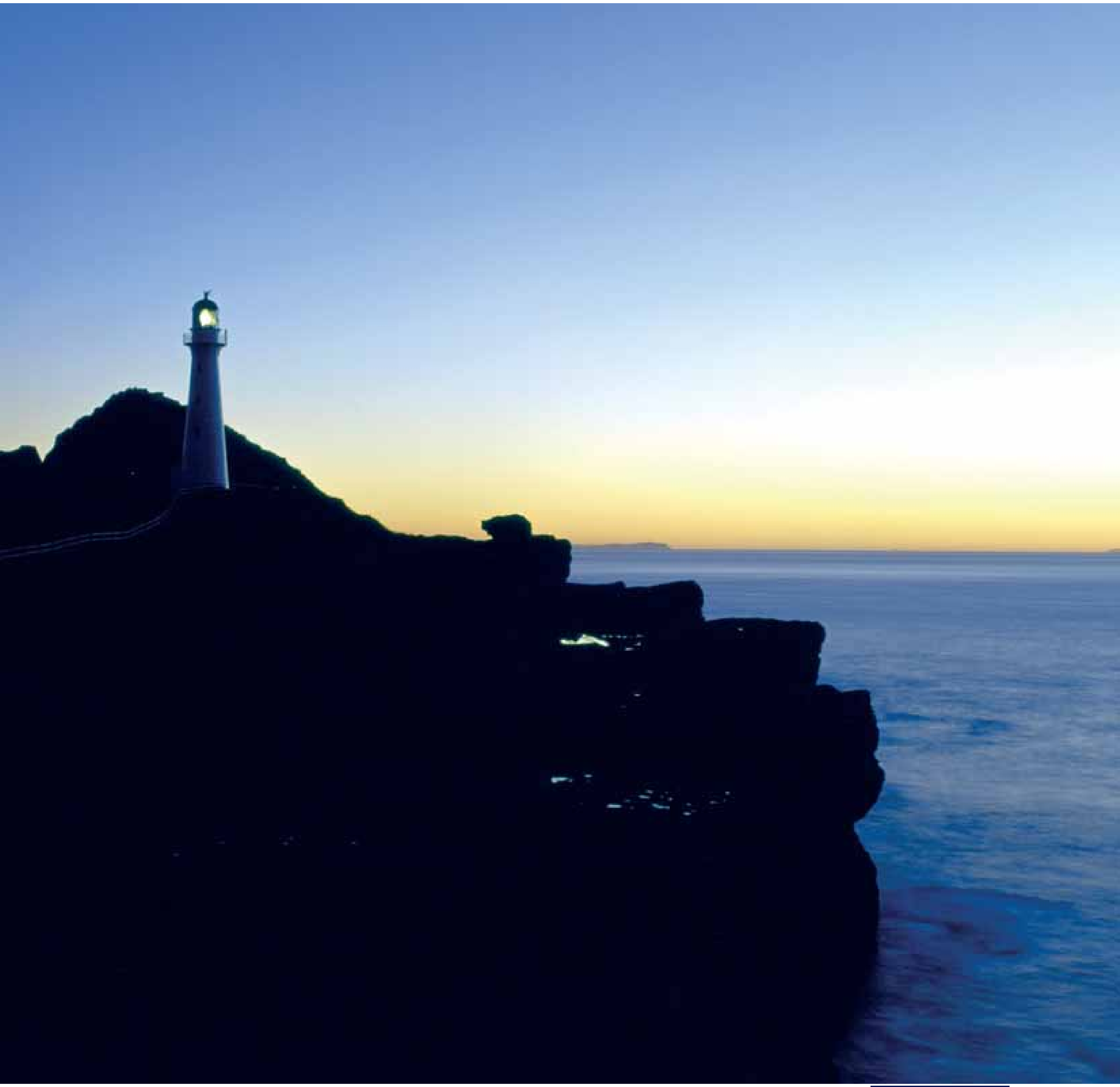


TOWER Limited
TOWER Capital Limited

Annual Reports 2010

TOWER Limited
TOWER Capital Limited
Annual Reports

The TOWER Group has been helping New Zealanders protect and grow the things they value for over 140 years.

We provide comprehensive and innovative insurance, KiwiSaver and investment products through our businesses in New Zealand and the Pacific Islands.

This document contains the annual reports of both TOWER Limited (TOWER) and TOWER Capital Limited (TOWER Capital) for the year ended 30 September 2010.

TOWER Capital is a subsidiary of TOWER. On 24 March 2009, the company issued fixed rate senior unsecured bonds which are listed on the New Zealand Debt Security Market operated by NZX Limited. The bonds have a face value of $81,759,000 and a fixed rate interest coupon of 8.5%. They are repayable on 15 April 2014. The financial year ended 30 September 2010 is the first full 12 month period in respect of which financial statements of the company have been prepared. As a member of the TOWER Group, TOWER Capital is dependent on the financial position and performance of TOWER.

TOWER Limited
TOWER Capital Limited
Annual Reports

For the year ended 3o September 2010

Contents

TOWER Group

Health & Life Insurance

General Insurance

Investments

KiwiSaver

If you would like to contact TOWER please visit www.tower.co.nz or call TOWER on 0800 808 808.
This Annual Report is dated 10 December 2010.
All amounts in this document, unless stated otherwise, are in New Zealand dollars.
References to "TOWER" or "the Company" are to TOWER Limited.
References to "TOWER Capital" are to TOWER Capital Limited.
References to "TOWER Group" or "Group" are to TOWER and its subsidiaries.

Highlights

- *Net profit after tax of $58.1 million (up 16%)*
- *Underlying profit of $52.1 million (up 11%)*
- *Final dividend of 6.0 cents per share*
- *Total annual dividend of 10.0 cents per share (up 11%)*
- *Total equity of $441.3 million (up 9%)*
- *Health & Life underlying profit after tax of $33.2 million (up 5%)*
- *General Insurance profit after tax of $21.9 million (up 27%)*

Chairman's Letter

Dear Shareholder

TOWER's performance for the year to September 2010 has consolidated the Group's reputation as a New Zealand institution that delivers value to shareholders year after year.

TOWER reported net profit after tax for the full year to 30 September 2010 of $58.1 million, a 16% increase over the $50.1 million reported for the year to 30 September 2009. The balance sheet also strengthened with total equity increasing to $441.3 million.

Net asset backing per share grew to $1.69, up from $1.59 previously, and gearing (debt to debt plus equity) improved to 15.4% from 16.5%.

Given TOWER's solid business performance and strong financial position, a fully imputed final dividend of 6 cents per share is due to be paid on 25 January 2011. Following the 4 cents per share interim dividend paid in July 2010, this brings the total dividend for the year to 10 cents, an 11% increase on last year.

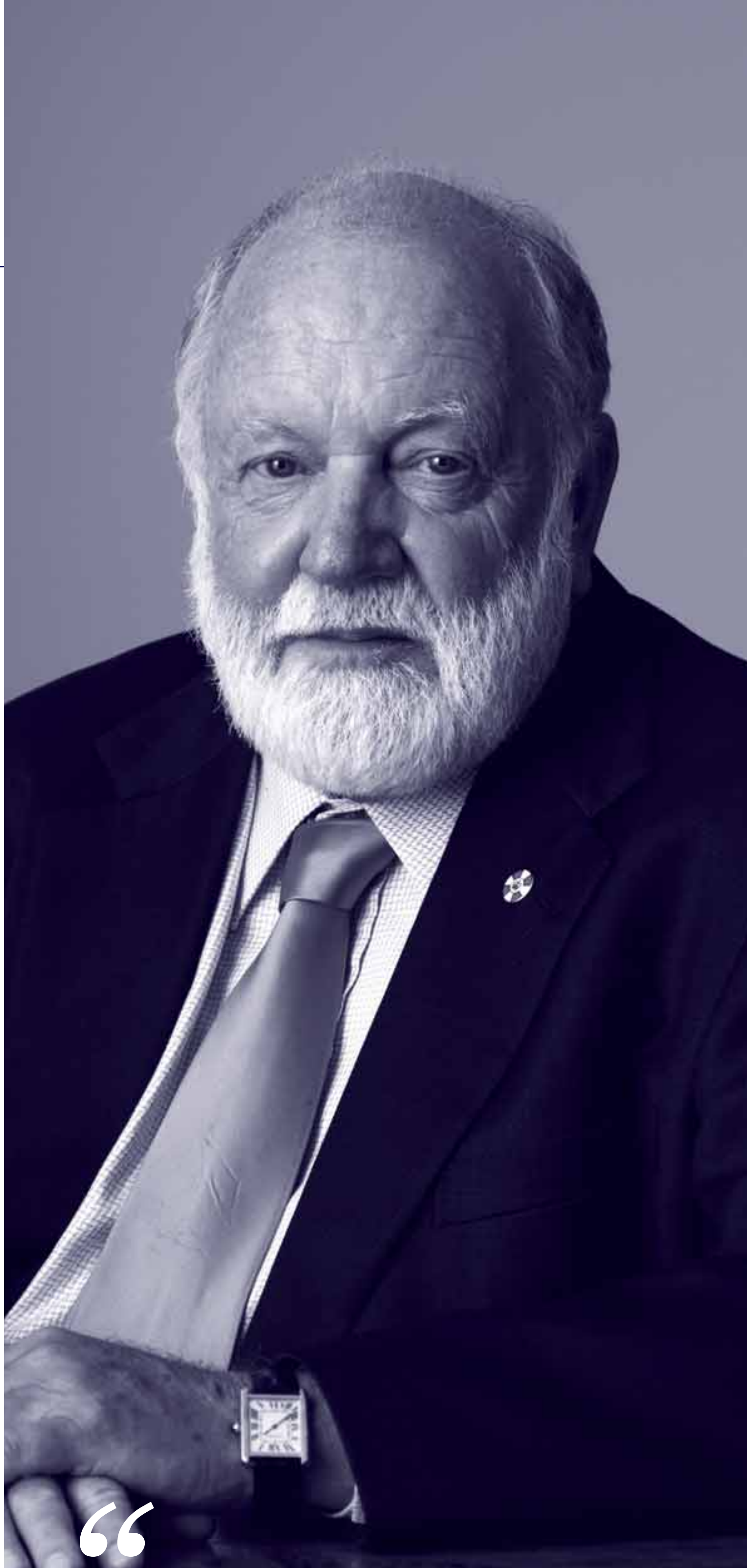
TOWER is a powerful brand in the market and has a proud history dating back to 1869. We are confident the outlook for the future is positive.

All three businesses, Health & Life, General Insurance and Investments will continue to actively compete for market share with superior customer service, competitive pricing and proactive cost control.

I would also like to take this opportunity to thank the management team and staff for their tireless effort during the year. Without their motivation, team spirit and attention to detail, the Group could not perform up to the level that it does.

Finally, on behalf of the Board I thank you for your investment and ongoing support of TOWER.

A I (Tony) Gibbs CNZM
Chairman



"The performance for the year to September 2010 has consolidated the Group's reputation as a New Zealand institution that delivers value to shareholders year after year."

“This result demonstrates that TOWER can perform strongly even when the going gets tough.”

Rob Flannagan
Group Managing Director

Business Review

I am pleased to report another good financial result for the business in the year to 30 September 2010, reflecting a satisfactory operating performance in difficult market conditions. TOWER remains firmly committed to getting the basics right, with management’s focus now moving to growing revenue while continuing to keep our firm control of costs.

This result demonstrates that TOWER can perform strongly even when the going gets tough.

Summary of results - Group
Year ended 30 September

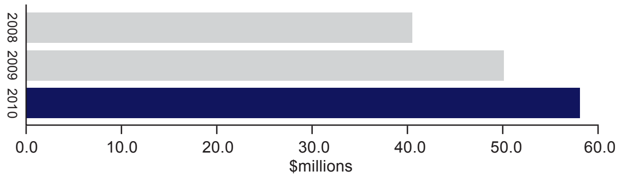
$ millions	% Change (+ve / -ve)	2010	2009
Health & Life	*+5*	33.2	31.6
General Insurance	*+27*	21.9	17.3
Investments	*-52*	2.8	5.8
Business unit net profit after tax	***+6***	**57.9**	**54.7**
Finance & corporate expenses	*+26*	(5.8)	(7.8)
Underlying profit after tax	***+11***	**52.1**	**46.9**
Discount rate effect	*+88*	6.0	3.2
Net profit after tax	***+16***	**58.1**	**50.1**

The Group’s net profit after tax for the financial year to 30 September 2010 was $58.1m – up by 16%. This result reflects a combination of good management of overhead expenses and improved investment returns. The latter was reflected in higher operating revenue from ordinary activities of $604.6m – up by 17%. The net profit from ordinary activities after tax attributable to shareholders (and the net profit attributable to shareholders) was $57.6m, up 16%.

The Group’s net profit included the non-cash effect of movements in the discount rate which is used to value life insurance policy liabilities. These rates further declined during the year, generating a net gain of $6.0m. The impact of the discount rate in the same period last year was a gain of $3.2m. Earnings per share were 22.33 cents, a reduction of 1.98 cents due to the dilution from additional capital raised in September 2009, which did not have any significant impact in the prior year.

TOWER Capital is the special purpose subsidiary of TOWER established to undertake the issue of $81.7m of 8.5% fixed rate unsecured bonds in March 2009. TOWER Capital paid interest of $7.0m to bondholders during the year to 30 September 2010. Its revenue from ordinary activities was $8.2m, up 63%. Net profit from ordinary activities after tax attributable to shareholders (and net profit attributable to shareholders) was $432,000, a decrease of 24%.

Group results – three year summary



HEALTH & LIFE

The Health & Life business again delivered growth in underlying profit after tax which was up 5% from last year to $33.2m. This result excludes $6.0m arising from reductions to the discount rate. The effect of a strong increase in the Life business profit was offset by tighter margins and lower profitability in the Health business.

Health

Net premiums in the Health business have continued to grow and were up by 3% ($4.3m) over September 2009. This reflected two changes which had offsetting effects, customers switching to lower cost options and increases in premium pricing during the year.

Claims costs increased by $8.1m (11%), driven by the combined effects of higher medical costs and increased utilisation.

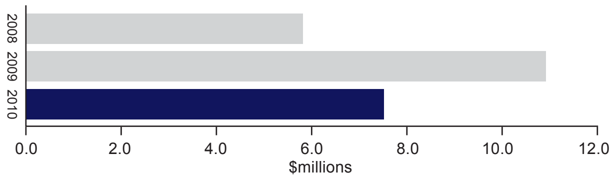
Overhead costs were contained during the year, reducing by $1.4m or nearly 4% from last year. This follows a $4.0m reduction in the previous year.

The Health business produced a profit after tax of $7.5m, down from the $10.9m result last year.

Analysis of profit - Health
Year ended 30 September

$ millions	% Change (+ve / -ve)	2010	2009
Health premiums			
Net premiums	+3	135.9	131.6
Less premium payback claims	-44	(13.3)	(9.2)
		122.6	122.4
Incurred claims	-15	(82.0)	(73.9)
Management and sales expenses	+4	(35.6)	(37.0)
Movement in policy liabilities	+16	(3.6)	(4.3)
Investment income on assets backing policy liabilities	+32	8.3	6.3
Insurance profit	**-28**	**9.7**	**13.5**
Investment income on shareholders' funds	-29	1.5	2.1
Profit before tax	**-28**	**11.2**	**15.6**
Income tax expense	+21	(3.7)	(4.7)
Profit after tax	**-31**	**7.5**	**10.9**

Health results – three year summary



Life

The Life business performed well in a difficult market, maintaining its market position while showing an overall increase in profit. The business showed a strong improvement in its underlying profit, which grew from $20.7m last year to $25.7m this year – a 24% increase.

When the effect of movements in the discount rate is taken into account, profit after tax in the Life business grew to $31.7m, an increase of 33% over the previous year.

Lower management and sales expenses were a strong contributor to the improvement, showing a $3.5m (or nearly 8%) saving.

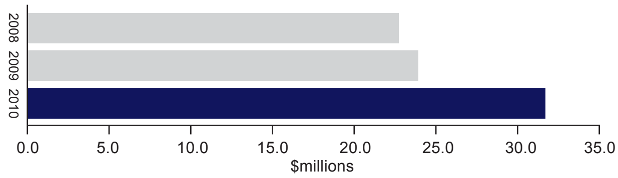
Solid underwriting disciplines and active claims management ensured that the claims experience was well within pricing assumptions.

Investment income also came back very strongly in respect of both shareholder and policyholder returns. These returns reflect the impact of the strong recovery in investment markets that was experienced over the financial year.

Analysis of profit - Life
Year ended 30 September

$ millions	% Change (+ve / -ve)	2010	2009
Net premiums	+5	64.4	61.5
Incurred claims	-7	(69.3)	(65.0)
Management and sales expenses	+8	(41.6)	(45.1)
Movement in policy liabilities	-141	(14.8)	36.4
Investment income on assets backing policy liabilities	+263	93.9	25.9
Insurance profit	+138	**32.6**	**13.7**
Investment income on shareholders' funds	+335	22.2	5.1
Profit before tax	**+191**	**54.8**	**18.8**
Income tax (expense)/credit	n/a	(29.1)	1.9
Underlying profit after tax	**+24**	**25.7**	**20.7**
Discount rate effect	+88	6.0	3.2
Profit after tax	**+33**	**31.7**	**23.9**

Life results - three year summary



GENERAL INSURANCE

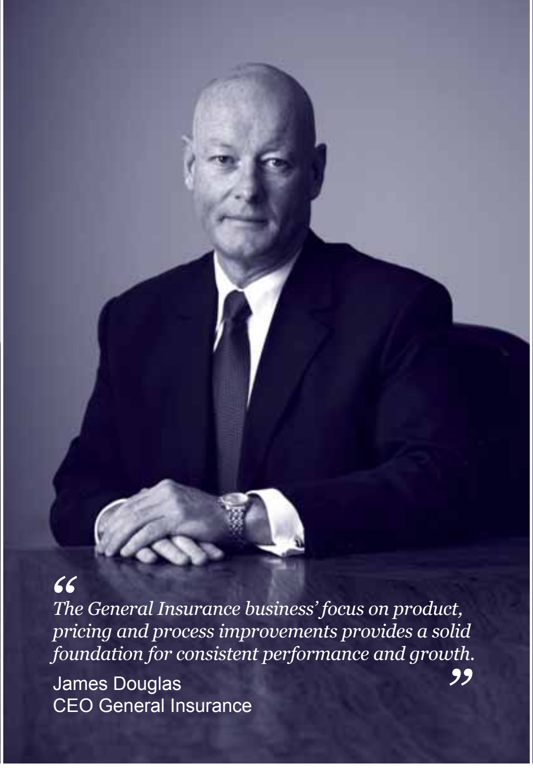
The General Insurance business' consistent theme over the last three years of focusing on the direct market, diversification of product and improvements in both processes and underwriting provided a solid base for a strong after tax result of $21.9m. Despite the Christchurch earthquake in September 2010, which caused a $5m claims cost after reinsurance, this was a $4.6m or 27% improvement.

Analysis of profit - General Insurance
Year ended 30 September

$ millions	% Change (+ve / -ve)	2010	2009
Net premiums	-6	183.3	195.0
Incurred claims	+9	(99.3)	(109.5)
Management and sales expenses	+8	(65.9)	(71.4)
Underwriting profit	**+28**	**18.1**	**14.1**
Investment income on assets backing insurance liabilities	+19	8.6	7.2
Insurance profit	**+25**	**26.7**	**21.3**
Investment income on shareholders' funds	+35	5.4	4.0
Profit before tax	**+27**	**32.1**	**25.3**
Income tax expense	-28	(10.2)	(8.0)
Profit after tax	**+27**	**21.9**	**17.3**

"With good business fundamentals and ongoing product enhancement, TOWER Health & Life remains well positioned to meet the demand of New Zealanders for life and health insurance."

Steve Boomert
CEO Health & Life



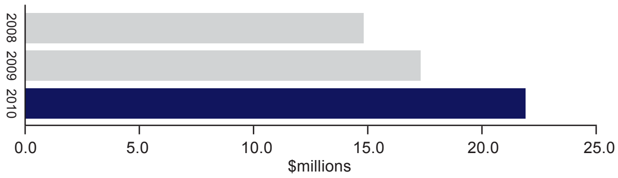
"The General Insurance business' focus on product, pricing and process improvements provides a solid foundation for consistent performance and growth."

James Douglas
CEO General Insurance

"The Investments business saw growth in Funds under Management of 8%. The 2010 result includes significant business restructuring costs to position the business for growth going forward."

Sam Stubbs
CEO Investments

General Insurance results - three year summary



Strong improvement in underwriting performance, combined with process improvements, significantly contributed to the result. The continued focus in the New Zealand direct market has seen strong growth in domestic products and the expansion into commercial and online shows positive and encouraging trends.

INVESTMENTS

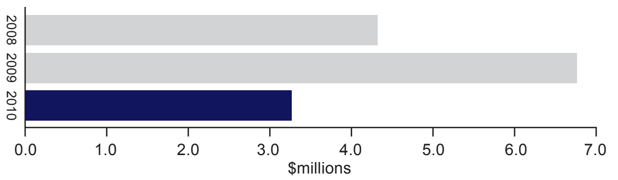
The Investments business produced an after tax result of $2.8m, which was after significant restructuring cost to prepare for future growth. Consequently, the 2010 result was down on last year by $3.0m.

Analysis of profit – Investments

Year ended 30 September

$ millions	% Change (+ve / -ve)	2010	2009
Income	*-4*	38.1	39.8
Management and sales expenses	*-8*	(34.2)	(31.6)
Profit before tax	***-52***	**3.9**	**8.2**
Income tax expense	*+54*	(1.1)	(2.4)
Profit after tax	***-52***	**2.8**	**5.8**

Investments results - three year summary



The Investments business saw growth in Funds under Management of 8% to reach $3.9b at 30 September 2010.This is a level not seen since March 2008. However, the business is seeing a change in its business mix with growth in lower margin products such as KiwiSaver.

TOWER's KiwiSaver business at September 2010 had close to 88,000 members, an increase of 14% over the past year. Funds under Management grew by 55% in the same period and were $505.3m at the end of September 2010.

OUTLOOK

The market continues to be difficult and while the 2010 result is satisfactory,TOWER has not achieved the growth that we would have liked.

We have carried out a comprehensive, strategic review of TOWER. The clear conclusion is that TOWER has all the right ingredients for future success - a powerful New Zealand brand, customer base, product and channel breadth, and strong balance sheet. Strategically TOWER will leverage the combined strengths of the Group to accelerate the pace of our channel development.

To support the implementation of the strategy, TOWER will be making changes in its operating model which is currently based around three quite separate business units: Health & Life, General Insurance and Investments.

While this structure has been appropriate in getting the fundamentals right in the Company, moving away from the separate business unit model to an integrated functional model will both enhance our customer service and provide the opportunity to grow the TOWER business.

The necessary changes to our operating model will be finalised shortly and become fully effective over the next six months.

As a truly Kiwi company looking after the things Kiwis value, we are now positioning ourselves for faster growth, which should result in enhanced shareholder returns.

Rob Flannagan
Group Managing Director

TOWER's Community Commitment

TOWER understands the value of community commitment and contributes to the interests of New Zealanders through a varied range of sponsorships.

Every week we deal with ordinary New Zealanders doing extraordinary things. They never cease to amaze us with their stories of talent, courage and determination.

TOWER proudly announced a new relationship during the year with the Men's Health Trust. This trust is a non-profit organisation that is committed to ensuring that all New Zealand men take responsibility for their own health. TOWER became the major sponsor of the Trust's corporate programme which targets awareness of men's health issues through education in the workplace, with the goal of reducing early male mortality, which has a major impact in New Zealand.

TOWER is also a passionate supporter of the Royal New Zealand Ballet, a world class company. In this, our ninth year of partnership with the Royal New Zealand Ballet we presented the unique TOWER Triple Bill. It was an adventurous season that saw the ballet company dance three very different creations - from modern to traditional - in eight New Zealand main centres. We are delighted that early 2011 will once again deliver the TOWER Tutus on Tour Season which takes our very best dance talent and choreography to almost 50 towns and smaller communities across heartland New Zealand.

TOWER also continues to support a number of other events, including various awards and conferences, together with organisations such as Bowls New Zealand.

Corporate Governance

TOWER's Board and the management team 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.

TOWER Capital Limited has the same Board as TOWER Limited. As part of the TOWER Group, it operates under the same corporate governance regime. Therefore, governance practices and disclosures that apply to TOWER Limited are also applied to TOWER Capital Limited (where relevant).

Compliance with Governance Requirements and Recommendations

For the reporting period to 30 September 2010, TOWER considers its corporate governance practices have adhered to the NZX Corporate Governance Best Practice Code; the New Zealand Securities Commission Corporate Governance Principles and Guidelines and the ASX Corporate Governance Council Principles and Recommendations as outlined in this corporate governance section.

Copies of the principal governance documents and more detail about TOWER's governance practices are available on TOWER's website at www.tower.co.nz 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 shareholders, is responsible for the performance of the TOWER Group as a whole. In practice, this is achieved through formal delegation to the Group Managing Director 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 page 14).

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.tower.co.nz.

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 shares. The Board, when fulfilling its roles and responsibilities, is required to have appropriate regard to TOWER 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. These include:

- determining the Group's strategic objectives, and approving 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 appointment and remuneration of the Group Managing Director.

Role of senior executives

The day-to-day leadership and management of the Group is undertaken by the Group Managing Director and senior executives. The Group Managing Director is solely accountable to the Board for management performance. The Group Managing Director has also formally delegated decision making to senior management within their areas of responsibility and subject to quantitative limits to ensure consistent and efficient decision-making across the Group. Senior management has no power to do anything which the Group Managing Director cannot do pursuant to his delegations. Within this formal delegation framework those executives who report directly to the Group Managing Director 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.

Board Composition, Nominations and Appointments

Board composition

At 30 September 2010 the Board included six non-executive directors, the Group Managing Director and an alternate non-executive Director. The TOWER Constitution requires a minimum of six directors and provides for a maximum of nine.

The 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 TOWER and to ensure the Board works effectively. 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 11 to 13.

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 Managing Director.

The Chairman of the Board is elected by the directors. The Board supports the separation of the roles of Chairman and Group Managing Director and these roles have always been separate at TOWER. Tony Gibbs was appointed Chairman of TOWER Limited on 19 December 2006.

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:

- the candidate's experience as a director;
- their skills, expertise and competencies (the Board aims to have a mix of skilled directors with particular competencies in the insurance and financial services sector);
- 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 historical background on TOWER and its operations, information about how the Group is structured, details of the Company'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 Managing Director 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 attend Board meetings in order 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 Principles and 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 the Company's best interests.

Examples of relationships that remove independence are relationships with a material TOWER customer, supplier, professional advisor or substantial shareholder. At the date of this Annual Report, the Board considers that five of the directors are independent, namely: Tony Gibbs, Bill Falconer, John Spencer, Susie Staley and Denis Wood. The Board considers that Mike Jefferies is not independent as a result of his appointment to the TOWER Board by Guinness Peat Group, a substantial shareholder of TOWER.

The ASX Corporate Governance Council Principles and Recommendations recommend that the Chairman should be an independent director. At the date of this Annual Report, Tony Gibbs is considered an independent director. He became independent once his relationship with Guinness Peat Group concluded in June 2010.

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

Retirement and re-election

At least one-third of the total number of directors must retire from office each year 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. The Group Managing Director is not required to retire by rotation.

In addition, all directors appointed by the Board since the last Annual Meeting to fill a casual vacancy must stand for election. 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.

Board and Committee Performance Review

The Board recognises that the performance of the directors, and Board Committees are crucial to TOWER's success and to the interests of shareholders.

The Board regularly reviews its own composition and performance and that of the Board Committees in accordance with the terms of the Board Charter (which also includes a review of the Board structure, policies, Board succession, delegations and the necessity for and composition of the Committees).

The Remuneration and Appointments Committee is responsible for the regular performance management and annual appraisal of the Group Managing Director, individual directors and senior executives. Evaluations may be carried out by an external consultant.

Director share ownership

All Directors are required by the Company's constitution to hold TOWER shares. Directors and management are required to comply with TOWER's Insider Trading and Market Manipulation Policy 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 22.

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.

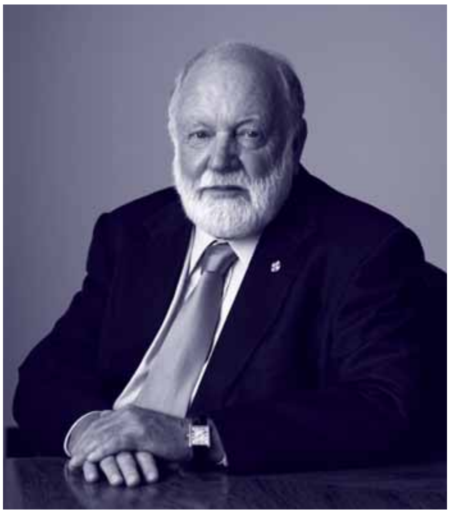
Attendance at Board and Committee Meetings

The Board held nine scheduled meetings during the year from 1 October 2009 - 30 September 2010. Director attendance at the Board meetings is set out on page 15. The Group Managing Director attends all Committee meetings and the Group Chief Financial Officer attends meetings of the Audit and Compliance Committee and Investment Committee. The Company Secretary attends all Board and Committee meetings, and is responsible for taking accurate minutes of each meeting and ensuring that Board procedures are observed.

TOWER Board of Directors

Back row: John Spencer, Bill Falconer, Susie Staley, Denis Wood, Mike Jefferies.
Front row: Rob Flannagan - Group Managing Director, Tony Gibbs - Chairman

Directors’ Profiles



TONY GIBBS
CNZM, FInstD

Chairman. Non-Executive Director

Appointed: 27 March 2003.
Last Re-elected – 2010

Board Committee Memberships: Chairman of Remuneration and Appointments Committee

Independent

Tony was elected to TOWER’s Board in 2003 and brings more than 25 years history of a diverse range of management and directorship experience to the Board covering mergers, acquisitions, divestments and restructuring.

Tony is the Chairman of Turners & Growers Limited and has held numerous other directorships in Australasia. He became independent when his relationship with the Guinness Peat Group concluded in June 2010.

Tony resides at Matakana, Auckland, New Zealand.

ROB FLANNAGAN
ACA, OPM (Harvard), AMInstD, JP

Group Managing Director

Appointed: 25 March 2008

Rob was appointed as Chief Executive Officer of TOWER New Zealand in October 2006. His appointment was a key milestone as in November 2006 TOWER moved to separate its New Zealand and Australian businesses with Rob assuming leadership of the New Zealand business. In March 2008, Rob was appointed to the Board and now holds the position of Group Managing Director.

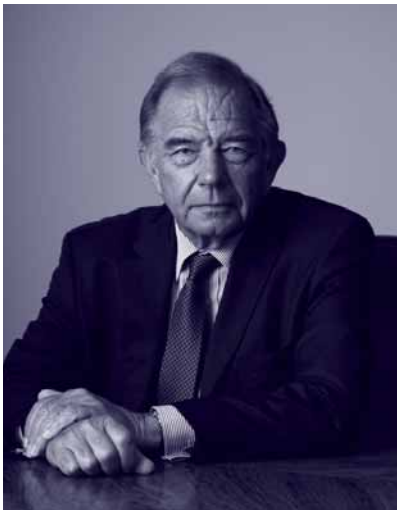
From a professional perspective, Rob is a qualified chartered accountant, a graduate of Harvard Business School and serves as a Justice of the Peace.

Rob brings a wealth of expertise to his leadership of TOWER. His diverse range of experience in senior management positions has been both within and outside of the financial services industry and he has also been a key participant in the formation and start up of a number of businesses. He was a partner of Arthur Young Chartered Accountants until 1981 and was an in-demand guest lecturer for Auckland University’s MBA Programmes.

Rob was co-founder of Medic Aid, a medical insurance company which at its time became the second largest medical insurer after Southern Cross. Subsequently, his senior executive roles have included Managing Director of the New Zealand Guardian Trust Company Limited as well as serving as Director of Group Initiatives for Royal & Sun Alliance responsible for coordinating Group Strategic Planning, E-Business, Marketing and Communications, Group Purchasing, Risk Management and Group Projects. Rob was also appointed CIO of the Promina Group.

Rob resides in Auckland, New Zealand.

Directors' Profiles



BILL FALCONER
LLB, CNZM, DFIoD

Non-Executive Director

Appointed: 31 December 2003.
Last Re-elected – 2008

Board Committee Memberships:
Member of Audit and Compliance Committee.

Independent

Bill joined the TOWER Board in December 2003. Bill has had a successful career as a public servant, lawyer and company director.

Bill is the Chairman of the Primary Growth Partnership Investment Advisory Panel, Meat Industry Association Holdings Limited, Energy Intellect Limited and Karapiro 2010 Limited and a Director of Stream Information Limited, the Waterfront Partnership, Westfield Trust (NZ) Limited and New Zealand Symphony Orchestra.

Bill resides in Cambridge, New Zealand.

MIKE JEFFERIES
BCom, CA

Non–Executive Director

Appointed: 19 December 2006.
Last Re-elected – 2009

Board Committee Memberships:
Member of Audit and Compliance Committee, Member of Investment Committee

Not independent

Mike joined the TOWER Board in December 2006. He is a chartered accountant with extensive experience in finance and investment and is a senior executive of the Guinness Peat Group. Mike is currently Chairman of Touch Holdings Limited and a director of Ozgrowth Limited, Metals X Limited, ClearView Wealth Limited and Capral Limited.

Mike resides in Perth, Australia.

JOHN SPENCER
BCom, FCA

Non-Executive Director

Appointed: 1 October 2003.
Last Re-elected – 2008

Board Committee Memberships:
Chairman of Audit and Compliance Committee

Independent

John joined the TOWER Board in October 2003 and has been the Chairman of the Audit and Compliance Committee since December 2003. John brings to the Board significant financial and commercial expertise gained over many years from senior management positions with a number of major companies in New Zealand and overseas. Prior to the formation of Fonterra, John was the Chief Executive Officer of New Zealand Dairy Group.

John is Chairman of Tainui Group Holdings Limited, Telfer Young Limited, WEL Networks Limited and New Zealand Railways Corporation, a Director of DairyNZ Limited, and Deputy Chairman of the Legal Services Agency Board.

John resides in Wellington, New Zealand.

SUSIE STALEY
LLB (Otago), FNZIM, FInstD

Non-Executive Director

Appointed: 1 October 1999.
Last Re-elected – 2010

Board Committee Memberships: Member of Remuneration and Appointments Committee, Member of Investment Committee

Independent

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

A property and business lawyer, Susie is a partner of Staley Cardoza Lawyers. She has a background in strategic management and brings a wide range of business and corporate experience to the Board. Susie is currently Chairman of Chatsford Management Limited.

Susie resides in Dunedin, New Zealand.

DENIS WOOD
MA (Hons)

Non-Executive Director

Appointed: 27 May 2005.
Last Re-elected – 2009

Board Committee Memberships: Chairman of Investment Committee

Independent

Denis was appointed to the TOWER Board in May 2005. Denis previously had a career in investment banking and has extensive experience in investment management, corporate restructuring, strategic planning and capital raising. Denis is the Chairman of Mercy Hospice Auckland Limited and a Director of Genesis Power Limited.

Denis resides 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. The terms of reference for each Committee are reviewed annually. Copies of each Committee's terms of reference are available on the TOWER website at www.tower.co.nz.

The Committees make recommendations to the Board. They have no decision-making ability except where expressly provided by the Board. The Board is required to annually confirm 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 11 to 13. Member attendance at each Committee meeting is set out on page 15.

Audit and Compliance Committee

MEMBERS: JOHN SPENCER (CHAIRMAN), BILL FALCONER AND MIKE JEFFERIES

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 senior management.

The terms of Reference of the Audit and Compliance Committee include the following duties and responsibilities:

- 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 the external auditor's report, and make recommendations to the Board as to their adoption;
- oversee the performance of the external auditor and 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;
- monitor the internal audit function and receive regular reports from the internal auditors on risks, exposures and compliance;
- maintain open and direct lines of communication with the external and internal auditors; and
- make recommendations to the Board as to the appointment of the external auditors.

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

The Terms of Reference require that the Committee has a minimum of three suitably qualified non-executive directors, the majority of whom are independent. 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 is also required to provide an annual report summarising the Committee's activities, findings, recommendations and results for the past year.

Remuneration and Appointments Committee

MEMBERS: TONY GIBBS (CHAIRMAN) AND SUSIE STALEY

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;
- the composition and structure of the Board;
- performance evaluations of the Board and directors; and
- the Group Managing Director and senior executive appointments, termination, performance appraisal and remuneration.

The Terms of Reference for the Remuneration and Appointments Committee require that the Committee comprises suitably qualified non-executive directors, the majority of whom are independent. The Board appoints the Chairman of the Committee.

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

The Company's remuneration policies for directors and senior executives are set out on pages 15 and 16.

The ASX Corporate Governance Council Principles and Recommendations Principle 8.2 recommends that a Remuneration Committee should have at least three members and be chaired by an independent chair. At the date of this Annual Report, Tony Gibbs is considered an independent director. He became independent once his relationship with Guinness Peat Group concluded in June 2010.

Investment Committee

MEMBERS: DENIS WOOD (CHAIRMAN), MIKE JEFFERIES AND SUSIE STALEY

The Investment Committee has various duties and responsibilities, including:

- reviewing the investment policy for TOWER shareholder and policyholder funds;
- reviewing the 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. 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 is also required to provide an annual report summarising the Committee's activities, findings, recommendations and results for the past year.

Attendance and Remuneration

2009/2010 TOWER Limited Directors' Attendance Record

	TOWER Limited Board Number of Meetings Attended	Investment Committee Number of Meetings Attended	Remuneration & Appointments Committee Number of Meetings Attended	Audit & Compliance Committee Number of Meetings Attended
Meetings Held	9	3	1	5
Tony Gibbs	9	-	1	-
Bill Falconer	8	-	-	5
Rob Flannagan	9	-	-	-
Mike Jefferies	8	3	-	5
John Spencer	9	-	-	5
Susie Staley	8	3	1	-
Denis Wood	9	3	-	-

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.

TOWER has different policies for remunerating the non-executive Directors as opposed to the Group Managing Director and senior executives. The following section discusses TOWER's remuneration policies and arrangements for non-executive Directors, the Group Managing Director, the senior executives and staff in general.

The Remuneration and Appointments Committee role

In respect of remuneration, the Remuneration and Appointments Committee is responsible for assisting and advising the Board in relation to, amongst other things:

- remuneration strategy, structure and policy;
- remuneration of the Group Managing Director;
- setting non-executive directors' remuneration;
- setting Board Committee Members' fees and;
- determining remuneration packages of senior executives, following recommendations from the Group Managing Director.

Non-executive Directors

The Board's policy is to remunerate Directors at a similar level to comparable Australasian companies, with a small premium to reflect the complexity of the insurance and financial services sector. At the Annual Meeting in February 2004 shareholders approved an increase in non-executive 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 currently paid are as follows:

Board Chairman	$130,000 for chairing the TOWER Limited Board
Non-executive Directors	$78,570 for sitting on the TOWER Limited Board

Non-executive directors are paid additional annual fees for sitting on Board Committees as follows:

Audit & Compliance Committee	
- Chairman	$15,000
- Members	$9,000
Remuneration & Appointments Committee	
- Chairman	$7,500
- Members	$5,000
Investment Committee	
- Chairman	$7,500
- Members	$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. No additional fees are paid to the Directors in relation to their roles as directors of TOWER Capital.

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

Retirement Allowances

TOWER Directors were previously 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 was 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:

Susie Staley	$101,101 to be paid on retirement.

Note: To be eligible for a retirement allowance a Director needed to be in office for at least three years prior to 1 October 2003. For this reason no other Director is eligible for a retirement allowance.

2009/2010 Directors' Remuneration and Benefits

	2010		2009	
	Director's Fees $	Other $	Director's Fees $	Other $
Tony Gibbs	137,500	-	137,500	-
Bill Falconer	107,970	-	87,570	-
Rob Flannagan	-	1,216,800	-	1,216,800
Mike Jefferies	92,570	-	92,570	-
John Spencer	110,570	-	93,570	-
Susie Staley	105,570	-	88,570	-
Denis Wood	86,070	-	86,070	-

In the year ended 30 September 2010, additional fees were paid to Bill Falconer (Chairman) ($20,400), Susie Staley ($17,000) and John Spencer ($17,000) for attendances as a member of the due diligence committees of the Board formed in relation to the bond issue and rights issue undertaken in 2009.

Group Managing Director and senior executive remuneration

The Board's policy for remunerating the Group Managing Director and other key executives is to provide market-based remuneration packages comprising a blend of fixed and incentive based remuneration with clear links between individual and Company performance, and reward. Remuneration packages currently comprise a mixture of fixed and performance-based remuneration in the form of a variable bonus. The Group Remuneration and Appointments Committee reviews the Group Managing Director's and other senior executives' remuneration packages at least annually.

The remuneration policy is intended to encourage meeting the short and long term objectives for TOWER. Rob Flannagan was appointed Chief Executive Officer of the TOWER Group in August 2006 and became the Group Managing Director in March 2008. The Group Managing Director does not receive director's fees. The amount shown in the directors' Remuneration and Benefits table above is his total remuneration for the full year ended 30 September 2010 and consists of base salary of $811,200 and a short term performance incentive of $405,600. He also has a long term incentive in the form of the Tranche E share options as disclosed in note 37 to the TOWER Limited Financial Statements.

The TOWER Board has issued options to senior executives across the TOWER Group as part of its remuneration policies for senior executives. The options may only be exercised if the hurdle of a 10% per annum compounding increase in the TOWER share price less any distributions is achieved.

Employee remuneration

Set out below are the number of employees or former employees of a member of the TOWER Group, not being directors or former directors, who received remuneration and other benefits valued at or exceeding $100,000 for the year ended 30 September 2010. Remuneration includes redundancy payments and termination payments made during the year to employees whose remuneration would not otherwise have been included in the table.

Bands			
From $	**To $**	**2009/10**	**2008/09**
100,000	109,999	13	28
110,000	119,999	17	24
120,000	129,999	20	11
130,000	139,999	24	15
140,000	149,999	25	20
150,000	159,999	8	5
160,000	169,999	7	5
170,000	179,999	6	4
180,000	189,999	4	6
190,000	199,999	3	3
200,000	209,999	-	1
210,000	219,999	4	3
220,000	229,999	2	5
230,000	239,999	1	2
240,000	249,999	2	1
250,000	259,999	4	1
260,000	269,999	2	3
270,000	279,999	1	2
280,000	289,999	2	-
290,000	299,999	1	1
300,000	309,999	3	3
320,000	329,999	1	1
330,000	349,999	-	1
370,000	379,999	-	1
400,000	409,999	-	1
420,000	429,999	1	-
540,000	549,999	1	-
560,000	569,999	1	2
570,000	579,999	2	2
590,000	599,999	1	1
710,000	719,999	1	-
720,000	729,999	1	-
1,000,000+		1	1
Total		***158***	***151***

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 Policy 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. Each company has documented its key risks and action plans to mitigate, monitor and control them. These processes are incorporated into the regular strategic review process. TOWER management regularly reports during the year to the Board as to the effectiveness of TOWER's management of its material business risks.

TOWER is committed to ensuring that all reasonable measures are taken to maintain a responsible compliance environment through which legislative obligations are fully met. The Compliance Policy establishes a framework to implement and monitor compliance.

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 contracts the independent Chartered Accounting firm Ernst & Young to carry out the Internal Audit function. Ernst & Young report to the Chairman of the Audit and Compliance Committee and have full access to other Committee members and the Board. The Committee approves the Internal Audit Policy that governs the internal audit function across the Group.

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

The internal auditors help the Board 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 2010 to audit the TOWER and TOWER Group Financial Statements.

A formal engagement letter with PwC sets out the respective obligations and responsibilities of PwC and the Company in relation to preparation and audit of financial statements. 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.tower.co.nz 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. 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.

Details of PwC fees for audit and other services provided to the TOWER Group are set out in Note 9(A) of the TOWER Limited Financial Statements.

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.tower.co.nz under the Corporate Governance section.

Regulatory Disclosures

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 interests interfere or appear to interfere with the interests of TOWER;
- using a person's position at TOWER 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 Company Secretary, who will investigate and take appropriate action as necessary.

In addition to the Code of Ethics TOWER has a Whistleblower 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.

Insider Trading

Legal restrictions and TOWER's Insider Trading and Market Manipulation 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 and Market Manipulation Policy is available on TOWER's website at www.tower.co.nz.

Compliance Policy

TOWER's approach to compliance is recorded in the TOWER Compliance Policy. The Policy sets out the key compliance responsibilities of TOWER's directors, executives, staff and contractors in all their business dealings. The Policy promotes TOWER's commitment to sound corporate governance by strongly endorsing a responsible compliance environment for its entire staff. TOWER recognises that a responsible approach to corporate governance and compliance provides a foundation for business reputation and stakeholder confidence. A copy of TOWER's Compliance Policy is available on TOWER's website at www.tower.co.nz.

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 to encourage their participation in TOWER. A copy of TOWER's Corporate Disclosure Policy is available on TOWER's website at www.tower.co.nz. 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 Company Secretary is accountable for compliance with disclosure obligations. Announcements of financial results, changes in profit forecasts and other material market announcements require Board approval.

TOWER's website, www.tower.co.nz, provides information to shareholders and investors about the Group. The website includes copies of past Annual Reports, results announcements, media releases (including NZX and ASX announcements), and general TOWER information. It also has a comprehensive corporate governance section for shareholders.

Announcements

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

- full year results are announced in late November;
- Annual Reports are released in late December;
- TOWER's Notice of Annual Meeting is sent to shareholders in late December or mid January;
- half year results are announced in late May; and
- Half Year Reports are released in late June.

Credit Rating

Global rating organisation A.M. Best Company has issued the following ratings of companies in the TOWER Group as at 2 August 2010:

TOWER Health & Life Limited
Financial Strength Rating A- (Excellent)
Issuer Credit Rating a-

TOWER Insurance Limited
Financial Strength Rating A- (Excellent)
Issuer Credit Rating a-

TOWER Life (N.Z.) Limited
Financial Strength Rating A- (Excellent)
Issuer Credit Rating a-

TOWER Limited
Issuer Credit Rating bbb-

Shareholder Analysis

TOWER's shares are quoted on both the NZSX and ASX. As at 30 November 2010, 27,182 TOWER shareholders held less than A$500 of TOWER shares (ie, less than a marketable parcel as defined in the ASX Listing Rules), holding a total of 5,160,726 TOWER shares.

Total Voting Securities

As at 30 November 2010, TOWER had 260,631,787 ordinary shares and 6,200,000 share options on issue. TOWER's ordinary shares each carry a right to vote on any resolution on 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. Share options issued under the TOWER Executive Share Option Plan do not carry any right to vote. There are currently 12 holders of options.

Substantial Security Holders

At 30 November 2010 the following security holders are a substantial security holder in TOWER and hold the number of securities noted:

- Guinness Peat Group plc - 90,499,166 ordinary shares
- Orbis Investment Management (Australia) Pty Ltd - 16,099,747 ordinary shares

Principal Shareholders

The names and holdings of the 20 largest registered TOWER shareholders as at 30 November 2010 are:

Rank	Name	Shares	% of Shares
1.	ITHACA (CUSTODIANS) LIMITED	90,499,166	34.72
2.	ACCIDENT COMPENSATION CORPORATION - NZCSD	11,311,765	4.34
3.	HSBC NOMINEES (NEW ZEALAND) LIMITED A/C STATE STREET - NZCSD	10,008,368	3.84
4.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,812,031	3.38
5.	TEA CUSTODIANS LIMITED - NZCSD	8,554,175	3.28
6.	JP MORGAN NOMINEES AUSTRALIA LIMITED	6,287,175	2.41
7.	NEW ZEALAND SUPERANNUATION FUND NOMINEES LIMITED - NZCSD	6,076,005	2.33
8.	CITIBANK NOMINEES (NEW ZEALAND) LIMITED - NZCSD	5,591,713	2.15
9.	NATIONAL NOMINEES NEW ZEALAND LIMITED - NZCSD	5,129,889	1.97
10.	HSBC NOMINEES (NEW ZEALAND) LIMITED - NZCSD	4,998,786	1.92
11.	NATIONAL NOMINEES LIMITED	4,844,504	1.86
12.	AMP INVESTMENTS STRATEGIC EQUITY GROWTH FUND - A/C NZCSD	3,822,384	1.47
13.	FNZ CUSTODIANS LIMITED	2,186,098	0.84
14.	FORSYTH BARR CUSTODIANS LIMITED	1,735,175	0.67
15.	ASTERON LIFE LIMITED - NZCSD	1,659,184	0.64
16.	INVESTMENT CUSTODIAL SERVICES LIMITED	1,439,814	0.55
17.	CITICORP NOMINEES PTY LIMITED	1,254,910	0.48
18.	NEW ZEALAND DEPOSITORY NOMINEE LIMITED <A/C 1 CASH ACCOUNT>	1,198,684	0.46
19.	CUSTODIAL SERVICES LIMITED	995,000	0.38
20.	CUSTODY AND INVESTMENT NOMINEES LIMITED - A/C NZCSD	986,163	0.38
Total		**177,390,989**	**68.06**

TOWER Limited Shareholder Statistics (as at 30 November 2010)

Size of Holdings	Number of holders	%	Number of shares	%
1-1,000	44,692	80.59	14,957,494	5.74
1,001 - 5,000	8,456	15.25	17,240,605	6.61
5,001 - 10,000	1,184	2.14	8,331,600	3.2
10,001 - 100,000	1,034	1.86	24,159,489	9.27
100,001 and over	87	0.16	195,942,599	75.18
Total	55,453	100.00	260,631,787	100.00

TOWER Limited Optionholder Statistics (as at 30 November 2010)

Size of Holdings	Number of holders	%	Number of options	%
1-1,000	-	-	-	-
1,001 - 5,000	-	-	-	-
5,001 - 10,000	-	-	-	-
10,001 - 100,000	4	33.33	400,000	6.45
100,001 and over	8	66.67	5,800,000	93.55
Total	**12**	**100.00**	**6,200,000**	**100.00**

TOWER Capital Limited Bondholder Statistics (as at 30 November 2010)

Size of Holdings	Number of holders	%	$ bonds	%
1 to 5,000	234	13.21	1,170,000	1.43
5,001 to 10,000	471	26.60	4,549,000	5.56
10,001 to 50,000	876	49.46	25,070,000	30.66
50,001 to 100,000	118	6.66	10,205,000	12.48
100,001 and over	72	4.07	40,765,000	49.86
Total	1,771	100.00	81,759,000	100.00

TOWER Limited and TOWER Capital 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 by shareholders.

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.

General disclosures of interest

During the financial year directors of TOWER and TOWER Capital disclosed interest, or a cessation of interest (indicated by (C)), in the following entities pursuant to section 140 of the Companies Act 1993. No disclosures were made by directors of any other members of the TOWER Group.

Tony Gibbs	Aeneid Seventeen Limited	Director
	Coats plc	Director (C)
	Coats Holdings Limited	Director (C)
	Ezypeel Mandarins Limited	Director
	GPG Twenty One Limited	Director (C)
	Guinness Peat Group Shares Limited	Director (C)
	Guinness Peat Group New Zealand Limited	Director (C)
	Guinness Peat Group plc	Director (C)
	Ithaca (Custodians) Limited	Director (C)
	Turners & Growers Limited	Chairman
Bill Falconer	Energy Intellect Limited	Chairman
	Hellaby Holdings Limited	Chairman (C)
	Karapiro 2010 Limited	Chairman
	Meat Industry Association Inc	Chairman
	New Zealand Symphony Orchestra	Director
	Primary Growth Partnership Investment Advisory Panel	Chairman
	Stream Information Limited	Director
	Waterfront Partnership	Director
	Westfield Trust (NZ) Limited	Director
Mike Jefferies	Capral Limited	Director
	ClearView Wealth Limited	Director
	Metals X Limited	Director
	OzGrowth Limited	Director
	Touch Holdings Limited	Chairman
John Spencer	Allied Nationwide Finance Limited	Director (C)
	AsureQuality Limited	Chairman
	DairyNZ Limited	Director
	Legal Services Agency Board	Deputy Chairman (C)
	New Zealand Railways Corporation	Chairman
	Solid Energy New Zealand	Deputy Chairman (C)
	Tainui Group Holdings Limited	Chairman
	Telfer Young Limited	Chairman
	WEL Networks Limited	Chairman
Susie Staley	Allied Nationwide Finance Limited	Director (C)
	Chatsford Management Limited	Chairman
	Maritime New Zealand Limited	Chairman (C)
	University of Otago Foundation Trust	Trustee (C)
Denis Wood	Mercy Hospice Auckland Limited	Chairman
	Genesis Power Limited	Director

Specific disclosures of interests

During the financial year, no member of the TOWER Group entered into any transactions in which directors were interested. Accordingly, no disclosures of interest were made.

Indemnity and Insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of the Company, the Company has provided insurance for and indemnities to, directors and employees of the TOWER Group for losses from actions undertaken in the course of their duties. The insurance includes indemnity costs and expenses incurred to defend an action that falls outside the scope of the indemnity. Particulars have been entered in the Interests Register pursuant to section 162 of the Companies Act 1993.

Use of Company information by Directors

No member of the Board of TOWER, 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' shareholdings

At 30 September 2010 TOWER Limited directors held the following interests in the Company's shares:

	Ordinary Shares	
Director	Beneficial	Associated Persons
Tony Gibbs	6,200	
Bill Falconer	12,174	
Rob Flannagan	733	
Mike Jefferies	3,263	90,499,166
John Spencer	20,511	
Susie Staley	8,165	
Denis Wood	121,896	

Rob Flannagan also holds 3,000,000 Tranche E share options, details of which are disclosed in note 37 to the TOWER Limited Financial Statements and, in his capacity as a director of the trustee of the TOWER Executive Share Option Plan, has an interest in 20,276 shares and 6,200,000 share options held by the trustee.

Directors' trading in TOWER securities

TOWER Limited directors disclosed the following acquisitions (and no disposals) of relevant interests in TOWER securities during the financial year pursuant to section 148 of the Companies Act 1993. All acquisitions were under TOWER's dividend reinvestment plan. All interests are beneficial.

Director	Date	Number acquired	Consideration
Tony Gibbs	2/02/2010 2/07/2010	250 128	$2.007 per share $1.82 per share
Bill Falconer	2/02/2010 2/07/2010	7 4	$2.007 per share $1.82 per share
Rob Flannagan	2/02/2010 2/07/2010	30 15	$2.007 per share $1.82 per share
Mike Jefferies	2/02/2010 2/07/2010	144 70	$2.007 per share $1.82 per share
John Spencer	2/02/2010 2/07/2010	827 423	$2.007 per share $1.82 per share
Susie Staley	2/02/2010 2/07/2010	329 168	$2.007 per share $1.82 per share
Denis Wood	2/02/2010 2/07/2010	4912 2511	$2.007 per share $1.82 per share

At 30 September 2010, TOWER Capital directors held the following beneficial interests in TOWER Capital Senior Bonds:

Director	Holding $
Tony Gibbs	1,000,000
Bill Falconer	50,000
John Spencer	50,000
Susie Staley	65,000
Denis Wood	75,000

Buy-backs

TOWER is not, at the date of this annual report, undertaking any on-market share buy-backs.

TOWER Subsidiary Company Director Disclosures

The following persons held office as directors of subsidiary companies at 30 September 2010. Those who retired during the year are indicated with an (R).

TOWER Capital Limited	A I Gibbs, W J Falconer, R A Flannagan, M L Jefferies, J L Spencer, S A Staley, D M Wood
TOWER Financial Services Group Limited	R A Flannagan, E J O'Sullivan
TOWER Option Scheme Limited	R A Flannagan, E J O'Sullivan
TOWER Investments Limited	R A Flannagan, E J O'Sullivan
The National Insurance Company of New Zealand	R A Flannagan, E J O'Sullivan
TOWER New Zealand Limited	R A Flannagan, E J O'Sullivan
TOWER Asset Management Limited	R A Flannagan, E J O'Sullivan, M E Parrot, A J K Stubbs
TOWER Managed Funds Limited	R A Flannagan, E J O'Sullivan, M E Parrot, A J K Stubbs
TOWER Employee Benefits Limited	R A Flannagan, E J O'Sullivan, M E Parrot, A J K Stubbs
TOWER Managed Funds Investments Limited	R A Flannagan, E J O'Sullivan, M E Parrot, A J K Stubbs
TOWER Health & Life Limited	R A Flannagan, E J O'Sullivan, S J Boomert, J E Douglas
TOWER Insurance Limited	R A Flannagan, E J O'Sullivan (R), S J Boomert, J E Douglas
TOWER Life Limited	R A Flannagan, E J O'Sullivan, S J Boomert, J E Douglas
TOWER Life (N.Z.) Limited	R A Flannagan, E J O'Sullivan, S J Boomert, J E Douglas
TOWER Medical Insurance Limited	R A Flannagan, E J O'Sullivan, S J Boomert, J E Douglas
National Insurance Company (Holdings) Limited	R A Flannagan, J E Douglas, R D Warburton (R), P Absell
TOWER Insurance (Fiji) Limited	R A Flannagan, J E Douglas, R D Warburton (R), P Absell
Southern Pacific Insurance Company (Fiji) Limited	R A Flannagan, J E Douglas, R D Warburton (R), P Absell
TOWER Insurance (Cook Islands) Limited	R A Flannagan, J E Douglas, R D Warburton (R)
TOWER Insurance (PNG) Limited	R A Flannagan, J E Douglas, R D Warburton (R), W Beilby, G McIlwain
Southern Cross Marine Limited	R A Flannagan, J E Douglas, R D Warburton (R), W Beilby
National Pacific Insurance Limited	J E Douglas, R D Warburton (R), M Reid, N Paul Snr (R), L A C Ting, D Williamson, A Parkinson
National Pacific Insurance (Tonga) Limited	J E Douglas, R D Warburton (R), M Reid, N Paul Snr (R), L A C Ting, D Williamson, A Parkinson

Apart from TOWER Capital and 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 in his/her role as a Director. The number of such employees who receive remuneration of more than $100,000 is included in the remuneration table on page 16. Auditor fees are paid on behalf of the Group as disclosed in the financial statements.

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 below, 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).

Waivers

On 27 May 2010, NZX Regulation approved TOWER's application for a waiver from NZSX Listing Rule 7.11.1. Listing Rule 7.11.1 requires that an issuer making an issue must proceed to allotment within five business days after the latest date on which applications for securities close.

Applications to participate in TOWER's dividend reinvestment plan (**DRP**) close on the record date for each dividend to which the DRP applies, and the issue price is calculated over the 5 business days following the record date. This means that the issue of TOWER shares under the DRP is in breach of Listing Rule 7.11.1.

NZX Regulation granted TOWER a waiver from Listing Rule 7.11.1 on the basis that:

- TOWER must allot shares pursuant to the DRP on the same day that dividends are paid to shareholders who do not elect to participate in the DRP; and
- if the DRP does not proceed to allotment, and money is returned to subscribers, TOWER will refund any such monies to those who have elected to participate in the DRP at the same time as shareholders who do not elect to participate in the DRP.

Donations

The TOWER Group did not make any donations during the financial year.

Dividend and Dividend Reinvestment Plan

A final dividend of 6 cents per share, net of tax, is due to be paid by TOWER on 25 January 2011 (**Payment Date**) to all shareholders on the register as at 5pm on Friday 14 January 2011 (**Record Date**). No dividend is proposed to be paid by TOWER Capital.

Shareholders with a New Zealand or Australian address on the Company's register will be able to elect to participate in the DRP up to the Record Date. Ordinary shares will be issued on the Payment Date to all shareholders who elect to participate in the DRP at a strike price equal to 97.5% of the volume weighted average price of the Company's ordinary shares on NZX on the five trading days following the Record Date. The cash dividend that would otherwise be payable to these shareholders will be applied to pay up the issue price on the shares issued under the DRP. The shares issued under the DRP will rank equally with all existing ordinary shares of the Company.

If the shareholder is tax resident in New Zealand, the dividend will be fully credited with imputation credits at the ratio of 30/70 or 42.85%, being $0.025714 per share. TOWER will withhold resident withholding tax where applicable.

If the shareholder is tax resident in a jurisdiction other than New Zealand where the non-resident withholding tax rate is 15% or more and holds a shareholding of less than 10% in TOWER, the dividend will be credited with imputation credits of $0.015126 per share and a supplementary dividend of $0.010588 will be paid. The total ratio of the imputation credits and supplementary dividend is 30/70 or 42.85%. TOWER will withhold non-resident withholding tax where applicable.

If the shareholder is not tax resident in New Zealand and their shareholding interest in TOWER is either 10% or more, or less than 10% and the non-resident withholding tax rate is less than 15%, the dividend will be fully credited with imputation credits at the ratio of 30/70 or 42.85%, being $0.025714 per share.

No franking credits will be attached.

Shareholders with a New Zealand or Australian address on the Company's register can elect in respect of any future dividends that may be declared by TOWER:

- to participate in the DRP by completing a Participation Notice. A Participation Notice and the DRP Offer Document can be obtained by contacting the Share Registry, Computershare Investor Services; or
- to be paid in cash by direct credit to their nominated bank account by completing a dividend instruction form, which can also be obtained by contacting Computershare Investor Services.

This Annual Report is signed on behalf of the Board by

A I (Tony) Gibbs CNZM
Chairman

Rob Flannagan
Group Managing Director

TOWER Limited Financial Statements

For the year ended 3o September 2010

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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Independent Auditors' Report

to the shareholders of TOWER Limited

Report on the Financial Statements

We have audited the financial statements of TOWER Limited on pages 28 to 84 which comprise the balance sheets as at 30 September 2010, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 September 2010 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, TOWER Limited or any of its subsidiaries other than in our capacities as auditors and providers of other assurance, advisory and taxation services.

PRICEWATERHOUSECOOPERS

Independent Auditors' Report

TOWER Limited

Opinion

In our opinion, the financial statements on pages 28 to 84:

(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 the Group as at 30 September 2010, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2010:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants — Auckland

25 November 2010

TOWER Limited
Income Statements

For the year ended 3o September 2010

		Group		Company	
		2010	2009	2010	2009
	Note	$000	$000	$000	$000
Revenue					
Premium revenue from insurance contracts		423,975	423,759	-	-
Less: Outwards reinsurance expense		(40,474)	(35,442)	-	-
Net premium revenue	4	383,501	388,317	-	-
Investment revenue	5	147,564	59,151	32,921	169,159
Fee and other revenue	6	33,097	34,312	-	-
Net operating revenue		**564,162**	**481,780**	**32,921**	**169,159**
Expenses					
Claims expense		348,464	308,467	-	-
Less: Reinsurance recoveries revenue		(73,583)	(38,468)	-	-
Net claims expense	7	**274,881**	**269,999**	**-**	**-**
Increase/(decrease) in policy liabilities	8	12,324	(38,599)	-	-
Management and sales expenses	9(a)	173,048	181,607	581	666
Net claims and operating expenses		**460,253**	**413,007**	**581**	**666**
Financing costs	9(b)	7,552	8,297	-	-
Total expenses		**467,805**	**421,304**	**581**	**666**
Profit before taxation		**96,357**	**60,476**	**32,340**	**168,493**
Tax expense attributed to policyholders' returns	10(a)	(25,700)	(3,764)	-	-
Profit attributed to shareholders before taxation		**70,657**	**56,712**	**32,340**	**168,493**
Tax (expense)/credit attributed to shareholders' profits	10(a)	(12,592)	(6,627)	232	152
Profit for the year	3	**58,065**	**50,085**	**32,572**	**168,645**
Profit attributed to:					
Shareholders		57,554	49,537	32,572	168,645
Minority interests		511	548	-	-
		58,065	**50,085**	**32,572**	**168,645**
		Cents	**Cents**		
Basic and diluted earnings per share	42	22.33	24.31		

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

TOWER Limited
Statements of Comprehensive Income

For the year ended 3o September 2010

	Note	Group 2010 $000	Group 2009 $000	Company 2010 $000	Company 2009 $000
Profit for the year	3	**58,065**	**50,085**	**32,572**	**168,645**
Other comprehensive income:					
Currency translation differences		2,073	(3,761)	-	-
Other comprehensive income/(loss) net of taxation		2,073	(3,761)	-	-
Total comprehensive income for the year		**60,138**	**46,324**	**32,572**	**168,645**
Total comprehensive income/(loss) attributed to:					
Shareholders		59,906	46,653	32,572	168,645
Minority interests		232	(329)	-	-
		60,138	**46,324**	**32,572**	**168,645**

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

TOWER Limited
Balance Sheets

As at 3o September 2010

		Group		Company	
		2010	2009	2010	2009
	Note	$000	$000	$000	$000
Assets					
Cash and cash equivalents	34	207,842	146,381	85,420	84,392
Receivables	11	218,271	141,253	16,380	246,752
Financial assets at fair value through profit or loss	30	953,818	1,076,595	-	-
Derivative financial assets	30	71,217	53,410	-	-
Liabilities ceded under reinsurance	28	16,065	14,450	-	-
Property, plant and equipment	16	6,629	6,030	-	-
Prepaid tax assets	10(c)	25,587	34,732	2,111	2,111
Current tax assets		-	1,164	-	-
Deferred acquisition costs	15	43,587	45,096	-	-
Investments in subsidiaries	14	-	-	215,010	190,172
Deferred tax assets	10(d)	19,606	32,650	-	-
Intangible assets	13	55,022	39,178	-	-
Total Assets		**1,617,644**	**1,590,939**	**318,921**	**523,427**
Liabilities					
Payables	17	53,896	62,123	207,849	421,673
Current tax liabilities		3,362	-	-	-
Other liabilities	21	-	22,745	-	-
Provisions	18	8,525	7,594	-	-
Derivative financial liabilities	30	2,044	21,305	-	-
Interest bearing liabilities	19	80,602	80,002	-	-
Insurance liabilities	20	328,794	279,700	-	-
Deferred tax liabilities	10(d)	47,510	38,619	-	-
Life insurance contract liabilities	28	619,820	641,753	-	-
Life investment contract liabilities	28	31,759	32,650	-	-
Total Liabilities		**1,176,312**	**1,186,491**	**207,849**	**421,673**
Net Assets		**441,332**	**404,448**	**111,072**	**101,754**
Equity					
Contributed equity	22	558,762	547,680	558,762	547,680
Accumulated losses	23	(12,021)	(35,128)	(337,402)	(335,527)
Reserves	24	(108,332)	(110,795)	(110,288)	(110,399)
Total equity attributed to shareholders		**438,409**	**401,757**	**111,072**	**101,754**
Minority interests		2,923	2,691	-	-
Total Equity		**441,332**	**404,448**	**111,072**	**101,754**

The financial statements were approved for issue by the Board on 25 November 2010.

Al (Tony) Gibbs
Chairman

John Spencer
Director

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

TOWER Limited
Statements of Changes in Equity

For the year ended 3o September 2010

	Attributed to shareholders					
	Share capital	Accumulated losses	Reserves	Total	Minority interest	Total equity
Group	$000	$000	$000	$000	$000	$000
Year ended 30 September 2010						
At the beginning of the year	**547,680**	**(35,128)**	**(110,795)**	**401,757**	**2,691**	**404,448**
Comprehensive income						
Profit for the year	-	57,554	-	**57,554**	511	**58,065**
Currency translation differences	-	-	2,352	**2,352**	(279)	**2,073**
Total comprehensive income	-	57,554	2,352	**59,906**	232	**60,138**
Transactions with shareholders						
Shares issued under dividend reinvestment plan	10,526	-	-	**10,526**	-	**10,526**
Shares issued under employee share options scheme	426	-	-	**426**	-	**426**
Movement in share based payment reserve	-	227	111	**338**	-	**338**
Dividends paid	-	(34,674)	-	**(34,674)**	-	**(34,674)**
Movement in treasury shares	130	-	-	**130**	-	**130**
Total transactions with shareholders	11,082	(34,447)	111	**(23,254)**	-	**(23,254)**
At the end of the year	**558,762**	**(12,021)**	**(108,332)**	**438,409**	**2,923**	**441,332**
Year ended 30 September 2009						
At the beginning of the year	**465,323**	**(66,453)**	**(107,670)**	**291,200**	**3,020**	**294,220**
Comprehensive income						
Profit for the year	-	49,537	-	**49,537**	548	**50,085**
Currency translation differences	-	-	(2,884)	**(2,884)**	(877)	**(3,761)**
Total comprehensive income	-	49,537	(2,884)	**46,653**	(329)	**46,324**
Transactions with shareholders						
Shares issued under dividend reinvestment plan	3,310	-	-	**3,310**	-	**3,310**
Shares issued under employee share options scheme	257	-	-	**257**	-	**257**
Shares issued under rights issue	78,690	-	-	**78,690**	-	**78,690**
Movement in share based payment reserve	-	1,372	(241)	**1,131**	-	**1,131**
Dividends paid	-	(19,467)	-	**(19,467)**	-	**(19,467)**
Movement in treasury shares	100	-	-	**100**	-	**100**
Other	-	(117)	-	**(117)**	-	**(117)**
Total transactions with shareholders	82,357	(18,212)	(241)	**63,904**	-	**63,904**
At the end of the year	**547,680**	**(35,128)**	**(110,795)**	**401,757**	**2,691**	**404,448**

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

TOWER Limited
Statements of Changes in Equity (continued)

For the year ended 3o September 2010

Company	Share capital $000	Accumulated losses $000	Reserves $000	Total equity $000
Year ended 30 September 2010				
At the beginning of the year	**547,680**	**(335,527)**	**(110,399)**	**101,754**
Comprehensive income				
Profit for the year	-	32,572	-	**32,572**
Total comprehensive income	-	32,572	-	**32,572**
Transactions with shareholders				
Shares issued under dividend reinvestment plan	10,526	-	-	**10,526**
Shares issued under employee share options scheme	426	-	-	**426**
Movement in share based payment reserve	-	227	111	**338**
Dividends paid	-	(34,674)	-	**(34,674)**
Movement in treasury shares	130	-	-	**130**
Total transactions with shareholders	11,082	(34,447)	111	**(23,254)**
At the end of the year	**558,762**	**(337,402)**	**(110,288)**	**111,072**
Year ended 30 September 2009				
At the beginning of the year	**465,323**	**(485,960)**	**(110,158)**	**(130,795)**
Comprehensive income				
Profit for the year	-	168,645	-	**168,645**
Total comprehensive income	-	168,645	-	**168,645**
Transactions with shareholders				
Shares issued under dividend reinvestment plan	3,310	-	-	**3,310**
Shares issued under employee share options scheme	257	-	-	**257**
Shares issued under rights issue	78,690	-	-	**78,690**
Movement in share based payment reserve	-	1,372	(241)	**1,131**
Dividends paid	-	(19,467)	-	**(19,467)**
Movement in treasury shares	100	-	-	**100**
Other	-	(117)	-	**(117)**
Total transactions with shareholders	82,357	(18,212)	(241)	**63,904**
At the end of the year	**547,680**	**(335,527)**	**(110,399)**	**101,754**

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

TOWER Limited
Statements of Cash Flows

For the year ended 3o September 2010

		Group		Company	
		2010	2009	2010	2009
	Note	$000	$000	$000	$000
Cash flows from operating activities					
Premiums received		423,565	420,764	-	-
Interest received		39,179	43,384	3,096	112
Dividends received		2,418	6,964	-	-
Investment income		47,740	17,105	-	-
Non-life company fee income		33,097	42,663	-	-
Reinsurance received		31,447	17,178	-	-
Reinsurance paid		(42,945)	(29,082)	-	-
Claims expenses		(337,646)	(294,770)	-	-
Payments to suppliers and employees		(168,320)	(184,441)	(14)	(10)
Interest paid		(6,952)	(8,519)	-	-
Income tax paid		(5,220)	(5,871)	-	-
Net cash inflow from operating activities	34(b)	**16,363**	**25,375**	**3,082**	**102**
Cash flows from investing activities					
Net receipts for financial assets		116,689	10,722	-	-
Net payments for purchase of property, plant and equipment and intangible assets		(21,812)	(6,137)	-	-
Net cash inflow from investing activities		**94,877**	**4,585**	**-**	**-**
Cash flows from financing activities					
Proceeds from issue of share capital		528	81,795	528	81,795
Proceeds from issue of fixed rate senior unsecured bonds		-	81,759	-	-
Payment of rights issue costs		-	(465)	-	-
Payment of issue costs of senior unsecured bonds		-	(3,499)	-	-
Repayment of borrowings		-	(85,000)	-	-
Dividends paid		(24,144)	(16,157)	(24,144)	(16,157)
Payment of supplementary dividends		(1,142)	-	(1,142)	-
Repayment of FuturePlan debenture		(25,021)	-	-	-
Net advances from subsidiaries		-	-	22,704	16,001
Net cash (outflow)/inflow from financing activities		**(49,779)**	**58,433**	**(2,054)**	**81,639**
Net increase in cash and cash equivalents		**61,461**	**88,393**	**1,028**	**81,741**
Cash and cash equivalents at the beginning of year		146,381	57,988	84,392	2,651
Cash and cash equivalents at the end of year	34(a)	**207,842**	**146,381**	**85,420**	**84,392**

Note:

The statements of cash flows present the net changes in cash flow for financial assets, property, plant and equipment, intangible assets and advances to subsidiaries. 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 the value of the sales are immaterial.

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

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.

TOWER Limited (the Company) is a profit-oriented company incorporated in New Zealand under the New Zealand Companies Act 1993. The Company is listed on the New Zealand and Australian Stock Exchanges. The Company is an issuer under the Financial Reporting Act 1993. The Company and its subsidiaries together are referred to in this financial report as TOWER, or the Group, or the consolidated entity.

The financial report of the Company and the Group has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). It complies with New Zealand Equivalents to International Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for profit-oriented entities.

The financial statements were authorised for issue by the Board of Directors on 25 November 2010.

The principal activity of the TOWER Group is providing health, life and general insurance and investment management services. The Group predominantly operates in New Zealand with some of its general insurance operations based in the Pacific Islands region.

Compliance with International Financial Reporting Standards (IFRS)

The consolidated financial statements and notes of TOWER Limited comply with International Financial Reporting Standards (IFRS).

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 the Company as at 30 September 2010 and the results of all subsidiaries for the year then ended.

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, income statement and statement of comprehensive income.

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

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

SPECIFIC ACCOUNTING POLICIES

(A) PREMIUM REVENUE

(i) 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.

(ii) 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.

(iii) 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:

(i) Dividends and distributions

Revenue is recognised on an accrual basis when the right to receive payment is established.

(ii) Property income

Property income is recognised on an accrual basis.

(iii) Interest income

Interest income is recognised on an effective interest method.

(iv) Fair value gains and losses

Fair value gains and losses on financial assets at fair value through profit or loss are recognised through the income statement in the period in which they arise.

(D) CLAIMS EXPENSE

(i) 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.

(ii) 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.

(iii) Health and general insurance contracts

Claims expenses are recognised when claims are notified with the exception of claims incurred not reported for which a provision is estimated (discussed in Note 2(B)).

(E) BASIS OF EXPENSE APPORTIONMENT

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

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

(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), and amortisation of transaction costs.

(I) TAXATION

(i) 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).

(ii) 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.

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

(iii) 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. All members of the tax consolidated group are jointly and severally liable for the tax liabilities of the Group.

(iv) Income tax expense

The income tax expense 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.

(v) GST

All revenues, expenses and certain 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.

Cash flows are included in the statements of cash flows on a net basis to the extent that the GST is not recoverable and has been included in the expense or asset.

(J) FOREIGN CURRENCY

(i) 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.

(ii) 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.

(iii) 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 statement of comprehensive income and the statement of changes in equity.

Goodwill and fair value adjustments arising on the acquisition of a

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement 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 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 be the fair value.

(M) PROPERTY, PLANT AND EQUIPMENT

Property, 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.

Computer equipment	3-5 years
Furniture & fittings	5 years
Motor vehicles	5 years
Buildings	50-100 years
Leasehold property improvements	3-12 years

(N) ASSETS BACKING INSURANCE BUSINESS

The Group has determined that:

- all assets 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 measured 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 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, and
- receivables are carried at book value, which is the best estimate of fair value as they are settled within a short period.

(O) EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary 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 year, adjusted for bonus elements of 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.

(P) INTANGIBLES

(i) 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 acquiree are assigned to those units or groups of units.

Any impairment is recognised immediately in the income statement.

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

(ii) 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.

General use computer software	3-5 years
Core operating system software	10 years

(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 finite 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 AND OTHER FINANCIAL INSTRUMENTS

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

All purchases and sales of financial assets classified as fair value through profit or loss that require delivery within the timeframe established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date the Group commits to purchase or sell the assets. Loans and receivables are recognised at settlement date, which is the date that the assets are delivered or received.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of financial assets that are either held for trading or designated on initial recognition at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Designation by management takes place when it is necessary to eliminate or significantly reduce measurement or recognition inconsistencies or if related financial assets or liabilities are managed and evaluated on a fair value basis.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement includes any dividend or interest earned on the financial assets.

Derivatives are categorised as held for trading unless they are designated as hedges. All derivatives entered into by the Group are classified as held for trading as the Group does not apply hedge accounting.

(iii) Fair value

The fair value of the Group's financial assets and liabilities that are measured at fair value is determined based on available market prices or using appropriate valuation methods. Financial instruments carried at fair value are categorised into the three level fair value hierarchy based on significance of inputs used in the measurement. Level 1 includes inputs of quoted prices in active markets for identical assets on liabilities. Level 2 includes inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 3 includes inputs for the assets or liabilities that are not based on observable market data.

(T) IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, with the exception of those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

For all financial assets, other than trade receivables, the carrying amount is reduced by the impairment loss directly. For trade receivables the carrying amount is reduced via an allowance account, against which an uncollectible trade receivable is written off.

A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Group will be unable to collect the amount. Changes in the carrying amount of the allowance account are recognised in the income statement.

A previously recognised impairment loss is reversed when, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was initially recognised.

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are credited against the allowance account.

(U) LEASED ASSETS

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.

(V) INTEREST BEARING LIABILITIES

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 liability is recognised over the term of the liability.

(W) PAYABLES

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

(X) 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.

(Y) 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.

(Z) 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.

(AA) LIFE INVESTMENT CONTRACT LIABILITIES

These contracts are designated at inception as at fair value through profit or loss and subsequently measured at fair value with any change in value being recognised in the income statement. Fair value is the current account balance plus investment fluctuation reserves subject to a minimum of current surrender value.

The Group designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising gains or losses on different basis.

(AB) 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Chief Actuary based on the zero coupon 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.

(AC) 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.

(AD) CONTRIBUTED EQUITY

(i) Ordinary share capital

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

(ii) Treasury shares

Where TOWER acquires its own equity instruments (treasury shares), these are deducted from equity and accounted for at weighted average cost. No gain or loss is recognised in the income statement on purchase, sale, issue or cancellation of the Group's own equity instruments.

(AE) SHARE BASED PAYMENTS

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

These options are measured at fair value at grant date and expensed 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.

(AF) SEGMENT REPORTING

An operating 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 operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM) who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance. The chief operating decision-maker has been identified as the Company's Board of Directors.

(AG) CODE OF CONDUCT DISCLOSURE – CHIEF ACTUARY

TOWER's Chief Actuary's remuneration includes bonuses that are, in part, dependent upon the reported profits of the Group. The policy liabilities are assessed by him therefore impact his total remuneration.

(AH) COMPARATIVES

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with the current year.

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.

(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 Group'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 Group 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 28.

In prior years, life insurance policy liabilities were calculated using a net of tax basis with the associated deferred tax liability implicitly embedded within the life insurance liabilities. This deferred tax was extracted and separately recorded as part of the Group's deferred tax balance. In 2010 life insurance policy liabilities have been calculated using a gross of tax basis and the deferred tax liability is now separately calculated. This has not resulted in a material change in the Group's results.

(B) CLAIMS LIABILITIES UNDER HEALTH AND 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; and
- 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 29.

(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 Group may not receive amounts due to it and these amounts can be reliably measured.

3. UNDERLYING PROFIT AFTER TAX

Underlying profit after tax is presented to provide a more meaningful comparison of the Group's profit for the reported financial years. The movement in the discount rate during the 2010 and 2009 financial years impacted the individual life risk policy liabilities and increased Group profit after tax.

The discount rate applied to value individual life risk policy liabilities (included within life insurance contract liabilities in Note 28) is based on the current risk-free interest rates. The decline in the risk-free interest rates lead to a change in the value of individual life risk policy liabilities, generating a net gain of $6,025,000 in the year (2009: $3,148,000).

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
Underlying profit after tax	52,040	46,937	32,572	168,645
Add:				
Discount rate effect before tax	5,999	3,129	-	-
Income tax on discount rate effect	26	19	-	-
Discount rate effect after tax	**6,025**	**3,148**	**-**	**-**
Profit for the year	**58,065**	**50,085**	**32,572**	**168,645**

	Group 2010 $000	Group 2009 $000	Company 2010 $000	Company 2009 $000
4. PREMIUM REVENUE				
Life insurance premiums	86,326	86,880	-	-
Life investment premiums	469	530	-	-
Total life premiums	**86,795**	**87,410**	-	-
Less: Deposits recognised as an increase in policy liabilities	(3,598)	(9,971)	-	-
Life insurance contract premiums recognised as revenue	**83,197**	**77,439**	-	-
General insurance premiums	204,844	214,619	-	-
Health insurance premiums	135,934	131,701	-	-
	423,975	**423,759**	-	-
Less: Reinsurance expense	(40,474)	(35,442)	-	-
Total net premium revenue	**383,501**	**388,317**	-	-
5. INVESTMENT REVENUE				
Fixed interest securities [1]				
Interest income	36,366	43,384	521	159
Net realised gain	2,821	5,420	-	-
Net unrealised gain	2,112	1,907	-	-
	41,299	**50,711**	**521**	**159**
Equity securities [1]				
Dividend income	2,418	6,964	32,400	169,000
Net realised loss	(1,817)	(14,140)	-	-
Net unrealised gain	17,497	4,122	-	-
	18,098	**(3,054)**	**32,400**	**169,000**
Property securities [1]				
Property income	2,234	158	-	-
Net realised gain	6	590	-	-
Net unrealised gain/(loss)	4,105	(11,225)	-	-
	6,345	**(10,477)**	**-**	**-**
Other [2]				
Other investment income	10,040	3,520	-	-
Net realised gain	33,714	25,078	-	-
Net unrealised gain/(loss)	38,068	(6,627)	-	-
	81,822	**21,971**	**-**	**-**
Total investment revenue				
Total investment revenue	51,058	54,026	32,921	169,159
Total net realised gain	34,724	16,948	-	-
Total net unrealised gain/(loss)	61,782	(11,823)	-	-
	147,564	**59,151**	**32,921**	**169,159**

[1] *The income and loss in these categories has been generated by financial assets designated on initial recognition at fair value through profit or loss.*

[2] *Other investment income has been generated by derivative financial assets and financial liabilities classified as held for trading at fair value through profit or loss.*

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
6. FEE AND OTHER REVENUE				
Investment and management fees	32,973	34,312	-	-
Other revenue	124	-	-	-
Total fee and other revenue	**33,097**	**34,312**	**-**	**-**
7. CLAIMS EXPENSE				
Life insurance claims	120,491	91,644	-	-
Life investment contract payments	3,528	2,846	-	-
Total life claims and payments	**124,019**	**94,490**	**-**	**-**
Less: Withdrawals recognised as a decrease in policy liabilities	(37,314)	(15,769)	-	-
Life insurance claims recognised as expense	**86,705**	**78,721**	**-**	**-**
General insurance claims	166,452	146,621	-	-
Health insurance claims	95,307	83,125	-	-
	348,464	**308,467**	**-**	**-**
Less: Reinsurance recoveries revenue	(73,583)	(38,468)	-	-
Total net claims expense	**274,881**	**269,999**	**-**	**-**
8. MOVEMENT IN POLICY LIABILITIES				
Increase/(decrease) in life insurance contract liabilities	8,479	(40,662)	-	-
Increase/(decrease) in life investment contract liabilities	2,168	(117)	-	-
Increase in non-current health insurance contract liabilities	1,677	2,180	-	-
Increase/(decrease) in policy liabilities	**12,324**	**(38,599)**	-	-

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
9. OTHER EXPENSES				
(A) MANAGEMENT AND SALES EXPENSES				
Life insurance contracts				
Policy acquisition expenses:				
Commission	13,995	11,863	-	-
Other acquisition expenses	2,623	5,262	-	-
Policy maintenance expenses:				
Commission	6,011	5,249	-	-
Other maintenance expenses	4,694	8,671	-	-
Investment management expenses	480	223	-	-
Total life insurance expenses	**27,803**	**31,268**	**-**	**-**
Life investment contracts				
Policy maintenance expenses:				
Commission	16	21	-	-
Other acquisition expenses	12	11	-	-
Total life investment expenses	**28**	**32**	**-**	**-**
Other non-life expenses	145,217	150,307	581	666
Total management and sales expenses	**173,048**	**181,607**	**581**	**666**
Included in total management and sales expenses are the following:				
Amortisation of non-life deferred acquisition costs	22,132	25,775	-	-
Bad debts written off	55	507	-	-
Change in provision for doubtful debts	25	-	-	-
Amortisation of software	2,039	2,599	-	-
Depreciation:				
Office equipment and furniture	1,046	1,339	-	-
Motor vehicles	251	116	-	-
Computer hardware	2,050	1,461	-	-
Directors' fees	640	586	640	586
Employee benefits expense	58,198	65,689	-	-
Net loss on fair value of employee share option derivative	165	383	-	-
Loss on disposal of property, plant and equipment	-	385	-	-
Restructuring costs	1,041	-	-	-
Auditors' remuneration				
Fees paid to Company's auditors:				
Audit of financial statements	928	910	-	-
Other assurance related services	62	111	-	-
Tax related services	20	-	-	-
Non-assurance advisory related services	-	68	-	-
Fees paid to subsidiary's auditors:				
Audit of financial statements	23	26	-	-

Other assurance and advisory services in the current year relate to work performed in relation to growth and acquisition opportunities for the Group and other minor projects. In the prior year services relate predominantly to work performed over the bond and rights issues carried out by the Group in 2009.

(B) FINANCING COSTS				
Interest expense	7,552	8,006	-	-
Other costs	-	291	-	-
Total financing costs	**7,552**	**8,297**	**-**	**-**

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
10. TAXATION				
(A) CURRENT TAX EXPENSE				
Analysis of taxation expense				
Current taxation	17,597	9,442	(780)	(152)
Deferred taxation	20,565	2,752	-	-
Under/(over) provided in prior years	130	(1,803)	548	-
Income tax expense/(benefit) for the year	**38,292**	**10,391**	**(232)**	**(152)**
Income tax expense attributed to policyholders	25,700	3,764	-	-
Income tax expense/(benefit) attributed to shareholders	12,592	6,627	(232)	(152)
	38,292	**10,391**	**(232)**	**(152)**

The tax expense/(benefit) recognised can be reconciled to the accounting profit as follows:

	Group 2010	Group 2009	Company 2010	Company 2009
Profit before taxation	96,357	60,476	32,340	168,493
Income tax at the current rate of 30% (2009: 30%)	28,907	18,143	9,702	50,548
Taxation effect of non deductible expenses/non assessable revenue:				
Life insurance companies permanent differences	11,117	(5,718)	-	-
Change in tax rates	(1,614)	-	-	-
Recognition of prior period current tax	130	(1,803)	548	-
Non deductible (income)/loss from PIEs	(1,766)	4,669	-	-
Benefit of imputation credits received	(364)	(573)	-	-
Deduction available on redemption of FuturePlan debenture	(2,656)	-	-	-
Non deductible expenditure	374	1,024	-	-
Release of non taxable provision	-	(5,351)	-	-
Non taxable dividend from subsidiaries	-	-	(9,720)	(50,700)
Write down of prepaid tax assets	4,590	-	-	-
Other	(426)	-	(762)	-
Income tax expense/(benefit)	**38,292**	**10,391**	**(232)**	**(152)**

The Group taxation expense/(benefit) includes both tax on shareholder profits and on returns attributed to policyholders. The allocation of tax expense between shareholders and policyholders has been disclosed in the income statement.

In May 2010 legislation was passed to reduce the company tax rate from 30% to 28%. This is effective for the Group from 1 October 2011. The financial effect of the change in tax rate has been taken into account in these financial statements and reduces deferred tax assets and liabilities by $1,614,000 on a net basis.

(B) THE TAXATION (INTERNATIONAL TAXATION, LIFE INSURANCE AND REMEDIAL MATTERS) ACT 2009

The Taxation (International Taxation, Life Insurance and Remedial Matters) Act 2009 was passed on 6 October 2009. This Act will affect the taxation of the Group's life insurance business. The new regime will result in more tax to pay for new term life business issued from 1 July 2010 and existing term life business once the grand-parenting provisions cease. TOWER has estimated that the impact of the new regime in the current period is immaterial and is currently reviewing the options available to mitigate the impact on future profits.

(C) PREPAID TAX ASSETS

A prepaid tax asset of $25,587,000 (2009: $34,732,000) is recognised in the financial statements of the Group as at 30 September 2010, $2,111,000 of which is recognised by the Company (2009: $2,111,000). The Group prepaid tax asset balance recognised is after the amount expected to be utilised to meet the Group's tax liabilities and a write-down of $4,590,000 to ensure that the balance reflects the amount expected to be recovered.

10. TAXATION (CONTINUED)

Group	Opening balance at 1 October $000	Charged/ (credited) to income statement $000	Credited to equity $000	Reclassified from policyholder reserves $000	Closing balance at 30 September $000
(D) DEFERRED TAX ASSETS AND LIABILITIES					
Year ended 30 September 2010					
Movements in deferred tax assets					
Provisions and accruals	2,872	(296)	-	-	2,576
Unrealised losses	16,979	(16,979)	-	-	-
Policyholder reserves	12,282	4,342	-	-	16,624
Other	517	(111)	-	-	406
Total deferred tax assets	**32,650**	**(13,044)**	**-**	**-**	**19,606**
Movements in deferred tax liabilities					
Deferred costs	15,571	4,146	-	-	19,717
Fair value	202	407	-	-	609
Unrealised gains	-	4,104	-	-	4,104
Policyholder reserves	22,924	(1,619)	-	1,370	22,675
Other	(78)	483	-	-	405
Total deferred tax liabilities	**38,619**	**7,521**	**-**	**1,370**	**47,510**
Net deferred tax	**(5,969)**	**(20,565)**	**-**	**(1,370)**	**(27,904)**
Year ended 30 September 2009					
Movements in deferred tax assets					
Provisions and accruals	4,381	(1,509)	-	-	2,872
Unrealised losses	18,814	(1,835)	-	-	16,979
Policyholder reserves	13,606	(1,324)	-	-	12,282
Other	710	(193)	-	-	517
Total deferred tax assets	**37,511**	**(4,861)**	**-**	**-**	**32,650**
Movements in deferred tax liabilities					
Deferred costs	16,908	(1,337)	-	-	15,571
Fair value	974	(772)	-	-	202
Policyholder reserves	22,208	-	-	716	22,924
Other	-	-	(78)	-	(78)
Total deferred tax liabilities	**40,090**	**(2,109)**	**(78)**	**716**	**38,619**
Net deferred tax	**(2,579)**	**(2,752)**	**78**	**(716)**	**(5,969)**

	Group	
	2010	**2009**
	$000	$000
Net deferred tax		
Expected to crystallise in the next 12 months	1,686	15,184
Not expected to crystallise in the next 12 months	(29,590)	(21,153)
	(27,904)	**(5,969)**

Deferred tax liabilities of $2,001,000 have not been recognised in respect of temporary differences associated with investments in subsidiaries (2009: $1,261,000).

	Group 2010 $000	Group 2009 $000
(E) IMPUTATION CREDIT ACCOUNT		
Balance at 1 October	19,584	14,003
Attached to dividends received	520	1,074
Taxation paid	-	7
Income tax refunded	(1,279)	-
Attached to dividends paid	(11,178)	-
UOMI settlement debit	(3,133)	-
Transfers (to)/from policyholder credit account during the period	(5,499)	4,500
Transfer from policyholder credit account on cessation	1,367	-
Balance at 30 September	**382**	**19,584**

The Group imputation credit account reflects the imputation credits held by the Company as the representative member of the Group.

	Group 2010 $000	Group 2009 $000
(F) POLICYHOLDER CREDIT ACCOUNT		
Balance at 1 October	400	-
Overestimation of previous years policyholder tax liability	3,348	9,000
Previous year's policyholder tax liability	(7,880)	(4,100)
Transfer from/(to) imputation credit account during the period	5,499	(4,500)
Transfer to imputation account on cessation	(1,367)	-
Balance at 30 September	**-**	**400**

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 balance in the Policyholder Credit Account is available to meet any policyholder tax liability. The policyholder tax liability is based on actuarial calculations which are finalised after year end. The Policyholder Credit Account disclosure includes the estimated policyholder tax liability for the 9 months ended 30 June 2010.

The Taxation (International Taxation, Life Insurance and Remedial Matters) Act 2009 was passed on 6 October 2009. This Act results in policyholder tax liabilities arising on or after 1 July 2010 being met by the company directly by payment of tax, rather than using Policyholder Credits. Accordingly, the balance of the policyholder credit account has been transferred to the Imputation Credit Account on cessation as at 30 June 2010.

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
11. RECEIVABLES				
Reinsurance recovery receivables	81,008	38,872	-	-
Outstanding premiums and trade receivables	118,582	90,476	-	-
Unsettled investment sales	523	346	-	-
Unearned commission	8,678	8,622	-	-
Related party receivables	-	-	16,380	246,707
Other	9,480	2,937	-	45
Total receivables	**218,271**	**141,253**	**16,380**	**246,752**
Analysed as:				
Current	217,736	140,718	16,380	246,752
Non current	535	535	-	-
	218,271	**141,253**	**16,380**	**246,752**

Outstanding premiums and trade receivables above are presented net of allowance for credit losses and impairment. Movement in the allowance for credit losses and impairment during the reporting period was as follows:

	Group 2010	Group 2009	Company 2010	Company 2009
Outstanding premiums and trade receivables	120,316	92,434	-	-
Allowance for doubtful debts	(1,734)	(1,958)	-	-
	118,582	**90,476**	**-**	**-**
Balance at 1 October	1,958	2,079	-	-
Provisions added during the year	1,448	1,574	-	-
Provisions released during the year	(1,672)	(1,695)	-	-
Balance at 30 September	**1,734**	**1,958**	**-**	**-**

The allowance for credit losses and impairment in relation to trade receivables is provided for based on estimated recoverable amounts determined by reference to current customer circumstances and past default experience. In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group has provided fully for receivables over 120 days past due. Trade receivables between 60 and 120 days past due are provided for based on estimated irrecoverable amounts determined by reference to past due default experience.

12. INVESTMENT PROPERTY

	Group 2010	Group 2009	Company 2010	Company 2009
At fair value				
Balance at 1 October	-	2,449	-	-
Reclassified as property, plant and equipment	-	(2,538)	-	-
Other adjustments	-	89	-	-
Balance at 30 September	**-**	**-**	**-**	**-**

Investment property was reclassified as property, plant and equipment on 1 April 2009.

Group	Goodwill $000	Software: In use $000	Software: Under development $000	Total $000
13. INTANGIBLE ASSETS				
Year ended 30 September 2010				
Cost:				
At 1 October 2009	30,811	13,373	5,072	49,256
Additions	-	1,381	16,500	17,881
Transfers	-	921	-	921
At 30 September 2010	**30,811**	**15,675**	**21,572**	**68,058**
Accumulated amortisation:				
At 1 October 2009	-	(10,078)	-	(10,078)
Amortisation charge	-	(2,039)	-	(2,039)
Transfers	-	(919)	-	(919)
At 30 September 2010	**-**	**(13,036)**	**-**	**(13,036)**
At 30 September 2010				
At cost	30,811	15,675	21,572	68,058
Accumulated amortisation	-	(13,036)	-	(13,036)
Net book value at 30 September 2010	**30,811**	**2,639**	**21,572**	**55,022**
Year ended 30 September 2009				
Cost:				
At 1 October 2008	30,811	12,538	1,439	44,788
Additions	-	836	3,633	4,469
Disposals	-	(1)	-	(1)
At 30 September 2009	**30,811**	**13,373**	**5,072**	**49,256**
Accumulated amortisation:				
At 1 October 2008	-	(7,479)	-	(7,479)
Amortisation charge	-	(2,599)	-	(2,599)
At 30 September 2009	**-**	**(10,078)**	**-**	**(10,078)**
At 30 September 2009				
At cost	30,811	13,373	5,072	49,256
Accumulated amortisation	-	(10,078)	-	(10,078)
Net book value at 30 September 2009	**30,811**	**3,295**	**5,072**	**39,178**

Impairment testing for goodwill

Goodwill has been allocated to two individual cash-generating units (operating units) of the Group: health insurance and general insurance. The carrying amount of goodwill allocated to each of the cash generating units is shown below:

	Health Insurance $000	General Insurance $000	Total $000
2010			
Carrying amount of goodwill	13,067	17,744	**30,811**
2009			
Carrying amount of goodwill	13,067	17,744	**30,811**

The amount of goodwill is subject to bi-annual impairment testing at the cash-generating unit level. No impairment loss has been recognised in 2010 as a result of the impairment review for each unit. (2009: Nil).

13. INTANGIBLE ASSETS (CONTINUED)

Impairment review method overview

General Insurance

The recoverable amount of the general insurance business has been assessed with reference to its appraisal value to determine its value in use. A base discount rate of 11% was used in the calculation (2009: 11.6%). The projected cash flows have been determined using a steady average growth rate of 4% (2009: 2.5%). The cash flows were projected over the expected life of the policies. The projected cash flows are determined based on past performances and management expectations for market developments.

Health Insurance

The recoverable amount of the health insurance business has been assessed using its appraisal value calculation to determine its value in use. Cash flows for in-force business were projected over the expected life of the policies and a discount rate of 11.5% (2009: 12.3%) was applied. A multiple of 4 (2009: 4) was applied to the value of one year's new business and added to the value of in-force business to determine the appraisal value. The appraisal value has been determined with reference to best estimate assumptions based on company experience and management expectations of market developments.

Sensitivity to changes in assumptions

Management considers that the recoverable amounts from the general and health insurance businesses, as determined by the appraisal values, will exceed the carrying values under a reasonable range of adverse scenarios.

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
14. INVESTMENT IN SUBSIDIARIES				
Investments in controlled entities carried at cost	-	-	215,010	190,172

The table below lists TOWER Limited subsidiary companies. All subsidiary companies have a balance date of 30 September.

Principal trading subsidiary companies at 30 September 2010 and 2009 are as follows:

	Holdings		
Name of Company	**2010**	**2009**	**Nature of Business**
Incorporated in New Zealand			
TOWER Asset Management Limited	100%	100%	Investment management services
TOWER New Zealand Limited*	100%	100%	Management services
TOWER Health & Life Limited	100%	100%	Term, disability and medical insurance
TOWER Insurance Limited	100%	100%	Fire and general insurance
TOWER Investments Limited	100%	100%	Holding company
TOWER Life Limited	-	100%	Amalgamated into TOWER Financial Services Group Limited
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
TOWER Financial Services Group Limited	100%	100%	Holding company
TOWER Option Scheme Limited	100%	100%	Trustee for executive share options
TOWER Capital Limited	100%	100%	Holding company for fixed rate senior unsecured bonds
TOWER Employee Benefits Limited	100%	100%	Holding company
TOWER Managed Funds Investments Limited	100%	100%	Holding company
TOWER Bourke Street Limited	-	100%	Amalgamated into TOWER Financial Services Group Limited
Incorporated in Australia			
Australian Equitable Insurance Company Pty Limited	-	100%	Deregistered
Southern Pacific Insurance Company Pty Limited	-	100%	Deregistered
Incorporated in Fiji			
TOWER Insurance (Fiji) Limited	100%	100%	Fire and general insurance
Incorporated in Cook Islands			
TOWER Insurance (Cook Islands) Limited	100%	100%	Fire and general insurance
Incorporated in PNG			
TOWER Insurance (PNG) Limited	100%	100%	Fire and general insurance
Incorporated in Samoa			
National Pacific Insurance Limited	70%	70%	Fire and general insurance

* TOWER Corporation Holdings Limited has changed its name to TOWER New Zealand Limited during the year.

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
15. DEFERRED ACQUISITION COSTS				
Balance at 1 October	45,096	49,761	-	-
Acquisition costs deferred during the year	20,623	21,110	-	-
Current period amortisation	(22,132)	(25,775)	-	-
Balance at 30 September	**43,587**	**45,096**	**-**	**-**
Analysed as:				
Current	23,363	24,324	-	-
Non current	20,224	20,772	-	-
	43,587	**45,096**	**-**	**-**

Group	Land and buildings $000	Office equipment and furniture $000	Motor vehicles $000	Computer equipment $000	Total $000
16. PROPERTY, PLANT AND EQUIPMENT					
Year ended 30 September 2010					
Cost:					
At 1 October 2009	1,895	6,855	964	6,140	15,854
Additions	24	1,270	712	1,984	3,990
Disposals	-	(472)	(88)	(47)	(607)
Foreign exchange movements	17	-	7	5	29
Transfers	-	-	-	(921)	(921)
At 30 September 2010	**1,936**	**7,653**	**1,595**	**7,161**	**18,345**
Accumulated depreciation:					
At 1 October 2009	-	(5,540)	(543)	(3,741)	(9,824)
Depreciation charge	-	(1,046)	(251)	(2,050)	(3,347)
Disposals	-	465	74	36	575
Foreign exchange movements	-	(31)	(4)	(4)	(39)
Transfers	-	-	-	919	919
At 30 September 2010	**-**	**(6,152)**	**(724)**	**(4,840)**	**(11,716)**
At 30 September 2010					
At cost	1,936	7,653	1,595	7,161	18,345
Accumulated depreciation	-	(6,152)	(724)	(4,840)	(11,716)
Net book value at 30 September 2010	**1,936**	**1,501**	**871**	**2,321**	**6,629**
Year ended 30 September 2009					
Cost:					
At 1 October 2008	-	12,637	895	29,719	43,251
Reclassified from investment property	2,538	-	-	-	2,538
Additions	-	155	284	1,220	1,659
Disposals	-	(5,743)	(103)	(24,700)	(30,546)
Foreign exchange movements	(643)	(194)	(112)	(99)	(1,048)
At 30 September 2009	**1,895**	**6,855**	**964**	**6,140**	**15,854**
Accumulated depreciation:					
At 1 October 2008	-	(9,832)	(585)	(27,048)	(37,465)
Depreciation charge	-	(1,339)	(116)	(1,461)	(2,916)
Disposals	-	5,417	78	24,677	30,172
Foreign exchange movements	-	214	80	91	385
At 30 September 2009	**-**	**(5,540)**	**(543)**	**(3,741)**	**(9,824)**
At 30 September 2009					
At cost	1,895	6,855	964	6,140	15,854
Accumulated depreciation	-	(5,540)	(543)	(3,741)	(9,824)
Net book value at 30 September 2009	**1,895**	**1,315**	**421**	**2,399**	**6,030**

The Company does not hold any property, plant and equipment.

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
17. PAYABLES				
Trade payables	25,949	33,101	-	-
Reinsurance payables	7,716	10,188	-	-
Unsettled investment purchases	480	248	-	-
Other payables	19,751	18,586	1,884	1,712
Related party payables	-	-	205,965	419,961
Total payables	**53,896**	**62,123**	**207,849**	**421,673**
Analysed as:				
Current	53,308	62,123	207,849	421,673
Non current	588	-	-	-
	53,896	**62,123**	**207,849**	**421,673**

As at 30 September 2010 unsettled investment purchases included a $459,000 balance of the NZ brokers account for NZ equities (2009: $226,000). The asset is recognised under financial assets at fair value through profit or loss.

	Group 2010 $000	Group 2009 $000	Company 2010 $000	Company 2009 $000
18. PROVISIONS				
Employee benefits	7,484	7,594	-	-
Restructuring	1,041	-	-	-
Total provisions	**8,525**	**7,594**	**-**	**-**
Analysed as:				
Current	8,525	7,594	-	-
	8,525	**7,594**	**-**	**-**

Movement in provisions

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

	Group 2010 $000	Group 2009 $000	Company 2010 $000	Company 2009 $000
Restructuring				
Balance at 1 October	-	-	-	-
Additions	1,041	-	-	-
Balance at 30 September	**1,041**	**-**	**-**	**-**
Other provisions				
Balance at 1 October	-	127	-	-
Amount used	-	(127)	-	-
Balance at 30 September	**-**	**-**	**-**	**-**

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
19. INTEREST BEARING LIABILITIES				
Fixed rate senior unsecured bonds	83,220	83,220	-	-
Unamortised capitalised costs	(2,618)	(3,218)	-	-
	80,602	**80,002**	**-**	**-**
Analysed as:				
Current	799	860	-	-
Non current	79,803	79,142	-	-
	80,602	**80,002**	**-**	**-**

Fixed rate senior unsecured bonds

On 24 March 2009, the Group issued $81,759,000 of fixed rate senior unsecured bonds, bearing a fixed interest rate of 8.5% per annum. The bonds mature on 15 April 2014.

The above total of $80,602,000 includes $1,460,433 of accrued interest (2009: $1,461,402). The Group capitalised $3,499,000 of costs associated with the issuance of the bonds. These costs are amortised over the five year term of the bonds using the effective interest method. The bonds are carried at amortised cost using the effective interest method. The amortised costs during the period to 30 September 2010 are $601,005 (2009: $280,414).

The fair value of fixed rate senior unsecured bonds as at 30 September 2010 is $85,464,000 (2009: $83,535,000), this has been estimated using the method outlined in Note 31(D).

	Group 2010 $000	Group 2009 $000	Company 2010 $000	Company 2009 $000
20. INSURANCE LIABILITIES				
Unearned premiums – general insurance	99,604	96,914	-	-
Unearned premiums – health and disability	15,290	15,645	-	-
Outstanding claims – general and health insurance	151,804	105,745	-	-
Outstanding claims – life and other	62,096	61,396	-	-
	328,794	**279,700**	**-**	**-**
Analysed as:				
Current	267,610	221,957	-	-
Non current	61,184	57,743	-	-
	328,794	**279,700**	**-**	**-**
21. OTHER LIABILITIES				
FuturePlan debenture	-	22,745	-	-
	-	**22,745**	**-**	**-**
Analysed as:				
Current	-	22,745	-	-
	-	**22,745**	**-**	**-**

The TOWER Life (N.Z.) Limited debenture issued to the TOWER FuturePlan was settled on 28 April 2010. The debenture was maintained in a separate fund within TOWER Life (N.Z.) Limited. Interest on the debenture was directly linked to the investment earnings of this fund.

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
22. CONTRIBUTED EQUITY				
Ordinary share capital (fully paid)	558,795	547,843	558,795	547,843
Less Treasury shares	(33)	(163)	(33)	(163)
Total contributed equity	**558,762**	**547,680**	**558,762**	**547,680**

	Number of shares		Number of shares	
Represented by:				
Ordinary shares (no par value)	260,631,787	254,882,993	260,631,787	254,882,993
Less Treasury shares	(20,276)	(97,960)	(20,276)	(97,960)
	260,611,511	**254,785,033**	**260,611,511**	**254,785,033**
Movements in ordinary shares				
Balance at 1 October	254,882,993	191,992,041	254,882,993	191,992,041
Dividend reinvested shares issuance	5,423,186	2,055,865	5,423,186	2,055,865
Employee share options scheme shares issuance	325,608	148,660	325,608	148,660
Rights issue	-	60,686,427	-	60,686,427
Balance at 30 September	**260,631,787**	**254,882,993**	**260,631,787**	**254,882,993**

	$000	$000	$000	$000
Movements in ordinary share capital				
Balance at 1 October	547,843	465,586	547,843	465,586
Dividend reinvested shares issuance	10,526	3,310	10,526	3,310
Employee share options scheme shares issuance	426	257	426	257
Rights issue net of capitalised costs	-	78,690	-	78,690
Balance at 30 September	**558,795**	**547,843**	**558,795**	**547,843**

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

On 28 September 2009, TOWER Limited issued 60,686,427 ordinary shares pursuant to a 5 for 16 Rights Issue at a value of $1.34 per share. The Company raised $81,320,000 and incurred $2,630,000 of costs in relation to the Issue.

	$000	$000	$000	$000
Movements in treasury shares				
Balance at 1 October	163	263	163	263
Movement in treasury shares during the year	(130)	(100)	(130)	(100)
Balance at 30 September	**33**	**163**	**33**	**163**

	Number of shares		Number of shares	
Represented by:				
Treasury shares (no par value)	20,276	97,960	20,276	97,960

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
23. ACCUMULATED LOSSES				
Accumulated losses				
Balance at 1 October	(35,128)	(66,453)	(335,527)	(485,960)
Net profit for the year	57,554	49,537	32,572	168,645
Transfer from share based payments reserve	227	1,372	227	1,372
Dividends paid	(34,674)	(19,467)	(34,674)	(19,467)
Other	-	(117)	-	(117)
Balance at 30 September	**(12,021)**	**(35,128)**	**(337,402)**	**(335,527)**

24. RESERVES

Foreign currency translation reserve (FCTR)				
Balance at 1 October	(396)	2,488	-	-
Currency translation differences arising during the year	2,352	(2,884)	-	-
Balance at 30 September	**1,956**	**(396)**	**-**	**-**

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 the income statement when the net investment is disposed of.

Share based payments reserve				
Balance at 1 October	2,601	2,842	2,601	2,842
Net movement in share based payments reserve	111	(241)	111	(241)
Balance at 30 September	**2,712**	**2,601**	**2,712**	**2,601**

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

Separation reserve	(113,000)	(113,000)	(113,000)	(113,000)

The separation reserve was created at the time of the demerger in 2007 of the New Zealand and Australian businesses in accordance with the ruling provided by the Australian Tax Office (ATO). It will be carried forward indefinitely as a non equity style reserve to meet the requirements of the ATO.

Total reserves	**(108,332)**	**(110,795)**	**(110,288)**	**(110,399)**

25. NET ASSETS PER SHARE

	Group		Company	
	2010		2009	
Net assets per share (dollars)	1.69	1.59	0.43	0.40
Net tangible assets per share (dollars)	1.59	1.46	0.43	0.40

Net assets per share represents the value of the Group's total assets divided by the number of ordinary shares on issue at balance date. Net tangible assets per share represents the net assets per share adjusted for the effect of intangible assets and deferred tax balances.

26. DISTRIBUTION TO SHAREHOLDERS

On 25 November 2009 the Board of Directors declared a dividend for the 2009 financial year of 9.0 cents per share. The total amount payable was $25,043,000 of which $7,046,000 was paid in TOWER shares under the dividend reinvestment plan and $17,997,000 paid in cash. The dividend was paid on 2 February 2010.

An interim dividend was declared by the Board of Directors on 27 May 2010 for the half year ended 31 March 2010 of 4.0 cents per share. The total amount payable was $10,770,000 of which $3,480,000 was paid in TOWER shares under the dividend reinvestment plan and $7,290,000 paid in cash. The dividend was paid on 2 July 2010.

	Health Insurance $000	Life Insurance $000	General Insurance $000	Investments $000	Other (Holding companies and eliminations) $000	Total $000
27. SEGMENTAL REPORTING						
Year ended 30 September 2010						
Revenue						
Revenue - external	146,026	186,070	197,811	32,535	1,720	564,162
Revenue - internal	-	-	316	4,807	(5,123)	-
Total revenue	**146,026**	**186,070**	**198,127**	**37,342**	**(3,403)**	**564,162**
Earnings before interest, tax, depreciation and amortisation	11,221	54,854	32,406	3,996	3,073	105,550
Interest expense	-	-	-	-	(7,552)	(7,552)
Depreciation and amortisation	-	(61)	(343)	(25)	(4,957)	(5,386)
Profit before income tax	**11,221**	**54,793**	**32,063**	**3,971**	**(9,436)**	**92,612**
Income tax (expense)/credit [(1)]	(3,696)	(29,166)	(10,155)	(1,189)	3,634	(40,572)
Underlying profit for the year	**7,525**	**25,627**	**21,908**	**2,782**	**(5,802)**	**52,040**
Add discount rate [(2)]	-	6,025	-	-	-	6,025
Profit for the year	**7,525**	**31,652**	**21,908**	**2,782**	**(5,802)**	**58,065**
Total assets	149,426	829,409	430,799	27,047	180,963	**1,617,644**
Total liabilities	88,352	711,571	283,129	9,253	84,007	**1,176,312**
Acquisition of property, plant and equipment, intangibles and other non current assets	-	341	1,068	109	20,353	**21,871**
Year ended 30 September 2010						
Revenue						
Revenue - external	140,278	93,157	206,662	39,297	2,386	481,780
Revenue - internal	-	-	-	14,313	(14,313)	-
Total revenue	**140,278**	**93,157**	**206,662**	**53,610**	**(11,927)**	**481,780**
Earnings/(loss) before interest, tax, depreciation and amortisation	**16,795**	**18,845**	**26,513**	**8,801**	**(86)**	**70,868**
Interest expense	-	-	-	-	(8,006)	(8,006)
Depreciation and amortisation	(1,216)	-	(1,213)	(611)	(2,475)	(5,515)
Profit before income tax	**15,579**	**18,845**	**25,300**	**8,190**	**(10,567)**	**57,347**
Income tax (expense)/credit	(4,674)	1,899	(8,008)	(2,427)	2,800	(10,410)
Underlying profit for the year	**10,905**	**20,744**	**17,292**	**5,763**	**(7,767)**	**46,937**
Add discount rate [(2)]	-	3,148	-	-	-	3,148
Profit for the year	**10,905**	**23,892**	**17,292**	**5,763**	**(7,767)**	**50,085**
Total assets	160,512	905,458	388,185	56,933	79,851	**1,590,939**
Total liabilities	111,930	760,053	248,642	27,284	38,582	**1,186,491**
Acquisition of property, plant and equipment, intangibles and other non current assets	-	-	402	43	5,683	**6,128**

[(1)] *Tax expense of individual segments has been impacted by intercompany reclassifications which have been eliminated for management and segmental reporting. This has a nil impact on the consolidated Group.*

[(2)] *The discount rate effect, as discussed in Note 3, has been adjusted for tax and shown separately to provide a more meaningful comparison between the reported periods.*

27. SEGMENTAL REPORTING (CONTINUED)

(A) DESCRIPTION OF SEGMENTS AND OTHER SEGMENT INFORMATION

The operating segments are based on assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments.

Management has determined the operating segments based on the internal reporting reviewed by the Board of Directors (Chief Operating Decision Maker) for the purpose of making decisions on resource allocation and assessing performance.

Previously health and life insurance was combined when reporting segmental information. Life insurance is now disclosed separated from health insurance for the purpose of the Chief Operating Decision Maker's resource allocation and assessment of performance.

Health insurance includes all health insurance in New Zealand. Life insurance includes all life and disability insurance in New Zealand. General Insurance includes all general insurance services in New Zealand and the Pacific Islands. Investments include all wealth management services in New Zealand. Other includes head office expenses, financing costs and eliminations.

TOWER operates predominantly in one geographical segment, New Zealand. The operations in Australia and the Pacific region do not represent a significant part of the Group's operations or hold material non-current assets.

The Group is domiciled in New Zealand. Revenue from external customers in New Zealand is $523,355,000 (2009: $437,513,000) and total revenue from external customers from other countries is $40,796,000 (2009: $44,267,000).

The Group does not derive revenue from an individual policyholder or intermediary that represents 10% or more of the Group's total revenue.

(B) RECONCILIATION OF SEGMENTS PROFIT

For management purposes, the Group reclassifies some of the deferred acquisition costs and the gain or loss recognised on individual life risk policyholder liabilities from the movement in the discount rates (refer Note 3) differently from the requirements of NZ IFRS. This impacts the profit before tax of the segments. The table below represents a reconciliation of total segment profit before tax to Group profit before tax recorded in the income statement.

	2010	2009
	$000	$000
Total segmental profit before tax	**92,612**	**57,347**
Adjustment to deferred acquisition costs	(2,254)	-
Discount rate	5,999	3,129
Total Group profit before tax	**96,357**	**60,476**

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
28. LIFE INSURANCE BUSINESS				
(A) POLICY LIABILITIES				
Life insurance contract liabilities				
Value of policy liabilities – Projection Method				
Future policy benefits	843,387	822,070	-	-
Future bonuses	167,558	148,893	-	-
Future expenses	168,864	199,595	-	-
Reinsurance	(5,348)	(10,855)	-	-
Future profit margins	180,595	210,252	-	-
Future premiums	(793,027)	(791,995)	-	-
	562,029	577,960	-	-
Value of policy liabilities – Accumulation Method				
Future policy benefits	16,858	47,486	-	-
Unvested policy benefits	24,867	24,782	-	-
Net policy liabilities - life insurance contracts	**603,754**	**650,228**	**-**	**-**

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
Reconciliation of movements in life insurance contract policy liabilities				
Gross life insurance liabilities at 1 October	641,753	690,568	-	-
Increase/(decrease) in liabilities ceded under reinsurance	1,615	(3,955)	-	-
Increase/(decrease) in life insurance contract liabilities recognised in the income statement	8,479	(40,662)	-	-
Deposits recognised as an increase in policy liabilities	3,130	9,442	-	-
Withdrawals recognised as a decrease in policy liabilities	(33,786)	(12,923)	-	-
Other adjustments including foreign exchange	(1,371)	(717)	-	-
Gross life insurance liabilities at 30 September	**619,820**	**641,753**	**-**	**-**
Life investment contract liabilities				
Value of policy liabilities – Accumulation Method				
Future policy benefits	31,759	32,650	-	-
Net policy liabilities - life investment contracts	**31,759**	**32,650**	**-**	**-**
Reconciliation of movements in investment contract policy liabilities				
Gross life investment contract liabilities at 1 October	32,650	35,084	-	-
Increase/(decrease) in life investment contract liabilities recognised in the income statement	2,168	(117)	-	-
Deposits recognised as an increase in policy liabilities	469	529	-	-
Withdrawals recognised as a decrease in policy liabilities	(3,528)	(2,846)	-	-
Gross life investment contract liabilities at 30 September	**31,759**	**32,650**	**-**	**-**

The Group has designated life investment contract liabilities at fair value through profit or loss. The impact on the fair value of these liabilities resulting from changes in credit risk recognised during the year is nil (2009: Nil), except where the fair value of investment assets backing these liabilities is impacted by changes in credit risk. Any such impact on the investment assets is reflected in the movement in the fair value of these contracts.

	Group 2010 $000	Group 2009 $000	Company 2010 $000	Company 2009 $000
Total gross policy liabilities	**651,579**	**674,403**	**-**	**-**
Liabilities ceded under reinsurance				
Balance at 1 October	14,450	18,405	-	-
Movement in the income statement	1,615	(3,955)	-	-
Balance at 30 September	**16,065**	**14,450**	**-**	**-**
Deferred tax liability included within policy liabilities [1]	-	22,924	-	-
Net policy liabilities	**635,514**	**682,877**	**-**	**-**
Analysed as:				
Current	9,670	9,983	-	-
Non current	625,844	672,894	-	-
	635,514	**682,877**	**-**	**-**

[1] *The Group has changed the method for valuing policy liabilities from the net of tax to gross of tax basis in 2010. Refer to Note 2(A).*

28. LIFE INSURANCE BUSINESS (CONTINUED)

		Group		Company	
		2010	2009	2010	2009
		$000	$000	$000	$000
(B) ANALYSIS OF LIFE INSURANCE AND LIFE INVESTMENT CONTRACT RESULTS					
Life insurance contracts					
Planned profit margins		14,815	16,719	-	-
Experience (loss)/profit		(75)	3,767	-	-
Capitalised loss recognition/(reversal)		12	(9)	-	-
Investment earnings on assets in excess of policy liabilities of life companies		15,625	3,201	-	-
Operating profit after tax attributable to shareholders arising from life insurance contracts		**30,377**	**23,678**	**-**	**-**
Life investment contracts					
Planned profit margins		47	200	-	-
Experience profit		266	14	-	-
Operating profit after tax attributable to shareholders arising from life investment contracts		**313**	**214**	**-**	**-**

All operating profit arising from life insurance and life investment contracts is attributed to the shareholders.

(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 28(D)(d)).

		TOWER Life (N.Z.)		TOWER Health & Life	
		2010	2009	2010	2009
		$000	$000	$000	$000
Solvency requirement	A	758,865	743,636	130,395	92,770
Represented by:					
Policy liabilities		695,680	706,656	(85,033)	(43,477)
Other liabilities		57,272	35,710	34,668	12,237
Solvency reserve	B	5,913	1,270	180,760	124,010
Solvency requirement		**758,865**	**743,636**	**130,395**	**92,770**
Assets available to meet solvency reserve		50,647	49,945	209,579	134,114
Solvency reserve	B	5,913	1,270	180,760	124,010
Excess assets		**44,734**	**48,675**	**28,819**	**10,104**
Coverage of required solvency reserve		8.6	39.3	1.2	1.1

The solvency requirement (A) is calculated in accordance with Professional Standard No.5.01 'Solvency Reserving for Life Insurance Business' issued by the New Zealand Society of Actuaries. The solvency reserve (B) represents the assets required to be held in excess of policy and other liabilities in order to meet the solvency requirement.

In determining the solvency margin for TOWER Health & Life Limited the actuary has included as admissible assets intercompany balances of $37,100,000 that relate to the settling of intercompany tax balances. These have been settled in full subsequent to 30 September 2010 but prior to the completion of these financial statements.

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

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2010. The Chief Actuary, Eric Judd, FIAA, FNZSA has calculated policy liabilities for TOWER Life (N.Z.) Limited and TOWER Health & Life Limited. The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

This note summarises the assumptions made and the methods adopted for the calculation of policy liabilities and solvency requirements.

(a) Policy liabilities

Policy liabilities for life insurance business have been determined in accordance with Professional Standard No.3 'Determination of Life Insurance Policy Liabilities' issued by the New Zealand Society of Actuaries for TOWER Life (N.Z.) Limited and TOWER Health & Life Limited. This standard requires that policy 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 policies are 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 for risk policies the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported. For investment policies, the policy liability is determined as the policy account balance including accrued interest to the balance date, plus investment fluctuation reserves subject to a minimum of the current surrender value.

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 below:

MAJOR PRODUCT GROUPS	METHOD	PROFIT CARRIERS (for business valued using projection method)
Traditional participating	Projection	Cost of supportable bonus
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
Non-participating investment account	Accumulation	
Investment linked	Accumulation	
Group risk insurances and renewable insurances	Accumulation	

(b) Disclosure of assumptions

The following table summaries the key assumptions used in the calculation of policy liabilities, together with notes on any signficant 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 assets pool backing this business, based on the benchmark asset mix. Discount rates assumed are net of taxation and investment expense.	The discount rates used are as follows: September 2010 4.7% from 1 October 2010 to 30 September 2011 4.9% from 1 October 2011 onward September 2009	 5.2%
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 swap rates, depending on the nature structure and term of the contract liabilities. Discount rates are assumed net of investment management expenses.	The discount rates used, net of tax are as follows: September 2010 September 2009	 3.1% to 3.2%% 4.1% to 4.2%
Inflation	Benefit indexation is before allowance for the proportion of policyholders who take up indexation.	Benefit Indexation September 2010 September 2009	 2.0% 2.0%
Future expenses	Future maintenance expenses have been set based on experience analyses conducted by the various companies as well as the actuary's expectations of future expense levels. Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.	Based on the experience analysis the renewal expense for disability income products has been increased by 12.5% Expense for traditional business has been reduced by 6% Expense for annuity has been increased by 19%	

28. LIFE INSURANCE BUSINESS (CONTINUED)

REQUIRED ASSUMPTION	BASIS OF ASSUMPTION (By product group)	SIGNIFICANT CHANGES
Rates of taxation	Rates of taxation have been assumed to remain as under current legislation or legislation substantively enacted at the valuation date.	Allowance has been made for the tax rate change from 30% to 28% from 1 October 2011. Also for participating products, underwriting tax has been set to zero to reflect the change in taxation regime.
	Policy liabilities have been calculated on a gross of tax basis. As such there is no allowance for tax within the policy liabilities (excluding GST).	Policy liabilities have been calculated on a gross of tax basis.
	GST has been allowed for at the rate applicable at 1 October 2010 (15%).	The allowance for GST has been increased from 12.5% to 15%.
Mortality – risk products	Standard mortality tables, primarily NZ97 in New Zealand. These are adjusted for company experience.	There has been a change to the main mortality table used, from NZ97 to NZ07. In addition there has been an adjustment to the gender mortality factors.
Mortality – annuities	Standard mortality tables (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.	Previous trauma incidence rates were based on adjusted reinsurance premium rates as a proxy for incidence rates.
Disability income	Standard morbidity tables (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.	There has been an increase of around 1% per annum to yearly renewable term lapse rates at durations 6, 7 and 8.
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.	Future supportable bonus rates for participating benefits have been increased by $0.7 per $1,000.
	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
Premium rates	Premium rates are assumed to be equivalent to those being charged by the company at the reporting date.	During 2010 there was an increase in premium rates of 7% for some lines of yearly renewable term life insurance business. The assumed premium rates reflect this increase.

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 on non participating business 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.

For participating business, the impact of assumption changes is absorbed by the value of future supportable bonus. The current period contract liability is impacted by the change in cost of current period supportable bonus.

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.

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 changed in the contract liability. These losses may be reversed in subsequent periods should experience improve.

The life insurance contract liability calculations include the use of published market yields, such as government bond and swap 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 date.

The impact of assumption changes for life insurance contracts made during the year is shown below.

	Change in future shareholder profit margins	Change in next financial year's shareholder planned profit	Change in current period contract liability	Change in current period shareholder profit
	$000	$000	$000	$000
Assumption change				
Mortality and morbidity	5,412	1,197	-	-
Discontinuances	(194)	(15)	29	(6)
Expenses	(109)	(117)	(169)	34
Tax	2,901	172	(797)	159
Other	2,575	365	-	-

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 ended 30 September 2010.

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 shareholders' 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 shareholders' 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 costs and therefore reducing profit and shareholders' equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming temporarily or totally and permanently disabled and, in the case of temporary disablement, the duration which they remain temporarily disabled. Higher than expected incidence and duration would 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 shareholders' 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 Group is exposed to market risk.

(c) 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 variable as disclosed above. The movement in any key variable will impact the performance and equity of the Group. The tables below describe how the change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit or loss and equity net of reinsurance to changes in assumptions.

28. LIFE INSURANCE BUSINESS (CONTINUED)

Variable	Movement	Change in following financial year's shareholder profit and equity net of reinsurance	
		2010	2009
		$000	$000
Mortality	Adverse movement of 10%	(932)	(841)
Morbidity claims costs	Adverse movement of 10%	(603)	(618)
Annuitant mortality	Adverse movement of 10%	(197)	(179)
Lapses and surrenders	Adverse movement of 10%	(971)	(579)
Renewal expenses	Adverse movement of 10%	(885)	(857)

The impact from changes to interest rates has been reflected in Note 31(F).

(d) 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 are in accordance with the requirements of 'Professional Standard No. 5.01 Solvency Reserving for Life Insurance Business' issued by the New Zealand Society of Actuaries.

(e) 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 31.

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. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

(i) 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.

(ii) 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.

(iii) Reinsurance management procedures

The Group holds appropriate reinsurance arrangements to limit exposure to individual and catastrophe risks. All reinsurance arrangements are approved by the Chief Actuary.

(iv)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 in return for an 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 bonuses annually that once added are not removed. An additional (terminal) bonus is payable on claims paid as a result of death or maturity. Terminal bonus amounts are not guaranteed.	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 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. On certain contracts withdrawals can be deferred over limited time periods.	Fees, lapses, expenses and market earnings on assets backing the liabilities

(f) 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 from events affecting a location where groups of insured employees work. The Group has purchased catastrophe reinsurance to limit the exposure from any one group event.

(g) Liquidity risk and future net cash outflows

The table below shows the estimated timing of future cash outflows resulting from life insurance contract liabilities. This includes estimated future claims offset by expected future premiums and reinsurance recoveries. All values are discounted to the valuation date.

	Total	Less than one year	One to two years	Two to three years	Three to five years	Over five years
	$000	$000	$000	$000	$000	$000
30 September 2010	214,150	9,656	8,626	8,124	14,616	173,128
30 September 2009	168,032	13,640	14,029	11,919	20,413	108,031

29. GENERAL AND HEALTH INSURANCE BUSINESS

(A) ANALYSIS OF GENERAL AND HEALTH INSURANCE OPERATING RESULT

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
Premium revenue	340,778	346,320	-	-
Outwards reinsurance expense	(21,651)	(19,497)	-	-
Net premium income	**319,127**	**326,823**	**-**	**-**
Claims expense	261,759	229,746	-	-
Reinsurance recoveries	(56,540)	(25,979)	-	-
Net claims incurred	**205,219**	**203,767**	**-**	**-**
Acquisition costs	33,878	39,801	-	-
Other underwriting expenses	59,224	60,314	-	-
Movement in actuarial reserves	1,677	2,180	-	-
Underwriting result	**19,129**	**20,761**	**-**	**-**
Investment income	24,155	20,117	-	-
Operating profit before taxation	**43,284**	**40,878**	**-**	**-**
Analysis of general and health insurance underwriting result				
Profit from general and health insurance	**43,284**	**40,878**	**-**	**-**

29. GENERAL AND HEALTH INSURANCE BUSINESS (CONTINUED)

	2010			2009		
	Risks borne in current year	Risks borne in prior years	Total	Risks borne in current year	Risks borne in prior years	Total
	$000	$000	$000	$000	$000	$000
(B) NET CLAIMS INCURRED						
Gross claims expense						
Direct claims - undiscounted	259,943	42	259,985	219,349	8,433	227,782
Movement in discount	(3)	1,777	1,774	45	1,919	1,964
Gross claims expense	**259,940**	**1,819**	**261,759**	**219,394**	**10,352**	**229,746**
Reinsurance and other recoveries						
Reinsurance and other recoveries revenue - undiscounted	(64,830)	8,047	(56,783)	(23,349)	(2,863)	(26,212)
Movement in discount	(27)	270	243	26	207	233
Reinsurance recoveries	**(64,857)**	**8,317**	**(56,540)**	**(23,323)**	**(2,656)**	**(25,979)**
Net claims incurred	**195,083**	**10,136**	**205,219**	**196,071**	**7,696**	**203,767**

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.

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
Central estimate of expected present value of future payments for claims incurred	78,778	80,971	-	-
Risk margin	5,691	5,335	-	-
Claims handling costs	5,292	4,792	-	-
	89,761	91,098	-	-
Discount	(13,402)	(17,081)	-	-
Outstanding claims liability	**76,359**	**74,017**	**-**	**-**

(C) OUTSTANDING CLAIMS

Assumptions adopted in calculation of general and health insurance provisions

Estimates of the outstanding claims as at 30 September 2010 have been carried out by the following Actuaries:

General Insurance: P. Davies, B.Bus.Sc, FNZSA, FIA, AIA, AIAA; and

Health Insurance: E. Judd, BSc, FIAA, FNZSA

The actuarial assessments are in accordance with the standards of the Society of Actuaries of New Zealand. The Actuaries were 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:

	2010	2009
Inflation rates varied from	1.5% to 8%	1.5% to 8%
Discount rates varied from	4% to 6.5%	4% to 9%
Claims handling expense ratio	1.4% to 11.1%	1.4% to 13%
Risk margin	5% to 20%	5% to 50%

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

Short tail claims	within 1 year	within 1 year
Long tail claims in the Pacific Islands	1.5 to 2.5 years	1.1 to 2.5 years
Australian long tail claims	8.1 to 8.4 years	6.9 to 7.9 years
Inwards reinsurance	in excess of 10 years	in excess of 10 years

Inflation rate

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

For motor, property and health 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.

Discount rate

General insurance outstanding claims liabilities are 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.

General insurance 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 administrating 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.

	2010			2009		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	$000	$000	$000	$000	$000	$000
Reconciliation of movements in discounted outstanding claims liability						
Balance brought forward	**105,745**	**(31,728)**	**74,017**	**87,273**	**(6,624)**	**80,649**
Effect of change in foreign exchange rates	(5,442)	288	**(5,154)**	(637)	(1,935)	**(2,572)**
Effect of changes in assumptions	3,498	(690)	**2,808**	676	77	**753**
Incurred claims recognised in the income statement	249,823	(56,540)	**193,283**	223,750	(25,979)	**197,771**
Claim (payment) / recoveries during the year	(201,820)	13,225	**(188,595)**	(205,317)	2,733	**(202,584)**
Balance carried forward	**151,804**	**(75,445)**	**76,359**	**105,745**	**(31,728)**	**74,017**
Reconciliation of undiscounted claims to liability for outstanding claims						
Outstanding claims undiscounted	39,926	(2,769)	37,157	41,056	(3,556)	37,500
Discount	(14,382)	981	(13,401)	(16,157)	738	(15,419)
Outstanding claims	25,544	(1,788)	23,756	24,899	(2,818)	22,081
Short tail outstanding claims			52,603			51,936
Total outstanding claims as per balance sheet			**76,359**			**74,017**

Sensitivity analysis

Sensitivity analysis is conducted to quantify the exposure to risk of change in the key underlying variables. The movement in any key variable will impact the performance and equity of the Group. The tables below describe how the change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit or loss and equity net of reinsurance to changes in assumptions.

		Change in following financial year's shareholder profit and equity net of reinsurance	
		2010	2009
Variable	Movement	$000	$000
Claims settlement period	+ 0.5 years	(290)	(271)
	- 0.5 years	290	271
Claims expense ratio	increase of 1%	85	277
	decrease of 1%	(85)	(277)
Inflation rates	increase of 1%	834	978
	decrease of 1%	(719)	(755)
Discount rates	increase of 1%	(759)	(801)
	decrease of 1%	872	935

29. GENERAL AND HEALTH INSURANCE BUSINESS (CONTINUED)

(D) RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operations of the general insurance business are affected by a number of key risks including insurance risk, interest rate risk, currency risk, market risk, financial risk, compliance risk, fiscal risk and operational risk (refer to Note 31). Notes on the policies and procedures employed in managing these risks in the general insurance business are set out below.

(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 earthquakes, floods, storms and other catastrophes using models; and
- 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 attaching to insurance contracts affect the level of insurance risk accepted by the Group. Certain policies within the health insurance business have premium payback clauses that allow for the return of premiums after claim payments. These liabilities are matched with suitable assets.

(iii) Concentration of insurance risk

Risk	Source of concentration	Risk Management measures
An accumulation of risks arising from a natural peril	Insured property concentrations	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, reinsurance protection
Inclusion of multiple classes of casualty business in the one event	Response by a multitude of the Group's policies to the one event, for example a construction liability and professional indemnity policy	Purchase of reinsurance clash protection

(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.

	Incident year						
	Prior	2006	2007	2008	2009	2010	Total
Ultimate claims cost estimate	$000	$000	$000	$000	$000	$000	$000
At end of accident year		179,089	186,567	196,169	198,692	194,063	
One year later		176,203	185,026	195,309	199,165	-	
Two years later		175,426	183,498	194,597	-	-	
Three years later		175,350	183,255	-	-	-	
Four years later		174,979	-	-	-	-	
Current estimate of ultimate claims cost		174,979	183,255	194,597	199,165	194,063	
Cumulative payments		(56,868)	(54,559)	(50,433)	(41,210)	253	
Undiscounted central estimate	23,657	627	1,437	1,880	4,509	46,667	78,777
Discount to present value	(13,282)	(21)	(16)	(17)	(29)	(36)	(13,401)
Discounted central estimate	**10,375**	**606**	**1,421**	**1,863**	**4,480**	**46,631**	**65,376**
Claims handling expense							5,292
Risk margin							5,691
Net outstanding claims liabilities							**76,359**
Reinsurance recoveries on outstanding claims liabilities and other recoveries							75,445
Gross outstanding claims liabilities							**151,804**

(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 margins adopted in performing the liability adequacy test have been selected to provide a probability of sufficiency of 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's exposure in the worst possible scenario. The worst possible scenario for TOWER 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.

(H) NON-CURRENT HEALTH INSURANCE CONTRACT LIABILITY

A number of the Group's health insurance policies have a benefit whereby policyholders receive the sum of premiums paid less claims received over the life of their policy, 'premium payback', if certain conditions are met. This liability represents a long term health insurance contract liability which is determined at each reporting period using a number of assumptions in respect of the expected life of the contracts and payout rates.

The table below includes the reconciliation of the liability as at the reporting date.

	Group		Company	
	2010	**2009**	**2010**	**2009**
	$000	$000	$000	$000
Balance at 1 October	54,536	52,356	-	-
New funding	6,821	6,868	-	-
Benefits paid	(13,293)	(9,251)	-	-
Other	8,148	4,563	-	-
Balance at 30 September	**56,212**	**54,536**	**-**	**-**

30. FINANCIAL INSTRUMENTS CATEGORIES

The analysis of financial assets and liabilities into their categories and classes is set out in the following tables.

			Fair value through profit or loss	
	Total	Loans and receivables	Designated	Held for trading
Group	$000	$000	$000	$000
As at 30 September 2010				
Financial assets				
Cash and cash equivalents	**207,842**	207,842	-	-
Reinsurance recoveries receivable	**81,008**	81,008	-	-
Outstanding premiums and trade receivables	**118,582**	118,582	-	-
Unsettled investments sale	**523**	523	-	-
Other receivables	**7,105**	7,105	-	-
Derivative financial assets	**71,217**	-	-	71,217
Investment in equity securities	**221,701**	-	221,701	-
Investment in fixed interest securities	**646,600**	-	646,600	-
Investment in property securities	**85,517**	-	85,517	-
Total financial assets	**1,440,095**	415,060	953,818	71,217

30. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

			Fair value through profit or loss	
	Total	Loans and receivables	Designated	Held for trading
Group	$000	$000	$000	$000
As at 30 September 2009				
Financial assets				
Cash and cash equivalents	**146,381**	146,381	-	-
Reinsurance recoveries receivable	**38,872**	38,872	-	-
Outstanding premiums and trade receivables	**90,476**	90,476	-	-
Unsettled investments sale	**346**	346	-	-
Other receivables	**596**	596	-	-
Derivative financial assets	**53,410**	-	-	53,410
Investment in equity securities	**209,511**	-	209,511	-
Investment in fixed interest securities	**787,471**	-	787,471	-
Investment in property securities	**79,613**	-	79,613	-
Total financial assets	**1,406,676**	276,671	1,076,595	53,410

		Fair value through profit or loss		
	Total	Designated	Held for trading	Financial liabilities at amortised cost
Group	$000	$000	$000	$000
As at 30 September 2010				
Financial liabilities				
Trade payables	**25,949**	-	-	25,949
Reinsurance payables	**7,716**	-	-	7,716
Unsettled investment purchases	**480**	-	-	480
Other payables	**12,908**	-	-	12,908
Interest bearing liabilities	**80,602**	-	-	80,602
Derivative financial liabilities	**2,044**	-	2,044	-
Life investment contract liabilities	**31,759**	31,759	-	-
Total financial liabilities	**161,458**	31,759	2,044	127,655
As at 30 September 2009				
Financial liabilities				
Trade payables	**33,101**	-	-	33,101
Reinsurance payables	**10,188**	-	-	10,188
Unsettled investment purchases	**248**	-	-	248
Other payables	**11,490**	-	-	11,490
Interest bearing liabilities	**80,002**	-	-	80,002
Derivative financial liabilities	**21,305**	-	21,305	-
Life investment contract liabilities	**32,650**	32,650	-	-
FuturePlan debenture	**22,745**	-	-	22,745
Total financial liabilities	**211,729**	32,650	21,305	157,774

Company	Total $000	Loans and receivables $000
As at 30 September 2010		
Financial assets		
Cash and cash equivalents	**85,420**	85,420
Related party receivable	**16,380**	16,380
Total financial assets	**101,800**	101,800
As at 30 September 2009		
Financial assets		
Cash and cash equivalents	**84,392**	84,392
Other receivables	**45**	45
Related party receivable	**246,707**	246,707
Total financial assets	**331,144**	331,144

Company	Total $000	Financial liabilities at amortised cost $000
As at 30 September 2010		
Financial liabilities		
Other payables	**1,884**	1,884
Related party payables	**205,965**	205,965
Total financial liabilities	**207,849**	207,849
As at 30 September 2009		
Financial liabilities		
Other payables	**1,712**	1,712
Related party payables	**419,961**	419,961
Total financial liabilities	**421,673**	421,673

31. 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 market risk, credit risk and financing and liquidity risk. The non-financial risks include insurance risk, compliance risk and operational risk. The Group's objectives and policies in respect of non-financial risks are disclosed in Notes 28 and 29, while the managing of financial risks are 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 which is 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 Company Secretary and Compliance Manager and this exposure is reported quarterly to 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; and
- 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.

31. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

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 when applied to assets and liabilities or future transactions denominated in a currency that is not the Group's functional currency.

TOWER's principal transactions are carried out in New Zealand dollars and its exposure to foreign exchange risk arises primarily with respect to the Pacific Islands General Insurance business, which does not 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.

The Group enters into forward foreign exchange contracts in accordance with its investment policies as economic hedges of foreign currency exposure in investments in international equities through its holdings in international equities funds. The main foreign currencies exposure of the funds is to Australian and US dollars, Japanese Yen, Euro and British Pounds. The notional amounts and contractual cash flows of these derivatives are included in (E) below.

The impact of reasonably possible changes in the currency risk on the Group shareholders' profit and equity is included in (F) below.

(ii) Interest rate risk

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

The Board is responsible for the management of the interest rate risk arising from external borrowings. As at 30 September 2010 there were no interest rate swaps in place in relation to external borrowings (2009: Nil). The Group manages interest rate 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 claim liabilities.

Health insurance

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

Life insurance

Interest rate risk and other market risks arise in life insurance to the extent that there is a mismatch between the policyholder liabilities and the assets backing those liabilities. These mismatches could impact current period operating profits.

The primary areas of mismatch for the Group'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 other 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.

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The Group is exposed to the price risk because of its investments in publicly traded equity securities and other unit trusts.

The price risk is managed by diversification of the investment portfolio, which is done in accordance with the limits set by the investment mandates and monitored by the Group Investment Committee.

(B) CREDIT RISK

Credit risk is the risk of loss that arises from a counterparty 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 of that instrument.

The Group's exposure to credit risk is limited to deposits and investments held with banks and other financial institutions as well as credit exposure to trade customers or other counterparties. For banks and financial institutions the minimum credit rating accepted by the Group is 'A'. Independent ratings are used for customers that are rated by rating agencies. For customers with no external ratings, internally developed minimum credit quality requirements are applied, which takes into accounts customers' financial position, past experience and other relevant factors. The overall exposure to credit risk is monitored on group basis in accordance with the limits set by the Board.

(i) Credit risk concentration

Concentration of credit risk exists when the Group enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. TOWER manages concentration of credit risk by credit rating, industry type and individual counterparty.

The significant concentrations of credit risk are outlined by industry type below.

	Carrying value	
	2010	2009
	$000	$000
New Zealand government	50,890	39,316
Other government agencies	118,070	39,391
Banks	618,127	749,733
Financial institutions	4,991	-
Other non-investment related receivables	200,861	133,808
Other industries	98,718	95,496
Total financial assets with credit exposure	**1,091,657**	**1,057,744**

(ii) Maximum exposure to credit risk

The Group's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements is the carrying amount of financial assets held by the Group at the reporting date, which is as follows:

	Carrying value	
	2010	**2009**
	$000	$000
Cash and cash equivalents	207,842	146,381
Loans and receivables	206,732	130,289
Financial assets at fair value through profit or loss	605,866	727,664
Derivative financial assets	71,217	53,410
Total credit risk	**1,091,657**	**1,057,744**

(iii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

Credit exposure by credit rating		
AAA	47,417	36,943
AA	623,851	541,705
A	135,348	303,406
BBB	-	2,739
Below BBB	9,590	5,710
Total counterparties with external credit rating by Standard and Poor's	816,206	890,503
Group 1	159,242	112,493
Group 2	24,874	-
Group 3	74,942	10,502
Total counterparties with no external credit rating	259,058	122,995
Total financial assets neither past due nor impaired with credit exposure	**1,075,264**	**1,013,498**

Group 1 - trade debtors outstanding for less than 6 months

Group 2 - trade debtors outstanding for more than 6 months with no defaults in the past

Group 3 - unrated investments

TOWER invests in a number of Pacific region investment markets through its Pacific Islands operations to comply with the local statutory requirements and in accordance with TOWER investment policies. These investments relate to the general insurance business of the Group and generally have low credit ratings representing the majority of the value included in the 'Below BBB' and unrated categories above.

(iv) Financial assets that would otherwise be past due whose terms have been renegotiated

None of the financial assets that are fully performing have been renegotiated in the past year.

(v) Financial assets that are past due but not impaired

The Group considers that financial assets are past due if payments have not been received when contractually due. At the reporting date, the total of carrying value of past due but not impaired assets held by the Group is as follows:

31. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

	Past due but not impaired				
	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
	$000	$000	$000	$000	$000
As at 30 September 2010					
Reinsurance recoveries receivable	1,981	315	477	3,790	6,563
Outstanding premiums and trade receivables	3,126	2,486	1,418	2,800	9,830
Total	**5,107**	**2,801**	**1,895**	**6,590**	**16,393**
As at 30 September 2009					
Reinsurance recoveries receivable	3,486	375	1,435	3,388	8,684
Outstanding premiums and trade receivables	3,493	2,102	924	2,837	9,356
Other financial assets	-	-	-	26,206	26,206
Total	**6,979**	**2,477**	**2,359**	**32,431**	**44,246**

The Company does not have past due financial assets as at 30 September 2010 (2009: Nil).

(vi) Financial assets that are individually impaired

	Carrying value	
	2010	2009
	$000	$000
Outstanding premiums and trade receivables	68	148
Other receivables	-	215
Total	**68**	**363**

For policies with a surrender or investment value, outstanding premiums are supported by the underlying assets invested. When outstanding premiums reach the value of the surrender or investment value, the assets are realised and offset against the outstanding debt. Policies with no surrender value are lapsed when outstanding premiums exceed a set value and the outstanding premiums are written off.

(C) FINANCING AND LIQUIDITY RISK

Financing and liquidity risk is the risk that the Group will not be able to meet its cash outflows or refinance debt obligations, as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

To mitigate financing and liquidity risk the Group treasury function maintains sufficient liquid assets to ensure that the Group can meet its debt obligations and other cash outflows on a timely basis.

(i) Financial liabilities and guarantees by contractual maturity

The table below summarises the Group’s financial liabilities and guarantees into relevant maturity groups based on the remaining period at the balance date to the contractual maturity date. All amounts disclosed are contractual undiscounted cash flows that include interest payments and exclude the impact of netting agreements.

Group	Carrying value $000	Total contractual cash flows $000	Less than one year $000	One to two years $000	Two to three years $000	Three to five years $000	Over five years $000	No maturity $000
As at 30 September 2010								
Financial liabilities and guarantees								
Trade payables	25,949	25,949	25,949	-	-	-	-	-
Reinsurance payables	7,716	7,716	7,716	-	-	-	-	-
Unsettled investment purchases	480	480	480	-	-	-	-	-
Other payables	12,908	12,908	12,320	253	253	82	-	-
Derivative financial liabilities (1)	1,652	4,351	(1,122)	(629)	(289)	178	6,213	-
Interest bearing liabilities	80,602	106,360	6,950	6,950	6,950	85,510	-	-
Life investment contract liabilities	31,759	31,759	-	-	-	-	-	31,759
Funds invested guarantee	8,918	8,918	8,918	-	-	-	-	-
Total financial liabilities	**169,984**	**198,441**	**61,211**	**6,574**	**6,914**	**85,770**	**6,213**	**31,759**
As at 30 September 2009								
Financial liabilities and guarantees								
Trade payables	33,101	33,101	33,101	-	-	-	-	-
Reinsurance payables	10,188	10,188	10,188	-	-	-	-	-
Unsettled investment purchases	248	248	248	-	-	-	-	-
Other payables	11,490	11,490	11,490	-	-	-	-	-
Derivative financial liabilities (1)	20,634	38,213	(3,613)	628	2,533	6,701	31,964	-
Interest bearing liabilities	80,002	113,309	6,950	6,950	6,950	92,459	-	-
Life investment contract liabilities	32,650	32,650	-	-	-	-	-	32,650
FuturePlan debenture	22,745	22,745	22,745	-	-	-	-	-
Funds invested guarantee	39,227	39,227	39,227	-	-	-	-	-
Total financial liabilities	**250,285**	**301,171**	**120,336**	**7,578**	**9,483**	**99,160**	**31,964**	**32,650**

Company	Carrying value $000	Total contractual cash flows $000	Less than one year $000	No maturity $000
As at 30 September 2010				
Financial liabilities				
Related party payables	205,965	205,965	-	205,965
Other payables	1,884	1,884	1,884	-
Total financial liabilities	207,849	207,849	1,884	205,965
As at 30 September 2009				
Financial liabilities				
Related party payables	419,961	419,961	-	419,961
Other payables	1,712	1,712	1,712	-
Total financial liabilities	421,673	421,673	1,712	419,961

(1) Derivative financial liabilities exclude the employee share option derivative of $392,000 (2009: $671,000).

31. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

(D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value of financial instruments traded in active markets is based on quoted market prices at balance date. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Valuation techniques used to value life investments contract liabilities are described in Note 28. Refer below for details of valuation methods used for each remaining category of financial assets and liabilities.

The carrying amounts of all financial assets and liabilities reasonably approximate their fair values with the exception of senior unsecured bonds.

The following methods and assumptions were used by TOWER in estimating the fair values of financial instruments.

(i) Cash and cash equivalents

The carrying amount of cash and cash equivalents reasonably approximates its fair values.

(ii) Financial assets at fair value through profit or loss and held for trading

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted price at the reporting date. The fair value of property investments is determined by reference to external valuations.

(iii) Loans and receivables, trade and other payables

Carrying values of loans and receivables, adjusted for impairment values, and carrying values of trade and other payables reasonably approximate their fair values.

(iv) Derivative financial liabilities

The fair value of derivative financial liabilities is determined by the reference to the quoted market price of the underlying equity securities.

(v) Interest bearing liabilities

The fair value of senior unsecured bonds is determined by reference to the quoted market price of the underlying debt securities.

Financial instruments that are measured in the balance sheet at fair value (excluding short term amounts held at a reasonable approximation of fair value), are categorised by the following fair value measurement hierarchy levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 - Inputs for that asset or liability that are not based on observable market data (i.e. unobservable inputs)

The following table presents the Group's assets and liabilities categorised by fair value measurement hierarchy levels as at 30 September 2010.

Group	Total $000	Level 1 $000	Level 2 $000
As at 30 September 2010			
Assets			
Derivative financial assets	71,217	-	71,217
Investment in equity securities	221,701	51,225	170,476
Investments in fixed Interest securities	646,600	-	646,600
Investments in property securities	85,517	-	85,517
Total financial assets	**1,025,035**	**51,225**	**973,810**
Liabilities			
Derivative financial liabilities	2,044	-	2,044
Life investment contract liabilities	31,759	-	31,759
Total financial liabilities	**33,803**	**-**	**33,803**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The Group does not hold any Level 3 investment assets.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Comparative information is not provided for the Group's hierarchy and sensitivity of assets and liabilities measured at fair value during this current financial period.

(E) DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivative financial instruments used by the Group include interest rate swaps and foreign exchange forward contracts. The Group also has a derivative liability of $392,000 related to the employee share option scheme (2009: $671,000).

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of interest rate swaps are calculated by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates. The average interest rate is based on the outstanding balances at the start of the financial year.

The table below details the notional principal amounts (amounts used to calculate payments made on swap contracts), fair values and remaining terms of interest rate swap contracts outstanding as at reporting date:

	Average contracted fixed interest		Notional principal amount		Fair value	
	2010	2009	2010	2009	2010	2009
Received fixed pay floating rates contracts	%	%	$000	$000	$000	$000
Less than 1 year	-	8%	-	4,000	-	106
1 to 2 years	7%	-	3,500	-	134	-
2 to 5 years	8%	7%	7,900	9,400	1,077	952
over 5 years	7%	7%	518,750	568,750	68,612	27,071
			530,150	**582,150**	**69,823**	**28,129**

The foreign exchange forward contracts are settled on a gross basis. All contracts mature within 12 months of the reporting date and their carrying values reasonably approximate undiscounted cash flows because the impact of discounting is not significant.

Group	Total contractual cash flows $000	Less than one year $000
As at 30 September 2010		
Forward foreign exchange contracts		
Outflow	87,972	87,972
Inflow	87,714	87,714
As at 30 September 2009		
Forward foreign exchange contracts		
Outflow	65,371	65,371
Inflow	70,017	70,017

(F) SENSITIVITY ANALYSIS

The analysis below demonstrates the impact of changes in interest rates, exchange rates and equity prices on the Group's shareholder profit after tax and equity. The analysis is based on changes in economic conditions that are considered reasonably possible at the reporting date. The potential impact is assumed as at the reporting date.

(i) Interest rate

The impact of a 50 basis point change in New Zealand and international interest rates as at the reporting date on the Group's profit after tax is included in the table below. The sensitivity analysis assumes changes in interest rates only. All other variables are held constant.

	2010		2009	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
	$000	$000	$000	$000
Change in variables				
+50 basis points	(3,600)	(3,600)	(3,026)	(3,026)
-50 basis points	3,650	3,650	3,086	3,086

31. RISK MANAGEMENT AND FINANCIAL INSTRUMENT INFORMATION (CONTINUED)

This analysis assumes that the sensitivity applies to the closing market yields of fixed interest investments. A parallel shift in the yield curve is assumed.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the reporting period included in the analysis.

The impact of changes in market interest rates presented here excludes insurance contract liabilities, which are also affected by the changes in market interest rates that determine the discount rates applicable to these contracts.

The table below provides a sensitivity analysis in respect of changes in interest rates as applied to insurance contract liabilities. A combined effect is necessary to appreciate the sensitivity of the Group's profit to movements in interest rates.

	2010		2009	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
	$000	$000	$000	$000
Change in variables				
+50 basis points	(1,842)	(1,842)	(1,383)	(1,383)
-50 basis points	1,811	1,811	1,275	1,275

Sensitivity to interest rates has been assessed by reference to internal investigations of the movement in insurance contract liabilities to movements in discount rates consistent with that used for internal management reporting.

(ii) Foreign currency

The table below demonstrates the impact of a 10% movement of currency rates against the New Zealand dollar on the Group's shareholder profit after tax and equity. The analysis assumes changes in foreign currency rates only, with all other variables held constant. The potential impact on the profit and equity of the Group is due to the changes in fair value of currency sensitive monetary assets and liabilities as at the reporting date.

	2010		2009	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
	$000	$000	$000	$000
Change in variables				
10% appreciation of New Zealand dollar	(116)	(116)	(179)	(179)
10% depreciation of New Zealand dollar	116	116	179	179

The dollar impact of the change in currency movements is determined by applying the sensitivity to the value of the unhedged international assets.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the reporting period included in the analysis.

(iii) Equity price

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in levels of equity indices and the value of individual stocks. The Group holds all of its equities at fair value through profit or loss.

The table below demonstrates the impact of a 10% movement in New Zealand equities on the profit after tax and equity of the Group. The potential impact is assumed as at the reporting date. The analysis below excludes investment linked business, which is disclosed in Note 41. Investment linked business can be excluded because any asset movement will flow through to the policyholder.

	2010		2009	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
	$000	$000	$000	$000
Change in variables				
+10% in New Zealand equities	158	158	177	177
-10% in New Zealand equities	(158)	(158)	(177)	(177)

The dollar impact of the change in the New Zealand equities is determined by applying the sensitivity to the value of the New Zealand equities.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the two reporting periods included in the analysis.

(iv) Other price

Other price sensitivity includes sensitivity to unit price fluctuations. The unit price risk is the risk that the fair value of investments in property fund units and international equities held in unit trust will decrease as a result of changes in the value of these units. The Group holds all of its investments in property securities, international equities and other unit trusts at fair value through profit or loss.

The table below demonstrates the impact of a 10% movement in the value of property funds, international equities and other unit trusts on the profit after tax and equity of the Group. The potential impact is assumed as at the reporting date.

	2010		2009	
	Impact on		Impact on	
	profit after tax	equity	profit after tax	equity
	$000	$000	$000	$000
Change in variables				
+10% property funds and other unit trusts	1,456	1,456	2,302	2,302
-10% property funds and other unit trusts	(1,456)	(1,456)	(2,302)	(2,302)
+10% in International equities	5,043	5,043	4,552	4,552
-10% in International equities	(5,043)	(5,043)	(4,552)	(4,552)

International equity assets are held via a unit trust which invests in a number of different countries. The sensitivity for each individual country is small so a breakdown by country has not been provided.

The risks assumed and methods used for deriving sensitivity information and significant variables have been applied consistently over the two reporting periods included in the analysis.

32. CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to ensure that the Group's level of capital is sufficient to enable it to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders of the Group.

The Group's capital resources include ordinary equity and interest bearing liabilities.

	Group	
	2010	2009
	$000	$000
Interest bearing liabilities (Note 19)	80,602	80,002
TOWER shareholder equity	438,409	401,757
Total capital resources	**519,011**	**481,759**

The life and health insurance businesses of the Group measure the adequacy of their capital against published capital standards. The life insurance companies apply the 'New Zealand Society of Actuaries Professional Standard No.5 Solvency Reserving for Life Insurance Business for this purpose, whilst TOWER Medical Insurance Limited applies the Solvency Standard issued by the Health Funds Association of New Zealand. There is no prescribed capital standard for general insurers in New Zealand. TOWER Insurance measures its capital against internally set targets.

Each insurance subsidiary within the Group is required to hold assets in excess of the levels specified by the various standards so as to ensure that they continue to meet the minimum requirements under a reasonable range of adverse scenarios. The Group's capital management strategy forms part of the Group's broader strategic planning process overseen by the Group Audit and Compliance Committee. Refer to Notes 28 and 29 for further details of the statutory capital management of the Group.

	Group		Company	
	2010	2009	2010	2009
	$000	$000	$000	$000
33. OPERATING LEASES				
Rent paid under non-cancellable operating leases during the year	3,871	3,838	-	-
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
– Not later than one year	5,036	4,365	-	-
– Later than one year and not later than five years	10,702	12,981	-	-
– Later than five years	132	465	-	-
	15,870	**17,811**	**-**	**-**

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

34. CASH AND CASH EQUIVALENTS

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

	Group 2010	Group 2009	Company 2010	Company 2009
Cash at bank and in hand	8,132	15,258	1,087	3,072
Deposits at call	199,710	131,123	84,333	81,320
Total cash and cash equivalents	**207,842**	**146,381**	**85,420**	**84,392**

The effective interest rate for deposits at call is 3.5% (2009: 3.12%) and the balances primarily mature within three months of balance date.

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

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

	Group 2010	Group 2009	Company 2010	Company 2009
Net profit after tax for the year	58,065	50,085	32,572	168,645
Add/(less) non-cash items				
Depreciation of property, plant and equipment	3,347	2,916	-	-
Amortisation of software	2,039	2,599	-	-
Change in life insurance and life investment contract liabilities	(24,440)	(24,870)	-	-
Unrealised (gain)/loss on financial assets	(61,782)	9,449	-	-
Share based payments expense and movement in fair value of employee share option derivative	58	1,132	-	-
Decrease in deferred tax	21,935	3,392	-	-
Loss on repayment of FuturePlan debenture	2,276	-	-	-
Loss on disposal of property, plant and equipment	-	385	-	-
Intercompany income	-	-	(29,400)	(168,588)
	1,498	45,088	3,172	57
(Less)/add movements in working capital (excluding the effects of exchange differences on consolidation)				
Increase in receivables	(39,927)	(20,021)	(263)	(21)
Increase/(decrease) in payables	39,464	(532)	173	66
Decrease in taxation	14,728	1,353	-	-
	14,265	(19,200)	(90)	45
Add/(less) other items classified as financing activities				
Increase/(decrease) in interest accrued	600	(513)	-	-
Net cash inflows from operating activities	**16,363**	**25,375**	**3,082**	**102**

35. CONTINGENT LIABILITIES

The Group has no contingent liabilities as at reporting date.

36. CAPITAL COMMITMENTS

The Group had capital commitments of $980,000 at reporting date related to software under development (2009:Nil).

37. SHARE BASED PAYMENTS

The Company has eight active executive share option schemes. Tranche A has expired as at reporting date. Each is equity settled and 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 five days before grant date. Subject to the discretion of the Board, options are forfeited if an employee leaves the Group before the options vest.

Vesting requirements of each tranche include service and performance conditions. The performance condition is based on a market condition such as total shareholder return achieved at the end of each reporting period. Tranche E is also subject to a non-market based performance hurdle. The holders of the options are not entitled to dividend or have other shareholder benefits, including voting rights.

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

TERMS OF SHARE SCHEMES	Tranche B	Tranche C	Tranche D	Tranche E
Exercise price after rights issue	$2.04	$2.04	$2.46	$1.94
Grant date	9-Aug-05	9-Aug-05	4-Apr-06	1-Oct-06
Vesting date	9-Aug-08	9-Aug-09	3-Apr-09	16-Oct-09
Expiry date	9-Aug-11	9-Aug-12	4-Apr-12	6-Oct-12
Expected volatility	20%	20%	20%	20%
Risk free rate	5.71%	5.71%	5.71%	5.71%
Amount expensed during 2010 ($000)	-	-	-	25
Amount expensed during 2009 ($000)	-	76	120	798
	Tranche F	**Tranche G**	**Tranche H**	**Tranche I**
Exercise price after rights issue	$2.10	$1.38	$1.48	$1.93
Grant date	11-Dec-07	5-Dec-08	19-Jan-09	22-Dec-09
Vesting date	1-Dec-10	1-Dec-11	19-Jan-12	3-Dec-12
Expiry date	1-Dec-13	1-Dec-14	19-Jan-15	2-Dec-15
Expected volatility	20%	40%	40%	30%
Risk free rate	5.71%	4.88%	4.47%	6.03%
Amount expensed during 2010 ($000)	228	52	12	21
Amount expensed during 2009 ($000)	122	13	3	-

Expected volatility was determined by looking at the performance of the share price over a number of periods ranging from six months 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. The weighted average fair value of options presented under Tranche I during the year is $1,148,400 (2009: Tranches G and H was $765,251).

37. SHARE BASED PAYMENTS (CONTINUED)

The following reconciles the share options outstanding at the beginning and end of the year.

30 September 2010	Number of options					Weighted [1] average exercise price
	Tranche A	Tranche B	Tranche C	Tranche D	Tranche E	
Outstanding at start of the year	446,608	300,000	300,000	500,000	3,000,000	$1.93
Exercised	(446,608)	-	-	-	-	$1.31
Outstanding at the end of the year	**-**	**300,000**	**300,000**	**500,000**	**3,000,000**	**$1.97**
Exercisable at the end of the year	-	300,000	300,000	500,000	3,000,000	$2.02
	Tranche F	**Tranche G**	**Tranche H**	**Tranche I**		
Outstanding at start of the year	1,000,000	400,000	100,000	-		$1.93
Granted	-	-	-	600,000		$1.93
Outstanding at the end of the year	**1,000,000**	**400,000**	**100,000**	**600,000**		**$1.97**

30 September 2009	Number of options					
	Tranche A	Tranche B	Tranche C	Tranche D	Tranche E	
Outstanding at start of the year	708,608	300,000	366,660	500,000	3,000,000	$2.19
Exercised	(262,000)	-	(66,660)	-	-	$1.55
Outstanding at the end of the year	**446,608**	**300,000**	**300,000**	**500,000**	**3,000,000**	**$1.93**
Exercisable at the end of the year	446,608	300,000	300,000	500,000	-	$1.96
	Tranche F	**Tranche G**	**Tranche H**			
Outstanding at start of the year	1,200,000	-	-			$2.19
Granted	-	400,000	100,000			$1.49
Forfeited	(200,000)	-	-			$2.19
Outstanding at the end of the year	**1,000,000**	**400,000**	**100,000**			**$1.93**

[1] *The weighted average exercise price for outstanding and exercisable share options at the end of the year has been adjusted for the impact of the rights issue.*

Tranches B to E have been fully vested as at 30 September 2010. The weighted average share price at the date of exercise of share options is $2.34 (2009: $1.68).

38. 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 and asset manager and are therefore not recorded in this note. Shares and other financial securities have been traded between TOWER Limited, its subsidiaries, unit trusts and superannuation funds where TOWER Limited or its subsidiaries have an interest. Trade amounts owing between related parties are payable under normal commercial terms.

Guinness Peat Group Plc (GPG) holds approximately 35% of TOWER's shares, which makes it a related party to the Group. The Group did not have any material transactions or balances with GPG during the year, other than in the normal course of its investment activities, as discussed below.

The Group holds a number of equity securities portfolios across a large number of New Zealand and overseas entities. A significant part of these investments are held by TOWER Life (N.Z.) Limited for the purposes of meeting the requirements of the life insurance business of the Group. These portfolios, which are managed by specialist investment managers within TOWER, may from time to time include investments in companies that themselves have a shareholding in the Group.

(A) SUBSIDIARIES

During the year there have been transactions between TOWER Limited and its subsidiaries, which have been conducted on an arms length basis.

Related party receivable and payable balances of TOWER Limited at the reporting date were as follows:

Related party	2010 $000	2009 $000	Nature of Relationship	Type of Transaction
TOWER Financial Services Group Limited	(178,453)	237,473	Subsidiary	Loan/Advance
TOWER New Zealand Limited	(18,744)	(3,435)	Subsidiary	Loan
TOWER Health & Life Limited	(5,023)	-	Subsidiary	Tax losses
TOWER Life (N.Z.) Limited	(2,812)	-	Subsidiary	Interest
TOWER New Zealand Limited	(145)	-	Subsidiary	Tax losses
TOWER Insurance Limited	(113)	-	Subsidiary	Tax losses
TOWER Life Limited	-	(416,526)	Subsidiary	Loan
TOWER Life (N.Z.) Limited	7,504	-	Subsidiary	Tax losses
TOWER consolidated tax group members	4,056	9,234	Subsidiary	Tax losses
TOWER Asset Management Limited	3,387	-	Subsidiary	Tax losses
TOWER Option Scheme Limited	399	-	Subsidiary	Advance

The receivable owing from the TOWER consolidated tax group members in 2010 of $4,056,000 (2009: $9,234,000), represents the benefit of tax losses offset by TOWER Limited as a member of the TOWER consolidated tax group.

TOWER Limited enters into transactions with its related parties in the normal course of business. Transactions during the year included partial settlement of intercompany balances and intercompany dividends as shown below:

TOWER Financial Services Group Limited	(31,800)	(181,237)	Subsidiary	Settlement/Advance
TOWER New Zealand Limited	(15,560)	(11,231)	Subsidiary	Settlement/Advance
TOWER Health & Life Limited	(5,023)	-	Subsidiary	Tax Losses
TOWER New Zealand Limited	(145)	-	Subsidiary	Tax Losses
TOWER Insurance Limited	(113)	-	Subsidiary	Tax Losses
TOWER Life Limited	-	150,474	Subsidiary	Settlement
TOWER Financial Services Group Limited	32,400	169,000	Subsidiary	Dividend
TOWER Life (N.Z.) Limited	7,504	-	Subsidiary	Tax Losses
TOWER Asset Management Limited	3,387	-	Subsidiary	Tax Losses
TOWER Option Scheme Limited	399	-	Subsidiary	Settlement/Advance

During the year a number of the Company's subsidiaries have been amalgamated resulting in the transfer of intercompany balances of these subsidiaries to the amalgamating entities. These transfers have not been included in the above movements due to non-transactional nature of the transfers.

(B) KEY MANAGEMENT PERSONNEL COMPENSATION

The remuneration of key management personnel during the year was as follows:

	Group		Company	
	2010 $000	2009 $000	2010 $000	2009 $000
Salaries and other short-term employee benefits	4,194	3,792	-	-
Termination benefits	-	333	-	-
Share based payments	247	950	-	-
Independent directors fees	640	586	640	586
	5,081	**5,661**	**640**	**586**

Information regarding individual directors and executives compensation is provided in the Corporate Governance section of the annual report.

38. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

(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 (2009: Nil).

(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.

39. 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:

	Group	
	2010	2009
	$000	$000
Superannuation funds	1,194,230	990,082
Unit trust and group investment funds	1,961,125	1,879,846
	3,155,355	**2,869,928**
Assets per balance sheet	1,617,644	1,590,939
Total assets under management	**4,772,999**	**4,460,867**

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.

40. 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:

Capital Preservation Fund	-	29,123
Capital Protected Plan	7,996	8,462
VITAL	922	1,642
Total	**8,918**	**39,227**

	Group			
	2010		2009	
	Investment linked	Non-investment linked	Investment linked	Non-investment linked
	$000	$000	$000	$000
41. INVESTMENT LINKED AND NON-INVESTMENT LINKED BUSINESS OF LIFE INSURANCE COMPANIES				
Investment assets	31,759	721,961	32,650	779,190
Other assets	-	209,092	-	81,019
Policyholder liabilities	(31,759)	(626,430)	(32,650)	(650,228)
Other liabilities	-	(69,350)	-	(45,621)
Net assets	**-**	**235,273**	**-**	**164,360**
Retained earnings	-	155,304	-	125,736
Net premium revenue	-	64,375	-	61,495
Investment revenue	2,897	113,776	317	31,344
Net claims expense	-	(69,663)	-	(66,232)
Other operating expenses	(194)	(42,007)	(297)	(45,434)
Change in policyholder liabilities	(2,168)	(8,479)	117	40,662
Operating profit before taxation	**535**	**58,002**	**137**	**21,835**
Taxation (expense)/credit	(222)	(27,625)	77	1,841
Operating profit after taxation	**313**	**30,377**	**214**	**23,676**

42. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributed to shareholders of the Company by the weighted average number of ordinary shares on issue during the year, excluding ordinary shares held as treasury shares.

Diluted earnings per share is calculated by dividing the net profit attributed to shareholders of the Company by the weighted average number of ordinary shares on issue during the year adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Basic and diluted earnings per share is based on the weighted average number of shares adjusted for the effect of the bonus element of the rights issue.

There was no dilutive impact of outstanding share options on the basic earnings per share for 2010 (2009: Nil)

	Group	
	2010	2009
	$000	$000
Profit attributable to shareholders	57,554	49,537
	Number of shares	Number of shares
Weighted average number of ordinary shares for basic and diluted earnings per share	257,797,915	203,779,890
	Cents	Cents
Basic and diluted earnings per share	22.33	24.31

43. IMPACT OF AMENDMENTS TO NZ IFRS

(A) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 October 2010 or later periods, and the Group has not early adopted them:

- NZ IFRS 9 'Financial Instruments' (effective from 1 January 2013). The standard is the first step in replacing NZ IAS 39 and establishes two primary measurement categories for financial assets: amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. The Company is in the process of evaluating the potential effect of this standard.
- IAS 24, 'Related party disclosures' (effective from 1 January 2011). The revised standard amends the definition of a related party. The Company is in the process of evaluating the potential effect of this standard.
- IFRS 7, 'Financial instruments' (effective retrospectively from 1 January 2011). The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The Company will apply the IFRS 7 amendments from 1 October 2010.

(B) Standards, amendments and interpretations to existing standards effective 2010 or early adopted by the Group.

The Group has adopted the following new and amended IFRS's as of the 1 October 2009:

- NZ IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss, The Group and Company have adopted NZ IAS 27 (revised) from 1 October 2009. The amendment does not have a material impact on the Group or Company's financial statements.
- NZ IAS 1 (Amendment) 'Presentation of financial statements' (effective from 1 January 2009). The revised NZ IAS 1 requires an entity to present all owner changes in equity, separately from non-owner changes in equity, in a statement of changes in equity.

  All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or two statements (an income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. The change in accounting policy has only impacted presentation aspects.
- NZ IFRS 8, 'Operating segments ' (effective from 1 January 2009). NZ IFRS 8 replaces NZ IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in life insurance being presented separately from health insurance to bring segmental reporting in line with the Group's 'management approach'.
- NZ IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There has been no impact during the current financial year. The revised standard will be applied as appropriate in future years.
- NZ IFRS 7 (Amendment), 'Financial Instruments: Disclosures' (effective from 1 January 2009). The amendment requires disclosure of all the level of the fair value hierarchy into which fair value measurements are categorised based on a three level fair value hierarchy for financial instruments. In addition, the amendment provides further clarification around liquidity risk disclosures and additional quantitative disclosures based on liquidity risk of financial liabilities. The change in accounting policy has only resulted in additional disclosures.

44. SUBSEQUENT EVENTS

On 25 November 2010 the Directors declared a dividend of 6 cents per share. The dividend will be paid on 25 January 2011. Estimated dividend payable including supplementary dividend is $16,272,379.

TOWER Capital Limited Financial Statements

For the year ended 3o September 2010

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Independent Auditors' Report

to the shareholders of TOWER Capital Limited

Report on the Financial Statements

We have audited the financial statements of TOWER Capital Limited on pages 88 to 100, which comprise the balance sheet as at 30 September 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, TOWER Capital Limited other than in our capacities as auditors and providers of other assurance services.

PRICEWATERHOUSECOOPERS

Independent Auditors' Report
TOWER Capital Limited

Opinion

In our opinion, the financial statements on pages 88 to 100:

(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 as at 30 September 2010 and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 September 2010:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Chartered Accountants Auckland

25 November 2010

TOWER Capital Limited
Statement of Comprehensive Income

For the year ended 3o September 2010

	Note	Year ended 30 September 2010 $000	Period ended 30 September 2009 $000
Revenue			
Interest income	3	8,221	5,030
Total revenue		8,221	5,030
Expenses			
Operating expenses	2	108	28
Total expenses		108	28
Financing costs			
Interest expense		6,951	3,911
Amortisation of capitalised costs		601	280
Total financing costs		7,552	4,191
Profit before tax		**561**	**811**
Income tax expense	4(a)	(129)	(243)
Total profit and comprehensive income for the year/period attributed to shareholders		**432**	**568**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

TOWER Capital Limited
Balance Sheet

As at 3o September 2010

	Note	2010 $000	2009 $000
ASSETS			
Cash and cash equivalents		3	2
Related party receivables	5	84,697	83,975
TOTAL ASSETS		**84,700**	**83,977**
LIABILITIES			
Payables		38	-
Related party payables	5	1,965	3,164
Current tax liabilities		349	243
Interest bearing liabilities	6	80,602	80,002
Deferred tax liabilities	4(b)	746	-
TOTAL LIABILITIES		**83,700**	**83,409**
NET ASSETS		**1,000**	**568**
EQUITY			
Retained earnings	8	1,000	568
TOTAL EQUITY		**1,000**	**568**

The financial statements were approved for issue by the Board on 25 November 2010.

AI (Tony) Gibbs
Chairman

John Spencer
Director

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

TOWER Capital Limited
Statement of Changes in Equity

For the year ended 3o September 2010

	TOTAL EQUITY Retained Earnings	
	Year ended 30 September 2010	**Period ended 30 September 2009**
	$000	$000
At the beginning of the year/period	568	-
Comprehensive income for the period		
Profit for the year/period	432	568
At the end of the year/period	**1,000**	**568**

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

TOWER Capital Limited
Statement of Cash Flows

For the year ended 3o September 2010

	Note	Year ended 30 September 2010 $000	Period ended 30 September 2009 $000
Cash flows from operating activities			
Interest received		8,221	2,970
Interest paid		(6,951)	(2,449)
Payments to suppliers and employees		(70)	(1)
Net cash inflow from operating activities	13	**1,200**	**520**
Cash flows from investing activities			
Loan to related party		-	(81,759)
Net advances to related parties		(1,199)	(518)
Net cash outflow from investing activities		**(1,199)**	**(82,277)**
Cash flows from financing activities			
Proceeds from issue of fixed rate senior unsecured bonds		-	81,759
Net cash inflow from financing activities		**-**	**81,759**
Net increase in cash and cash equivalents		**1**	**2**
Cash and cash equivalents at the beginning of the period		2	-
Cash and cash equivalents at the end of the period		**3**	**2**

The above statement of cash flows should be read in conjunction with the accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial report are set out below.

TOWER Capital Limited ('Company') is a profit-orientated company incorporated and domiciled in New Zealand. The Company was incorporated to undertake an issue of debt securities with the purpose of on-lending the proceeds within the TOWER Limited consolidated Group (the 'TOWER Group').

The Company was incorporated on 18 December 2008. Accordingly the comparative information is presented for the period from the 18 December 2008 to 30 September 2009.

BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). It complies with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards as appropriate for profit-oriented entities.

The financial statements were authorised for issue by the Board of Directors on 25 November 2010.

Compliance with International Financial Reporting Standards (IFRS)

The financial statements and notes of TOWER Capital Limited comply with International Financial Reporting Standards (IFRS).

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

SPECIFIC ACCOUNTING POLICIES

(A) INVESTMENT REVENUE

Interest income is recognised on an effective interest method basis.

(B) EXPENSES

Expenses are recognised in the period they are incurred.

(C) FINANCING COSTS

Financing costs include interest on external debt and the amortisation of transaction costs and are recognised on an effective interest method basis.

(D) TAXATION

(i) 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).

(ii) Tax consolidation

TOWER Capital Limited is part of the New Zealand tax consolidated group of which TOWER Limited is the head entity. All members of the tax consolidated group are jointly and severally liable for the tax liabilities of the group.

(iii) Income tax expense

The income tax expense 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.

(E) GST

All revenues, expenses and certain 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.

Cash flows are included in the statement of cash flows on a net basis to the extent that the GST is not recoverable and has been included in the expense or asset.

(F) FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in the currency of the primary economic environment in which the Company operates, being New Zealand dollars.

(G) 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.

(H) 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 be the fair value.

(I) FINANCIAL INSTRUMENTS AND FAIR VALUE

The Company classifies its financial assets in the following category: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Loans and receivables are recognised at settlement date, which is the date that the assets are delivered or received.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The Company's loans and receivables comprise related party receivables and cash and cash equivalents in the balance sheet. Loans and receivables are measured at amortised cost using the effective interest method less any impairment.

(J) IMPAIRMENT OF FINANCIAL ASSETS

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted as a result of one or more events that occurred after the initial recognition of the financial asset.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the assets' carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. For all financial assets, the carrying amount is reduced by the impairment loss directly.

A previously recognised impairment loss is reversed when, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was initially recognised.

In respect of financial assets carried at amortised cost, with the exception of trade receivables, the impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. Subsequent recoveries of trade receivables previously written off are credited against the allowance account.

(K) INTEREST BEARING LIABILITIES

Interest bearing debt is initially measured at fair value, net of transaction costs incurred, and is 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.

(L) PAYABLES

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

(M) PROVISIONS

Provisions are only recognised when the Company 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.

(N) CONTRIBUTED EQUITY

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

(O) SEGMENT REPORTING

An operating 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 operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM) who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance. The chief operating decision-maker has been identified as the Company's Board of Directors.

2. OTHER EXPENSES

Fees paid to the Company's auditors

No fees for audit or other services were paid by TOWER Capital Limited to its auditors during the year (2009: Nil). TOWER New Zealand Limited, member of the TOWER Group, paid all fees for audit services provided to TOWER Capital Limited.

	2010 $000	2009 $000
3. INTEREST INCOME		
Interest income - external	-	752
Interest income - related party	8,221	4,278
Total investment income	**8,221**	**5,030**
4. TAXATION		
(A) Analysis of taxation expense		
Current taxation	617	(243)
Deferred taxation	(746)	-
Income tax expense	**(129)**	**(243)**
Profit before taxation	561	811
Income tax expense at current rate of 30% (2009: 30%)	168	243
Change in tax rates	(39)	-
Income tax expense	**129**	**243**

(B) Deferred Tax

Year ended 30 September 2010	Opening balance at 1 October $000	Charged/ (credited) to statement of comprehensive income $000	Closing balance at 30 September $000
Movements in deferred tax liabilities			
Unamortised capitalised bonds issue costs	-	746	746
Total deferred tax liabilities	**-**	**746**	**746**
Net deferred tax	**-**	**(746)**	**(746)**

There were no deferred tax balances as at 30 September 2009.

In May 2010 legislation was passed to reduce the company tax rate from 30% to 28%. This will be effective for the Company from 1 October 2011. The financial effect of the change in tax rate has been taken into account in these finance statements and reduces deferred tax liabilities by $39,120.

	2010 $000	2009 $000
Deferred tax liabilities are analysed as Expected to crystallise in the next 12 months	(746)	-
	(746)	**-**

5. RELATED PARTY TRANSACTIONS

The Company is immediately and ultimately owned by TOWER Limited. All members of the TOWER Group are considered to be related parties of the Company.

Related party receivable and payable balances of TOWER Capital Limited at the reporting date were as follows:

Related party	2010 $000	2009 $000	Nature of Relationship	Type of Transaction
TOWER Financial Services Group Limited	83,975	83,975	Subsidiary of TOWER Limited	Loan/Advance
TOWER New Zealand Limited	(1,965)	(3,164)	Subsidiary of TOWER Limited	Advance
TOWER Asset Management Limited	313	-	Subsidiary of TOWER Limited	Advance
TOWER Insurance Limited	409	-	Subsidiary of TOWER Limited	Advance

The Company issued a loan to TOWER Financial Services Group Limited (TFSG) of $81,759,000 on 24 March 2009, bearing a fixed interest rate of 10% per annum. The loan is payable on demand and the above total includes accrued interest of $2,060,775 (2009: $2,060,776). The Company has offset 2009 tax losses to TOWER Asset Management Limited ($312,649) and TOWER Insurance Limited ($409,489) during the year. The advances are non-interest bearing and payable on demand.

The balance owing to TOWER New Zealand Limited represents the expenses paid on behalf of the Company during the period. The balance is non-interest bearing and is payable on demand.

Related party transactions with TOWER Capital Limited during the year were as follows:

TOWER Financial Services Group Limited	-	81,759	Subsidiary of TOWER Limited	Loan
TOWER Financial Services Group Limited	-	155	Subsidiary of TOWER Limited	Advance
TOWER Financial Services Group Limited	8,221	4,278	Subsidiary of TOWER Limited	Interest on loan
TOWER New Zealand Limited	(7,552)	(3,644)	Subsidiary of TOWER Limited	Bond issue costs and other expenses
TOWER Asset Management Limited	313	-	Subsidiary of TOWER Limited	Tax losses offset
TOWER Insurance Limited	409	-	Subsidiary of TOWER Limited	Tax losses offset

6. INTEREST BEARING LIABILITIES

	2010 $000	2009 $000
Fixed rate senior unsecured bonds	83,220	83,220
Unamortised capitalised costs	(2,618)	(3,218)
	80,602	80,002
Analysed as:		
Current	799	860
Non current	79,803	79,142
	80,602	**80,002**

Fixed rate senior unsecured bonds

On 24 March 2009, the Company issued $81,759,000 of fixed rate senior unsecured bonds, bearing a fixed interest rate of 8.5% per annum. The bonds mature on 15 April 2014.

The above total of $80,602,000 includes $1,460,433 of accrued interest (2009: $1,461,402). The Company capitalised $3,499,000 of costs associated with the issuance of the bonds. These costs are amortised over the five year term of the bonds using the effective interest method. The bonds are carried at amortised cost using the effective interest method. The amortised costs during the period to 30 September 2010 were $601,005 (2009: $280,414).

The fair value of fixed rate senior unsecured bonds as at 30 September 2010 is $85,464,000 (2009: $83,535,000), this has been estimated using the method outlined in Note 12 (D).

	Number of shares	
	2010	2009
7. CONTRIBUTED EQUITY		
Issued share capital (ordinary shares)	1,000	1,000

Shares have been issued for nil consideration on incorporation. Each share ranks equally with one vote attached to each share.

	2010	2009
	$000	$000
8. RETAINED EARNINGS		
Balance at 1 October	568	-
Net profit for the period	432	568
Balance at 30 September	**1,000**	**568**

	2010	2009
	$	$
9. TANGIBLE ASSETS VALUE PER BOND		
Tangible assets per bond	1.04	1.03

Tangible assets per bond represents the value of the Company's total assets divided by the number of fixed rate senior unsecured bonds on issue as at 30 September.

10. SEGMENTAL REPORTING

TOWER Capital Limited operates in one single business class having undertaken a bond issue to raise funds for use in operations of TOWER Group. The chief operating decision maker is considered to be the Board of Directors. The Board meet regularly with management to provide strategic guidance for the Company. The Company operates predominately in one geographical segment, New Zealand. Consequently no segmental information is presented.

11. FINANCIAL INSTRUMENTS CATEGORIES

The analysis of financial assets and liabilities into their categories and classes is set out in the following table:

	Total	Loans and receivables
	$000	$000
As at 30 September 2010		
Cash and cash equivalents	3	3
Related party receivables	84,697	84,697
Total financial assets	**84,700**	**84,700**
As at 30 September 2009		
Cash and cash equivalents	2	2
Related party receivables	83,975	83,975
Total financial assets	**83,977**	**83,977**

11. FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

	Total	Financial liabilities at amortised cost
	$000	$000
As at 30 September 2010		
Payables	38	38
Interest bearing liabilities	80,602	80,602
Related party payables	1,965	1,965
Total financial liabilities	82,605	82,605
As at 30 September 2009		
Interest bearing liabilities	80,002	80,002
Related party payables	3,164	3,164
Total financial liabilities	**83,166**	**83,166**

In the event of liquidation or the cease of trade, interest bearing liabilities have priority over related party claims over financial assets.

12. RISK MANAGEMENT INFORMATION

The financial condition and operating results of the Company are affected by a number of key financial risks. Financial risks include market risk, credit risk and financing and liquidity risk.

These risks are managed through the parent company's (TOWER Limited) risk management policy which is approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk. The Company's exposure to operational risks is monitored by TOWER Limited's Company Secretary and Compliance Manager and this exposure is reported quarterly to the TOWER Group Audit and Compliance Committee.

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

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

(A) MARKET RISK

Market risk is the risk of change in the fair value of financial instruments from fluctuations in 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.

(i) Interest rate risk

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

The Board is responsible for the management of the interest rate risk arising from external borrowings. As at 30 September 2010 there were no interest rate swaps in place in relation to external borrowings (2009: Nil). Interest on external borrowings is fixed therefore mitigating the cash flow risk arising from changes in interest rates.

(ii) Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not the Company's functional currency.

The Company is not exposed to currency risk, as there are no assets, liabilities or transactions which are denominated in a currency that is not the Company's functional currency.

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The Company is not exposed to the price risk because it holds no investments in publicly traded equity securities.

(B) CREDIT RISK

Credit risk is the risk of loss that arises from a counterparty 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 of changes in credit risk of that instrument.

The Company's exposure to credit risk is limited to deposits held with banks and other financial institutions as well as credit exposure to related party receivables or other counterparties. For banks and financial institutions the minimum credit rating accepted by the Company is 'A'.

(i) Credit risk concentration

Concentration of credit risk exists when the Company enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that might affect their ability to meet contractual obligations. The Company manages concentration of credit risk by credit rating, industry type and individual counterparty.

The credit risk concentration is within one company located in New Zealand. The significant concentrations of credit risk are outlined by industry type below.

	Carrying value	
	2010	2009
	$000	$000
Banks	3	2
Related party receivable	84,697	83,975
Total financial assets with credit exposure	**84,700**	**83,977**

(ii) Maximum exposure to credit risk

The Company's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements is the carrying amount of the financial assets held by the Company at the reporting date, which is as follows:

Asset		
Cash and cash equivalents	3	2
Related party receivable	84,697	83,975
Total credit risk	**84,700**	**83,977**

(iii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

Credit exposure by credit rating		
AA	3	2
Related parties with no credit rating	84,697	83,975
	84,700	**83,977**

(iv) Financial assets that would otherwise be past due whose terms have been renegotiated

None of the financial assets that are fully performing has been renegotiated in the past period (2009: Nil).

(v) Financial assets that are past due but not impaired

None of the financial assets are past due or impaired (2009: Nil).

(C) FINANCING AND LIQUIDITY RISK

Financing and liquidity risk is the risk that the Company will not be able to meet its cash outflows or refinance debt obligations, as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

To mitigate financing and liquidity risk the Company maintains sufficient current assets to ensure that it can meet its debt obligations and other cash outflows on a timely basis.

Financial assets and liabilities by expected and contractual maturity

The tables below summarise the Company's financial assets and liabilities into relevant maturity groups based on the remaining period at the balance date to the contractual and expected maturity date. All amounts disclosed are expected or contractual undiscounted cash flows that include interest payments and exclude the impact of netting agreements.

Expected cash flows

The maturity table based on the expected cash flows is presented below for the purposes of disclosing the cash flows that are actually expected to occur over the life of the Company's financial assets and liabilities.

12. RISK MANAGEMENT INFORMATION (CONTINUED)

	Carrying value	Total expected cash flows	Less than one year	One to two years	Two to three years	Three to four years	Four to five years
	$000	$000	$000	$000	$000	$000	$000
As at 30 September 2010							
Financial assets							
Cash and cash equivalents	3	3	3	-	-	-	-
Related party receivables	84,697	110,364	8,176	8,176	8,176	85,836	-
Total financial assets	**84,700**	**110,367**	**8,179**	**8,176**	**8,176**	**85,836**	**-**
Financial liabilities							
Payables	38	38	38	-	-	-	-
Interest bearing liabilities	80,602	106,360	6,950	6,950	6,950	85,510	-
Related party payables	1,965	1,965	1,965	-	-	-	-
Total financial liabilities	**82,605**	**108,363**	**8,953**	**6,950**	**6,950**	**85,510**	**-**
As at 30 September 2009							
Financial assets							
Cash and cash equivalents	2	2	2	-	-	-	-
Related party receivables	83,975	118,695	8,331	8,176	8,176	8,176	85,836
Total financial assets	**83,977**	**118,697**	**8,333**	**8,176**	**8,176**	**8,176**	**85,836**
Financial liabilities							
Interest bearing liabilities	80,002	113,309	6,950	6,950	6,950	6,950	85,509
Related party payables	3,164	3,164	546	661	728	800	429
Total financial liabilities	**83,166**	**116,473**	**7,496**	**7,611**	**7,678**	**7,750**	**85,938**

Contractual cash flows

The table below presents the maturity analysis of the Company's financial assets and liabilities on a contractual cash flow basis.

As at 30 September 2010							
Financial assets							
Cash and cash equivalents	3	3	3	-	-	-	-
Related party receivables	84,697	84,697	84,697	-	-	-	-
Total financial assets	**84,700**	**84,700**	**84,700**	**-**	**-**	**-**	**-**
Financial liabilities							
Payables	38	38	38	-	-	-	-
Interest bearing liabilities	80,602	106,360	6,950	6,950	6,950	85,510	-
Related party payables	1,965	1,965	1,965	-	-	-	-
Total financial liabilities	**82,605**	**108,363**	**8,953**	**6,950**	**6,950**	**85,510**	**-**
As at 30 September 2009							
Financial assets							
Cash and cash equivalents	2	2	2	-	-	-	-
Related party receivables	83,975	83,975	83,975	-	-	-	-
Total financial assets	**83,977**	**83,977**	**83,977**	**-**	**-**	**-**	**-**
Financial liabilities							
Interest bearing liabilities	80,002	113,309	6,950	6,950	6,950	6,950	85,509
Related party payables	3,164	3,164	3,164	-	-	-	-
Total financial liabilities	**83,166**	**116,473**	**10,114**	**6,950**	**6,950**	**6,950**	**85,509**

(D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques referred to below:

The carrying amounts of all financial assets and liabilities reasonably approximate their fair values. The following methods and assumptions were used by the Company in estimating the fair values of financial instruments.

(i) Cash and cash equivalents

The carrying amount of cash and cash equivalents reasonably approximates its fair values.

(ii) Related party receivables and payables

Carrying values of related party receivables and payables reasonably approximate their fair values.

(iii) Interest bearing liabilities

The fair value of fixed rate senior unsecured bonds is determined by reference to the average quoted market price of the underlying debt securities at the end of the period.

(E) SENSITIVITY ANALYSIS

No sensitivity analysis has been disclosed as there is no impact on the shareholder profit after tax or equity from changes in interest rates, exchange rates and equity prices. Cash, related party loans and interest bearing liabilities are held at amortised cost and subject to fixed interest rates. Other related party balances are interest free payables.

(F) CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern and have the required liquidity to meet its interest payments obligation to the Bond holders. The Company's overall strategy is consistent with that of TOWER Group, which the Company is part of, and is overseen by the TOWER Group Board of Directors.

The capital structure of the Company consists of debt and retained earnings.

	2010	2009
	$000	$000
As at 30 September		
Interest bearing liabilities	80,602	82,002
Retained earning	1,000	568
Total capital resources	**81,602**	**82,570**

	2010	2009
	$000	$000
13. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit after tax for the period	432	568
Add/(less) non cash items		
Decrease in deferred tax	746	-
Add/(less) movements in working capital		
Increase in related party receivables	-	(2,033)
Increase in payables	38	-
Decrease in taxation	106	243
Decrease in receivables	(722)	-
	(578)	(1,790)
Add other items classified as financing activities		
Increase in interest accrued	600	1,742
Net cash inflow from operating activities	**1,200**	**520**

14. CONTINGENT LIABILITIES

There were no contingent liabilities as at 30 September 2010.

15. CAPITAL COMMITMENTS

There were no capital commitments as at 30 September 2010 (2009: Nil).

16. IMPACT OF AMENDMENTS TO NZ IFRS

(A) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 October 2010 or later periods, and the Company has not early adopted them:

- NZ IFRS 9 'Financial Instruments' (effective from 1 January 2013). The standard is the first step in replacing NZ IAS 39 and establishes two primary measurement categories for financial assets: amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. The Company is in the process of evaluating the potential effect of this standard.
- NZ IAS 24, 'Related party disclosures' (effective from 1 January 2011). The revised standard amends the definition of a related party. The Company is in the process of evaluating the potential effect of this standard.
- NZ IFRS 7, 'Financial instruments' (effective retrospectively from 1 January 2011). The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The Company will apply the NZ IFRS 7 amendments from 1 October 2010.

(B) Standards, amendments and interpretations to existing standards effective 2010 or early adopted by the Company.

The Company has adopted the following new and amended IFRS's as of the 1 October 2009:

- NZ IAS 1 (Amendment) 'Presentation of financial statements' (effective from 1 January 2009). The revised NZ IAS 1 requires an entity to present all owner changes in equity, separately from non-owner changes in equity, in a statement of changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or two statements (an income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. The change in accounting policy has only impacted presentation aspects.
- NZ IFRS 8, 'Operating segments ' (effective from 1 January 2009). NZ IFRS 8 replaces NZ IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in any changes to the segmental reporting.
- NZ IFRS 7 (Amendment), 'Financial Instruments: Disclosures' (effective from 1 January 2009). The amendment requires disclosure of all the level of the fair value hierarchy into which fair value measurements are categorised based on a three level fair value hierarchy for financial instruments. In addition, the amendment provides further clarification around liquidity risk disclosures and additional quantitative disclosures based on liquidity risk of financial liabilities. The change in accounting policy has not resulted in additional disclosures.

17. SUBSEQUENT EVENTS

There have been no material events subsequent to 30 September 2010.

Directory

BOARD OF DIRECTORS

A I (Tony) Gibbs CNZM (Chairman)

Rob Flannagan (Group Managing Director)

Bill Falconer CNZM

Mike Jefferies

John Spencer

Susie Staley

Denis Wood

GROUP CHIEF FINANCIAL OFFICER

Eric O'Sullivan

COMPANY SECRETARY

Bronwyn Walsh

REGISTERED OFFICE

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Facsimile: +64 9 369 2160

Australia

C/- PricewaterhouseCoopers Nominees (N.S.W) Pty Ltd

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Sydney NSW 2000
Australia

AUDITOR

PricewaterhouseCoopers

BANKERS

Westpac New Zealand Limited

SOLICITORS

DLA Phillips Fox

GENERAL ENQUIRIES

TOWER Insurance Limited

Telephone: +64 9 369 2000

Freephone: 0800 808 808

Facsimile: +64 9 369 2245

Website:www.tower.co.nz

TOWER Health & Life Limited

Telephone: +64 9 369 2000

Freephone: 0800 808 808

Facsimile: +64 9 369 2040

Website:www.tower.co.nz

TOWER Investments Limited

Telephone: +64 9 369 2000

Freephone: 0800 808 808

Facsimile: +64 9 369 2128

Website:www.tower.co.nz

INVESTOR RELATIONS

For investor relations enquiries email investor.relations@tower.co.nz

COMPANY NUMBERS

**TOWER Limited
(Incorporated in New Zealand)**

NZ Incorporation 979635

ARBN 088 481 234

TOWER Capital Limited

NZ Incorporation 2198245

INVESTOR ENQUIRIES

New Zealand

Computershare Investor Services Limited

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Melbourne Vic 3000

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Facsimile Australia:
+61 3 9473 2500

Email: enquiry@computershare.co.nz

Website:
www.computershare.co.nz/investorcentre

You can also manage your holdings electronically by using Computershare's secure website www.computershare.co.nz/investorcentre

This website enables holders to view balances, change addresses, view payment and tax information and update payment instruction and report options.

TOWER recommends shareholders elect to have any payments direct credited to their nominated bank account in New Zealand or Australia to minimise the risk of fraud and misplacement of cheques. Bondholders payments are made in New Zealand dollars only and TOWER also recommends that all interest payments are direct credited to your nominated bank account in New Zealand.

Please quote your CSN number or shareholder number when contacting Computershare.

The TOWER Limited and TOWER Capital Limited Annual Reports for the year ended 30 September 2010 are available on the TOWER website: www.tower.co.nz

TOWER Limited

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Email: investor.relations@tower.co.nz
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TOWER

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