

Supplementary Information

6 Months Ended 31 March 2007

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1

Financial Overview

1.1 Financial Summary

TOWER Australia Group Limited's (TOWER's) performance for the six months ended 31 March 2007 is summarised in the table below:

Financial Performance A\$million (Unless stated otherwise)	6 months ended 31-Mar-07	6 months ended 30-Sep-06 Proforma	6 months ended 31-Mar-06 Proforma	1H07 v 1H06 % change
Life insurance – Risk	12.0	14.2	9.0	33%
Investment	0.9	0.4	3.3	(73%)
Other operating margins	0.1	0.7	0.5	(80%)
Business Unit Operating Margins	13.0	15.3	12.8	2%
Investment earnings	13.3	8.7	12.4	7%
Corporate expenses	(2.3)	(3.7)	(3.3)	30%
Financing expenses	(2.4)	(3.3)	(3.3)	27%
Operating Earnings	21.6	17.0	18.6	16%
Discount rate changes	(2.6)	(1.3)	(0.9)	(189%)
Amortisation of intangibles	(1.9)	(1.9)	–	–
Net Profit After Tax	17.1	13.8	17.7	(3%)
EQUITY				
Net assets	508.9	500.3	486.3	5%
Embedded Value	697.1	621.3	588.3	18%
Value of One Year's New Business	41.9	34.3	28.6	47%
Shares on issue (millions)	334.2	334.2	334.2	–
Closing share price	\$2.70	\$2.33	\$2.33	16%
Market capitalisation – end period	902.3	778.7	778.7	16%
CAPITAL STRENGTH				
Gearing (%)	16.4%	21.2%	21.7%	24%
Interest cover (times)	9.8	6.2	6.6	48%
Solvency coverage (times)	3.2	2.9	2.7	18%
Financial Strength Rating (S&P)	A-	A-	BBB+	–
Net Asset Value per share (A\$)	\$1.52	\$1.50	\$1.46	4%
NTA backing per share (A\$)	\$1.07	\$1.04	\$0.99	8%
KEY PERFORMANCE INDICATORS				
New Business Premiums – Risk	72.6	76.2	38.4	89%
Customer Retention – Risk	13%	13%	13%	–
Annual In-force Premiums – Risk	622.0	627.8	599.0	4%
Funds under management/advice	3,640.0	3,425.0	3,393.0	7%
Staff Numbers (FTE)	684.5	641.9	618.2	11%
Controllable costs	73.1	71.5	49.4	48%
Cost to income ratio (%)	68%	68%	61%	(11%)

1.2 1H07 Financial Highlights

Financial Highlights

- Operating Earnings of **\$21.6 million** up 16%.
- Embedded Value of **\$697 million** up 18%.
- Value of One Year's New Business up 47%.
- Underlying Operating Earnings **\$25.0 million**.

Note: PrefSure was acquired 31 March 2006. Therefore PrefSure's results are included in the Balance Sheet comparatives but not income or expenses making performance measures not readily comparable for 1H06.

Financial Performance A\$million (Unless stated otherwise)	6 months ended 31-Mar-07	6 months ended 30-Sep-06 Proforma	6 months ended 31-Mar-06 Proforma	1H07 v 1H06 % change
SHAREHOLDER RETURNS				
Earnings Per Share (\$ per share)				
Operating Earning per share	\$0.06	\$0.05	\$0.06	–
NPAT per share	\$0.05	\$0.04	\$0.05	–
Return on Equity (% annualised)				
Return (Operating Earnings) on Equity	8.6%	6.9%	7.8%	10%
Return on Capital (% annualised)				
Return (Operating Earnings) on Capital	8.0%	6.5%	7.1%	13%
Earnings Multiple (annualised)				
Price / Earnings Per Share (times)	20.9	22.8	20.9	–
NAV Multiple				
Price / NAV Ratio (times)	1.8	1.6	1.6	12%

1.3 Underlying Operating Earnings

Underlying Operating Earnings A\$million	6 months ended 31-Mar-07	6 months ended 30-Sept-06	6 months ended 31-Mar-06	1H07 v 1H06 % change
NPAT	17.1	13.8	17.7	(3%)
Adjustments				
Discount Rate Changes	2.6	1.3	1.6	63%
Investment Product Losses	5.1	1.0	2.8	82%
Integration	–	2.5	–	–
Normalised corporate office costs	(1.7)	–	–	–
Amortisation	1.9	1.9	–	–
Underlying operating earnings	25.0	20.5	22.1	13%

- **Discount Rate Changes (\$2.6 million)**

- Risk business policy liabilities are discounted at the risk free rate. As the risk free rate changes the value of liabilities increases or decreases. The policy liabilities discounted at the risk free rate are negative with the main component of risk policy liabilities being deferred acquisition costs. Consequently an increase in the risk free rate of 39bps (being the movement in the 10 year Commonwealth government bond rate from 5.59% to 5.98% over the period) has reduced the value of the negative policy liabilities giving rise to a loss. The profit impact will vary from period to period in line with changes in bond rates.

- **Change in Value of Future Surrender Fees and Other Investment Market Related Losses (\$5.1 million)**

- TOWER has a number of closed investment products with complex early surrender fees. The value of these future surrender fees are capitalized and included on the balance sheet within Deferred Revenue Liabilities (DRL). This DRL is amortised each year, with the amortisation charge reflecting the surrender fee income recognised in respect of the services provided. There is a corresponding increase in surrender values as exit fees reduce.

When investment earnings exceed the long term earnings assumption, as has occurred in the current period, the surrender values increase by more than expected with no corresponding increase in the DRL amortisation. This creates a loss in the current period. This will be partially offset by higher profits in future periods.

There is also a second order effect for these products when investment market returns exceed long term assumptions. The liability held is based on the present value of future payments and hence moves in line with the account balance. The policy liability exceeds the surrender value for this business. The surrender value is invested as instructed by the policyholder with the excess liability over surrender value invested conservatively. When market returns exceed long term earnings assumptions, the investment income credited to the liability is not matched by the investment income earned on the assets backing those liabilities, thereby creating an investment mismatch loss.

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Analysis of Profit

2.1 Analysis of Income Statement

Income Statement For the 6 months ended 31-Mar-07 A\$million	Business Unit	Corporate Office	Policyholder	Consolidated 6 months to 31-Mar-07	Proforma 6 months to 30-Sep-06	Proforma 6 months to 31-Mar-06
Net Premium Revenue	186.9	—	—	186.9	206.9	98.1
Investment Revenue	16.1	1.7	213.4	231.2	99.6	226.3
Fee and Other Revenue	13.6	(0.3)	—	13.3	14.0	12.9
Net Operating Revenue	216.6	1.4	213.4	431.4	320.5	337.3
Net Claims Expense	(60.2)	—	—	(60.2)	(55.0)	(31.4)
Movement in Policy Liability	31.5	—	(194.3)	(162.8)	(67.6)	(159.6)
Total Management Expenses	(154.1)	(3.7)	—	(157.8)	(166.7)	(99.2)
Net claims and operating expenses	(182.8)	(3.7)	(194.3)	(380.8)	(289.3)	(290.2)
Amortisation Expense	—	(1.9)	—	(1.9)	(1.9)	—
Financing Costs	—	(3.9)	—	(3.9)	(4.7)	(4.7)
Profit Before Taxation	33.8	(8.1)	19.1	44.8	24.6	42.4
Income Tax Expense	(11.2)	2.6	(19.1)	(27.7)	(10.8)	(24.7)
Profit Attributable to Shareholders	22.6	(5.5)	—	17.1	13.8	17.7

- **Net Premium Revenue**
 - In-force Premiums are analysed in more detail in section 5.
- **Investment income**
 - The table below summarises shareholder investment assets and income for the six months ended 31 March 2007.

Investment Income For the 6 months ended 31-Mar-07 A\$million	Closing Asset Balance	Average Assets	Annualised Yield %	Before Tax Investment Income	After Tax Investment Income
BUSINESS UNIT					
– Fixed Interest	492.4	485.3	5.9%	14.4	10.1
– Equities	7.2	7.0	25.0%	0.9	0.6
– Property	15.5	13.0	3.0%	0.2	0.1
– Other	0.0	0.0	N/A	0.1	0.1
Strategic Investments	33.0	33.0	3.0%	0.5	0.3
Total Business Unit	548.1	538.3	6.0%	16.1	11.2
CORPORATE					
– Fixed Interest	31.1	33.5	6.2%	1.0	0.7
– FX gain on separation	0.0	0.0	N/A	0.7	0.5
Total Investment Assets/Income	579.2	571.8	6.2%	17.8	12.4
Policyholders investment income and impact from discounting policy liabilities				213.4	0.9
Investment Income on Retained Profits				231.2	13.3

- **Net Claims**

- Overall, TOWER achieved a \$3.9 million experience profit from favourable claims experience in 1H07.
- Claims expense has increased with the inclusion of PrefSure from 2H06 and lower reinsurance on new group schemes and retail products.
- Net claims expense is expected to increase as TOWER reinsures less risk.

Net Claims A\$million	6 months ended 31-Mar-07	6 months ended 30-Sep-06	6 months ended 31-Mar-06
Individual lump sum	25.0	16.9	16.8
Income protection	8.0	9.5	5.5
Individual life insurance	33.0	26.4	22.3
Group life insurance	27.2	25.4	9.1
Total claims	60.2	51.8	31.4
Annualised Claims Ratio (%)	19%	16%	20%

- **Management Expenses**

- Underlying Business Unit management expenses have increased by \$3.4 million compared to 2H06 due to higher variable administration costs paid to third party suppliers, share option costs and a rise in salary costs.
- \$7 million of synergy benefits have been realised on the PrefSure integration.
- Controllable Management expenses include \$6.5 million of project costs.
- A program of reinvestment has begun. A number of key projects were initiated in 1H07 including:
 - completion of PrefSure integration
 - establishment of mortgage broker distribution business
 - launch of a new group risk underwriting and client service platform
 - investment management and custody outsourcing
 - product and IT simplification project expected to last for 3 years.

Management Expenses A\$million	6 months ended 31-Mar-07	6 months ended 30-Sep-06	6 months ended 31-Mar-06
Business Unit management expenses	69.4	66.2	44.7
Corporate Office management expenses	3.7	5.3	4.7
Total Controllable management expenses	73.1	71.5	49.4
Stamp Duty and Other expenses	13.1	16.2	9.8
Sales expenses (commissions)	71.6	79.0	40.0
Total expenses	157.8	166.7	99.2
Cost to Income Ratio (%) – Consolidated	68%	68%	61%
Cost to Income Ratio (%) – Business Unit Only	68%	64%	62%

2

Analysis of Profit

2.2 Analysis of Profit

Analysis of Profit For the 6 months ended 31-Mar-07 A\$million	Business Unit	Corporate Office	Consolidated 6 months to 31-Mar-07	Proforma 6 months to 30-Sep-06	Proforma 6 months to 31-Mar-06
OPERATING MARGINS					
Life insurance operating margins					
Planned profits	12.6	–	12.6	13.9	8.2
Experience profits (losses)	(0.2)	–	(0.2)	0.7	0.3
Capitalised loss (recognition) and reversal	(0.4)	–	(0.4)	(0.4)	0.5
Operating margins from life insurance	12.0	–	12.0	14.2	9.0
<i>Non life insurance operating margins</i>					
Investment contracts	0.9	–	0.9	0.4	3.3
Other Operating Margins	0.1	–	0.1	0.7	0.5
Corporate Office Costs After Tax	–	(2.3)	(2.3)	(3.7)	(3.3)
Total operating margins	13.0	(2.3)	10.7	11.6	9.5
Net investment return on shareholders' funds	12.2	1.1	13.3	8.7	12.4
Financing costs	–	(2.4)	(2.4)	(3.3)	(3.3)
Net profit after tax before amortisation discontinued operations	25.2	(3.6)	21.6	17.0	18.6
Amortisation of Intangibles	–	(1.9)	(1.9)	(1.9)	–
Discount Rate Changes	(2.6)	–	(2.6)	(1.3)	(0.9)
Net profit after tax	22.6	(5.5)	17.1	13.8	17.7

Business Unit

The net profit after tax for 1H07 of \$22.6 million, represents a 28% increase over the six months to 31 March 2006 due predominantly to the acquisition of PrefSure on 31 March 2006.

• Planned Profit Margins²

- Planned profit margins for the period were 53.6% above the period ended 31 March 2006, largely the result of including PrefSure.
- \$7 million of pre-tax synergy benefits have been realised following the PrefSure acquisition. These have been reinvested resulting in no net change to expenses in the medium term. Key investments include launching new mortgage brokering channel (May 07), new underwriting and client service platforms for group and retail markets, and product and IT system rationalisation.

• Experience profits (losses)

- Mortality and morbidity experience generated \$3.9 million experience profits.
- Expense and retention experience was immaterial and broadly consistent with expectations.
- \$2.4 million experience loss was incurred on product compliance and reporting issues.

• Margins from Investment Contracts

- Investment product margins were impacted by non-cash experience losses of \$5.1 million (see page 3 for details). TOWER is investigating a value neutral hedge to minimize future profit impacts for the shareholder.

• Capitalised loss (recognition) and reversal

- The loss of \$0.4 million in the current period occurred within a small disability portfolio in PrefSure and is not expected to reoccur.

• Other business operating margins

- This represents mainly distribution, trustee and corporate services entities.
- Collectively these businesses are expected to contribute \$1million to operating margins per annum

• Net Investment Return on Shareholder Funds

- Analysed in section 2.1 Investment Income.

• Discount Rate changes

- Under AIFRS cash flows for risk business are discounted at a risk free rate to determine liabilities. The increase in market rates over the first half 2007 resulted in a loss of \$2.6 million.
- In the long term the net impact to profit is expected to be nil.

² Planned profits exclude margins from the Investment business which are now included in 'Other Business Margins' to reflect changes in accounting for such contracts following the adoption of Australian equivalents to International Financial Reporting Standards. Comparatives for prior periods have been restated.

Corporate Office

TOWER listed December 2006. If TOWER had listed 1 October 2006, the corporate office result would have been as follows;

Corporate Office For the 6 months ended 31-Mar-07 A\$million	Actual	Add 2 months of Costs	Separation Adjustment	Proforma
Holding Company Costs After Tax	(2.3)	(0.6)	(0.5)	(3.4)
Total Operating Margins	(2.3)	(0.6)	(0.5)	(3.4)
Net investment return on shareholders' funds	1.1	(0.1)	(0.5)	0.5
Financing costs	(2.4)	–	–	(2.4)
Operating Earnings	(3.6)	(0.7)	(1.0)	(5.3)
Amortisation of Intangibles	(1.9)	–	–	(1.9)
Net Profit after Tax	(5.5)	(0.7)	(1.0)	(7.2)

Commentary

- Corporate costs are only for a 4 month period post separation with an annualised cost base of \$10 million (\$7 million after tax).
- Net investment returns for 1H07 represent interest on cash held by Corporate Office and a one off separation profit of \$0.5 million.
- Financing costs represent the interest expense on \$100 million of bank debt.
- Intangible assets are amortised on a straight line basis over the expected life of the asset. The current amortisation charge is for PrefSure.

3

Capital Analysis

3.1 Reconciliation of Financial Statements to Shareholder Capital

The table below allocates TOWER's assets and liabilities between Business Units, Corporate Office and Policyholders.

Balance Sheet As at 31-Mar-07 A\$million	Business Units	Corporate Office	Policyholders	Consolidated
ASSETS				
Cash and cash equivalents	205.1	31.1	112.2	348.4
Receivables	113.3	3.8	114.5	231.6
Financial assets at fair value through income statement	276.8	–	2,742.4	3,019.2
Other financial assets	32.1	–	–	32.1
Investment property	13.7	–	0.4	14.1
Deferred acquisition costs	64.3	–	–	64.3
Other assets	0.2	–	–	0.2
Property, plant and equipment	3.3	–	–	3.3
Assets arising from reinsurance contracts	93.9	–	43.8	137.7
Deferred tax asset	40.7	10.2	–	50.9
Intangible assets	–	152.6	–	152.6
Total Assets	843.4	197.7	3,013.3	4,054.4
LIABILITIES				
Payables	(100.5)	(16.3)	(231.1)	(347.9)
Current tax liabilities	10.4	(5.6)	(13.3)	(8.5)
Provisions	(16.9)	(4.6)	(1.2)	(22.7)
Interest bearing liabilities	–	(99.5)	–	(99.5)
Insurance liabilities	(59.8)	–	(2.2)	(62.0)
Deferred tax liabilities	(32.9)	(1.0)	(51.9)	(85.8)
Other liabilities	4.8	–	(6.4)	(1.6)
Deferred revenue liability	(96.8)	–	(0.7)	(97.5)
Life Insurance contract liabilities	(55.2)	–	(491.8)	(547.0)
Life Investment contract liabilities	(58.3)	–	(2,214.7)	(2,273.0)
Total Liabilities	(405.2)	(127.0)	(3,013.3)	(3,545.5)
Net Assets	438.2	70.7	–	508.9

Capital Analysis As at 31-Mar-07 A\$million	Business Units	Corporate Office	Consolidated
Shareholder assets generating investment returns			
Fixed Interest	492.4	31.1	523.5
Equity	7.2	–	7.2
Property	15.5	–	15.5
Deferred revenue liability	(96.8)	–	(96.8)
Investment-linked assets over surrender value	(10.7)	–	(10.7)
Excess of financial instrument liability over surrender value	(42.3)	–	(42.3)
Policy liabilities-Risk business	29.3	–	29.3
Total Shareholder investment assets in excess of policyholder liabilities	394.6	31.1	425.7
Strategic investments	33.0	–	33.0
Deferred acquisition costs	64.3	–	64.3
Net operational assets/(liabilities)	(53.7)	(13.5)	(67.2)
NTA Backing Shareholder Capital	438.2	17.6	455.8
Goodwill	–	152.6	152.6
External debt	–	(99.5)	(99.5)
Total Equity	438.2	70.7	508.9

Note: Excludes Policyholder interests

3.2 Reconciliation of Capital Movements

Capital Movements As at 31-Mar-07 A\$million	Business Units	Corporate Office	Consolidated
Carrying Value at 30 September 2006 (Proforma)	407.4	92.9	500.3
Net Profit After Tax	22.6	(5.5)	17.1
Dividend & transfers	(0.5)	0.5	–
Adjustment on THA Transfer	–	(8.5)	(8.5)
Reclassification of other intercompany loans	8.7	(8.7)	–
Carrying value at 31 March 2007	438.2	70.7	508.9

Note: Excludes Policyholder interests

3

Capital Analysis

3.3 Capital Management

(a) Business Unit Capital

Business units hold economic capital with all distributable surplus capital transferred to corporate office every 6 months.

- During the current period the \$22.6 million business unit profit was reinvested to meet the capital requirements of new business and from the partial recapture of reinsurance treaties. A reinsurance treaty has been cancelled which requires \$12 million of additional business unit regulatory capital each year for the next 3 years.

(b) Corporate Office Capital

Corporate office capital is invested in cash and other market securities, tax assets and other debtors and creditors.

Cash held by corporate office at 31 March 2007 is \$31.1 million and is used to meet the following cash flows:

Surplus Cash As at 31-Mar-07 A\$million	Total
Surplus Cash as per Scheme Book	63.0
Less balance not drawn down on loan facility	(35.0)
Adjustments arising from the Separation	7.2
Surplus Cash at 1 October 2006	35.2
<i>Corporate Movements:</i>	
Interest received	1.0
Payments to suppliers	(3.4)
Interest paid	(1.7)
Net Cash Movement	(4.1)
Surplus Cash at 31 March 2007	31.1

(c) Risk Management

Hedging policies and derivatives:

- Shareholder capital is not directly invested in investments denominated in foreign currencies and as a result is not exposed to currency hedges.
- The group treasury policy defines acceptable parameters for hedging corporate debt. At 31 March 2007 the underlying structure of the debt falls within the acceptable range set by the policy for currency, maturity, and interest rate exposures and no hedges are currently required.
- The group treasury policy defines acceptable parameters for hedging 'gearing' positions arising from classic products that are no longer on sale.
- No other hedges or derivatives are entered into by the Group.

Other operational risks and working capital requirements have been built into TOWER's capital management plan.

(d) Dividend Policy

The Board's intention is to pay the first dividend for the year ending 30 September 2007. The dividend will be in the order of 25% of net profit after tax and before amortisation charges. There will be no interim dividend and a dividend reinvestment plan will be introduced for shareholders.

Dividends are to be franked to the maximum extent possible given available franking credits at the time dividends are declared. As at 31 March 2007, TOWER has \$36.3 million of franking credits available to frank dividends (of up to \$84.7 million of fully franked dividends).

3.4 Debt

Debt relates to \$100 million external bank debt less establishment costs of \$0.5 million.

- TOWER has not yet drawn down the remaining \$35 million debt facility.
- The effective interest rate is 7.1% as at 31 March 2007, resulting in a \$2.4 million post tax expense in the 6 months ended 31 March 2006.
- The debt comprises \$75 million maturing 19 November 2009 and \$25 million maturing 19 November 2011.
- TOWER's gearing ratio is 16.4% as at 31 March 2007.

3.5 Solvency

Business Unit Solvency A\$ millions	As at 31-Mar-07	As at 30-Sep-06	As at 31-Mar-06
NTA Within Life Statutory Funds	362.4	340.7	319.8
NTA Within Life Shareholder Funds	24.5	24.8	24.7
NTA in Other subsidiaries	51.3	41.9	42.3
NTA Backing Shareholder Capital	438.2	407.4	386.8
Excess Provisions	(127.4)	(99.6)	(72.9)
Inadmissible Assets and other deductions	(42.0)	(42.1)	(42.4)
Assets available to meet solvency reserve	268.8	265.7	271.5
Solvency Reserve for Life companies	78.3	85.1	95.6
Solvency Requirements for other Companies	5.0	5.0	5.0
Total Solvency Requirements	83.3	90.1	100.6
Excess Assets above solvency Requirements	185.5	175.6	170.9
Coverage of required solvency reserve	3.2	2.9	2.7
Financial Strength Rating (S&P)	A-	A-	BBB+

- Financial Strength Ratings are for Life Companies.
- Solvency coverage is for the Business Units including non life companies.

4

Value Analysis

4.1 Life Company Embedded Value

The values for the TOWER Australia Limited and PrefSure Life Limited life companies comprise:

Value Analysis \$Amillion	As at 31-Mar-07	As at 30-Sep-06	As at 31-Mar-06
Embedded Value	697.1	621.3	588.3
Value of One Year's New Business	41.9	34.3	28.6

Since the management of PrefSure Life Limited and TOWER Australia Limited has been integrated and merged 2 April 2007, a valuation of the combined companies has been undertaken. Stand alone values have not been determined.

The discount rates that applied at the respective dates were:

Discount Rates	% p.a.
September 2005	10.5%
March 2006	10.5%
September 2006	10.5%
March 2007	11.0%

Change in Embedded Value

The changes in the embedded values is summarised below:

Change in Embedded Value	A\$million
Embedded Value as at 30 September 2006	621.3
Expected increase in value of in-force	29.2
Earnings on Net Worth Experience:	2.1
– Investment earnings	4.1
– Other	8.4
Changes in Assumptions:	
– Discount rate	(17.8)
– Economic	5.3
– Other	45.4
Model changes	1.2
Value from New Business	18.5
Miscellaneous:	
– Transfers of Franking Credits	(7.4)
– Other	(13.2)
Embedded Value as at 31 March 2007	697.1

Commentary

The major contributors to growth in the Embedded Value were:

- \$31.3 million expected increase in the value of the in-force and earnings on net worth.
- \$18.5 million value from new business written during the period
- \$34.4 million value from changed assumptions to reflect favourable mortality experience.
- \$8.3 million value from changed assumptions to reflect favourable morbidity experience.

This was partly offset by:

- \$17.8 million changes in assumptions due to the higher discount rate applied.
- \$7.4 million transfer of franking credits to parent entities. No dividends or cash transfers took place during the 6 month period to 31 March 2007.

Change in Value of One Year's New Business

The changes in the value of one year's new business are summarised below:

Change in Value of One Year's New Business	A\$million
Value of One Year's New Business as at 30 September 2006	34.3
Change in one year's volumes and mix of business	4.0
Changes in Assumptions:	
– Discount rate	(2.6)
– Economic	0.1
– Other	7.0
Product changes	(1.4)
Model changes	0.4
Other, including change in methodology	0.1
Value of One Year's New Business as at 31 March 2007	41.9

A change in sales mix towards higher margin products together with a change in claims assumptions, reflecting experience have improved the value of one years new business by \$11 million. This has been partly offset by a change in assumptions to increase discount rates and changes to products recently launched to the market.

Sensitivity Analysis

The tables below set out the sensitivity of the embedded value and value of new business as at 31 March 2007 to changes in key economic and business assumptions.

Sensitivity Analysis	A\$million As at 31-Mar-07
Embedded Value assuming:	
Discount rate 1% higher	664.0
Discount rate 1% lower	739.7
Investment returns 1% lower	690.9
Withdrawal rates 10% higher	655.6
Renewal expenses 10% higher	662.5
Value of one year's new business assuming:	
Discount rate 1% higher	36.7
Discount rate 1% lower	46.4
Investment returns 1% lower	41.6
Withdrawal rates 10% higher	34.1
Renewal expenses 10% higher	35.9

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

4.2 Comparison of Value to Carrying Values

	Profit or Loss	Carrying Value	Embedded Value or Net Assets	Value of One's Year New Business	Valuation Basis
Shareholder Assets					
Life Company	21.5	356.1	697.1	41.9	Embedded value
Non Life Companies	0.6	49.1	56.1	N/A	Net assets
Strategic Assets	0.5	33.0	33.0	N/A	Embedded value
Corporate Office	(1.2)	17.6	17.6	N/A	Net assets
Debt	(2.4)	(99.5)	(99.5)	N/A	Amortised cost
Intangibles	(1.9)	152.6	0.0	N/A	Included above
Net Assets	17.1	508.9	704.3	41.9	

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Life Insurance Premiums

Performance against Key Business Drivers

- The acquisition of PrefSure effective 31 March 2006 added \$64.8 million in Individual lump sum, \$39.7 million in income protection and \$189.7 million in group life in force premium.
- Group Risk premium decreased effective 1 October 2006 with the loss of Colonial First State mastertrust (\$29.7 million).

New Business

New Business A\$million	6 months ended 31-Mar-07	6 months ended 30-Sep-06	6 months ended 31-Mar-06	6 months ended 30-Sep-05	6 months ended 31-Mar-05
Individual lump sum	40.2	40.3	24.4	26.1	20.9
Income protection	8.5	8.8	7.4	9.2	6.4
Individual life insurance	48.7	49.1	31.8	35.3	27.3
Group life insurance	23.9	27.1	6.6	14.9	10.1
Total life insurance	72.6	76.2	38.4	50.2	37.4

Lapse Rates

Lapse Rates Annualised %	6 months ended 31-Mar-07	6 months ended 30-Sep-06	6 months ended 31-Mar-06	6 months ended 30-Sep-05	6 months ended 31-Mar-05
Individual lump sum	14%	14%	12%	13%	14%
Income protection	12%	13%	14%	14%	15%
Total individual life insurance	13%	13%	13%	14%	14%

Annual In-force Premiums

Annual In-Force Premiums A\$million	6 months ended 31-Mar-07	6 months ended 30-Sep-06	6 months ended 31-Mar-06	6 months ended 30-Sep-05	6 months ended 31-Mar-05
Individual lump sum	278.6	259.6	241.7	149.1	132.9
Income protection	103.6	99.7	95.9	54.9	52.1
Individual life insurance	382.2	359.3	337.6	204.0	185.0
Group life insurance	239.8	268.5	261.4	69.3	55.4
Total life insurance	622.0	627.8	599.0	273.3	240.4

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Investment Fund Flows

Performance against Key Business Drivers

- **Funds under Management/Advice** grew by 7% compared to 6 months ended 31 March 2006.
- **New Business/Sales** down by 4% compared to 6 months ended 31 March 2006.
- **Surrender Rates** consistent with comparative periods.

Funds under Management/Advice

Funds under Management A\$million	6 months ended 31-Mar-07	6 months ended 30-Sep-06	6 months ended 31-Mar-06	6 months ended 30-Sep-05	6 months ended 31-Mar-05
Individual superannuation	2,006	1,937	1,941	1,694	1,583
Corporate superannuation	500	475	481	458	389
Annuities	131	141	151	109	120
Bonds & other	126	149	153	137	356
FUA	877	723	667	574	480
Total funds under management/ advice	3,640	3,425	3,393	2,972	2,928

New Business/Sales & Net Fund Flows

New Business/Sales A\$million	6 months ended 31-Mar-07	6 months ended 30-Sep-06	6 months ended 31-Mar-06	6 months ended 30-Sep-05	6 months ended 31-Mar-05
Individual superannuation	22.5	28.3	21.5	34.4	27.3
Corporate superannuation	33.1	25.4	25.4	25.5	37.0
Bonds & other	1.9	11.1	12.9	19.0	3.3
Total	57.5	64.8	59.8	78.9	67.6
Beacon net fund flow	151.7	66.8	35.7	46.5	N/A
Total individual life insurance	209.2	131.6	95.5	125.4	67.6

Surrender Rates

Surrender Rates Annualised %	6 months ended 31-Mar-07	6 months ended 30-Sep-06	6 months ended 31-Mar-06	6 months ended 30-Sep-05	6 months ended 31-Mar-05
Total Individual superannuation	9%	8%	8%	10%	9%
Total corporate	12%	16%	14%	17%	12%
Bonds & other	12%	12%	11%	12%	12%
Total Investment	11%	12%	10%	12%	11%

Australian equivalents to International Financial Reporting Standards (AIFRS) – Financial statements have been prepared under AIFRS. Refer to TAL financial statements for six months ended 31 March 2007 (Note 1) for a detailed list of accounting policies.

Annual In-Force premium – Contractual annual premium income payable on all in-force individual and group risk policies at a point in time.

Business Unit – TOWER's corporate structure is split along product and operational lines into three business units representing Retail Risk, Alliance and Group Risk and Investments. These business units are accountable for all revenues, expenditure and capital required to deliver the products for which they are responsible.

Business Unit Accountable – Revenue, expense or capital items allocated to Business Units. All non allocated items are deemed corporate office. As a consequence of this definition business unit results do not include financing costs, corporate costs, corporate investment income and amortisation or impairment of intangibles such as value of in-force business and goodwill. Changes in discount rates is deemed Business Unit Accountable but this is excluded from performance ratios.

Business Unit Capital – Total shareholder capital allocated to business units either individually or in total. The total is taken to be the shareholder equity of the Life Company and operating subsidiaries excluding TOWER Australia Group Limited and other holding companies.

Controllable costs – Calculated as Management Expenses appearing in the financial statements. As such controllable costs include project costs but exclude financing costs, amortisation, stamp duty and other variable costs directly attributable to policyholders (eg Investment Management Fees).

Corporate office – This represents director, investor relations, compliance, listing costs and other activities required to support a listed entity. TOWER adopts a policy of allocating all activities, revenue, expenditure and capital as Business Units with any unallocated items classified as corporate office which is managed by the Managing Director or Chief Financial Officer.

Cost to income ratio – Defined as controllable costs / (controllable costs + operating revenue before financing costs grossed up by 30% for tax).

Debt – Relates to external bank debt held by corporate office.

Deferred Acquisition Costs (DAC) – Represents those acquisition costs not yet expensed on the basis that the DAC can be reliably measured and it is probable that it will give rise to premium revenue that will be brought to account in subsequent financial years.

Earnings Per Share (EPS) – Calculated as Operating Earnings/ NPAT divided by the basic weighted average number of ordinary shares.

Economic capital is defined as the greater of operating capital requirements (including Board approved surplus capital requirements) or regulatory capital requirements.

Full-time equivalent (FTE) – The FTE of a full-time staff member is equal to 1.0. The calculation of FTE for part-time staff is based on the proportion of time worked compared to that worked by full-time staff.

Gearing ratio – Defined as debt / (debt + equity)

Individual risk lapse rate – Calculated as annualised voluntary cancellations as a percentage of average annual premium income prior to cancellations. Policies expiring due to maturities are excluded from the calculation.

Intangibles – Represent the value of In-Force business, distribution rights and goodwill recognised as part of the acquisition of subsidiaries such as FAI and PrefSure and certain capitalised Costs.

Interest cover – (Operating Earnings + interest after tax)/ interest after tax.

Insurance contracts – Life insurance contracts are accounted for using Margin On Services (MoS). MoS is the financial reporting methodology developed to report on the life insurance business of Australian companies.

MoS policy liabilities are determined using either the projection or accumulation methods.

Liabilities are calculated using the projection method, which allows the expected revenues to be recognised over the life of the business as services are provided. This is achieved by estimating policy cash flows (premiums, benefits, costs and profit margins to be released in future periods) and then calculating the policy liability as the net present value of these projected cash flows.

The policy liabilities have two components:

- The best estimate liabilities (to cover future benefits and costs, and allowing for future premiums)
- The value of future profit margins (based on the appropriate profit carrier).

No profit is normally recognised on inception of new business. Instead, profit margins on new business (after allowing for the recoverability of acquisition costs) enhance the existing value of future profit margins, to be released over the future life of the business. If actual experience differs from that expected, the financial effects of these differences are recognised as experience profits or losses in addition to the expected profits.

Where future losses are expected, they must be recognised immediately. If a favourable change in assumptions subsequently occurs, or if profitable new business is written, previously recognised losses may be reversed.

An accumulation method may be used if it produces results that are not materially different from those produced by a projection method. In this case the total for policy liabilities is defined for risk business as the sum of unearned premium plus outstanding and unreported claims at the valuation date. For life investment contracts, the total for policy liabilities is defined as the account balance or surrender value less any DAC.

Investment contracts – investment contracts may consist of a financial instrument and an investment management services element, both of which are measured at fair value. TAL recognises and discloses the liability relating to the financial instrument as ‘Life investment contract liabilities’ and splits the assets and liabilities relating to the management services element between ‘deferred acquisition costs’ (DAC) and ‘deferred revenue liability’ (DRL).

Life investment contract liabilities is tightly linked to the performance and value of the assets (after income tax) that back these liabilities. The fair value of such liabilities is therefore the same as the fair value of the assets, after income tax on the basis charged to policyholders. The extent to which these are perfectly matched is eliminated when reporting shareholder capital and separately disclosed under the heading of ‘Policyholder’.

The DAC and DRL are amortised over the period of the contract in line with the service delivery.

Investment income – Relates to the investment income on shareholder assets invested in income producing investment assets (as opposed to income producing operating assets) attributed to the BUs (including Corporate Office)

Lapse Rates – voluntary cancellations as a percentage of average annual premium income prior to cancellations. Policies expiring due to maturities, death or disablement are excluded from the calculation.

New Business/Sales – Premiums from new clients plus CPI and age increases from existing clients, for group risk customers this represents the net increase in premiums received year on year.

Net Asset Value (NAV) per ordinary share – Net assets attributable to members of the company less minority interest divided by the number of ordinary shares issued.

NAV Multiple – Calculated as current share price divided by NAV per ordinary share.

Net Tangible Assets (NTA) per ordinary share – Net assets attributable to members of the company less minority interests and intangibles divided by the number of ordinary shares issued.

Operating Earnings – Represent those profits or losses attributable to shareholders, that relate to the underlying performance of businesses units and are stated after investment earnings, corporate and financing expenses.

Price/Earnings (P/E) ratio – represents current share price divided by Operating Earnings Per Share (EPS).

Regulatory Capital – Capital requirements as defined according to APRA or ASIC regulations.

Return on Equity (ROE) – Calculated as annualised Operating Earnings divided by average shareholder equity for the period.

Return on Capital (ROC) – Calculated as annualised Operating Earnings before interest, divided by average shareholder equity plus debt for the period.

Risk free rate – The risk free interest rate is the interest rate that is assumed can be obtained by investing in financial instruments with no risk. This is approximated with reference to the yields available from government bonds.

Strategic Assets – These represent investments in distribution companies or joint ventures where TOWER does not hold a controlling interest.

Surplus Cash – This is defined as cash held outside the business unit within corporate office to meet corporate office expenses, financings costs and other corporate office cash requirements.

Value of In-Force business – The economic value of a business acquired with reference to premiums and assets under management in force at the time of acquisition less the net assets of the businesses acquired. The value incorporates future profits expected to emerge from the business as well as the release of supporting capital.

Value of New business – A calculation of the economic value of the profits expected to emerge from the new business written over a particular period, net of the cost of providing supporting capital.

Variable costs – include costs that vary directly with the level of related business (eg planner fees and commissions, investment, management fees and stamp duty costs).



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