER Life (NZ) Limited to satisfy the income tax liability on Policyholder income for the year. The company does this by electing to transfer imputation credits from the Imputation Credit Account to the Policyholder Credit Account subject to a number of tax rules.

The Policyholder tax liability is based on actuarial calculations which are finalised after year end. The balance in the Policyholder Credit Account is available to meet any Policyholder tax liability.

## 9. RECEIVABLES

(New Zealand dollars in thousands)

	Group		Company	
	2006	2005	2006	2005
Reinsurance recoveries receivable	9,840	33,467	-	-
Outstanding premiums and trade receivables	97,525	111,675	-	-
Unsettled investment sales	92	36,254	-	-
Unearned commission	9,394	10,297	-	-
Related party receivables	-	-	258,258	326,923
Other	6,949	18,177	1,175	-
<b>Total receivables</b>	<b>123,800</b>	<b>209,870</b>	<b>259,433</b>	<b>326,923</b>
<b>Analysed as:</b>				
Current	113,414	207,580	259,433	326,923
Non current	10,386	2,290	-	-
	<b>123,800</b>	<b>209,870</b>	<b>259,433</b>	<b>326,923</b>

## 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

Fixed interest securities	688,572	1,889,091	-	-
Equity securities	473,243	1,583,158	-	-
Property securities	121,466	284,594	-	-
<b>Total financial assets at fair value through profit or loss</b>	<b>1,283,281</b>	<b>3,756,844</b>	<b>-</b>	<b>-</b>
<b>Analysed as:</b>				
Current	353,405	361,497	-	-
Non current	929,876	3,395,347	-	-
	<b>1,283,281</b>	<b>3,756,844</b>	<b>-</b>	<b>-</b>

## 11. INVESTMENT PROPERTY

At fair value				
Opening balance at 1 October	21,395	23,391	-	-
Transferred to assets of discontinued group classified as held for sale	(19,221)	-	-	-
Net loss from fair value adjustment	(60)	(1,996)	-	-
<b>Closing balance at 30 September</b>	<b>2,114</b>	<b>21,395</b>	<b>-</b>	<b>-</b>

All properties directly held are held under freehold interests. Properties are held at fair value and valuations are performed every three years by Rolle Associates. The last valuation was performed in September 2005.

The rental from directly held property amounted to \$0.2 million during the period (2005: \$4.4 million). Direct operating expenses recognised during the period amounted to \$0.1 million (2005: \$1.3 million).

## 12. AVAILABLE FOR SALE FINANCIAL ASSETS

Available for sale financial assets	-	49,817	-	-
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In September 2005 the parent entity announced its intention to sell its office building in Sydney and initiated an active program to locate a buyer and complete the sale. The building was sold in December 2005 and was reported in the financial report as a financial asset held for sale.

A gain of \$50,000 was made and this is reported in the financial report within investment revenue.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 13. NON CURRENT INTANGIBLE ASSETS

(New Zealand dollars in thousands)

	Group			Total
	Goodwill	Software	PVIF <sup>1</sup>	
<b>At 1 October 2004</b>				
Cost	306,900	7,115	-	314,015
Accumulated amortisation and impairment losses	-	(2,165)	-	(2,165)
<b>Net book amount at 1 October 2004</b>	<b>306,900</b>	<b>4,950</b>	<b>-</b>	<b>311,850</b>
<b>Year ended 30 September 2005</b>				
Additional intangible recognised	-	602	-	602
AWM Spin-off (see note 39(b))	(150,591)	-	-	(150,591)
Amortisation expense	-	(1,275)	-	(1,275)
Impact of foreign exchange	3,704	-	-	3,704
<b>Closing net book amount at 30 September 2005</b>	<b>160,013</b>	<b>4,277</b>	<b>-</b>	<b>164,290</b>
<b>At 30 September 2005</b>				
Cost	160,013	7,717	-	167,730
Accumulated amortisation and impairment losses	-	(3,440)	-	(3,440)
<b>Net book amount at 30 September 2005</b>	<b>160,013</b>	<b>4,277</b>	<b>-</b>	<b>164,290</b>
<b>Year ended 30 September 2006</b>				
Acquisition of subsidiary	19,623	-	31,732	51,355
Transferred to assets of disposal group classified as held for sale	(149,083)	-	(29,565)	(178,648)
Additions at cost	259	307	-	566
Amortisation expense	-	(1,131)	(2,167)	(3,298)
<b>Closing net book amount at 30 September 2006</b>	<b>30,811</b>	<b>3,453</b>	<b>-</b>	<b>34,264</b>
<b>At 30 September 2006</b>				
Cost	30,811	8,024	-	38,835
Accumulated amortisation and impairment losses	-	(4,571)	-	(4,571)
<b>Net book amount at 30 September 2006</b>	<b>30,811</b>	<b>3,453</b>	<b>-</b>	<b>34,264</b>

<sup>1</sup> Present value of in-force business

### IMPAIRMENT TESTING FOR GOODWILL

The amount of goodwill is subject to annual impairment testing at the business unit level.

(New Zealand dollars in thousands)

	TOWER Australia	TOWER Medical	TOWER Insurance	Total
<b>2006</b>				
Carrying amount of goodwill	-	13,067	17,744	30,811
<b>2005</b>				
Carrying amount of goodwill	129,202	13,067	17,744	160,013

Key financial indicators are considered when testing the Group's goodwill for impairment. These include cash flows, growth in written premium volumes and the net assets of the business units.

An analysis of these key indicators and other valuations performed for the current year confirm that at 30 September 2006 there is no impairment of the value of goodwill (2005: Nil).

#### 14. OTHER FINANCIAL ASSETS

( New Zealand dollars in thousands )

	Group		Company	
	2006	2005	2006	2005
Investments in controlled entities carried at cost	-	-	<b>188,871</b>	188,871

TOWER Limited holds its subsidiary companies under a holding company, TOWER Financial Services Group Limited. All subsidiary companies have a balance sheet date of 30 September 2006, with the exception of PrefSure Life Ltd and National Pacific Insurance Limited which have a balance sheet date of 31 March and 30 June respectively. Principal trading subsidiary companies at 30 September 2006 and 2005 are as follows:

Name of Company	Holdings		Nature of Business
	2006	2005	
<b>Incorporated in New Zealand</b>			
TOWER Asset Management Limited	100%	100%	Investment management services
TOWER Corporation Holdings Limited	100%	100%	Management services
TOWER Finance Limited	100%	100%	Issue of capital notes and bonds
TOWER Health & Life Limited	100%	100%	Term, disability and medical insurance
TOWER Insurance Limited	100%	100%	Fire and general insurance
TOWER Insurance (Fiji) Limited	100%	100%	Fire and general insurance
TOWER Insurance (Cook Islands) Limited	100%	100%	Fire and general insurance
TOWER Insurance (PNG) Limited	100%	100%	Fire and general insurance
National Pacific Insurance Limited	70%	70%	Fire and general insurance
TOWER Life Limited	100%	100%	Life insurance
TOWER Life (N.Z.) Limited	100%	100%	Life insurance and superannuation management
TOWER Managed Funds Limited	100%	100%	Life insurance administration and personal superannuation management
TOWER Medical Insurance Limited	100%	100%	Medical insurance
<b>Incorporated in Australia</b>			
Beacon Investment Management Services Limited	100%	100%	Investment fund distributor
PrefSure Holdings Ltd	100%	-	Holding company
PrefSure Life Limited	100%	-	Life insurance
TOWER Australia Group Limited	100%	100%	Holding company
TOWER Managed Funds Limited (Australia)	100%	100%	Life insurance
TOWER Risk & Investment Management Limited	100%	100%	Service company
TOWER Asset Management Limited (Australia)	100%	100%	Investment management services
TOWER Australia Limited	100%	100%	Life insurance and superannuation provider

On 8 August 2006, TOWER announced its plan to separate the Australian and New Zealand businesses of the Group. For more details refer to note 40.

On 31 March 2006 TOWER acquired 100% of the share capital of PrefSure Holdings Limited, a specialist life insurance business. For more details refer to note 41.

During 2005 TOWER Limited disposed of its interest in the Australian Wealth Management companies (Bridges Financial Services Limited and TOWER Trust Limited (Australia)). The spin off gave rise to a \$73.0 million profit in the Group which was reported through the Consolidated Income Statement. The overall impact of this disposal was material to the Group (refer Note 40 for the impact on Net Assets).

During 2005 TOWER Limited sold the majority of its controlling interest in Financial Services Partners Pty Limited reducing its holdings to 9.8%. This gave rise to a gain on sale of \$0.5 million which was reported through the Consolidated Income Statement.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 15. DEFERRED ACQUISITION COSTS FOR NON-LIFE INSURANCE CONTRACTS

(New Zealand dollars in thousands)

	Group		Company	
	2006	2005	2006	2005
Opening balance	133,700	134,246	-	-
Transferred to assets of disposal group classified as held for sale	(82,772)	-	-	-
Acquisition costs deferred during the period	19,599	21,346	-	-
Foreign exchange movements	-	2,481	-	-
Current period amortisation	(17,252)	(24,373)	-	-
<b>Closing balance</b>	<b>53,275</b>	<b>133,700</b>	<b>-</b>	<b>-</b>
<b>Analysed as:</b>				
Current	13,617	27,530	-	-
Non current	39,658	106,170	-	-
	<b>53,275</b>	<b>133,700</b>	<b>-</b>	<b>-</b>

## 16. PROPERTY, PLANT AND EQUIPMENT

(New Zealand dollars in thousands)

	Group			Total
	Office equipment and furniture	Motor vehicles	Computer equipment	
<b>At 1 October 2004</b>				
At cost	10,727	861	36,820	48,408
Accumulated depreciation	(7,014)	(381)	(18,209)	(25,604)
<b>Net book amount 1 October 2004</b>	<b>3,713</b>	<b>480</b>	<b>18,611</b>	<b>22,804</b>
<b>Year ended 30 September 2005</b>				
Opening net book amount	3,713	480	18,611	22,804
Additions	3,470	26	988	4,484
Disposals	(118)	(10)	(8,595)	(8,723)
Foreign exchange movements	262	1	78	341
Disposed of a subsidiary	(183)	(192)	(292)	(667)
Depreciation charge	(1,579)	(105)	(5,959)	(7,643)
<b>Closing net book amount 30 September 2005</b>	<b>5,565</b>	<b>200</b>	<b>4,831</b>	<b>10,596</b>
<b>At 30 September 2005</b>				
At cost	14,158	685	28,999	43,842
Accumulated depreciation	(8,593)	(485)	(24,168)	(33,246)
<b>Net book amount 30 September 2005</b>	<b>5,565</b>	<b>200</b>	<b>4,831</b>	<b>10,596</b>
<b>Year ended 30 September 2006</b>				
Opening net book amount	5,565	200	4,831	10,596
Transferred to assets of disposal group classified as held for sale	(1,958)	-	(1,934)	(3,892)
Additions	479	67	156	702
Disposals	(46)	(4)	(60)	(110)
Foreign exchange movements	125	-	-	125
Depreciation charge	(1,298)	(68)	(1,744)	(3,110)
<b>Net book amount 30 September 2006</b>	<b>2,867</b>	<b>195</b>	<b>1,249</b>	<b>4,311</b>
<b>At 30 September 2006</b>				
At cost	12,759	748	27,161	40,669
Accumulated depreciation	(9,892)	(553)	(25,912)	(36,357)
<b>Net book amount 30 September 2006</b>	<b>2,867</b>	<b>195</b>	<b>1,249</b>	<b>4,311</b>

The parent company does not hold any property, plant and equipment.

## 17. PAYABLES

(New Zealand dollars in thousands)

	Group		Company	
	2006	2005	2006	2005
Trade payables	43,432	104,502	-	-
Unsettled investment purchases	195,375	273,882	-	-
Other payables	12,837	25,245	1,477	1,184
Related party payables	-	-	4,188	67,204
<b>Total payables</b>	<b>251,644</b>	<b>403,629</b>	<b>5,665</b>	<b>68,388</b>
<b>Analysed as:</b>				
Current	251,633	397,735	5,665	68,388
Non current	11	5,894	-	-
	<b>251,644</b>	<b>403,629</b>	<b>5,665</b>	<b>68,388</b>

As at 30 September 2006 unsettled investment purchases include a contracted forward settlement for \$195.3 million of Government stock (30 September 2005: \$163.3 million). The asset is recognised under fixed interest securities in note 10.

## 18. PROVISIONS

Employee benefits	7,600	14,835	-	-
Stamp duty	-	5,752	-	-
Other	836	6,324	-	391
<b>Total provisions</b>	<b>8,436</b>	<b>26,911</b>	<b>-</b>	<b>391</b>
<b>Analysed as:</b>				
Current	8,284	25,134	-	-
Non current	152	1,777	-	391
	<b>8,436</b>	<b>26,911</b>	<b>-</b>	<b>391</b>

### Movements in provisions

Movements in each class of provision other than employee benefits during the financial year are set out below:

Stamp duty				
Opening balance at 1 October	5,752	5,752	-	-
Liabilities held for sale	(5,752)	-	-	-
<b>Closing balance at 30 September</b>	<b>-</b>	<b>5,752</b>	<b>-</b>	<b>-</b>

This provision relates primarily to stamp duty liabilities in Australia which may arise once the resolution of various issues with the stamp duty authorities have been reached.

Other provision				
Opening balance at 1 October	6,324	16,267	391	1,558
Transfer to liabilities held for sale	(4,661)	-	-	-
Additions	71	5,289	-	-
Amount used	(39)	(7,422)	-	-
Reversal of unused amount	(859)	(1,176)	(391)	(1,168)
Sale of subsidiary	-	(6,634)	-	-
<b>Closing balance at 30 September</b>	<b>836</b>	<b>6,324</b>	<b>-</b>	<b>390</b>

Other provisions comprises a number of small provisions (2005: included restructuring and client remediation provisions in Australia).

The provision in TOWER Limited in 2005 related to the capital guarantee which has nil value at 30 September 2006.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 19. INTEREST BEARING LIABILITIES

( New Zealand dollars in thousands )

	Group		Company	
	2006	2005	2006	2005
Overdraft	628	2,893	-	-
Capital bonds	124,337	122,872	-	-
Capital notes	73,469	73,723	-	-
<b>Total interest bearing liabilities</b>	<b>198,434</b>	<b>199,488</b>	-	-

The above interest bearing liabilities are current and unsecured. Terms are shown in note 29 (a) (ii).

## CAPITAL BONDS

The capital bonds are non-cumulative debt securities of TOWER Finance Limited, and are convertible into TOWER Limited shares in certain circumstances. TOWER Limited provides a subordinated guarantee for these bonds. These bonds are being repaid on 19 December 2006 as part of the Separation of the Australia and New Zealand businesses.

## CAPITAL NOTES

The capital notes are non-cumulative debt securities of TOWER Finance Limited, and are convertible into TOWER Limited shares in certain circumstances. TOWER Limited provides a subordinated guarantee for these notes. These notes are being repaid on 19 December 2006.

## 20. INSURANCE LIABILITIES

Unearned premiums – general insurance	95,978	86,796	-	-
Unearned premiums – health and disability	14,662	14,054	-	-
Outstanding claims – general and health insurance	75,395	67,833	-	-
Outstanding claims – life	54,833	75,273	-	-
	<b>240,868</b>	<b>243,956</b>	-	-
<b>Analysed as:</b>				
Current	168,530	166,799	-	-
Non current	72,338	77,157	-	-
	<b>240,868</b>	<b>243,956</b>	-	-

## 21. OTHER LIABILITIES

FuturePlan Debenture	19,588	18,413	-	-
Other	2,339	4,335	-	-
	<b>21,927</b>	<b>22,748</b>	-	-
<b>Analysed as:</b>				
Current	2,339	-	-	-
Non current	19,588	22,748	-	-
	<b>21,927</b>	<b>22,748</b>	-	-

TOWER Life (NZ) Limited has issued a debenture to the TOWER FuturePlan. The debenture is maintained in a separate fund within TOWER Life (NZ) Limited. Interest on the debenture is directly linked to the investment earnings of this fund. The debenture has no fixed repayment term.

## 22. CONTRIBUTED EQUITY

( New Zealand dollars in thousands )

	Group		Company	
	2006	2005	2006	2005
<b>Ordinary share capital</b>				
Fully paid	<b>913,368</b>	<b>911,772</b>	<b>913,368</b>	<b>911,772</b>
<b>Movements in ordinary share capital</b>				
Opening balance at 1 October	911,772	1,040,340	911,772	1,040,340
Shares issued during the year	1,596	2,422	1,596	2,422
Cancellation of TOWER shares (for issue of equivalent Australian Wealth Management Limited shares)	-	(130,990)	-	(130,990)
<b>Closing balance at 30 September</b>	<b>913,368</b>	<b>911,772</b>	<b>913,368</b>	<b>911,772</b>

Represented by:	Number of shares		Number of shares	
	2006	2005	2006	2005
<b>Ordinary shares authorised (no par value)</b>	<b>359,765,609</b>	<b>358,468,109</b>	<b>359,765,609</b>	<b>358,468,109</b>
<b>Movements in ordinary share capital</b>				
Opening balance	358,468,109	412,418,208	358,468,109	412,418,208
New issues	1,297,500	1,730,000	1,297,500	1,730,000
Cancelled on issue of Australian Wealth Management Limited shares	-	(55,680,099)	-	(55,680,099)
<b>Closing balance</b>	<b>359,765,609</b>	<b>358,468,109</b>	<b>359,765,609</b>	<b>358,468,109</b>

All shares rank equally with one vote attached to each share.

### Share transactions after balance date

The separation of the Australian and New Zealand businesses of the Group will result in a reduction in the number of shares on issue with the cancellation of 171,248,430 shares. The resulting number of shares following the transaction will be 188,517,179.

## 23. RETAINED PROFITS

( New Zealand dollars in thousands )

	Group		Company	
	2006	2005	2006	2005
<b>Retained profits</b>				
Opening balance at 1 October	(410,549)	(505,077)	(458,808)	(449,109)
Post acquisition retained earnings of liquidated subsidiaries	(2,661)	-	-	-
Net profit for the year	63,494	119,330	(3,058)	(9,699)
Reclassification of foreign currency translation reserve (FCTR) relating to the sale of Australian Wealth Management Limited	-	(14,800)	-	-
Reclassification of FCTR relating to the repayment of Trans Tasman inter-company loan	-	(9,840)	-	-
Other	-	(162)	-	-
<b>Closing balance at 30 September</b>	<b>(349,716)</b>	<b>(410,549)</b>	<b>(461,866)</b>	<b>(458,808)</b>

# Notes to the Financial Statements

For the year ended 30 September 2006

## 24. RESERVES

(New Zealand dollars in thousands)

	Group		Company	
	2006	2005	2006	2005
<b>Foreign currency translation reserve (FCTR)</b>				
Opening balance at 1 October	39,763	-	-	-
FCTR on TOWER Victoria taken to profit on liquidation	(529)	-	-	-
Currency translation differences arising during the year	19,501	39,763	-	-
<b>Closing balance at 30 September</b>	<b>58,735</b>	<b>39,763</b>	-	-

Exchange differences arising on translation of foreign controlled entities are taken to the FCTR as described in note 1(j). The reserve is recognised in profit and loss when the net investment is disposed of.

<b>Share based payments reserve</b>				
Opening balance at 1 October	2,459	634	2,459	634
Option expense during the year	610	1,825	610	1,825
<b>Closing balance at 30 September</b>	<b>3,069</b>	<b>2,459</b>	<b>3,069</b>	<b>2,459</b>

The share based payments reserve is used to recognise the fair value of options issued but not exercised.

<b>Asset revaluation reserve</b>				
Opening balance at 1 October	328	-	-	-
Revaluation during the year	(328)	328	-	-
<b>Closing balance at 30 September</b>	<b>-</b>	<b>328</b>	<b>-</b>	<b>-</b>

The revaluation reserve recognises revaluations of assets that are reported directly through equity rather than through the Income Statement.

<b>Total reserves</b>	<b>61,804</b>	<b>42,550</b>	<b>3,069</b>	<b>2,459</b>
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## 25. DISTRIBUTIONS TO SHAREHOLDERS

No dividends were paid during the year ended 30 September 2006 or 30 September 2005.

## 26. SEGMENTAL REPORTING

### Description of segments

TOWER Australia Risk and Investment includes all life and disability insurance and wealth management services in Australia. Refer to note 40 regarding discontinued business

TOWER NZ Health & Life includes all health, life and disability insurance in New Zealand

TOWER NZ Investments included all wealth management services in New Zealand

TOWER General Insurance includes all general insurance in New Zealand and Pacific Islands

Other includes financing and corporate costs for New Zealand and Australian holding companies.

(New Zealand dollars in thousands)

Business Segments	TOWER Australia Risk & Investment	TOWER NZ Health & Life	TOWER NZ Investments	TOWER General Insurance	Other (Holding companies and eliminations)	Total
<b>2006</b>						
<b>Profit from operations</b>						
Profit from continuing operations	-	19,192	6,784	7,925	(19,811)	14,090
Profit from discontinued operations	48,725	-	-	-	679	49,404
<b>Profit for the year</b>	<b>48,725</b>	<b>19,192</b>	<b>6,784</b>	<b>7,925</b>	<b>(19,132)</b>	<b>63,494</b>
<b>Revenue</b>						
Revenue - external	-	231,332	50,773	188,997	1,234	472,336
Revenue - internal	-	2,128	9,913	-	(12,041)	-
<b>Total revenue</b>	<b>-</b>	<b>233,460</b>	<b>60,686</b>	<b>188,997</b>	<b>(10,807)</b>	<b>472,336</b>
Total assets	4,326,003	1,314,834	55,476	313,567	52,259	6,062,138
Total liabilities	3,677,398	1,188,774	42,788	218,808	304,994	5,432,765
Acquisition of property, plant and equipment, intangibles and other non current assets	-	7,465	502	12,640	1	20,608
Depreciation and amortisation	-	5,542	3,143	12,783	25	21,493
<b>2005</b>						
<b>Profit from operations</b>						
Profit from continuing operations	-	12,797	4,811	7,563	(31,954)	(6,783)
Profit from discontinued operations	50,535	-	-	-	75,578	126,113
<b>Profit for the year</b>	<b>50,535</b>	<b>12,797</b>	<b>4,811</b>	<b>7,563</b>	<b>43,624</b>	<b>119,330</b>
<b>Revenue</b>						
Revenue - external	-	235,580	47,801	187,484	(11,663)	459,202
Revenue - internal	-	4,942	18,365	-	(23,307)	-
<b>Total revenue</b>	<b>-</b>	<b>240,522</b>	<b>66,166</b>	<b>187,484</b>	<b>(34,970)</b>	<b>459,202</b>
Total assets	3,470,717	341,268	1,684,331	74,288	(322,587)	5,248,017
Total liabilities	3,280,405	242,988	1,418,356	55,238	(295,908)	4,701,079
Acquisition of property, plant and equipment, intangibles and other non current assets	-	9,205	429	14,973	8	24,615
Depreciation and amortisation	-	3,622	5,666	13,893	-	23,181

# Notes to the Financial Statements

For the year ended 30 September 2006

## 26. SEGMENTAL REPORTING (CONTINUED)

( New Zealand dollars in thousands )

Geographical Segments	New Zealand	Australia	Other	Total
<b>2006</b>				
Revenue – external	430,839	2,168	39,329	472,336
Total assets	1,560,518	4,416,784	84,836	6,062,138
Acquisition of property, plant and equipment, intangibles and other non current assets	20,608	-	-	20,608
<b>2005</b>				
Revenue – external	420,996	2,174	36,032	459,202
Total assets	1,659,123	3,515,129	73,765	5,248,017
Acquisition of property, plant and equipment, intangibles and other non current assets	24,615	-	-	24,615

There are no significant inter-segment revenues.

## 27. LIFE INSURANCE BUSINESS

### (A) POLICYHOLDER LIABILITIES

( New Zealand dollars in thousands )

	Group		Company	
	2006	2005	2006	2005
<b>Life insurance contract liabilities</b>				
<i>Value of policy liabilities – Projection Method</i>				
Future policy benefits	837,069	2,515,501	-	-
Future bonuses	155,666	208,008	-	-
Future expenses	137,284	729,886	-	-
Reinsurance	(20,786)	115,507	-	-
Future charges for acquisition expenses	-	172,534	-	-
Future profit margins	170,757	(294,043)	-	-
Future premiums	(605,770)	(2,415,681)	-	-
	674,220	1,031,712	-	-
<i>Value of policy liabilities – Accumulation Method</i>				
Future policy benefits	82,362	145,803	-	-
Future charges for acquisition expenses	-	(4,206)	-	-
	82,362	141,597	-	-
Unvested policyholder benefits	22,903	93,780	-	-
<b>Net policyholder liabilities – life insurance contracts</b>	<b>779,485</b>	<b>1,267,089</b>	-	-
<b>Reconciliation of movements in life insurance contract policyholder liabilities</b>				
Gross life insurance liabilities at 1 October	1,260,627	1,270,709	-	-
Transferred to liabilities of disposal group classified as held for sale	(443,918)	-	-	-
Increase/(decrease) in life insurance contract liabilities recognised in the Income Statement	1,462	47,777	-	-
Deposits recognised as an increase in policy liabilities	10,575	35,169	-	-
Withdrawals recognised as a decrease in policy liabilities	(17,021)	(93,811)	-	-
Other adjustments including foreign exchange	-	783	-	-
<b>Gross life insurance liabilities at 30 September</b>	<b>811,725</b>	<b>1,260,627</b>	-	-

( New Zealand dollars in thousands )

	Group		Company	
	2006	2005	2006	2005
<b>Life investment contract liabilities</b>				
<i>Value of policy liabilities – Projection Method</i>				
Future policy benefits	-	2,138,294	-	-
Reinsurance	-	(1,804)	-	-
	-	2,136,490	-	-
<i>Value of policy liabilities – Accumulation Method</i>				
Future policy benefits	46,425	130,958	-	-
<b>Net policyholder liabilities – life investment contracts</b>	<b>46,425</b>	<b>2,267,448</b>	-	-
<b>Reconciliation of movements in investment contract policyholder liabilities</b>				
Gross life investment contract liabilities at 1 October	2,320,503	2,178,547	-	-
Transferred to liabilities of disposal group classified as held for sale	(2,273,722)	-	-	-
Increase/(decrease) in life investment contract liabilities recognised in the Income Statement	3,524	218,499	-	-
Deposits recognised as an increase in policy liabilities	914	196,078	-	-
Withdrawals recognised as a decrease in policy liabilities	(4,794)	(272,621)	-	-
Gross life investment contract liabilities at 30 September	<b>46,425</b>	<b>2,320,503</b>	-	-
<b>Total gross policyholder liabilities</b>	<b>858,150</b>	<b>3,581,130</b>	-	-
<b>Liabilities ceded under reinsurance</b>				
At 1 October	39,819	39,990	-	-
Transferred to assets of disposal group classified as held for sale	(17,250)	-	-	-
Movement in income statement	9,671	(171)	-	-
<b>At 30 September</b>	<b>32,240</b>	<b>39,819</b>	-	-
<b>Net policyholder liabilities</b>	<b>825,910</b>	<b>3,541,311</b>	-	-
<b>Analysed as:</b>				
Payable within 12 months	-	-	-	-
Payable in more than 12 months	825,910	3,541,311	-	-
	<b>825,910</b>	<b>3,541,311</b>	-	-

# Notes to the Financial Statements

For the year ended 30 September 2006

## 27. LIFE INSURANCE BUSINESS (CONTINUED)

### (B) ANALYSIS OF LIFE INSURANCE AND LIFE INVESTMENT CONTRACT RESULTS

(New Zealand dollars in thousands)

	Group		Company	
	2006	2005	2006	2005
<b>Life insurance contracts</b>				
Planned profit margins	14,449	13,133	-	-
Experience profits/(losses)	(2,038)	(1,657)	-	-
Capitalised loss/(reversal)	2	12	-	-
Other movement <sup>(1)</sup>	25,302	-	-	-
Investment earnings on assets in excess of policy liabilities of life companies	2,753	2,635	-	-
<b>Operating profit after tax attributable to shareholders arising from the life insurance contracts</b>	<b>40,468</b>	<b>14,123</b>	-	-

<sup>(1)</sup> The other movement in 2006 relates primarily to dividend income from a subsidiary which is eliminated on consolidation.

<b>Life investment contracts</b>				
Planned profit margins	250	350	-	-
Experience profits/(losses)	(30)	4	-	-
<b>Operating profit after tax attributable to shareholders arising from life investment contracts</b>	<b>220</b>	<b>354</b>	-	-

### (C) SOLVENCY REQUIREMENTS OF LIFE FUNDS

The minimum equity required to be retained to meet solvency requirements over and above the policy liabilities for each of the life insurance companies in the Group is shown below. The shareholder equity retained in each of the life insurance companies exceeds these minimum requirements (see note 27(d)(iv)).

(New Zealand dollars in thousands)

New Zealand		TOWER Life (NZ)		TOWER Life		TOWER Health & Life	
		2006	2005	2006	2005	2006	2005
Solvency requirement	A	834,140	867,785	369,139	364,895	86,903	84,813
Represented by:							
Policyholder liabilities		804,921	812,196	8,905	5,783	(10,819)	(1,864)
Other liabilities		28,667	38,916	2,140	1,487	15,459	10,190
Solvency reserve	B	552	16,673	358,094	357,625	82,263	76,487
<b>Solvency requirement</b>		<b>834,140</b>	<b>867,785</b>	<b>369,139</b>	<b>364,895</b>	<b>86,903</b>	<b>84,813</b>
Assets available to meet solvency reserve	C	56,085	60,929	411,399	409,777	93,480	83,061
Solvency reserve	B	552	16,673	358,094	357,625	82,263	76,487
<b>Excess assets above required</b>		<b>55,533</b>	<b>44,256</b>	<b>53,305</b>	<b>52,152</b>	<b>11,217</b>	<b>6,574</b>
Required solvency reserve	(B/(A-B))x100	0.1%	2.0%	3242.2%	4919.2%	1772.9%	918.6%
Coverage of required solvency reserve	C/B	101.6	3.7	1.1	1.1	1.1	1.1

( New Zealand dollars in thousands )

<i>Australia</i>		<i>TOWER Australia</i>		<i>PrefSure Life</i>	
		2006	2005	2006	2005
Solvency requirement	A	2,806,563	2,717,359	229,775	n/a
Represented by:					
Policyholder liabilities <sup>1</sup>		2,578,257	2,480,698	148,095	n/a
Other liabilities		150,423	159,568	74,423	n/a
Solvency reserve	B	77,883	77,093	7,257	n/a
<b>Solvency requirement</b>		<b>2,806,563</b>	<b>2,717,359</b>	<b>229,775</b>	<b>n/a</b>
Assets available to meet solvency reserve	C	224,425	227,061	23,315	n/a
Solvency reserve	B	77,883	77,093	7,257	n/a
<b>Excess assets above required</b>		<b>146,542</b>	<b>149,968</b>	<b>16,058</b>	<b>n/a</b>
Required solvency reserve	(B/(A-B))x100	2.9%	2.9%	3.3%	n/a
Coverage of required solvency reserve	C/B	2.9	2.9	3.2	n/a

<sup>1</sup> Minimum termination value and not policy liabilities has been used for TOWER Australia.

#### (D) SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS – LIFE INSURANCE

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2006. The Chief Actuary, Herwig Raubal, FIAA, FNZSA has calculated policyholder liabilities in New Zealand for TOWER Life Ltd, TOWER Life (NZ) Ltd and TOWER Health & Life Ltd. The Appointed Actuary, Megan Beer, FIAA has calculated policyholder liabilities for the Australian life companies TOWER Australia Limited and PrefSure Life Limited. The actuaries are satisfied as to the accuracy of the data from which the policyholder liabilities have been determined.

This note summarises the assumptions made and the methods adopted for the calculations of Policy Liabilities and Solvency Requirements.

#### (I) POLICY LIABILITIES

Policy liabilities for life insurance business have been determined in accordance with Actuarial Standard 1.04 issued by the Life Insurance Actuarial Standards Board for TOWER Australia and PrefSure Life and Professional Standard No.3 "Determination of Life Insurance Policy Liabilities" issued by the New Zealand Society of Actuaries for TOWER Life Ltd, TOWER Life (NZ) Ltd and TOWER Health & Life Ltd. These standards require the policyholder liabilities be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins as services are provided to policyholders.

#### *Valuation of policy liabilities*

Policy liabilities comprise the amount required to pay the expected future benefits and expenses after receiving expected future premiums and investment earnings.

The value of policy liabilities may also include a component for profit margins on existing business that will be earned as services are provided to policy owners over the time the relevant policies are held with the company.

The company incurs costs in selling new policies. Any costs not recovered by specific charges received from the policy owner at inception are normally deferred. New business selling costs (or acquisition costs) related to the acquisition of new business are deferred as long as the underlying policy is expected to be profitable. Where costs are deferred, they are recovered from premiums or charges receivable in the future.

#### *Methods used to value policy liabilities*

##### (i) Projection method

The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, expenses and profits) to establish the value of policy liabilities. The value of expected future premiums is deducted from the value of expected benefit and expense payments to arrive at the obligation to policy owners.

##### (ii) Accumulation method

Under the accumulation method, the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported, less any deferred acquisition costs.

#### *Methods used*

Where the policy liability is determined by the projection method, actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called "profit carriers". The profit carriers adopted for the major product groups are shown in the table opposite:

# Notes to the Financial Statements

For the year ended 30 September 2006

## 27. LIFE INSURANCE BUSINESS (CONTINUED)

### (D) SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS – LIFE INSURANCE (CONTINUED)

#### (I) POLICY LIABILITIES (CONTINUED)

MAJOR PRODUCT GROUPS	METHOD	PROFIT CARRIERS (for business valued using projection method)
<b>Both Australia and New Zealand</b>		
Traditional participating	Projection	Cost of supportable bonuses
Traditional non-participating, renewal and level term and mortgage repayment insurance	Projection	Expected death claims
Annuities	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance	Projection	Expected claims
<b>New Zealand</b>		
Non-participating investment account	Accumulation	
Investment linked	Accumulation	
Group risk insurances and renewable insurances	Accumulation	
<b>Australia</b>		
Participating investment account	Projection	Cost of supportable bonuses
Group risk insurances	Accumulation	
Group salary continuance - open claims	Projection	-

#### (II) DISCLOSURE OF ASSUMPTIONS

The following table summarises the key assumptions used in the calculation of policyholder liabilities, together with notes on any significant changes in the assumptions:

REQUIRED ASSUMPTION	BASIS OF ASSUMPTION (By product Group)	SIGNIFICANT CHANGES									
Discount rates for participating business	As the value of benefits is contractually linked to the performance of assets, a discount rate based on the market return on the asset backing policy liabilities is used. The discount rate assumed in calculating policyholder liabilities was derived from the expected long term average rates of return for the relevant asset pools backing this business, based on a neutral asset mix for each pool. Discount rates assumed are net of taxation and investment expenses.	The discount rates used are as follows:  <table border="1"> <thead> <tr> <th></th> <th>New Zealand</th> <th>Australia</th> </tr> </thead> <tbody> <tr> <td>September 2006</td> <td>4.9%</td> <td>3.8% to 5.5%</td> </tr> <tr> <td>September 2005</td> <td>5.0%</td> <td>3.0% to 6.9%</td> </tr> </tbody> </table>		New Zealand	Australia	September 2006	4.9%	3.8% to 5.5%	September 2005	5.0%	3.0% to 6.9%
	New Zealand	Australia									
September 2006	4.9%	3.8% to 5.5%									
September 2005	5.0%	3.0% to 6.9%									
Discount rates for non-participating life insurance contracts	Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on government bond rates, or the inter bank mid swap rates, depending on the nature structure and term of the contract liabilities.	The discount rates used are as follows:  <table border="1"> <thead> <tr> <th></th> <th>New Zealand</th> <th>Australia</th> </tr> </thead> <tbody> <tr> <td>September 2006</td> <td>3.6% to 4.5%</td> <td>5.6% to 6.2%</td> </tr> <tr> <td>September 2005</td> <td>3.7% to 4.5%</td> <td>5.3% to 5.8%</td> </tr> </tbody> </table>		New Zealand	Australia	September 2006	3.6% to 4.5%	5.6% to 6.2%	September 2005	3.7% to 4.5%	5.3% to 5.8%
	New Zealand	Australia									
September 2006	3.6% to 4.5%	5.6% to 6.2%									
September 2005	3.7% to 4.5%	5.3% to 5.8%									
Inflation	A specific allowance for each country reviewed annually. Benefit indexation is before allowance for the proportion of policyholders who take up indexation.	Benefit Indexation  <table border="1"> <thead> <tr> <th></th> <th>New Zealand</th> <th>Australia</th> </tr> </thead> <tbody> <tr> <td>September 2006</td> <td>2.0%</td> <td>3.4%</td> </tr> <tr> <td>September 2005</td> <td>2.0%</td> <td>2.8%</td> </tr> </tbody> </table>		New Zealand	Australia	September 2006	2.0%	3.4%	September 2005	2.0%	2.8%
	New Zealand	Australia									
September 2006	2.0%	3.4%									
September 2005	2.0%	2.8%									
Future expenses	Future maintenance expenses have been set based on experience analyses conducted by the various companies as well as the actuaries' expectations of future expense levels, with an allowance for future inflation.  Future investment expenses have been set based on the actual costs of the Company's investment managers.	None									
Rates of taxation	Rates of taxation have been assumed to remain at current levels.	None									
Mortality - risk products	<b>Australia:</b> Standard mortality tables, primarily IA90-92. These are adjusted for company experience.  <b>New Zealand:</b> Standard mortality tables, primarily NZ97 in New Zealand. These are adjusted for company experience.	<b>Australia:</b> No change  <b>New Zealand:</b> mortality assumptions have been reduced in line with experience. Reduction range from 5% to 41%									

REQUIRED ASSUMPTION	BASIS OF ASSUMPTION (By product Group)	SIGNIFICANT CHANGES
Mortality - annuities	Standard mortality tables (Australia use IM/IF80 and New Zealand use PML80C10) adjusted for company experience.	None
Disability - lump sum	Based upon recent company and reinsurer experience adjusting for different product definitions. Some wholesale schemes use specific company experience.	None
Disability income	Standard morbidity tables (Australia and New Zealand use IAD89-93) adjusted for company experience. Specific company experience is used for certain wholesale schemes.	None
Discontinuances	Discontinuance rates have been assumed to be consistent with the experience of recent years.  Assumed discontinuance rates vary by sub-grouping within a class and vary according to the length of time tranches of business have been in-force and other relevant factors.	<b>TOWER Australia</b> , there were some structural changes to the discontinuance assumptions to better reflect the dynamics of the business but there was no change to the overall level of assumed discontinuances.  <b>New Zealand</b> , discontinuance rates have been adjusted in line with experience. The assumption for Whole of Life has been reduced by 14% and for endowment by 20%. The assumption for term life and disability business has increased by 33% with reductions in premium payback and other product lines.
Surrender values	Surrender values are based on current practice.	None
Rates of future supportable participating benefits	Assumed future supportable bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business.	None
	Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. The rate of shareholder participation assumed is generally at the maximum allowable of 25% of the value of bonuses distributed to participating policyholders subject to policy conditions.	None
	Additional policy bonuses will emerge from the assets representing policyholders' unvested benefits.	None

#### *Effect of changes in actuarial assumptions during the reporting period*

The liabilities for life insurance contracts include the value of future profit margins that are to be released over future reporting periods. The impact of assumption changes are absorbed by the future profit margins, provided sufficient future margins exist, such that there is no change in the contract liability in the current period.

The impact of the assumption changes in the current period on future profit margins in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at the valuation date) are shown below.

The life insurance contract liability calculations include the use of published market yields, such as commonwealth government bond rates. The changes in these yields do not represent actuarial assumption changes and they impact both life insurance contract liabilities and asset values as at the balance sheet date.

The impact of assumption changes for life insurance contracts is shown below.

*(New Zealand dollars in thousands)*

	<i>Change in future profit margins</i>	
	<i>New Zealand</i>	<i>Australia</i>
<b>Assumption change</b>		
Non-market related economic assumptions	(566)	-
Mortality and Morbidity	25,289	(3,768)
Discontinuances	(55,236)	148
Expenses	(11,637)	(23,084)
Other	(2,991)	(544)

Where the value of future profit margins are insufficient to absorb the assumption changes, the resulting losses are recognised in the current year via a change in the contract liability. These losses may be reversed in subsequent periods should experience improve.

There were no material changes in the life insurance contract liabilities due to assumption changes for the year ending 30 September 2006.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 27. LIFE INSURANCE BUSINESS (CONTINUED)

### (D) SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS – LIFE INSURANCE (CONTINUED)

#### (II) DISCLOSURE OF ASSUMPTIONS (CONTINUED)

VARIABLE	IMPACT OF MOVEMENT IN UNDERLYING VARIABLE
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest Rate Risk	Depending on the profile of the investment portfolio, the investment income of the Group will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality Rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and shareholder equity.
Morbidity Rates	The cost of health-related claims depends on both the incidence of policyholders becoming temporarily or totally and permanently disabled and the duration which they remain temporarily or totally and permanently disabled. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and shareholder equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market Risk	For benefits which are not contractually linked to the underlying assets, the Company is exposed to market risk.

#### (III) SENSITIVITY ANALYSIS

Sensitivity analysis is conducted to quantify the exposure to risk of change in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the profit and shareholder equity of the Group. The tables below describe how the change in each assumption will effect the insurance liabilities and show an analysis of the sensitivity of the profit/(loss) and equity to changes in assumptions net of reinsurance.

( New Zealand dollars in thousands )

		Increase in Life Insurance Contract Liabilities Net of Reinsurance	Decrease in Shareholder Profit After Tax and Equity Net of Reinsurance
<b>Australia</b>			
<b>Variable</b>	<b>Movement</b>		
Mortality	Worsening by 10%	4,016	2,753
Morbidity claims costs	Worsening by 10%	23,996	10,763
Annuitant mortality	Worsening by 10%	3,113	2,179
Lapses and surrenders	Worsening by 10%	1,474	993
Renewal expenses	Worsening by 10%	3,714	2,880
<b>New Zealand</b>			
<b>Variable</b>	<b>Movement</b>		
Mortality	Worsening by 10%	570	192
Morbidity claims costs	Worsening by 10%	1,300	1,300
Annuitant mortality	Worsening by 10%	837	561
Lapses and surrenders	Worsening by 10%	214	49
Renewal expenses	Worsening by 10%	269	54

#### (IV) SOLVENCY REQUIREMENTS

Separate to the policy liabilities recognised in the Balance Sheet, the life insurance companies maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance companies.

The methodology and bases for determining the Solvency Requirement is in accordance with the requirements of AS2.04 "Solvency Standard" issued by the Life Insurance Actuarial Standards Board of Australia for TOWER Australia Limited and PrefSure Life Limited. For New Zealand companies Guidance Note 5 "Life Insurance Company Prudential Reserving" issued by the New Zealand Society of Actuaries is adopted.

**(V) LIFE INSURANCE RISK**

The life insurance business of the Group involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders. Financial risks involving the Group are in note 29.

Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Chief Actuary and Appointed Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

**Underwriting management procedures**

Underwriting is managed by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Group provides appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies are underwritten on the merits of an employee group as a whole, subject to certain limits for individual members.

**Claim management procedures**

Claims are managed through a dedicated claims team, with appropriate training and development of staff to ensure procedures are adhered to. Claims are managed to ensure timely and correct payment in accordance with policy conditions. Claims experience is reviewed regularly and appropriate actuarial reserves are established.

**Reinsurance management procedures**

A number of analytical tools are used to assess the impact on the Group's exposure to risk with the objective to achieve optimal choice of type of reinsurance and retention levels. These tools produce financial projections based on assumptions to provide a detailed analysis of the potential exposures. Details of the reinsurance, retention levels and administration of the various portfolios is documented in reinsurance treaties and addenda.

**Terms and Conditions of Life Insurance Contracts**

The nature of the terms of the insurance contracts written by the Group is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cash flows are dependent.

TYPE OF CONTRACT	DETAILS OF CONTRACT WORKINGS	NATURE OF COMPENSATION FOR CLAIMS	KEY VARIABLES AFFECTING FUTURE CASH FLOWS
Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability including renewable term).	Guaranteed benefits paid on death, permanent and temporary disablement or maturity that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities.
Life annuity contracts.	These policies provide a guaranteed regular income for the life of the insured for a initial single premium.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, benefit inflation, expenses and market earnings on assets backing the liabilities.
Traditional life insurance contracts with discretionary participating benefits (endowment and whole of life).	These policies include a clearly defined initial guaranteed sum assured that is payable on death. The guarantee amount is increased throughout the duration of the policy by the addition of regular bonuses annually that once added are not removed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders via bonuses.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities.
Investment account contracts with discretionary participating features.	The gross value of the premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early termination. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as interest credits.	Fees, lapses, expenses and market earnings on assets backing the liabilities.

**VI) CONCENTRATION OF INSURANCE RISK**

The Group aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographical locations for the individual and group risk business. The Group uses reinsurance to limit the insurance risk exposure for any one individual. The group risk business unit offers insurance in respect of groups of employees. The Group is exposed to a greater risk of loss in the event of an event affecting a location where groups of insured employees work. The Group has reflected the geographical concentration risk in the premium rates. The Group has purchased catastrophe reinsurance to limit the exposure from any one group event.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 28. GENERAL AND HEALTH INSURANCE BUSINESS

### (A) ANALYSIS OF GENERAL AND HEALTH INSURANCE OPERATING RESULT

( New Zealand dollars in thousands )

	Group		Company	
	2006	2005	2006	2005
Premium revenue	294,811	276,053	-	-
Outward reinsurance expense	(16,448)	(17,634)	-	-
<b>Net premium income</b>	<b>278,362</b>	<b>258,419</b>	-	-
Claims expense	178,681	177,335	-	-
Reinsurance recoveries	(3,309)	(5,209)	-	-
<b>Net claims incurred</b>	<b>175,372</b>	<b>172,126</b>	-	-
Acquisition costs	38,673	45,441	-	-
Other underwriting expenses	60,181	50,073	-	-
<b>Underwriting result</b>	<b>4,136</b>	<b>(9,221)</b>	-	-
Investment income from general insurance business:				
Investment revenue	16,462	22,136	-	-
Investment expenses	-	(596)	-	-
<b>Investment income</b>	<b>16,462</b>	<b>21,540</b>	-	-
<b>Operating surplus before income tax</b>	<b>20,598</b>	<b>12,319</b>	-	-
<b>Analysis of general and health underwriting result</b>				
Profit generated from reinsurance	-	-	-	-
Profit from direct insurance	20,598	12,319	-	-

### (B) NET CLAIMS INCURRED

( New Zealand dollars in thousands )

	2006			2005		
	Risks borne in current year	Risks borne in prior years	Total	Risks borne in current year	Risks borne in prior years	Total
<b>Gross claims expense</b>						
Direct claims - undiscounted	182,481	(2,518)	179,963	177,653	13,891	191,544
Discount	(109)	(1,173)	(1,282)	(31)	(14,178)	(14,209)
<b>Gross claims expense</b>	<b>182,372</b>	<b>(3,691)</b>	<b>178,681</b>	<b>177,622</b>	<b>(287)</b>	<b>177,335</b>
<b>Reinsurance and other recoveries</b>						
Reinsurance and other recoveries revenue - undiscounted	(5,272)	1,900	(3,373)	(4,758)	(993)	(5,751)
Discount	11	52	63	2	540	542
<b>Reinsurance recoveries</b>	<b>(5,261)</b>	<b>1,952</b>	<b>(3,309)</b>	<b>(4,756)</b>	<b>(453)</b>	<b>(5,209)</b>
<b>Net claims incurred</b>	<b>177,111</b>	<b>(1,739)</b>	<b>175,371</b>	<b>172,866</b>	<b>(740)</b>	<b>172,126</b>

Current year amounts relates to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years.

## (C) OUTSTANDING CLAIMS

(New Zealand dollars in thousands)

	Group		Company	
	2006	2005	2006	2005
Central estimate of expected present value of future payments for claims incurred	80,510	73,364	-	-
Risk margin	5,540	5,252	-	-
Claims handling costs	4,230	2,884	-	-
	90,280	81,500	-	-
Discount	(14,885)	(13,667)	-	-
<b>Outstanding claims liability</b>	<b>75,395</b>	<b>67,833</b>	-	-

### Assumptions adopted in calculation of general insurance provisions

The long tail claims provisions have been assessed having regard to external actuarial assessments. The actuary used for the New Zealand and the Pacific Islands business was P. Davies, B.Bus.Sc, FIA, FNZSA, AIA, AIAA.

The external actuarial assessments are in accordance with the standards of the Societies of Actuaries in New Zealand and Australia. The Actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims.

The following assumptions have been made in determining net outstanding claims liabilities:

	2006	2005
- Inflation rates varied from	2.0% to 6.0%	1.5% to 8.0%
- Superimposed inflation rate	2.0%	2.0%
- Discount rates varied from	4.5% to 5.4%	4.0% to 7.0%
- Claims handling expense ratio	5.3%	3.9%
- Risk margin	15% to 20%	15% to 20%

The weighted average expected term to settlement of outstanding claims based on historical trends is:

- Short tail claims	0.3 years	0.3 years
- Long tail claims in the Pacific Islands	1.6 to 2.6 years	1.6 to 2.6 years

### Inflation Rate

Insurance costs are subject to inflationary pressures. Inflation assumptions for all classes of business are based on current economic indicators.

For motor and property classes, for example, claim costs are related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs. These costs are expected to increase at a level between appropriate Consumer Price Index (CPI) indices and wage inflation.

### Superimposed inflation rate

This arises due to a number of factors including court settlements and social and environmental pressures which increases claims costs to levels in excess of standard inflationary pressures. This is analysed and forecast separately from wage or CPI inflation.

### Discount rate

The outstanding claims liabilities is discounted at a rate equivalent to that inherent in a portfolio of riskless fixed interest securities with coupon and redemption cash flows exactly matching the projected inflation claim cash flows.

All outstanding claims liabilities are discounted to present value using a risk free rate based on ten year government bond rate in New Zealand.

### Claims handling expense

The estimate of outstanding claims liabilities incorporates an allowance for the future cost of administering the claims. This allowance is determined after analysing historical claim related expenses incurred by the classes of business.

### Risk margin

The overall risk margin is determined allowing for diversification between classes of business and the relative uncertainty of the outstanding claims estimate for each class.

The assumptions regarding uncertainty for each class were applied to the net central estimates and the results were aggregated allowing for diversification in order to arrive at an overall provision which is intended to have a 75% probability of sufficiency.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 28. GENERAL AND HEALTH INSURANCE BUSINESS (CONTINUED)

### (C) OUTSTANDING CLAIMS (CONTINUED)

#### Reconciliation of movements in discounted outstanding claims liability

(New Zealand dollars in thousands)

	2006			2005		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
<b>Balance brought forward</b>	<b>75,176</b>	<b>(7,343)</b>	<b>67,833</b>	<b>71,316</b>	<b>(20,520)</b>	<b>50,796</b>
Effect of change in foreign exchange rates	3,490	(1,409)	2,081	(1,364)	6,448	5,084
Effect of changes in assumptions	257	21	278	1,710	(31)	1,679
Increase in claims incurred/recoveries anticipated over year	121,275	(3,310)	117,965	115,645	(5,209)	110,436
Incurred claims recognised in the Income Statement	200,198	(12,041)	188,157	187,307	(19,312)	167,995
Claim payment recoveries during the year	(116,886)	4,124	(112,762)	(112,131)	11,969	(100,162)
<b>Balance carried forward</b>	<b>83,312</b>	<b>(7,917)</b>	<b>75,395</b>	<b>75,176</b>	<b>(7,343)</b>	<b>67,833</b>
<b>Reconciliation of undiscounted claims to liability for outstanding claims</b>						
Outstanding claims undiscounted	39,445	(1,683)	37,762	45,486	(2,039)	43,447
Discount	(5,787)	606	(5,181)	(14,209)	542	(13,667)
Outstanding claims	<b>33,658</b>	<b>(1,077)</b>	<b>32,581</b>	<b>31,277</b>	<b>(1,497)</b>	<b>29,780</b>
Short tail outstanding claims			42,814			38,053
<b>Total outstanding claims as per balance sheet</b>			<b>75,395</b>			<b>67,833</b>

#### Sensitivity analysis

The impact of change in key variables on the outstanding claims liability is set out below. Each change has been calculated in isolation to other changes.

(Dollars in thousands)

Variable	Movement	Impact
Claim settlement period	+ 0.5 years	(220)
	- 0.5 years	220
Claims expenses ratio	increase of 1%	(88)
	decrease of 1%	88
Inflation rates	increase of 1%	(464)
	decrease of 1%	430
Discount rates	increase of 1%	408
	decrease of 1%	(447)

#### (D) RISK MANAGEMENT POLICIES AND PROCEDURES

The general insurance business of the Group involves a number of non-financial risks. Notes on the policies and procedures employed in managing these risks in the general insurance business are set out below. Financial risks involving the Group are in note 29.

##### (i) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The risk management activities include prudent underwriting, pricing, and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance of the insurance operations.

The key policies in place to mitigate risk arising from writing general insurance contracts include:

- comprehensive management information systems and actuarial models using historical information to calculate premiums and monitor claims;
- monitoring natural disasters such as earthquake, flood, storms and other catastrophes using models;
- the use of reinsurance to limit the Group's exposure.

*(ii) Terms and conditions of insurance contracts that have a material effect on amount timing and uncertainty of cash flows*

The terms and conditions attached to insurance contracts affect the level of insurance risk accepted by the Group. There are no special terms and conditions in any non standard contracts that have a material impact on the financial statements.

*(iii) Concentration of insurance risk*

There are no significant concentrations of insurance risk for reinsurance recoveries. Reinsurance contracts are entered into with a number of reinsurers.

*(iv) Development of claims*

The following table shows the development of net undiscounted outstanding claims relative to the current estimate of ultimate claims costs for the five most recent years.

*( New Zealand dollars in thousands )*

Ultimate claims cost estimate	Incident year						Total
	Prior	2002	2003	2004	2005	2006	
At end of accident year	-	129,641	134,591	153,683	168,815	181,194	
One year later	-	129,204	133,561	152,802	167,592	-	
Two years later	-	129,199	132,968	152,634	-	-	
Three years later	-	129,219	132,480	-	-	-	
Four years later	-	128,752	-	-	-	-	
Current estimate of ultimate claims cost	-	128,752	132,480	152,634	167,592	181,194	
Cumulative payments	-	(128,330)	(131,106)	(150,972)	(163,428)	(136,935)	
Undiscounted central estimate	28,630	422	1,374	1,662	4,164	44,259	80,511
Discount to present value	(14,648)	(20)	(23)	(38)	(58)	(98)	(14,885)
<b>Discounted central estimate</b>	<b>13,982</b>	<b>402</b>	<b>1,351</b>	<b>1,624</b>	<b>4,106</b>	<b>44,161</b>	<b>65,626</b>
Claims handling expense							4,225
Risk margin							5,544
<b>Net outstanding claims liabilities</b>							<b>75,395</b>
Reinsurance recoveries on outstanding claims liabilities and other recoveries							7,917
<b>Gross outstanding claims liabilities</b>							<b>83,312</b>

**(E) LIABILITY ADEQUACY TEST**

The liability adequacy test has identified a surplus for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

The risk margin adopted in performing the liability adequacy test is 75%. The outstanding claims liability is set at a level that is appropriate and sustainable to cover the Group's claims obligations after having regard to the prevailing market environment and prudent industry practice.

**(F) INSURER FINANCIAL STRENGTH RATING**

TOWER Insurance Limited has an insurer financial strength rating of "A-" (Excellent) issued by AM Best Company Limited.

TOWER Medical Insurance Limited is not required to obtain a credit rating.

**(G) REINSURANCE PROGRAMME**

Reinsurance programmes are structured to adequately protect the general insurance companies' solvency and capital positions. The adequacy of reinsurance cover is based on assessing TOWER Limited's exposure in the worst possible scenario. The worst possible scenario for TOWER Limited is a major Wellington earthquake. Each year, as part of setting the coming year's reinsurance premium, comprehensive modelling of the event probability and amount of the Group's exposure is undertaken.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 29. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION

The financial condition and operating results of the Group are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market risk, financing risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk. The Group's objectives and policies in respect of non-financial risk are in notes 27 and 28, while the managing of financial risk is set out in the remainder of this section.

TOWER's objective is to satisfactorily manage these risks in line with the Group's risk management policy and guidance which are approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Group depending on the nature of the risk. The consolidated entity's exposure to all risks is monitored by the Risk Executive Manager and this exposure is reported monthly to the executive management and the Group Audit and Compliance Committee.

The Board has delegated to the Group Audit and Compliance Committee the responsibility to review the effectiveness and efficiency of management processes, group risk management and internal financial controls and systems as part of their duties.

Financial risks are generally monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored to ensure that there are no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits. For those life insurance and life investment contracts where the benefits paid are directly impacted by the value of the underlying assets, the Group is exposed to the risk of future decreased asset management fees as a result of a decline in assets under management.

The Board has delegated to the Group Investment Committee the responsibility for:

- reviewing investment policy for TOWER shareholder and policyholder funds;
- reviewing the risk management policy and statements in respect of investment management, including the derivative policy;
- considering the establishment, adjustment or deletion of limits and counter-party approvals, and the scope of financial instruments to be used in the management of TOWER's investments;
- reviewing the appointment of external investment managers;
- monitoring compliance with investment policies and client mandates

Compliance risk and operational risk are both monitored by internal committees and report regularly to the Board.

### (A) MARKET RISK

Market risk is the risk of change in the fair value of financial instruments from fluctuations in the foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market.

The Group Investment Committee determines the levels of market risk it accepts by reviewing:

- what constitutes market risk for the Group
- the basis used to fair value financial assets and liabilities
- asset allocation and portfolio limit structures

- diversification benchmarks by type of instrument and geographical areas; and
- sets out reporting of market risk exposures and the monitoring thereof.

### (i) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates.

TOWER's principal transactions are carried out in New Zealand Dollars and its exposure to foreign exchange risk arises primarily with respect to Australian Dollars, as the Australian operations form a significant part of the Group's operations.

TOWER generally elects to not hedge the capital invested in overseas entities, thereby accepting the foreign currency translation risk on invested capital.

The Group Investment Committee sets limits for the management of currency risk arising from its investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to. In accordance with this policy, TOWER does not hedge the currency risk arising from translation of the financial statements of foreign operations.

Foreign currency denominated asset and liabilities:

(New Zealand dollars in thousands)

Assets and liabilities not hedged	Group		
	Assets	Liabilities	Net Exposure
<b>As at 30 September 2006</b>			
Exposure to Australian dollars	222,839	-	222,839
Exposure to other currencies	84,836	-	84,836
<b>As at 30 September 2005</b>			
Exposure to Australian dollars	3,470,717	3,280,405	190,312
Exposure to other currencies	73,765	52,881	20,884

### (ii) Interest rate risk

Interest rate risk is the risk that the value/future value cash flows of a financial instrument will fluctuate because of changes in interest rates.

The TOWER Board is responsible for the management of the interest risk arising from external borrowings. As at 30 September 2006 and 30 September 2005 there were no interest rate swaps in place.

TOWER manages interest risk arising from its interest bearing investments in accordance with Group Investment Committee approved policies.

### General insurance

Interest rate risk arises in general insurance to the extent that there is a mismatch between the fixed interest portfolios used to back the outstanding claims liabilities and those outstanding claims. The interest rate risk is managed by matching the duration profiles of the investment assets and the outstanding claims liabilities.

### Life insurance

Interest rate risk and market risk arise in life insurance to the extent that there is a mismatch between the policyholder liabilities and the assets backing those liabilities. The impact of these mismatches impact current period operating profits. The primary areas of mismatch for TOWER's life insurance business are:

- For non-participating life insurance contracts, the mismatch between the risk free discount rates used in the policy liability calculations and the backing asset values.
- For a portion of the life investment contract business, the mismatch between the value of the financial instrument liabilities (including the discount rates used in their calculation, if applicable) and the backing asset values.

Interest rate and market risks are managed by the Group through a strategic asset allocation policy and an investment management policy that has regard to policyholder expectations and risks and to target surplus for both capital adequacy and solvency as advised by the Chief Actuary and Appointed Actuary.

The following table provides information on the financial assets and financial liabilities. They show the weighted average effective interest rate. The weighted average interest rates are based on carrying amounts and rates applicable at balance date, net of the impact of derivatives. Where applicable, the rates are net of directly attributable transactions costs.

### Maturity analysis of financial assets and liabilities - Group

(New Zealand dollars in thousands)

	Effective Interest Rate	0-12 months	12-24 months	24-36 months	36-48 months	48-60 months	Over 60 months	Total
<b>2006</b>								
Fixed interest securities	5%	353,405	6,330	10,969	3,778	110	313,980	688,572
Capital bonds	9%	124,337	-	-	-	-	-	124,337
Capital notes	9%	73,469	-	-	-	-	-	73,469
Other borrowings	10%	628	-	-	-	-	-	628
<b>Total liabilities</b>		<b>198,434</b>	-	-	-	-	-	<b>198,434</b>
<b>2005</b>								
Fixed interest securities	6%	361,497	198,461	182,908	125,023	135,816	885,386	1,889,091
Capital bonds	9%	-	-	122,872	-	-	-	122,872
Capital notes	9%	-	-	-	-	73,723	-	73,723
Other borrowings	8%	2,893	-	-	-	-	-	2,893
<b>Total liabilities</b>		<b>2,893</b>	-	<b>122,872</b>	-	<b>73,723</b>	-	<b>199,488</b>

All other financial assets and liabilities are non-interest bearing.

### (iii) Fair value of financial instruments

Capital bonds are carried on the balance sheet as at 30 September 2006 at \$124.3 million (2005: \$122.9 million), being the cost of \$125.0 million less establishment costs that are amortised over the life of the bond. The fair value of the capital bonds is \$127.5 million (2005: \$126.7 million). Capital notes are carried on the balance sheet as at 30 September 2006 at \$73.5 million (2005: \$73.7 million), being the cost of \$75 million less unamortised establishment costs. The fair value of the capital notes is \$76.5 million (2005: \$76.7 million).

All other financial assets (other than investments in subsidiaries) and liabilities are recorded at values which approximate fair value.

### (B) CREDIT RISK

Credit risk is the risk of loss that arises from a counter party failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result in changes in credit risk on that instrument.

The maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 29. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

### (B) CREDIT RISK (CONTINUED)

The only significant concentrations of credit risk are outlined below.

(New Zealand dollars in thousands)

	Group		Company	
	2006 Carrying value	2005 Carrying value	2006 Carrying value	2005 Carrying value
Australian government	30,545	17,524	-	-
New Zealand government	246,355	287,398	-	-
Receivables from subsidiaries	-	-	258,258	326,923

Additionally, TOWER has normal clearing house exposures associated with dealings through recognised exchanges and financial intermediaries.

### (C) FINANCING AND LIQUIDITY RISK

Financing and liquidity risk is the risk that the Group will not be able to refinance debt obligations or may not be able to raise cash when required and on acceptable terms.

## 30. OPERATING LEASES

(New Zealand dollars in thousands)

	Group		Company	
	2006	2005	2006	2005
<b>As lessee</b>				
Rent paid under non-cancellable operating leases during the year	6,189	6,497	-	-
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
- Not later than one year	5,324	7,919	-	-
- Later than one year and not later than five years	18,032	20,985	-	-
- Later than five years	7,693	9,500	-	-
	<b>31,049</b>	<b>38,404</b>	-	-

Operating lease payments represent the future rentals payable for office space under current leases. Leases are for an average of seven years with rental rates reviewed every three years.

### As lessor

The Group previously rented out two properties under operating leases. These properties were held by discontinued operations. Property rental earned during the year from continuing operations was \$0.1 million (2005: \$4.4 million) and the carrying value of these investment properties was \$2.1 million (2005: \$21.4 million).

Rent receivable under non-cancellable operating leases to the end of the lease terms are:

- Not later than one year	-	2,894	-	-
- Later than one year and not later than five years	-	15,270	-	-
- Later than five years	-	3,608	-	-
	-	<b>21,772</b>	-	-

The group treasury function maintains sufficient liquid assets to cover obligations and unforeseen expenses from the Group.

### (D) NET FAIR VALUES

Fair value is the amount for which an asset could be exchanged, or a liability settles, between knowledgeable, willing parties in an arm's length transaction.

All assets shown on the Balance Sheet are at fair value unless otherwise noted.

### (E) DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises derivative financial instruments to reduce investment risk. Specifically, derivatives are used to achieve cost effective short-term reweightings of asset class, sector and security exposures and to hedge portfolios when a market is subject to significant short-term risk.

Derivative financial instruments used include forward foreign exchange contracts, futures, currency swaps and interest rate swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

### 31. CASH AND CASH EQUIVALENTS

( New Zealand dollars in thousands )

	Group		Company	
	2006	2005	2006	2005
Cash at bank and in hand	13,958	15,724	2,018	135
Deposits at call	39,526	688,246	-	-
<b>Total cash and cash equivalents</b>	<b>53,484</b>	<b>703,970</b>	<b>2,018</b>	<b>135</b>

The effective interest rate for deposits at call is 4.1% (2005: 5.4%) and primarily mature within 3 months of balance date.

#### (A) RECONCILIATION TO CASH AT THE END OF THE YEAR

The above figures are reconciled to cash at the end of the financial year as shown in the Statements of Cash Flows as follows:

Balances as above	53,484	703,970	2,018	135
Bank overdrafts (note 19)	(628)	(2,893)	-	-
<b>Balances per Statements of Cash Flow</b>	<b>52,856</b>	<b>701,077</b>	<b>2,018</b>	<b>135</b>

#### (B) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

<b>Profit attributable to shareholders</b>	<b>15,154</b>	<b>119,330</b>	<b>(3,058)</b>	<b>(9,699)</b>
<b>Add/(less) non cash items</b>				
Depreciation	1,037	10,049	-	-
Amortisation of intangibles	1,130	6,106	-	-
Change in life insurance and life investment contract liabilities	(214,265)	124,469	-	-
Unrealised (gain)/loss on investments	101,089	(202,118)	-	-
Realised (gain)/loss on controlled entities	-	(72,955)	-	-
Share-based payments expense	610	1,494	610	713
(Increase)/decrease in deferred tax	13,169	18,350	(251)	-
Intercompany expenses	-	-	5,385	-
	(82,074)	4,725	2,686	(8,986)
<b>Add/(less) movements in working capital relating to operating activities</b>				
(Increase)/decrease in receivables	(52,466)	16,821	(1,175)	-
Increase/(decrease) in payables	103,073	17,912	293	-
(Increase)/decrease in taxation	(3,399)	32,615	(1,391)	(6,455)
	47,208	67,348	(2,273)	(6,455)
<b>Net cash inflows/(outflows) from operating activities</b>	<b>(34,866)</b>	<b>72,073</b>	<b>413</b>	<b>(15,441)</b>

# Notes to the Financial Statements

For the year ended 30 September 2006

## 32. CONTINGENT LIABILITIES

### GUARANTEES

TOWER Limited has guaranteed external debt issued by a controlled entity totalling \$200m (2005:\$200 million). These guarantees are for capital bonds and notes which are being repaid on 19 December 2006.

### TAXATION - OVER PAID TAX

In February 2004, the New Zealand Inland Revenue Department (NZIRD) refunded TOWER \$30 million in respect of over paid tax. The NZIRD now believe they ought not to have paid this refund and have written to TOWER disputing TOWER's entitlement to this refund. The NZIRD has not issued demand for payment. TOWER has received strong legal advice that it is fully entitled to the refund.

TOWER is about to commence NZIRD's formal dispute resolution process. The NZIRD has agreed that no tax in respect of this matter will be payable until this process is complete which is expected to take up to two years. In the unlikely event that TOWER is unsuccessful, the \$30 million could be repaid to the NZIRD. Such a payment would reinstate a tax asset representing prepaid taxes that would be available to offset future tax liabilities.

### TAXATION - USE OF MONEY INTEREST

The NZIRD has advised TOWER it is considering TOWER's entitlement to use of money interest paid to TOWER for the income tax years 1996 to 2005 in respect of some prepaid assets at that time. The amount of interest involved is NZ\$12 million. TOWER has received independent advice supporting the position taken by TOWER and will defend its position if the matter is formally challenged by the NZIRD.

## 33. CAPITAL COMMITMENTS

(New Zealand dollars in thousands)

	Group		Company	
	2006	2005	2006	2005
Commitments for capital expenditure not otherwise provided for in the financial statements:				
<b>Computer, software and support services</b>				
Within one year	614	-	-	-
<b>Property, plant and equipment</b>				
Within one year	2,513	-	-	-

## 34. SHARE BASED PAYMENTS

The company has four executive share option schemes. Each has differing conditions which are set out in the tables below. The exercise prices are set at the average of the share price for the 5 days before grant date. Subject to the discretion of the Board, options are forfeited if an employee leaves the Group before the options vest.

The fair value for options was estimated by using a binomial pricing model. The main inputs to the model were as follows:

Terms of share schemes	Tranche A	Tranche B	Tranche C	Tranche D
Exercise price (in NZ\$)	\$1.40	\$2.13	\$2.13	\$2.55
Grant date	31-Mar-04	9-Aug-05	9-Aug-05	4-Apr-06
Vesting date	1-Apr-07	9-Aug-08	9-Aug-09	3-Apr-09
Expiry date	31-Mar-10	9-Aug-11	9-Aug-12	4-Apr-12
Expected volatility	20%	20%	20%	20%
Risk free rate	5.71%	5.71%	5.71%	5.71%
Fair value of the plan (\$000)	1,835	1,630	878	4,524
Amount expensed during the year (\$000)	(364)	380	151	444

Expected volatility was determined by looking at the performance of the share price over a number of periods ranging from 6 month to two years adjusted to remove significant impacts arising from one off events.

The expected life is based on best estimates of management allowing for non-transferability, exercise restrictions and behavioural considerations.

### 34. SHARE BASED PAYMENTS (CONTINUED)

Details of the share options outstanding as at 30 September were as follows:

	Number of options				Weighted average exercise price
	Tranche A	Tranche B	Tranche C	Tranche D	
<b>2006</b>					
Outstanding at start of year	6,401,000	3,096,500	1,775,000	-	\$1.62
Granted	-	-	-	6,100,000	\$2.55
Forfeited	(1,270,500)	-	-	-	\$1.23
Exercised (2)	(1,297,500)	-	-	-	\$1.23
Lapsed	(234,000)	(425,000)	(425,000)	(300,000)	\$0.00
<b>Outstanding at the end of the period</b>	<b>3,599,000</b>	<b>2,671,500</b>	<b>1,350,000</b>	<b>5,800,000</b>	<b>\$2.07</b>
<b>Exercisable at the end of the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2005</b>					
Outstanding at start of year	12,900,000	3,096,500	1,775,000	-	\$1.48
Granted	(1,485,000)	-	-	-	\$1.23
Exercised	(3,284,000)	-	-	-	\$1.23
Lapsed (1)	(1,730,000)	-	-	-	\$1.23
<b>Outstanding at the end of the period</b>	<b>6,401,000</b>	<b>3,096,500</b>	<b>1,775,000</b>	<b>-</b>	<b>\$1.62</b>
<b>Exercisable at the end of the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### (1) SEPARATION OF AUSTRALIAN WEALTH MANAGEMENT (AWM)

Due to the separation of AWM from TOWER Limited in February 2005, the number of options on issue at the time of the separation and their exercise price were adjusted in accordance with the terms of the option scheme and ASX and NZX Listing Rules. This required that benefits conferred on option holders by the grant of options remained, as far as practicable, the same after the capital restructure as before. With the ensuing reduction in options, the exercise price per option was reduced from NZ\$1.53 to NZ\$1.40 for options issued last year under the TOWER Executive Share Option Plan.

The exercise date and exercise period of the options remains unchanged for those executives who were not AWM executives (the exercise period begins on 1 April 2007 and expires 31 March 2010).

TOWER's Board considered a new exercise period for AWM executives was appropriate as the AWM executives had no choice but to leave the TOWER Group. They were granted a new exercise period commencing on the day AWM listed on ASX, expiring 90 days later. During the exercise period, 1,730,000 options previously granted to AWM executives were lapsed.

#### (2) RETIRED GROUP MANAGING DIRECTOR

Ex-Group Managing Director Keith Taylor had previously been granted options under the Senior Executives Share Option Scheme. Following the AWM separation, the exercise price of his options were adjusted from NZ\$1.39 to NZ\$1.23, with the number of options dropping from 1,500,000 to 1,297,500. The options vested when Mr Taylor ceased employment with TOWER and were exercised during the 90 day period beginning on 30 September 2005.

### 35. TRANSACTIONS WITH RELATED PARTIES

The majority of TOWER's related party transactions result solely from normal dealings of entities in their capacity as a financial services provider or asset manager and are therefore not recorded in this note. Shares and other financial securities have been traded between TOWER, its subsidiaries, unit trusts and superannuation funds where TOWER or its subsidiaries have an interest. Trade amounts owing between related parties are payable under normal commercial terms.

#### (A) SUBSIDIARIES AND ASSOCIATES

During the year there have been transactions between TOWER Limited, its subsidiaries and associates which have been conducted on a commercial basis. The transactions from the Parent's perspective comprise:

(New Zealand dollars in thousands)

	Company	
	2006	2005
Operating costs	2,852	2,985

For balances outstanding at year end refer to Note 17. These balances are non-interest bearing.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 35. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### (B) KEY MANAGEMENT PERSONNEL COMPENSATION

The remuneration of directors and other members of key management during the year was as follows:

(New Zealand dollars)

	Group		Company	
	2006	2005	2006	2005
Salaries and other short-term employee benefits	6,091,569	4,065,254	2,935,737	3,063,155
Termination benefits	417,403	-	417,403	-
Post-employment benefits	152,563	93,974	46,684	62,579
	<b>6,661,535</b>	<b>4,159,228</b>	<b>3,399,824</b>	<b>3,125,734</b>

Information regarding individual directors and executives compensation is provided in the Corporate Governance section of the Annual Report.

### C) LOANS TO KEY MANAGEMENT PERSONNEL

There have been no loans made to directors of the Company and other key management personnel of the Group, including their personally related parties.

### D) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management also hold various policies and accounts with TOWER Group companies. These are operated in the normal course of business on normal customer terms.

## 36. DISCLOSURES ON ASSET RESTRICTIONS AND MANAGED ASSETS

### RESTRICTIONS ON ASSETS

Investments and other assets held in each of the life insurance companies can only be used to meet the liabilities and expenses of that company, to acquire investments to further the business of the company or as distributions to Shareholders. Distributions may be made to Shareholders only when regulatory capital requirements are met and sufficient equity remains for the ongoing operation of the business.

### MANAGED ASSETS

TOWER conducts investment and other fiduciary activities that result in the holding or placing of assets on behalf of individuals, managed funds, trusts, retirement benefit plans and other institutions. These assets are not the property of TOWER and accordingly are not included in these financial statements.

The value of assets subject to funds management and other fiduciary activities were:

(New Zealand dollars)

Group	2006	2005
	Superannuation funds	1,070,901
Unit trust and group investment funds	3,171,768	961,049
Managed investment funds	-	3,360,619
	<b>4,242,669</b>	<b>5,364,161</b>
Assets per Balance sheet	6,062,138	5,248,017
<b>Total Assets Under Management/Advice</b>	<b>10,304,807</b>	<b>10,612,178</b>

Arrangements are in place to ensure that the asset management activities of these funds continue to be managed separately from TOWER's financial services and life insurance operations.

### 37. GUARANTEED RETURNS ON FUNDS INVESTED – LIFE INSURANCE COMPANIES

TOWER or its subsidiaries guarantee capital contributed by policyholders together with any declared dividends for the following funds. At balance date the policy liabilities of these funds were:

( New Zealand dollars )

	2006	2005
<b>TOWER Life (NZ)</b>		
Capital Preservation Fund	63,298	66,435
Capital Protected Plan	11,443	12,786
VITAL	2,050	3,532
<b>Total</b>	<b>76,791</b>	<b>82,753</b>
<b>TOWER Australia</b>		
Statutory Fund 1	184,272	180,565
Statutory Fund 2	2,887	3,203
Statutory Fund 3	91,290	91,072
<b>Total</b>	<b>278,449</b>	<b>274,840</b>

### 38. INVESTMENT LINKED AND NON-INVESTMENT LINKED BUSINESS OF LIFE INSURANCE COMPANIES

( New Zealand dollars )

	Group			
	Investment linked	Non- investment linked	Investment linked	Non- investment linked
	2006	2006	2005	2005
Investment assets	46,425	1,279,215	2,085,308	2,259,314
Other assets	-	83,843	173,506	208,181
Policyholder liabilities	(46,425)	(785,995)	(2,109,086)	(1,447,749)
Other liabilities	-	(38,963)	(170,977)	(174,635)
<b>Net assets</b>	<b>-</b>	<b>538,100</b>	<b>(21,249)</b>	<b>845,111</b>
<b>Retained earnings</b>	<b>-</b>	<b>(166,921)</b>	<b>83,676</b>	<b>(1,061,462)</b>
Net premium revenue	-	57,279	13,952	246,140
Investment revenue	4,343	93,065	294,156	181,979
Net claims expense	-	(67,083)	(427)	(140,509)
Other operating expenses	(496)	(32,841)	(47,148)	(178,906)
Change in policyholder liabilities	(3,524)	7,349	(240,628)	(27,938)
<b>Operating surplus/(deficit) before taxation</b>	<b>323</b>	<b>57,769</b>	<b>19,905</b>	<b>80,766</b>
Taxation expense/(credit)	(103)	(17,301)	(20,077)	(29,694)
<b>Operating surplus/(deficit) after taxation</b>	<b>220</b>	<b>40,468</b>	<b>(172)</b>	<b>51,072</b>

# Notes to the Financial Statements

For the year ended 30 September 2006

## 39. EARNINGS PER SHARE

( New Zealand dollars )

	<i>Group</i>	
	2006	2005
Earnings per Share has been calculated as follows:		
<b>Profit attributable to shareholders</b>	<b>63,494</b>	<b>119,330</b>
Profit from continuing business	14,090	(6,783)
Profit from discontinuing business	49,404	126,113
Weighted average fully paid equivalent shares	359,582,910	378,018,429
	<i>NZ cents</i>	<i>NZ cents</i>
Basic and diluted earnings per share	17.66	31.57
Basic and diluted earnings per share on continuing activities	3.92	(1.79)
Basic and diluted earnings per share on discontinuing activities	13.74	33.36

Basic earnings per share is calculated by dividing profit attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated as the basic earnings per share adjusted for the effects of all dilutive potential ordinary shares.

## 40. DISCONTINUED OPERATIONS

( New Zealand dollars )

	<i>Group</i>	
	2006	2005
<b>Profit from discontinued operations comprises</b>		
Operating profit from Australian Wealth Management	-	7,943
Profit on sale of Australian Wealth Management	-	72,955
Operating profit from TOWER Australia	49,404	45,215
	<b>49,404</b>	<b>126,113</b>

### (A) SEPARATION OF AUSTRALIAN AND NEW ZEALAND BUSINESSES

On 8 August 2006, TOWER announced its plan to separate the Australian and New Zealand businesses of the Group. TOWER Limited will remain listed on the Australian and New Zealand stock exchanges and will continue to own the New Zealand and Pacific Island businesses. The Australian business will be called TOWER Australia Group Limited (TAL) and will be listed on the Australian Stock Exchange. TOWER will effect the separation by:

- transferring all 234.3 million shares in TAL to TOWER shareholders on a pro-rata basis of 0.6511 TAL shares for every TOWER share held; and
- in return for that transfer, cancel 0.4760 TOWER shares for every TOWER share held as a capital reduction.

TAL will then issue TAL shareholders entitlements to buy a further 100 million TAL shares at A\$1.60 each. TAL shareholders will receive 0.4269 entitlements for every TAL share held. The additional TAL shares issued pursuant to the Entitlements Offer will raise A\$160 million for TAL.

The Proposal was approved at a meeting of shareholders on 6 November 2006. Final court approval was received on 10 November 2006. The separation was effective on 20 November 2006.

As a result of the separation, the Australian business has been disclosed as a discontinued operation on the face of the Consolidated Income Statement for the year ended 30 September 2006 and 2005. Assets of the Australian business are classified in total as 'Assets of disposal group classified as held for sale' and liabilities are classified as 'Liabilities of disposal group classified as held for sale' in the consolidated Balance Sheet as at 30 September 2006.

( New Zealand dollars )

	2006	2005
Revenue	746,439	641,889
Expenses	(656,650)	(551,274)
<b>Pre tax operating profit</b>	<b>89,789</b>	<b>90,615</b>
Tax on operating profit	(40,385)	(37,457)
<b>After tax operating profit</b>	<b>49,404</b>	<b>53,158</b>
Gain on sale	-	72,955
Tax on gain on sale	-	-
<b>Profit from discontinued operations</b>	<b>49,404</b>	<b>126,113</b>

Cash flows generated by discontinued operations:

Net operating cash flows	(74,270)	(181,480)
Investing activities	(151,182)	319,024
Financing activities	113,427	(59)
<b>Net cash flows</b>	<b>(112,025)</b>	<b>137,485</b>

Cash and cash equivalents of discontinued operations reconciled as follows:

Opening cash balance (transferred to discontinued operations)	<b>480,897</b>	
Movement in cash for the period	(112,025)	
FX movement on cash balances	20,485	
<b>Closing cash of discontinued operations</b>	<b>389,357</b>	

The carrying amount of assets and liabilities as at 30 September are:

<b>Assets</b>		
Cash and cash equivalents	389,357	
Receivables	188,688	
Financial assets at fair value through profit or loss	3,282,741	
Deferred acquisition costs	77,614	
Other assets	3,677	
Property, plant and equipment	4,960	
Assets arising from reinsurance contracts	189,382	
Deferred tax asset	58,978	
Intangible assets	176,300	
<b>Total assets classified as held for sale</b>	<b>4,371,696</b>	
<b>Liabilities</b>		
Payables	220,092	
Current tax liabilities	17,273	
Provisions	19,910	
Interest bearing liabilities	114,325	
Insurance liabilities	59,015	
Deferred tax liabilities	74,904	
Other liabilities	1,902	
Deferred revenue liability	115,115	
Life insurance contract liabilities	683,347	
Life investment contract liabilities	2,487,053	
<b>Total liabilities classified as held for sale</b>	<b>3,792,936</b>	
<b>Net assets of disposal group</b>	<b>578,760</b>	

# Notes to the Financial Statements

For the year ended 30 September 2006

## 40. DISCONTINUED OPERATIONS (CONTINUED)

### (B) SPIN-OFF OF AUSTRALIAN WEALTH MANAGEMENT (AWM) BUSINESSES

During the year ended 30 September 2005 TOWER separated and listed on the Australian Stock Exchange (ASX), its Australian Wealth Management business.

Key transactions were as follows:

- AWM purchased Bridges and TOWER Trust for A\$250 million, in exchange for 120 million A\$1 shares and a cash payment of A\$130 million.
- These 120 million shares in AWM were transferred to existing TOWER shareholders and, in consideration, an equivalent value of TOWER shares held by existing TOWER shareholders was acquired and cancelled.
- AWM was listed on the Australian Stock Exchange.
- AWM undertook a capital raising of approximately A\$130 million, by way of an entitlements offer of additional shares in AWM, to fund the cash payment to TOWER.
- Following the scheme and completion of the capital raising, TOWER had no equity or any other interest in AWM.

The financial impact on TOWER is shown in the table below:

(New Zealand dollars)

	Income Statement	Net Assets
Sale proceeds	272,460	
Less: carrying value	(193,401)	
Less: costs of separation	(6,104)	
<b>Gain recognised on distribution of shares</b>	<b>72,955</b>	<b>72,955</b>
Distribution of Australian Wealth Management shares <sup>(1)</sup>		(130,990)
<b>Impact on Net Assets</b>		<b>(58,035)</b>

<sup>(1)</sup> The A\$120.0 million distribution of shares converted to NZ\$131.0 million using the exchange rate at the date of the transaction.

A \$14.8 million reclassification of the foreign currency translation reserve to retained earnings was made.

Profit from discontinued operations per the Consolidated Income Statement includes a gain on disposal of \$73.0 million plus profit for the period to 31 January 2005 of \$7.9 million.

The effect of the disposal on the net assets and cash flow of the Group were as follows:

(New Zealand dollars)

Investments	24,732
Current assets	71,753
Other assets	90,636
Goodwill	56,845
Current liabilities	(50,117)
<b>Net assets disposed of</b>	<b>193,849</b>
Shares received	(130,990)
Gain on sale	72,955
<b>Net cash received (after expenses)</b>	<b>135,814</b>
Cash disposed of	(38,725)
<b>Net Cash impact of disposal</b>	<b>97,089</b>

Proceeds from the disposal of Australian Wealth Management were invested in fixed interest securities.

The profit from discontinued operations comprised the following:

(New Zealand dollars)

	Group
Revenue	39,471
Expenses	(28,894)
<b>Pre tax operating profit</b>	<b>10,577</b>
Tax on operating profit	(2,634)
<b>After tax operating profit</b>	<b>7,943</b>
Gain on sale	72,955
Tax on gain on sale	-
<b>Profit from discontinued operations</b>	<b>80,898</b>

Cash flows generated by discontinued operations:

Net operating cash flows	15,790
Investing activities	1,383
Financing activities	(3,144)
<b>Net cash flows</b>	<b>14,029</b>

### (C) DISPOSAL OF SUBSIDIARIES

On 30 March 2006 TOWER Limited disposed of the following controlled entities:

TOWER Adelaide Pty Limited  
Lymquoir Pty Limited  
TOWER Life Properties Pty Limited  
TOWER Victoria Pty Limited  
TOWER Direct Pty Limited  
AdviserBLUE Pty Limited  
TOWER eCommerce Pty Limited  
TOWER Group Network (Australia) Pty Limited  
TOWER Staff Superannuation Limited  
FAI Life Limited  
TOWER Rollover Services Pty Limited  
Pacific Developments Pty Limited

All of these controlled entities were dormant at the time of disposal.

On the date of sale the value of each of the companies sold was \$1.00. Consideration received on the sale was \$1.00 per company. The profit and net cashflow of these companies was not material in the current or prior periods.

### 41. ACQUISITION

On 31 March 2006 TOWER acquired 100% of the share capital of PrefSure Holdings Limited (PrefSure), a specialist life insurance business.

The acquired business contributed revenues of \$115.0 million and net profit of \$8.3 million (excluding integration and amortisation costs) to the Group during the six months from 1 April 2006 to 30 September 2006.

As PrefSure did not complete half year financial statements at 30 September 2005, the disclosure of revenue and profit of PrefSure for the period of 1 October 2005 to 30 September 2006 is not practicable.

Details of net assets acquired and goodwill are as follows:

( New Zealand dollars )

	<i>Group</i>
	2006
Purchase consideration:	
Cash paid (excluding direct acquisition costs)	132,263
Direct costs related to acquisition paid in cash	2,462
Cash paid	134,725
Fair value of net assets acquired	94,520
<b>Intangibles</b>	<b>40,205</b>

The intangible assets comprise goodwill and the value of in-force business over and above the fair value of the other net assets acquired. The goodwill is attributable to the profitability of the acquired business and the synergies expected to arise as a result of the acquisition. The present value of in-force business is the present value of the future profits on the life insurance policies in-force at the date of acquisition (see note 13).

( New Zealand dollars )

	<i>Group</i>
	2006
Present value of in-force business	22,606
Goodwill	17,599
<b>Total intangibles</b>	<b>40,205</b>

The assets and liabilities arising from the acquisition are as follows:

( New Zealand dollars )

	<i>Fair Value</i>	<i>Acquiree Carrying amount</i>
Cash	15,374	15,374
Accounts receivable	55,228	55,228
Assets classified as held for sale	2,912	2,912
Fixed interest securities	178,030	178,030
Assets arising from reinsurance contracts	134,707	134,707
Investments accounted for using the equity method	657	657
Property, plant and equipment	982	2,780
Deferred tax benefit	14,556	14,556
Intangibles	14,214	14,214
<b>Total assets</b>	<b>416,660</b>	<b>418,458</b>
Accounts payable	79,119	79,119
Taxation payable	3,474	3,387
Provisions	6,665	6,665
Deferred tax liability	16,048	16,023
Policyholder liabilities - insurance contracts	197,008	195,517
Policyholder liabilities - investment contracts	19,826	19,826
<b>Total liabilities</b>	<b>322,140</b>	<b>320,537</b>
<b>NET ASSETS</b>	<b>94,520</b>	<b>97,921</b>
Purchase consideration settled in cash		(134,725)
Cash and cash equivalents in subsidiary acquired		15,374
<b>Cash outflow on acquisition</b>		<b>(119,351)</b>

There were no acquisitions in 2005.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 42. IMPACT OF ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

Reconciliation of equity reported under previous New Zealand Generally Accepted Accounting Principles (NZ GAAP) to equity under New Zealand Equivalents to IFRSs (NZ IFRS)

(A) AT THE DATE OF TRANSITION TO NZ IFRS: 1 OCTOBER 2004

( New Zealand dollars )

<i>Consolidated Balance Sheet as at 1 October 2004</i>				
Note	<i>Previous NZGAAP</i>	<i>Reclass</i>	<i>Effect of transition to NZIFRS</i>	<i>NZIFRS</i>
Cash and cash equivalents	37,523	550,543	-	588,066
Receivables	245,685	-	-	245,685
Fixed interest securities	(iv) 2,166,625	(550,543)	(63)	1,616,019
Equity securities	(iv) 1,451,824	-	(1,947)	1,449,877
Investment property	(iv) 393,728	-	1,793	395,521
Other investments	(v) 397,727	(234,361)	(163,366)	-
Deferred acquisition costs	(iii) 69,620	-	64,626	134,246
Current tax asset	60,471	8,110	-	68,581
Other assets	12,116	-	-	12,116
Property, plant and equipment	28,601	-	-	28,601
Assets arising from reinsurance contracts	-	30,384	-	30,384
Deferred tax asset	(i)(ii)(iv)(xi)(xii) 11,769	(7,145)	30,411	35,035
Goodwill	(v) 72,539	234,361	-	306,900
<b>Total assets</b>	<b>4,948,228</b>	<b>31,349</b>	<b>(68,546)</b>	<b>4,911,031</b>
Payables	391,550	(47,374)	-	344,176
Current tax liabilities	-	8,110	-	8,110
Provisions	(xii) -	47,374	1,558	48,932
Interest bearing liabilities	10,610	-	-	10,610
Insurance provisions	(i)(ix) 237,448	-	1,187	238,635
Deferred tax liability	(i)(ii)(iv)(xi)(xii) -	(7,145)	19,997	12,852
Other liabilities	29,281	4,615	-	33,896
Deferred revenue liabilities	(ii) -	117,536	-	117,536
Policyholder liabilities - insurance contracts	(i) 3,282,940	(2,225,584)	161,559	1,218,915
Policyholder liabilities - investment contracts	(i)(ii)(iii) -	2,138,432	-	2,138,432
Capital bonds/notes	200,000	(4,615)	-	195,385
<b>Total liabilities</b>	<b>4,151,829</b>	<b>31,349</b>	<b>184,301</b>	<b>4,367,479</b>
<b>NET ASSETS</b>	<b>796,399</b>	<b>-</b>	<b>(252,847)</b>	<b>543,552</b>
<b>Represented by:</b>				
Contributed equity	1,040,340	-	-	1,040,340
Retained profits	(157,322)	-	(347,755)	(505,077)
Reserves	(xi)(xiii) (94,274)	-	94,908	634
Minority interests	7,655	-	-	7,655
<b>TOTAL EQUITY</b>	<b>796,399</b>	<b>-</b>	<b>(252,847)</b>	<b>543,552</b>

(B) AT THE END OF THE LAST REPORTING PERIOD UNDER PREVIOUS NZ GAAP : 30 SEPTEMBER 2005

( New Zealand dollars )

<i>Consolidated Balance Sheet as at 30 September 2005</i>					
	Note	Previous NZGAAP	Reclass	Effect of transition to NZIFRS	NZIFRS
Cash and cash equivalents		15,724	688,246	-	703,970
Receivables		207,842	2,028	-	209,870
Available for sale financial assets		-	49,817	-	49,817
Fixed interest securities	(iv)	2,577,516	(688,251)	(174)	1,889,091
Equity securities	(iv)	1,584,357	-	(1,199)	1,583,158
Investment property	(iv)	355,458	(49,817)	349	305,990
Other investments	(v)	289,892	(142,269)	(147,623)	-
Deferred acquisition costs	(iii)	70,343	82,771	(19,414)	133,700
Current tax asset		27,115	(27,115)	-	-
Other assets		5,529	(5,432)	-	97
Property, plant and equipment		14,873	(4,277)	-	10,596
Assets arising from reinsurance contracts		-	39,819	-	39,819
Non current tax asset		-	50,163	-	50,163
Deferred tax asset	(i)(ii)(iv)(xi)(xii)	-	93,585	13,871	107,456
Goodwill	(v)	15,970	146,546	1,774	164,290
<b>Total assets</b>		<b>5,164,619</b>	<b>235,814</b>	<b>(152,416)</b>	<b>5,248,017</b>
Payables		412,739	(9,110)	-	403,629
Current tax liabilities		-	10,132	-	10,132
Provisions	(xii)	-	26,095	816	26,911
Interest bearing liabilities		2,893	(2,893)	-	-
Insurance provisions	(i)(ix)	242,837	-	1,119	243,956
Deferred tax liability	(i)(ii)(iv)(xi)(xii)	4,858	86,110	4,343	95,311
Other liabilities		26,491	(3,743)	-	22,748
Deferred revenue liability	(ii)	-	117,774	-	117,774
Life insurance contract liabilities	(i)	3,494,061	(2,241,702)	8,268	1,260,627
Life investment contract liabilities	(i)(ii)(iii)	-	2,253,663	66,840	2,320,503
Capital Bonds/Notes		200,000	(512)	-	199,488
<b>Total liabilities</b>		<b>4,383,879</b>	<b>235,814</b>	<b>81,386</b>	<b>4,701,079</b>
<b>NET ASSETS</b>		<b>780,740</b>	<b>-</b>	<b>(233,802)</b>	<b>546,938</b>
<b>Represented by:</b>					
Contributed equity		911,772	-	-	911,772
Retained profits		(84,134)	-	(326,415)	(410,549)
Reserves	(xi)(xiii)	(50,063)	-	92,613	42,550
Minority interests		3,165	-	-	3,165
<b>TOTAL EQUITY</b>		<b>780,740</b>	<b>-</b>	<b>(233,802)</b>	<b>546,938</b>

# Notes to the Financial Statements

For the year ended 30 September 2006

## 42. IMPACT OF ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS) (CONTINUED)

### (C) RECONCILIATION OF PROFIT FOR THE YEAR ENDED 30 SEPTEMBER 2005

(New Zealand dollars)

<i>Consolidated Income Statement for the year ended 30 September 2005</i>				
Note	Previous NZGAAP	Reclass	Effect of transition to NZIFRS	NZIFRS
<b>Revenue from continuing operations</b>				
Premium revenue	622,242	(1,471)	-	620,771
Less : Outwards reinsurance expense	(106,557)	-	-	(106,557)
Net premium income	515,685	(1,471)	-	514,214
Investment revenue	(v)(iv)(x) 517,079	(2,090)	(33,166)	481,823
Fee and other revenue	98,602	(37,380)	-	61,222
<b>Net operating revenue</b>	<b>1,131,366</b>	<b>(40,941)</b>	<b>(33,166)</b>	<b>1,057,258</b>
Claims expense	(i) 375,641	-	(30)	375,611
Less : Reinsurance recoveries revenue	(63,848)	-	-	(63,848)
Net claims expense	311,793	-	(30)	311,763
Change in life insurance contract liabilities	(i) -	34,585	-	34,585
Change in life investment contract liabilities	(ii)(iii)(iv)(xi)(xii) 269,051	(34,047)	744	235,748
Management and sales expenses	(ii) (xi) (xii) 403,453	(28,808)	(2,926)	371,719
<b>Net claims and operating expenses</b>	<b>984,297</b>	<b>(28,270)</b>	<b>(2,212)</b>	<b>953,815</b>
Amortisation expense	(vi) 3,441	-	(3,441)	-
Financing costs	17,511	(2,095)	-	15,416
Gain on disposal of AWM	(vii) 23,045	(72,955)	49,910	-
<b>Profit before taxation</b>	<b>149,162</b>	<b>(83,532)</b>	<b>22,397</b>	<b>88,027</b>
Income tax expense	(ii)(iii)(iv)(vii)(xi) (xii) 49,649	(2,634)	895	47,910
<b>Profit from continuing operations</b>	<b>99,513</b>	<b>(80,898)</b>	<b>21,502</b>	<b>40,117</b>
Profit from discontinued operations	-	80,898	-	80,898
<b>Profit for the year</b>	<b>99,513</b>	<b>-</b>	<b>21,502</b>	<b>121,015</b>
Profit attributable to minority interests	(1,685)	-	-	(1,685)
<b>Profit for the year attributable to shareholders</b>	<b>97,828</b>	<b>-</b>	<b>21,502</b>	<b>119,330</b>

Note that the above Income Statement does not reflect the accounting treatment of the Australian business as a discontinued operation and does not, therefore reconcile on a line by line basis to the 2005 Income Statement.

### (D) RECONCILIATION OF CASHFLOW STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2005

The adoption of NZ IFRSs has not resulted in any material adjustments to the cash flow statement.

### (E) EXPLANATION OF ADJUSTMENTS

#### (i) Adjustments to valuations of life insurance contracts

NZ IFRS 4 Insurance Contracts applies to life insurance contracts and financial instruments with discretionary participation features. A contract governed by the Life Insurance Act, that does not meet the definition of a life insurance contract in this standard, is a life investment contract and is treated under NZ IAS 39 Financial Instruments: Recognition and Measurement and NZ IAS 18 Revenue.

#### Changes to actuarial assumptions - discount rate

All key actuarial assumptions for life insurance contracts used under IFRS are consistent with assumptions applied under NZ GAAP with the exception of the discount rate to be applied.

To the extent that the benefits under life insurance contracts are not contractually linked to the performance of the assets held, the life insurance liabilities shall be discounted for the time value of money using risk-free discount rates. This contrasts with previous NZ GAAP which required the use of discount rates based on market returns on the investments supporting the policy liabilities.

#### (ii) Adjustments to valuations of life investment contracts

NZ IFRS 4 requires life investment contract policy liabilities to be accounted for as a financial liability using the fair value option where permitted under NZ IAS 39 adjusted for the value of any associated investment services contract (under NZ IAS 18).

***(ii) Adjustments to valuations of life investment contracts (continued)***

The life investment contract policy liability previously reported on the balance sheet under NZ GAAP is separated into three components upon adoption of NZ IFRS, comprising: 1) a financial liability representing the present value of future surrender and maturity benefits plus the value of any embedded derivatives or guarantees; 2) a deferred income liability in respect of entry fees or exit penalties 3) an asset representing deferred acquisition costs (DAC).

Investment contract policy liabilities are computed using discounting and other fair value techniques. This ensures that the calculations allow for product features including the impact of regular premiums, timing of surrender penalties and surrender value minimal. The computations are made with regard to relevant actuarial principles to ensure the liability best represents its fair value. Any change in fair value is recognised in the income statement.

Annual fee income for the investment services contract is recognised as revenue on receipt and entry fees are deferred to be recognised as service is provided.

Entirely variable acquisition costs (i.e. transaction costs including initial commissions) are deferred and amortised over the life of the contract. The DAC asset is subject to an impairment test.

The key actuarial assumptions used under NZ IFRS are consistent with those previously assumed under NZ GAAP with the exception of the discount rate. Under NZ IFRS the discount rate is required to be consistent with investment earnings. Under NZ GAAP they were also consistent but at a rate based on the estimated return on the underlying investment (including a significant equity component).

***(iii) Adjustments to DAC for non life investment contracts***

Under NZ IFRS entirely variable acquisition costs (i.e. transaction costs including initial commissions and volume bonuses) are deferred and amortised over the life of the contracts. The DAC asset is subject to an impairment test.

This differs from NZ GAAP where non commission acquisition costs were also deferred. The impacts noted arise from the lower levels of DAC recognised.

***(iv) Adjustment from net market value to fair value***

Under NZ IFRS, fair values must be determined using bid price, as compared to the use of last sale price under NZ GAAP. In addition selling costs are no longer allowed for under NZ IFRS.

***(v) Removal of unrealised revaluations of subsidiary investments of life companies***

Under NZ GAAP, life insurance entities and their parents, were required to carry investments in subsidiaries at market value and recognise the excess over the value of net assets as Excess of Market Value Over Net Assets (EMVONA). EMVONA included both acquired and internally generated goodwill.

Under NZ IAS 38 the EMVONA asset can no longer be recognised to the extent that it represents internally generated goodwill. NZ IAS 38 only allows for the recognition of acquired goodwill.

On adoption of NZ IFRS, EMVONA was reclassified as goodwill and restated to the value of acquired goodwill less any amortisation and impairment recognised under previous NZ GAAP.

***(vi) Removal of amortisation of goodwill***

In accordance with NZ IFRS 3 Business Combinations, amortisation of goodwill will be prohibited and will be replaced by annual impairment testing to ensure that the carrying value of goodwill is no greater than the recoverable amount.

***(vii) Adjustment to recognised gain on separation of discontinued businesses***

As noted in (v) and (vi) the adoption of NZ IFRS resulted in changes to the carrying value of subsidiaries recognised on the balance sheet and as a result the gain on sale, being the difference between the net sale proceeds and the carrying value of the subsidiary, also changes.

Under previous NZ GAAP, subsidiaries were carried at directors' valuation with valuation movements going to the income statement. Upon adoption of NZ IFRS these revaluations have been reversed. In the case of the AWM sale this has resulted in the gain on sale increasing because the carrying value is now lower than previously reported under NZ GAAP.

In addition NZ IFRS requires that any balances recognised in the foreign currency translation reserve (FCTR) that are held against the foreign denominated subsidiary investment is reported through the income statement when it is disposed of. Under NZ GAAP the balance held in the FCTR would have been transferred directly to retained earnings.

***(viii) Adjust for non discounting of deferred tax***

Under NZ IFRS discounting of tax assets and liabilities, that was previously required under NZ GAAP, is prohibited. The impacts reported arise from the removal of discounting on deferred tax balances.

***(ix) Adjustments to general insurance liabilities***

As all general insurance contracts issued by TOWER meet the definition of insurance contracts as defined by NZ IFRS 4 the adoption of NZ IFRS will have minimal change on the accounting treatment of this business. NZ IFRS 4 essentially allows for the previous accounting treatment applied under NZ GAAP to be continued until the new IFRS insurance contracts standard is developed and issued.

The only notable changes from the adoption of IFRS is the liability adequacy testing that must be performed to support the adequacy of the unearned premium liability and the measurement of outstanding claims liabilities that must include a risk premium.

The liability adequacy test is performed at the reporting entity level by portfolios of contracts that are subject to broadly similar risks and are managed together as a single portfolio. The test must include a risk margin to reflect the inherent uncertainty in a central estimate. If the unearned premium liability is shown to be deficient, the deficiency must be recognised through the income statement.

The liability adequacy test performed on the unearned premium liability held in respect of the general insurance business has shown that the level of reserves held under NZ GAAP meet the reserves required under NZ IFRS.

The outstanding claims liability is measured as the central estimate of the present value of the expected future payments for claims incurred with an additional risk margin to allow for the inherent uncertainty in the central estimate. The adoption of NZ IFRS has not had a material effect on the unearned premium reserve in the balance sheet.

# Notes to the Financial Statements

For the year ended 30 September 2006

## 42. IMPACT OF ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS) (CONTINUED)

### (E) EXPLANATION OF ADJUSTMENTS (CONTINUED)

#### (x) *Adjust for owner occupied property*

The accounting treatment for investment property that is deemed owner occupied property falls under NZ IAS 16 Property, Plant and Equipment. NZ IFRS 4 requires such properties held in life companies and deemed to back policy liabilities to be accounted for under the revaluation model in NZ IAS 16.

The fair value treatment under NZ IFRS differs from previous net market value under NZ GAAP requirement in that no allowance is made for selling costs when determining the carrying value.

The requirement to treat these owner occupied property investments as property, plant and equipment rather than investment property also means that any revaluations under NZ IFRS are recognised in a reserve in equity, except where the revaluation results in a debit reserve balance in which case that balance, and any subsequent revaluation reversal of that amount, is recognised in profit and loss. Under NZ GAAP all revaluations were recognised through the income statement. As these properties are held by participating funds this will cause a mismatch in the profit and loss. While the increase in policyholder liabilities will be reported through profit and loss the matching revaluation will go direct to equity.

The impacts are reported after allowing for tax.

#### (xi) *Adjust for share based payments*

TOWER operates executive share option schemes. Under NZ GAAP options issued to employees under performance incentive schemes were not recognised as an expense in the statement of financial performance.

Under NZ IFRS the cost of option schemes entered into with employees will be recognised through the income statement as an expense over the periods in which the equity instruments vest. There will be an equal and opposite adjustment made through the share based payments reserve reported in equity.

The expense recognised over the vesting period will be based on the fair value of the options at the grant date which is subject to performance conditions being met.

#### (xii) *Adjust for recognition of capital guarantees*

TOWER provides capital guarantees to certain funds. Some funds are included on the TOWER consolidated balance sheet and some are held off balance sheet.

Under NZ GAAP TOWER disclosed these guarantees as contingent liabilities but did not recognise a provision for these capital guarantees as it was assessed that it was not probable that the liability will materialise. TOWER has assessed that, in accordance with the principles of NZ IFRS, certain guarantees are embedded derivatives and therefore a provision should be raised to recognise the value of these embedded liabilities.

The impacts reported arise from adopting this approach.

#### (xiii) *Adjust for Foreign Currency Translation Reserve*

TOWER has elected to apply the exemption in NZ IFRS 1 'First time adoption of New Zealand Equivalents to International Financial Reporting Standards'. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve (FCTR) are deemed to be zero at the date of transition to NZ IFRS. The effect is that at 1 October 2004 the

balance of the \$94.3 million debit in the FCTR of the Group is transferred to retained earnings.

#### *Tax effecting future profit margins within policy liabilities*

Under NZ IAS 12 Income Taxes, deferred tax must be recognised on temporary differences, whereas under NZ GAAP deferred tax is recognised on timing differences. The definition of temporary differences is broader than timing differences, and therefore IAS 12 could, in some circumstances, result in recognition of more deferred tax assets/liabilities. TOWER is currently assessing how the principles underpinning the calculation of temporary differences should be applied to its New Zealand policyholder business, and at this stage cannot reliably estimate the financial effect, if any. TOWER has performed an assessment of the temporary differences in other parts of TOWER's business and the estimated financial effect on net assets as at 30 September 2005 and profit for the 2005 financial year is not material.

Because of uncertainty surrounding this issue and the complexity involved in calculating any taxable temporary differences the company has continued to measure and disclose life insurance policy liabilities in accordance with previous NZ GAAP and NZ IFRS 4.

The Directors believe that, if it is deemed there are taxable temporary differences embedded within policyholder liabilities and they can be reliably measured, it is likely to represent a reclassification of a liability between life insurance policy liabilities and deferred tax liabilities rather than have an impact on net profit, total assets or total liabilities of the consolidated and parent entities.

## 43. SUBSEQUENT EVENTS

From 20 November 2006 TOWER Australia Group Limited (TAGL) will no longer form part of the TOWER Group. On 21 November 2006 TAGL listed separately on the Australian Stock Exchange. For further details refer to note 40.

TOWER provides commercial insurance to businesses located in Tonga. As a result of civil unrest that occurred 16 November 2006, TOWER is expecting claims in excess of long term expectations. The value of claims is still to be fully assessed but not expected to adversely impact on net profit.

## 44. COMPANY INFORMATION

For the purposes of complying with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), TOWER Limited is a profit-oriented entity.

TOWER Limited is a publicly listed company, incorporated and domiciled in New Zealand. Its registered office and principal place of business is:

Level 11, TOWER Centre, 22 Fanshawe Street  
Auckland Central, New Zealand

# 2006 TOWER Directory

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(incorporated in Auckland, New Zealand)

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**BANKERS**  
ANZ National Bank Limited

**SOLICITORS**  
Phillips Fox

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**TOWER NEW ZEALAND LIMITED**

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