

# **TOWER Australia**

**Results for Year ended 30 September 2007**

**Jim Minto  
Managing Director**

# FY07 Financial Summary



■ Reported Net Profit After Tax	\$41m	↑ 29%
■ Underlying Profit <sup>1</sup>	\$54m	↑ 29%
■ Profit per Share <sup>2,3</sup>	16 ¢	↑ 29%
■ Return on Equity <sup>1,2,3</sup>	10.4%	↑ 22%
■ Dividend per Share (fully franked)	4 ¢	
■ Inforce Premiums	\$664m	↑ 6%
■ Embedded Value <sup>4</sup>	\$761m	↑ 22%
■ Value of New Business	\$45m	↑ 30%

<sup>1</sup> before non cash items including amortisation of intangibles

<sup>2</sup> based on shares on issue as at 30 September 2007

<sup>3</sup> based on underlying profit

<sup>4</sup> post transfers and discount rate changes

Note: movements are Proforma 2006 full year results

# Successful 1<sup>st</sup> year as a listed entity



**Life Insurance Specialist**

**Growing Industry**

**Delivering Results**

**Strong Financial Performance  
Disciplined Capital Management**

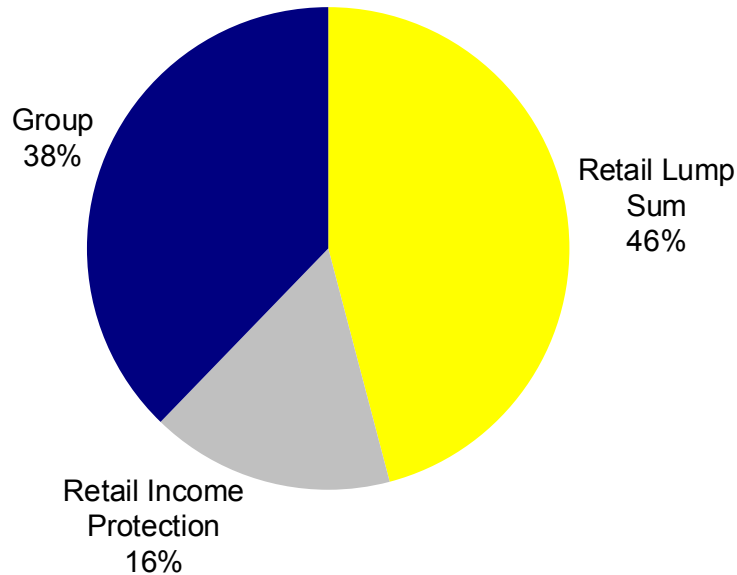
**Positive Outlook**

# Life Insurance Specialist

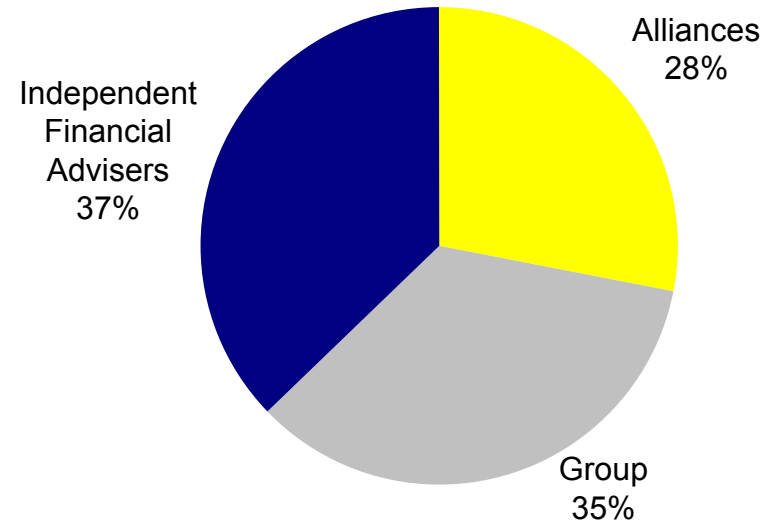
## Business Diversity



Inforce Premiums by Product



New Business by Channel



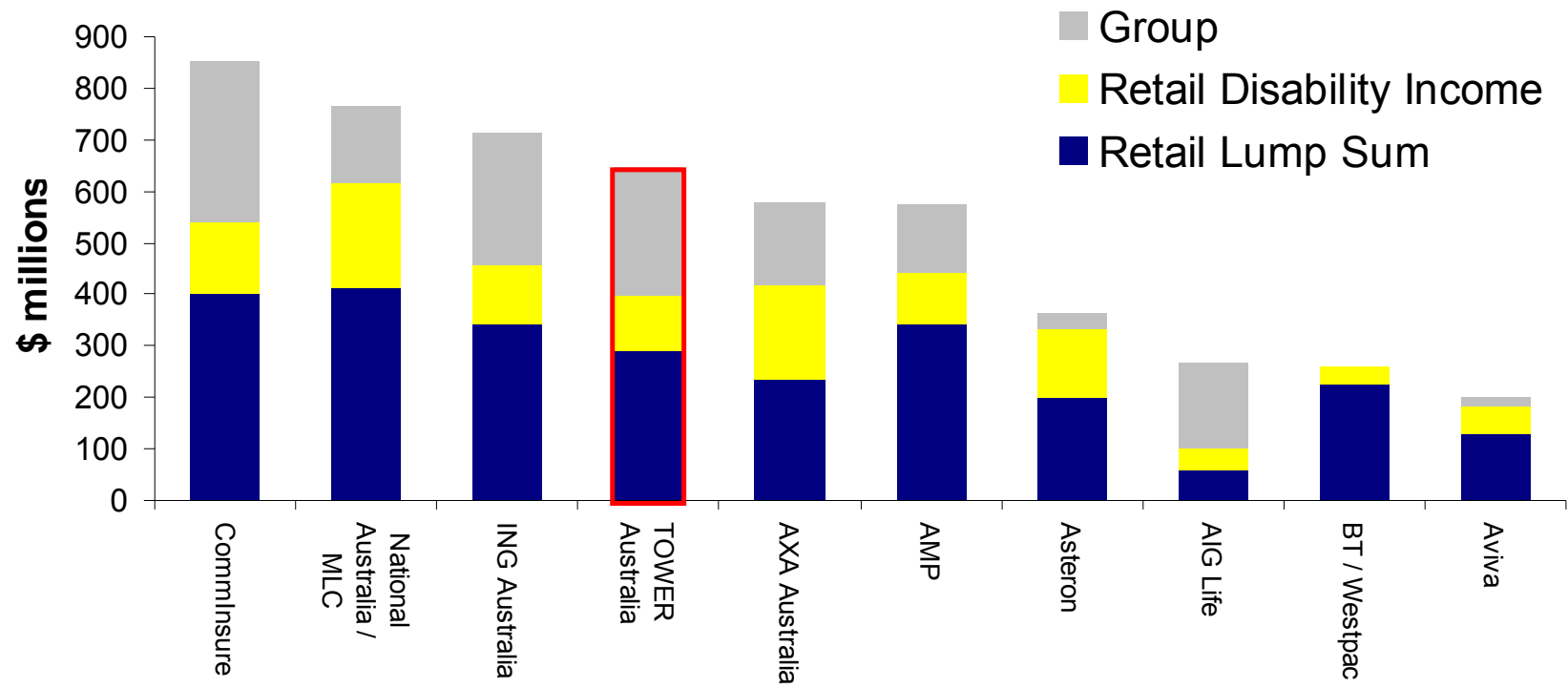
- TOWER Australia is a specialist provider of Life Insurance products
- Policies are distributed through a broad network of channels

# Life Insurance Specialist

## Strong Market Position



Total Life Insurance Premiums



Source: Plan for Life, June 2007

# Life Insurance Specialist

## Improving Margins and Diversifying Channels

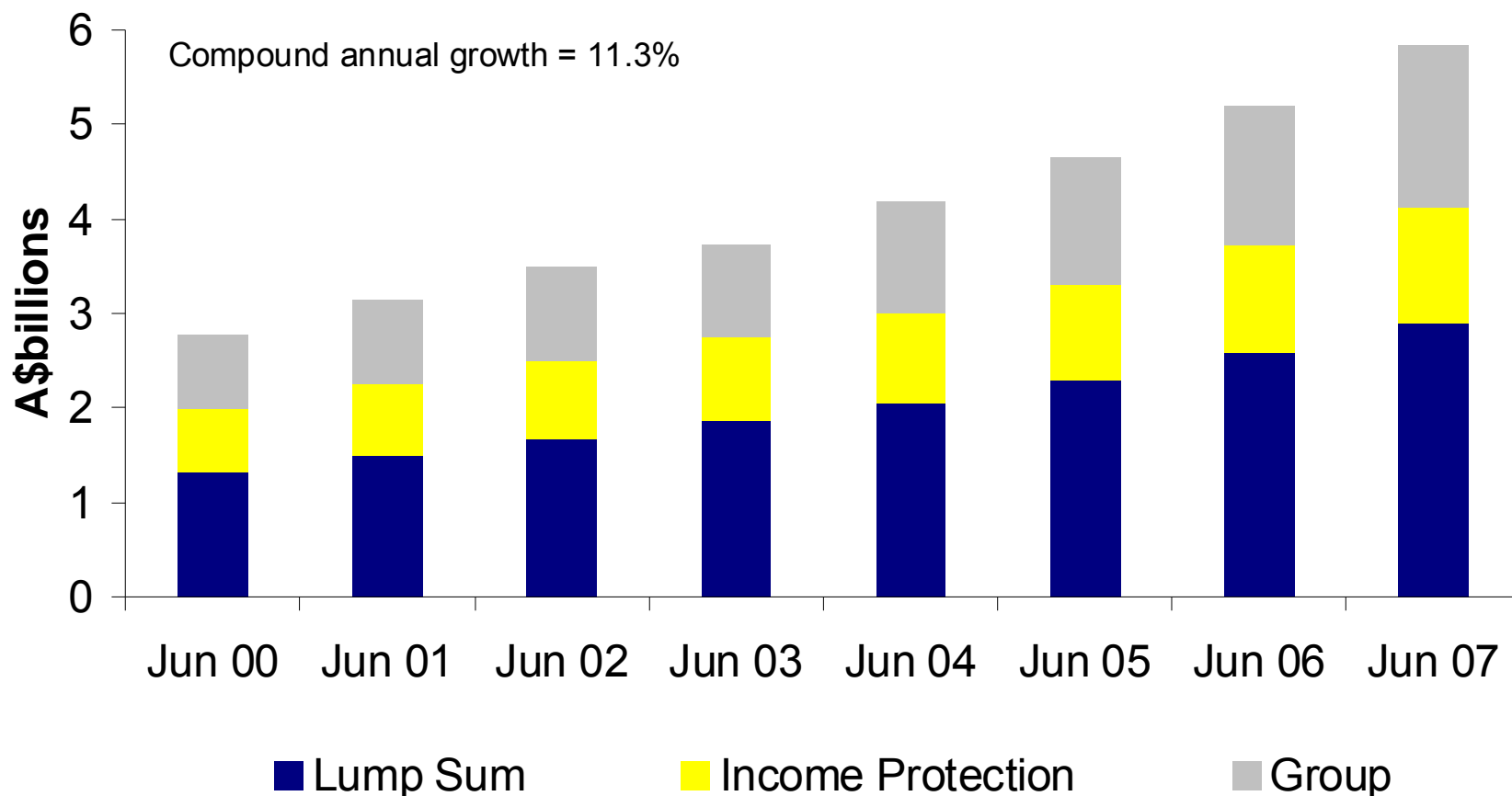


Distribution Channel	IFA's and Financial Planners	Mastertrusts, Industry and Corporate funds	Banks and Mortgage Brokers	Direct Distribution & Alliances
<b>Market Size</b>	\$3.0bn	\$1.7bn	\$1.0bn	\$0.3bn
<b>Growth rates</b>	8%	15%	>15%	>20%
<b>TOWER market share of Inforce</b>	10%	15%	2%	24%
<b>Margins (Long term profit as % of Premium)</b>	5-10%	2-4%	>7%	2-10%+
<b>TOWER's competitive position</b>	Strong – based on service technology and relationship	Strong – based on service technology and partnerships	Bank branches dominate. Strong Broker market	Strong – product expertise, flexibility, relationship and independence
<b>Main competitors</b>	ING, Comminsure, Asteron, MLC	AIG, Comminsure, ING, AMP	Bank insurers, Allianz, St Andrews	Highly fragmented - no single significant player

# Australian Life Market Growth Profile

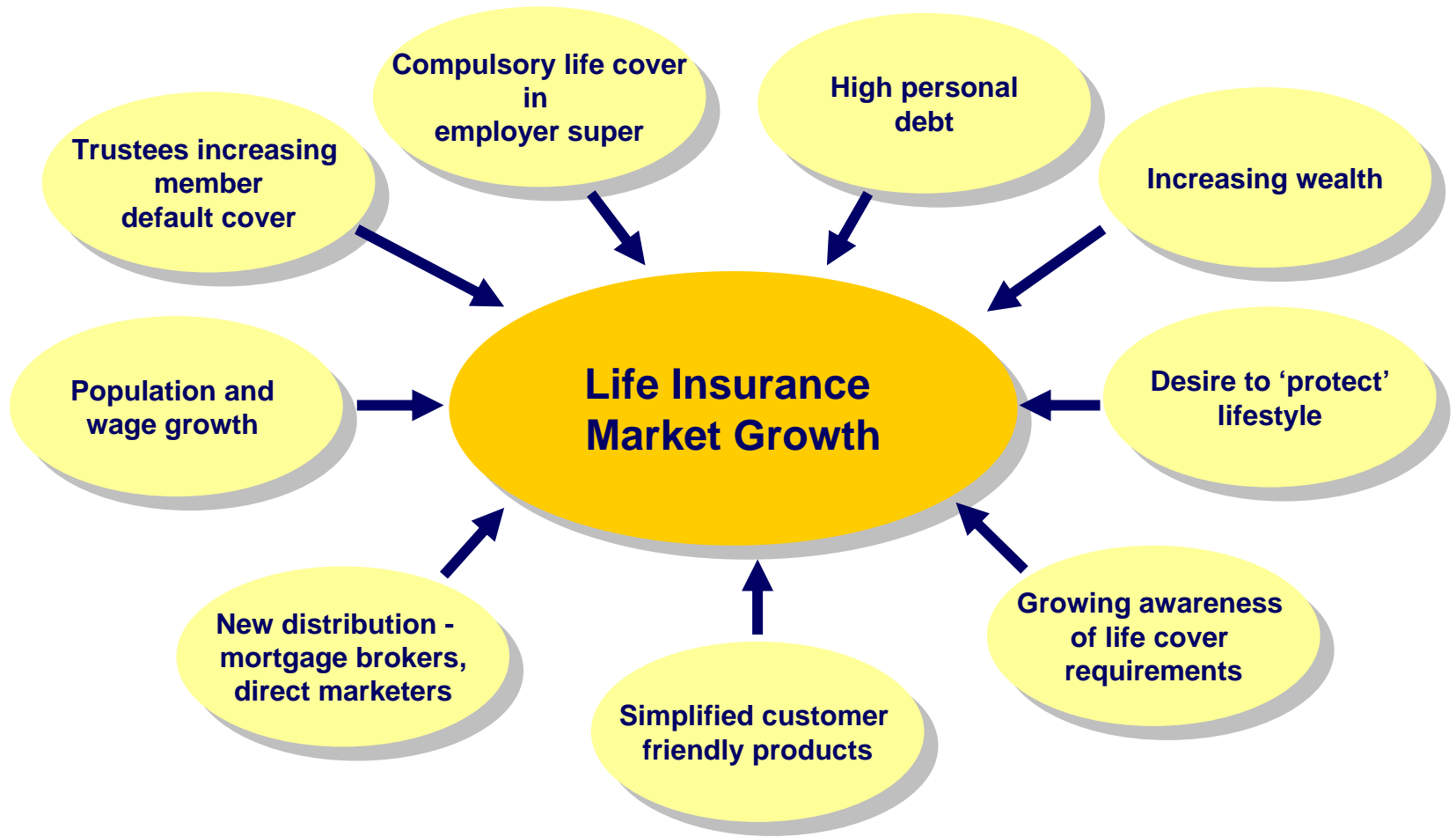


## Industry Inforce Premiums



# Australian Life Market

## Growth Drivers



# Delivering Results

## FY07 Achievements



- Successful separation and listing
- Completed integration of PrefSure – value enhancing acquisition
- Completed Statutory Fund merger of PrefSure Life Limited and TOWER Australia Limited
- Completed investment management, custody and unit pricing outsource



### ***ACCELERATE***

FIRST RATE COVER + FAST

### **Lifestyle\_**

### **UW Plus**

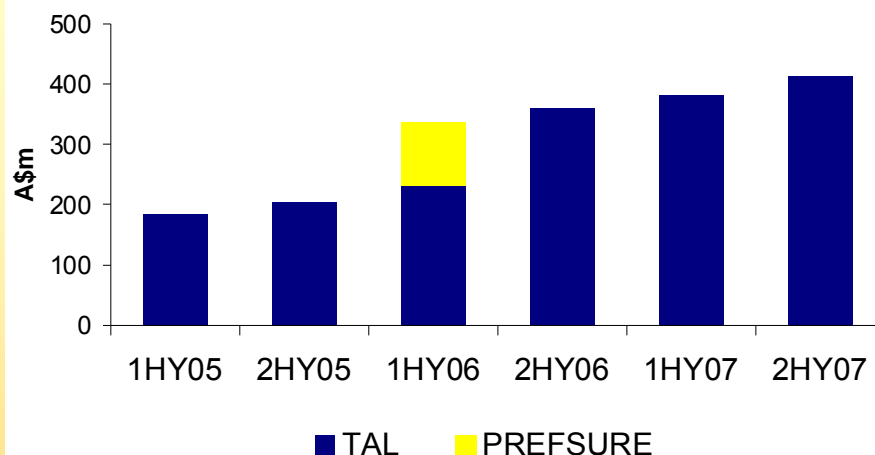
- Market leading underwriting service and technology launched July 07
- >90% of applications decided within 3 days (market standard is 1-3 months)
- Launched new mortgage broker focussed distribution channel in June 07
- Good support from brokers
- Steady growth in sales
- Leading mastertrust and corporate underwriting and administration desktop platform launched in Feb 07

# Delivering Results

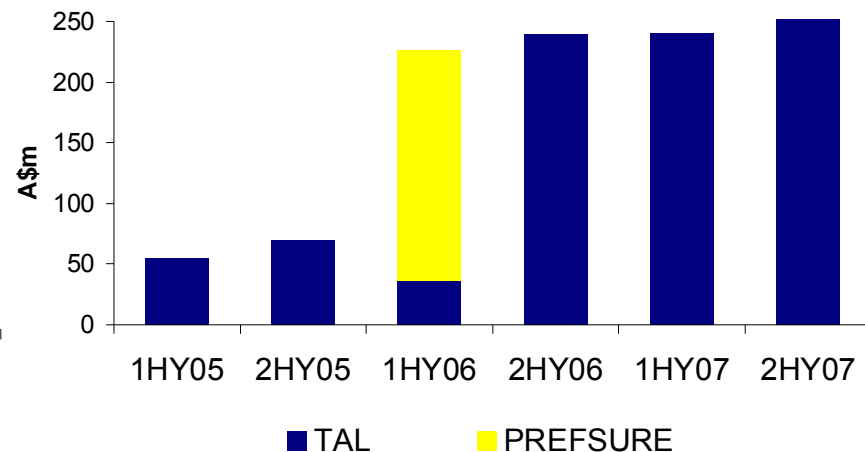
## Inforce Premiums Growing In All Product Lines



Inforce Premiums - Retail Life Insurance



Inforce Premiums - Group Life Insurance



- In 2HY07, TOWER maintained its record of growing Inforce Premiums in both Retail and Group products
  - Retail Inforce Premiums grew 14.8% on pcp
  - Group Inforce Premiums grew 5.5% on pcp

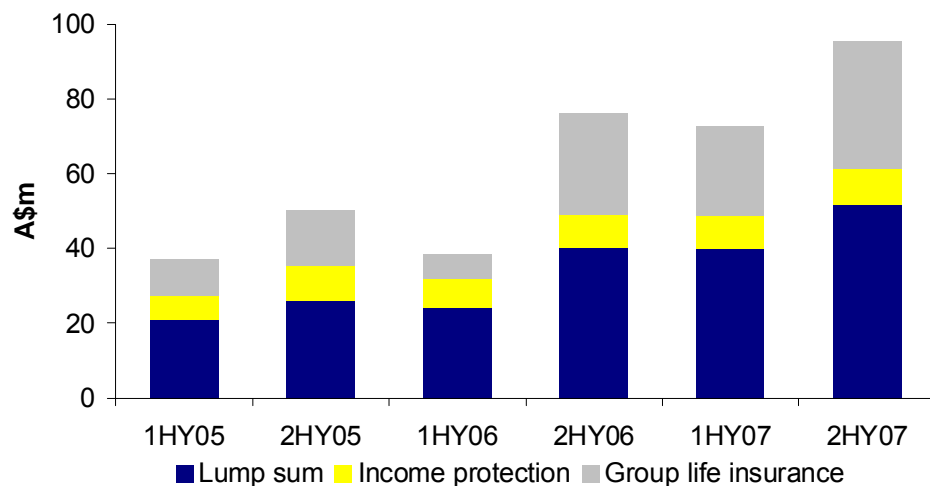
Note: Group inforce premiums exclude pre PrefSure acquisition scheme mandate terminations

# Delivering Results

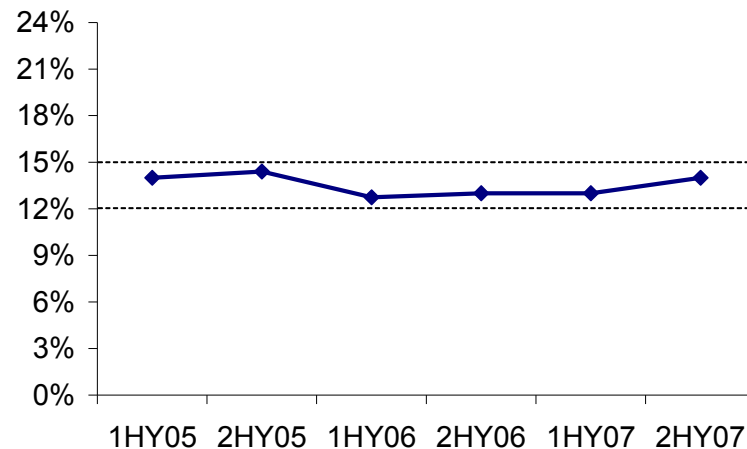
## New Business and Lapses



Life Insurance - New Business



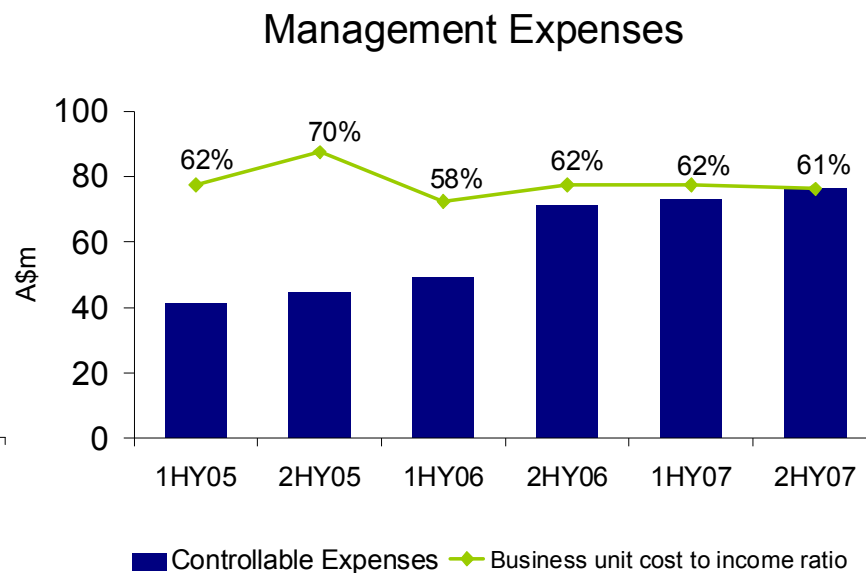
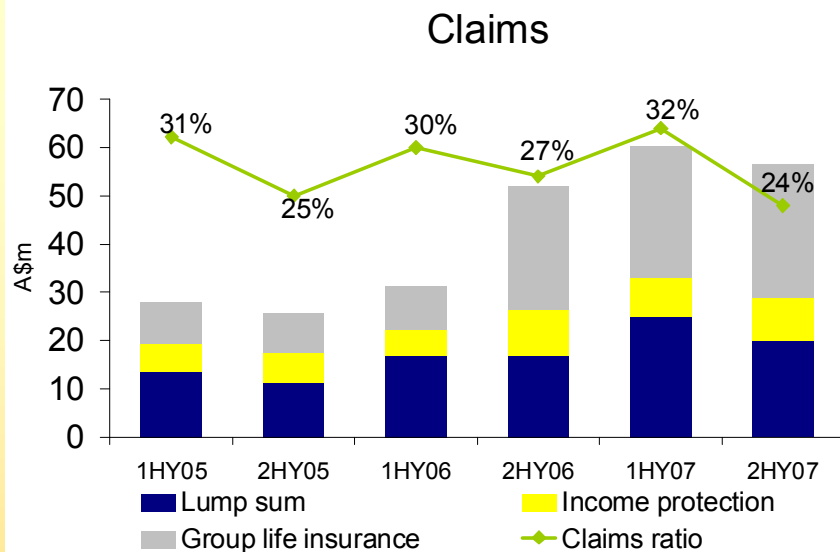
Retail Life - Lapse Rates



- New business growth rates continue to increase
  - 2HY07 new business was \$95.5 million (up 25% vs pcp)
  - Strong new alliance sales and group life
- While keeping lapse rates stable
  - Lapse rates remain in long term range but above internal targets
  - Undertaking initiatives to further cut lapse rates

# Delivering Results

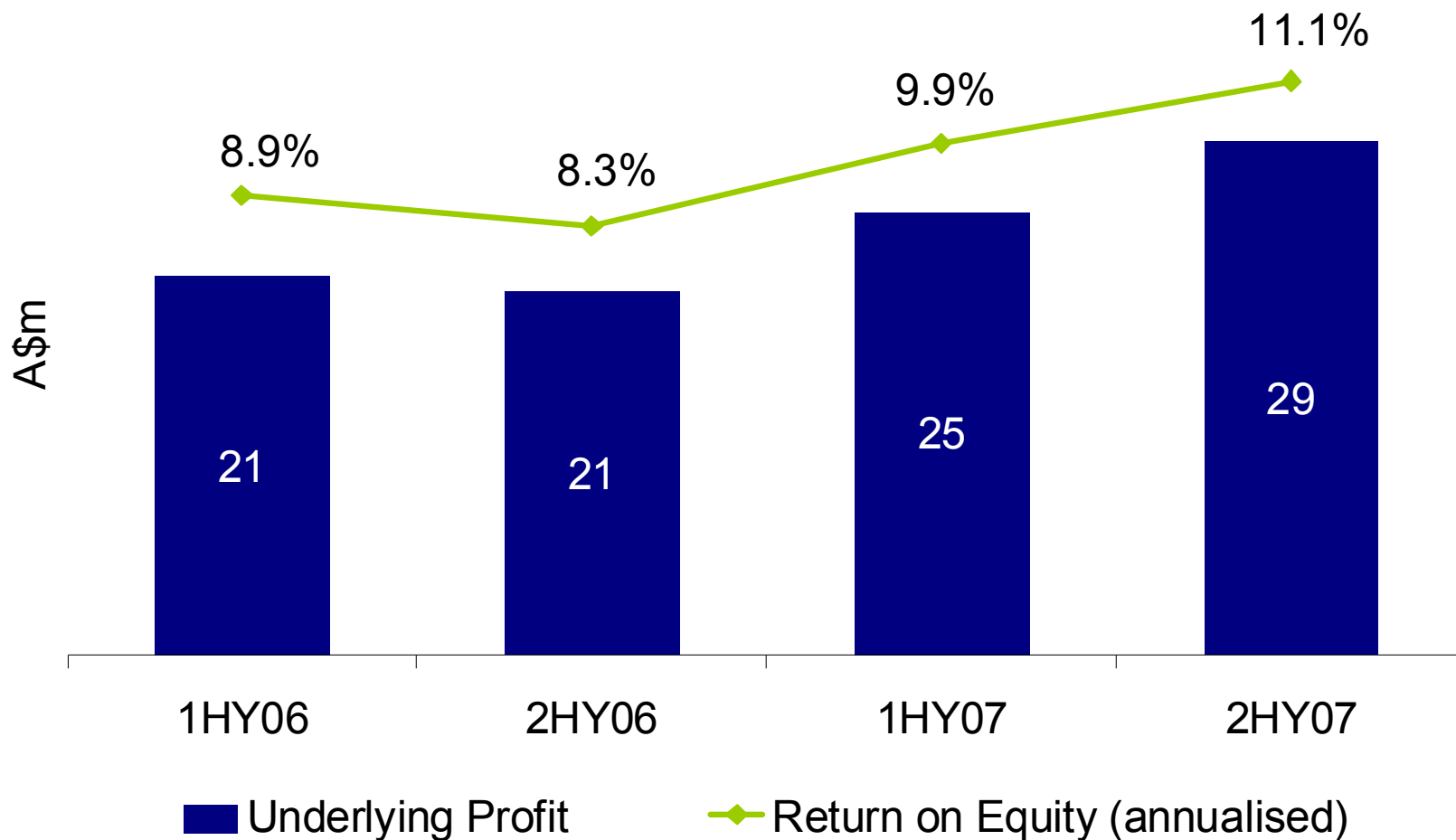
## Claims and Expenses Management



- Claims fell in 2HY07 principally due to improved mortality experience
- Controllable management expenses increased \$3.3m in 2HY07 due to:
  - \$0.9m increase in external administration costs and higher staff numbers for new initiatives
  - \$1.7m increase in various project costs
  - \$0.7m increase in corporate office management expenses with a full 6 months period post separation
- Stamp duty and commission costs have risen in line with sales

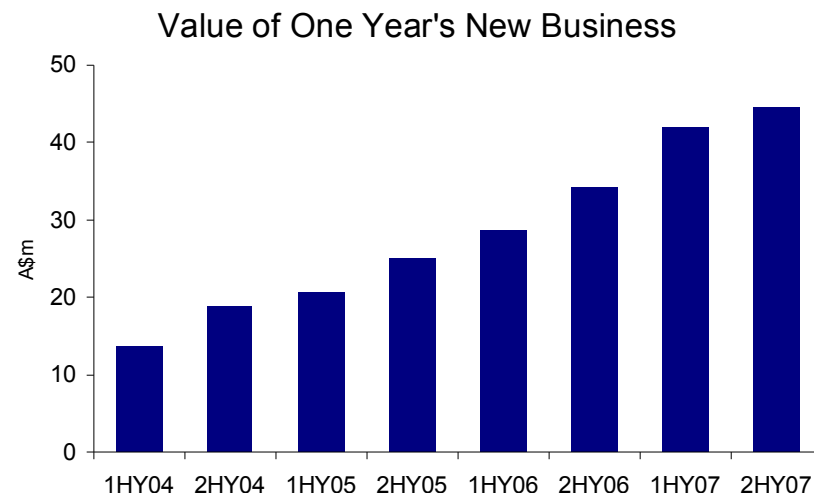
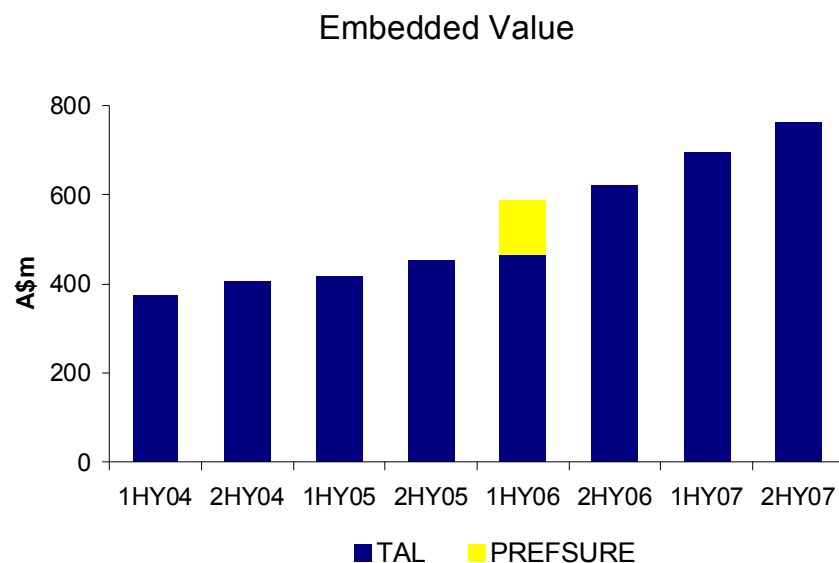
# Strong Financial Performance

## Underlying Profit



# Strong Financial Performance

## Consistent growth in EV and VNB



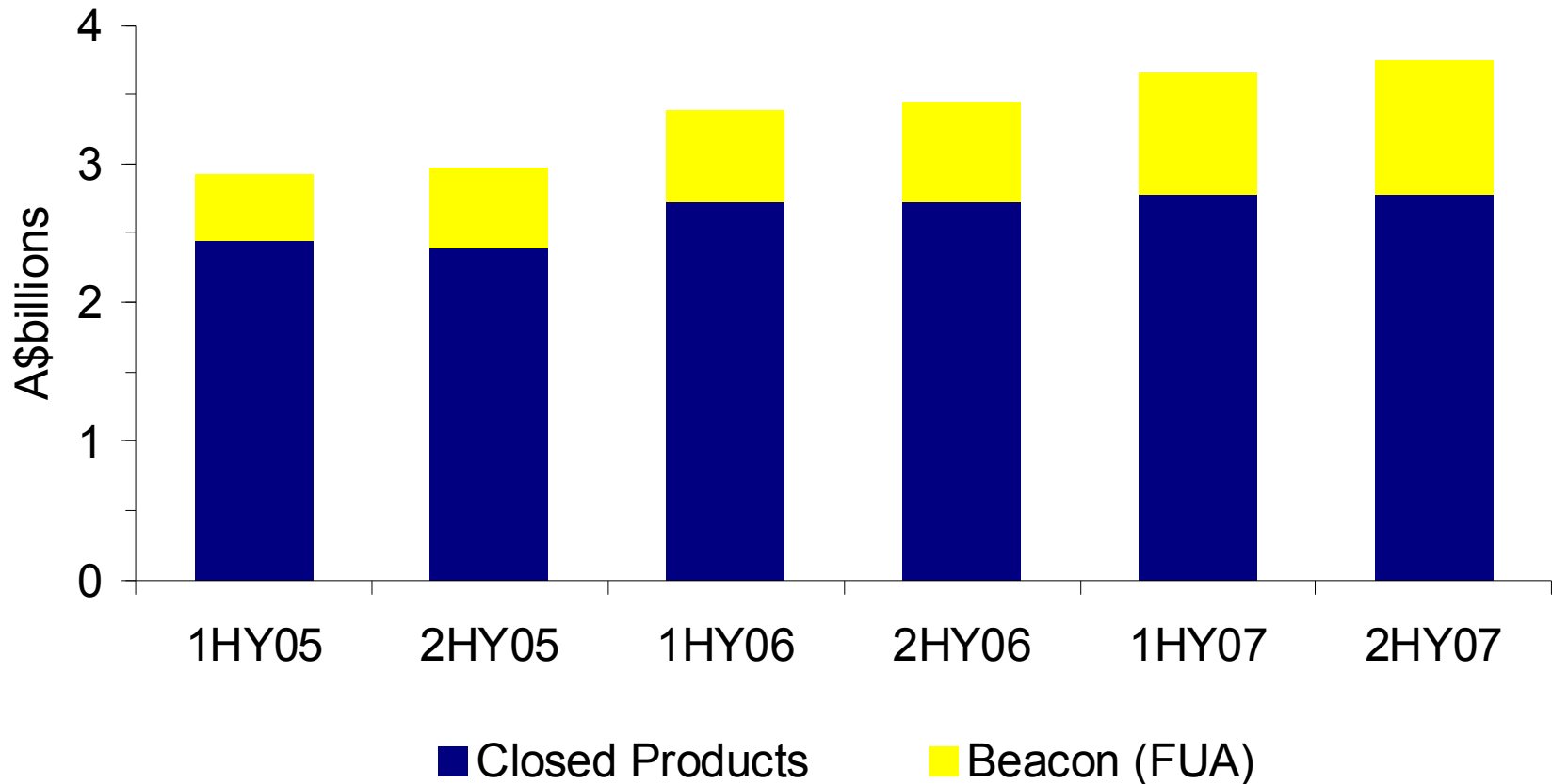
- Embedded Value grew 28% (pre transfers and discount rate changes ) vs pcp to \$761 million, principally driven by:
  - an expected increase in the value of inforce business (\$63m)
  - value added from new business (\$43m)
  - improvements in claims and expense assumptions
  - offset by transfers out (\$15m) and discount rate changes (\$19m)

# Strong Financial Performance

## Steady Funds Growth



### Investment Funds Under Management & Advice

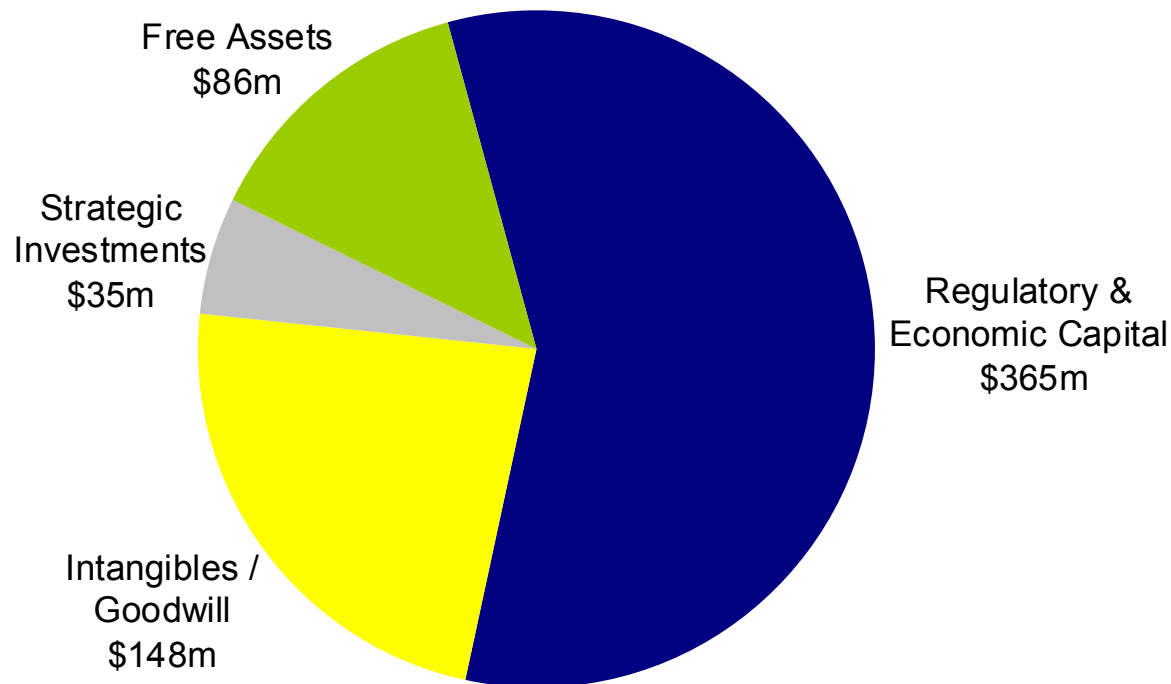


# Disciplined Capital Management

## Strong Capital Position



### Allocation of Capital



- Solvency coverage: 2.9 times
- S&P Insurer Financial Strength rating: A-, stable
- Debt to Debt + Equity ratio: 16%

# Disciplined Capital Management

## Initiatives to Further Improve Return on Capital



- Board approved risk appetite
  - move to 20-40% exposure to growth assets in 2008
  - significant reduction in use of reinsurance from April 2007
- PrefSure Life Ltd policies transferred to TAL (April 07) and Life license deregistered
- More robust target surplus methodology reduces regulatory and economic capital requirement

# Disciplined Capital Management

## Commencing Dividend Payments



- Dividend policy
  - Dividend paid once a year
  - Payout ratio in the medium term will be in the range of 20 - 40% of Underlying Profit
  - Dividend reinvestment plan established
  
- FY07 Dividend
  - 4 cents per share (fully franked)
  - \$59 million in franking credits available

# Outlook

## Positive



- Continue to build and leverage distribution platform
- Emphasis on customer retention
- Favorable macro economic environment
- People, their motivation and capability continue to be keys to success

# Successful 1<sup>st</sup> year as a listed entity



## Life Insurance Specialist

- Life Insurer of the Year 2006 and 2007
- Strong market position
- Consistent track record

## Growing Industry

- Long term growth rate of > 10%pa
- Increasing consumer awareness
- Strong support from Superannuation Fund Trustees

## Delivering Results

- Growth in in-force, margins and profits
- Completion of separation and listing
- Integration of PrefSure
- Launch of LifeStyle and Accelerate
- Outsource of investment management

## Strong Financial Performance Disciplined Capital Management

- Underlying profit per share up 27%
- Embedded Value up 22%
- Capital – 2.9 times solvency requirement
- First dividend – 4 cents per share

## Positive Outlook

- Build and leverage distribution platform
- Emphasis on customer retention
- Favourable macroeconomic environment
- Our people are the key to success

## Additional Information

# TOWER Australia

## FY07 Profit Summary



(\$m)	6 Months Sep 06 <sup>(1)</sup>	FY 2006 <sup>(1)</sup>	6 Months		FY 2007
			Mar 07	Sep 07	
Business Unit Operating Margins	18.8	<b>34.4</b>	18.1	20.2	<b>38.3</b>
Corporate Expenses	(3.7)	<b>(7.0)</b>	(4.0)	(2.4)	<b>(6.4)</b>
Investment Income	8.7	<b>21.1</b>	13.3	13.9	<b>27.2</b>
Financing Expenses	(3.3)	<b>(6.6)</b>	(2.4)	(2.7)	<b>(5.1)</b>
<b>Underlying Profit</b>	<b>20.5</b>	<b>41.9</b>	<b>25.0</b>	<b>29.0</b>	<b>54.0</b>
Non cash items	(6.7)	<b>(10.4)</b>	(7.9)	(5.4)	<b>(13.3)</b>
<b>NPAT</b>	<b>13.8</b>	<b>31.5</b>	<b>17.1</b>	<b>23.6</b>	<b>40.7</b>
<i>Return on Equity (annualised)<sup>2</sup></i>	5.6%	<b>6.4%</b>	6.8%	9.0%	<b>7.8%</b>
<i>Earnings per Share<sup>2</sup></i>	\$0.04	<b>\$0.09</b>	\$0.05	\$0.07	<b>\$0.12</b>

(1) Based on 2006 Proforma – see FY06 Investor Report

(2) Based on NPAT and average issued capital assuming corporate restructure occurred on 30 Sep 2006

Underlying Profit (A\$m)	6 months		FY 2006	6 months		FY 2007
	Mar 06	Sep 06		Mar 07	Sep 07	
<b>Reported NPAT</b>	17.7	13.8	<b>31.5</b>	17.1	23.6	<b>40.7</b>
<b><i>Adjustments</i></b>						
Discount rate changes	0.9	1.3	<b>2.2</b>	2.6	0.4	<b>3.0</b>
Surrender fee mismatch	2.8	1.0	<b>3.8</b>	5.1	3.1	<b>8.2</b>
Integration	-	2.5	<b>2.5</b>	-	-	-
Normalised corporate office costs	-	-	-	(1.7)	-	<b>(1.7)</b>
Amortisation	-	1.9	<b>1.9</b>	1.9	1.9	<b>3.8</b>
<b>Underlying profit</b>	<b>21.4</b>	<b>20.5</b>	<b>41.9</b>	<b>25.0</b>	<b>29.0</b>	<b>54.0</b>

# Life Insurance

## Operating Margins



(A\$m)	6 months		FY 2006	6 months		FY 2007
	Mar 06	Sep 06		Mar 07	Sep 07	
Planned Profits	8.2	13.9	22.1	12.6	12.6	25.2
Experienced Profits (losses)	0.3	3.2	3.5	(0.2)	1.2	1.0
Capitalised loss recognition	0.5	(0.4)	0.1	(0.4)	0.4	-
<b>Life operating margins</b>	<b>9.0</b>	<b>16.7</b>	<b>25.7</b>	<b>12.0</b>	<b>14.2</b>	<b>26.2</b>

- Favourable claims experience included in current year (will flow into planned profits in future periods)
- Significant investment in distribution and business simplification
- Opportunities to improve margins through improved customer retention and insurance margins

# Life Investments & Other Operating Margins



(A\$m)	6 months		FY 2006	6 months		FY 2007
	Mar 06	Sep 06		Mar 07	Sep 07	
Life Investment Margins	6.1	1.4	7.5	6.0	3.9	9.9
Other Operating Margins	0.5	0.7	1.2	0.1	1.7	1.8
<b>Investment &amp; Other operating margins</b>	<b>6.6</b>	<b>2.1</b>	<b>8.7</b>	<b>6.1</b>	<b>5.6</b>	<b>11.7</b>

- Outsourced investment management, unit pricing and custody live in June 2007
- Beacon (the modern product platform) achieved good growth in sales, up 51% y.o.y.
- Growth in Pivotal advisors beginning to occur