

CORPORATE GOVERNANCE

1. APPROACH TO CORPORATE GOVERNANCE AT TOWER AUSTRALIA GROUP LIMITED (TOWER AUSTRALIA)

TOWER AUSTRALIA'S APPROACH TO GOOD CORPORATE GOVERNANCE

TOWER Australia's Board and Executive Management have responsibility to achieve the highest standards of corporate performance, ethical behaviour and accountability. The Board has developed and adopted corporate governance structures and practices that are consistent with good practice and ensure the integrity of the governance framework. Where developments arise in corporate governance, the Board is committed to review TOWER Australia's practices and incorporate changes where appropriate.

Effective corporate governance practices add value to TOWER Australia's business by reducing risk, creating transparency and enhancing decision-making. It assists TOWER Australia to ensure future sustainability and create long term value for shareholders and other stakeholders.

STANDARDS IN CORPORATE GOVERNANCE

TOWER Australia has taken into account the ASX Corporate Governance Principles and Recommendations published in August 2007 ('ASX Principles') in its approach to corporate governance and complies with all the principles and recommendations.

This report reflects TOWER Australia and its controlled entities' (the Group) corporate governance policies and practices as at 30 September 2008.

Further details about TOWER Australia's corporate governance policies and procedures are available on the TOWER Australia website www.toweraustralia.com.au/investor/corporate_governance. These documents are updated and reviewed regularly recognising that corporate governance is about continual improvement.

2. TOWER AUSTRALIA BOARD ROLE OF THE BOARD

The Board, as representatives of the shareholders, has ultimate responsibility to the shareholders for the performance and overall governance of TOWER Australia and its controlled entities. In practice this is achieved through formal delegation to the Managing Director for day-to-day management of the Group and to its three Board Committees – Audit, Compliance and Risk Management Committee, Remuneration and Nominations Committee and the Investment Committee – for detailed consideration of matters and making recommendations.

KEY RESPONSIBILITIES OF THE BOARD

The Board reserves certain functions to itself. These responsibilities are outlined in the Board Charter, a copy of which is available on the TOWER Australia website at www.toweraustralia.com.au/investor/corporate_governance.

Broadly, the responsibilities of the Board include:

- overseeing the Group including its controls and accountability systems;
- determining the Group risk management policies, framework and profile;
- monitoring systems of risk management, internal controls, legal compliance and codes of conduct which affect the Group;
- determining strategic objectives and approving the annual operating plans, financial targets and capital expenditure plans;
- assessing and monitoring performance, including management's performance against the strategic objectives, operating plans and financial targets;
- approving all changes to the corporate structure, including tax and financial, which are of strategic importance to the Group;
- determining Group financial and treasury strategy and policies, including approving all dividend policies and distributions to shareholders, lending and borrowing, tax, and investment and foreign exchange policies in respect of shareholders' funds;
- approving capital and operating expenditure above delegated limits;
- approving all transactions relating to major business and company acquisitions, mergers and divestments; and
- approving the appointment and as appropriate the termination of the Managing Director and Senior Executives and determining their remuneration.

BOARD COMPOSITION AND SIZE

The Constitution of TOWER Australia requires that the Board has a minimum of three and a maximum of ten Directors. The size and composition of the Board is reviewed annually, taking into account the needs of the business and to ensure there is an appropriate blend of commercial skills and experience to govern and add value to the TOWER Australia business through:

- effective and efficient decision making;
- discharging its responsibilities under the law effectively and efficiently; and
- understanding the business of the Company and the environment in which it operates.

At 30 September 2008, the Board consisted of:

- five independent non-executive Directors:
 - Robert Thomas;
 - Peter Lewinsky;
 - Ralph Pliner;
 - Elana Rubin; and
 - Donald Findlater.
- one executive Director:
 - Jim Minto (Managing Director).

Information concerning each Director's qualifications and experience is set out on page 4 of the Directors' Report.

BOARD APPOINTMENTS, PERFORMANCE ASSESSMENT AND SUCCESSION PLANNING

Nominations and Appointments
Recommendations and nominations for new Directors are made by the Remuneration and Nominations Committee and approved by the Board.

In appointing Directors, the Board considers:

- the current size and composition of the Board;
- the strategic needs of TOWER Australia and its subsidiaries;
- regulatory requirements; and
- the skills, knowledge and independence of the potential Director.

On appointment, new Directors receive a Letter of Appointment, which sets out their duties, the terms and conditions of appointment and their remuneration.

New Directors are required to participate in an induction programme to ensure that they are familiar with their duties and responsibilities, the TOWER Australia business and the regulatory environment in which TOWER Australia operates.

Board Performance Assessment

The Remuneration and Nominations Committee is responsible for overseeing the review and performance assessment of the Board.

Broadly, the evaluation of both the Board and the individual Directors of the Company takes into consideration the following factors:

- the extent and effectiveness to which the role has been performed;
- the extent to which key decisions have been made in a timely and effective manner;
- demonstration of the required expertise in the role;
- attendance and participation at Board meetings; and
- contributions made to the Board.

The Board reviews its own composition and performance and that of the Board Committees each year in accordance with the terms of the Board Charter, a copy of which is available on the TOWER Australia website at www.toweraustralia.com.au/investor/corporate_governance.

The Board performance review process includes each Director completing a questionnaire setting out their views on the Board's role and responsibilities; the Board's composition, skills and application; the Board's procedures and practices; and the Board's culture and dynamics. The Board Chairman then has one-on-one discussions with each Director specifically addressing performance criteria, the effectiveness of the Board and all other related issues. The results and findings of the performance review process are collated by the Board Chairman and presented to all Directors at the next Board meeting. External independent advisers can be engaged to assist this process as necessary.

Succession Planning

The Board, with assistance from the Remuneration and Nominations Committee, considers the succession of its members as required.

With the exception of the Managing Director, one third of the Directors of TOWER Australia must retire by rotation at each Annual General Meeting. Any other Director, who has been in office for more than three years since his or her last election, or who has been appointed to fill a casual vacancy, is also required to retire at the next Annual General Meeting.

ASSESSING THE INDEPENDENCE OF TOWER AUSTRALIA DIRECTORS

The Board considers that an independent Director is a non-executive Director who is free from management and any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their independent judgment.

The independence of TOWER Australia Directors is regularly assessed by the Board in light of the interests and information which Directors disclose.

In assessing the independence of Directors, the Board has regard to whether the Director or an immediate family member has any of the following relationships with TOWER Australia or any of TOWER Australia's related entities:

- is a substantial shareholder of TOWER Australia or an officer of, or otherwise associated directly with a substantial shareholder of TOWER Australia;
- within the last three years has been employed in an executive capacity by TOWER Australia or been a Director after ceasing to hold such employment;

- within the last three years has been a principal of a material professional adviser or a material consultant to TOWER Australia, or an employee materially associated with the service provided;
- is a material supplier or customer of TOWER Australia, or an officer of or otherwise associated directly or indirectly with a material supplier or customer of TOWER Australia;
- has served on the Board of the Company for a period which could, or could reasonably be perceived to, materially interfere with the Directors ability to act in the best interests of the Company; and/or
- has an interest or a business or other relationship which could, or could reasonably be perceived to, materially interfere with the Directors ability to act in the best interests of the Company.

The materiality of a relationship is assessed on an individual basis and has regard to a Director's individual circumstances. If the Board considers that a Director is independent, notwithstanding any of the factors mentioned above, the Board will provide reasons for its decisions.

The independent non-executive Directors of TOWER Australia will meet informally on occasions, without the non-independent Directors, Managing Director, Chief Financial Officer or any other member of management being present.

MEETING THE "FIT AND PROPER" TEST

TOWER Australia has put in place comprehensive measures to ensure that individuals who are appointed to senior positions within TOWER Australia have the appropriate fitness and propriety to effectively discharge their responsibilities and duties.

CONFLICTS OF INTEREST

TOWER Australia is aware of the importance of managing conflicts of interest. Directors are required to continually monitor and disclose any potential conflicts of interest that arise. In addition, any Director with a material personal interest in a matter being considered by the Board must declare this interest and must not vote on any matter which relates to that interest.

TOWER Australia has established a Conflicts of Interest Policy which requires Directors to:

- disclose any actual or potential conflicts of interest that arise;
- take necessary and appropriate measures to resolve any conflict of interest; and
- comply with the *Corporations Act 2001* requirements in relation to disclosing conflicts of interest and restrictions on voting.

A copy of TOWER Australia's Conflicts of Interest Policy can be found on the TOWER Australia website at www.toweraustralia.com.au/investor/corporate_governance.

BOARD MEETINGS

The Board holds approximately eight formal meetings each year. It also meets whenever it is necessary between these formal meetings, to carry out its responsibilities. The Board held eight scheduled meetings and a varying number of scheduled Board Committee meetings during the period to 30 September 2008. Details of attendance at Board and Board Committee meetings can be found on page 5 of the Directors' Report.

In carrying out the business which is to be considered at a Board meeting, Directors are required to raise any questions they may have, request further information if needed, raise concerns and vote on matters before the Board according to their own judgement.

ACCESS TO INFORMATION AND INDEPENDENT ADVICE

All Directors are given unrestricted access to all records and information relating to TOWER Australia. Directors are encouraged to speak with members of senior management at any time to request relevant information.

Directors are entitled to seek independent advice on any matter that relates to the business of TOWER Australia at the Company's expense, but must ensure that costs are reasonable and advise the Chairman before obtaining the advice.

Managing Director and Chief Financial Officer Assurance

The Board has received and considered the annual certification from the Managing Director and Chief Financial Officer which states that:

- TOWER Australia's financial reports present a true and fair view, in all material respects, of the Company's financial position and performance, and are in accordance with Australian accounting standards; and
- TOWER Australia's risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively in all material aspects.

3. BOARD COMMITTEES

ROLE OF BOARD COMMITTEES

The Board has established a number of expert Committees to assist it in its duties and responsibilities. Board Committees allow matters to be discussed and considered in greater detail. The Board Committee structure also utilises the skills and experience of TOWER Australia Directors to maximum advantage for the benefit of all TOWER Australia stakeholders. Board Committees are formed in response to the needs of the business and the Board may appoint further Board Committees as it sees fit.

TOWER Australia has three Board Committees:

- Audit, Compliance and Risk Management Committee;
- Remuneration and Nominations Committee; and
- Investment Committee.

Each Committee has its own Charter which specifies the composition, responsibilities and duties. A copy of these Charters can be found on TOWER Australia's website at www.toweraustralia.com.au/investor/corporate_governance.

The structure and membership of each of the Board Committees is as follows.

AUDIT, COMPLIANCE AND RISK MANAGEMENT COMMITTEE

Composition

The Committee consists of 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. The Managing Director cannot be a member of the Committee. Members of the Committee are required to be financially literate with an appropriate understanding of TOWER Australia's business. At least one member of the Committee must have accounting or financial expertise in the area of life insurance.

During the period to 30 September 2008, the Committee comprised the following members:

- Peter Lewinsky (Chairman);
- Ralph Pliner;
- John Spencer – resigned 30 November 2007;
- Elana Rubin – appointed 30 November 2007; and
- Donald Findlater – appointed 7 July 2008.

Role of the Committee

The role of the Committee is set out in its Charter and includes:

- overseeing the performance of the External Auditor and being satisfied as to the independence of the External Auditor;
- independently and objectively reviewing the financial information presented by management to the Board, the External Auditor and the public;
- assisting the Board to fulfil its obligations in respect of determining the Group's risk profile having regard to the following risk classes:
 - Asset risk;
 - Strategic risk;
 - Operational risk;
 - Fiduciary risk; and
 - Insurance risk.
- reviewing the strategies, policies, frameworks, models and procedures in place to govern the identification, management and mitigation of material risks;
- reviewing the effectiveness and efficiency of management processes, Group risk management and internal financial controls and control systems;
- monitoring and reviewing compliance with regulatory and statutory requirements and obligations;
- monitoring the adequacy and effectiveness of the Group's internal control systems and processes including reviewing reports from internal and external audit, compliance, and risk management together with management's responses; and
- maintaining open and direct lines of communication with the External and Internal Auditors.

REMUNERATION AND NOMINATIONS COMMITTEE

Composition

The Committee consists of a minimum of three non-executive Directors, the majority of whom are independent. The Chairman of the Committee is appointed by the Board and is an independent non-executive Director.

During the period to 30 September 2008 the Committee comprised the following members:

- Robert Thomas (Chairman);
- Ralph Pliner;
- Michael Jefferies – resigned 8 August 2008; and
- Peter Lewinsky – appointed 9 September 2008.

Role of the Committee

The Committee advises the Board on matters related to the appointment, succession and remuneration of Directors, and Senior Executives and the performance of the Board. The Committee Charter includes the following responsibilities:

- recommending TOWER Australia's remuneration, superannuation and incentives policies;
- reviewing TOWER Australia's recruitment, retention and termination policies;
- reviewing policies for the appointment and remuneration of Directors and Senior Executives;
- determining the necessary and desirable competencies of the Board;
- determining the criteria for the selection of Directors;
- considering the policies for the assessment of the independence and fitness and propriety of Directors;
- evaluating the performance of the Board and individual Directors;
- evaluating the role of the Chairman of the Board; and
- succession planning.

INVESTMENT COMMITTEE

Composition

The Committee consists of a minimum of three suitably qualified members (including at least two non-executive Directors. The Chairman of the Investment Committee is appointed by the Board and cannot be the Chairman of the Board.

During the period to 30 September 2008 the Investment Committee comprised the following members:

- Elana Rubin (Chair)
 - appointed 30 November 2007;
- Michael Jefferies
 - resigned 8 August 2008;
- Robert Thomas
 - appointed 9 September 2008;
- Jim Minto; and
- Anthony Eisen
 - resigned 8 August 2008.

Role of the Committee

The Committee assists the Board to carry out its duties in the areas of investment strategies and processes. The Committee Charter sets out its responsibilities which include:

- reviewing and monitoring investment policy and strategy and where appropriate, monitoring compliance with TOWER Australia's statutory and regulatory obligations;
- reviewing risk management policy and statements in respect of investment management, including derivative policy;

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- approving risk management strategies in respect of investment management;
- reviewing and monitoring investment mandates, including allowable investments, policy ranges, benchmarks and risk control limits;
- 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 investments;
- reviewing the appointment of external investment managers;
- reviewing and monitoring investment performance of key products and fund manager performance;
- monitoring compliance with investment policies and client mandates;
- reviewing delegations to investment managers and management;
- receiving and considering large and/or non-standard investment related transactions; and
- ensuring all investments are being managed in accordance with statutory obligations.

4. ROLE OF THE CHAIRMAN

The Chairman of the Board is an independent non-executive Director. The role of the Chairman and the Managing Director are separate. The responsibilities of the Chairman include:

- providing effective leadership to the Board;
- establishing processes for ensuring the accurate and timely flow of information to the Board;
- facilitating Board discussions;
- monitoring Board performance;
- ensuring that decisions of the Board are implemented as intended;
- representing and speaking on behalf of the Board to shareholders and other stakeholders; and
- facilitating relations between the Board and the Managing Director.

5. ROLE OF TOWER AUSTRALIA CORPORATE GOVERNANCE PROFESSIONALS

HEAD OF CORPORATE GOVERNANCE

Peter Noble (BCom, LLB) is the head of Corporate Governance for TOWER Australia. Mr Noble joined TOWER Australia in January 2007. He has over 30 years experience in legal practice and in the financial services sector.

Mr Noble has chief management responsibility for corporate governance functions at TOWER Australia and is part of the Executive Management team.

COMPANY SECRETARIES

Responsibility for TOWER Australia Group Limited

Philippa Ellis (BSc, BCom, ACIS) is the General Manager of Investor Relations and the Listed Company Secretary. She is an associate member of Chartered Secretaries Australia.

Mrs Ellis has chief responsibility for the company secretarial requirements of the listed entity TOWER Australia Group Limited.

Responsibility for TOWER Australia Controlled Entities

Pauline Pyers (BA, LLB, LLM, GradDip AppCorpGov, ACIS) holds the positions of Corporate Counsel and Company Secretary. She has responsibility for the company secretarial requirements for the controlled entities of TOWER Australia and is the alternate Company Secretary for the listed entity. Ms Pyers is an associate member of Chartered Secretaries Australia, a barrister and solicitor of the Supreme Court of Victoria and holds a current practising certificate in New South Wales.

Both Company Secretaries are appointed and dismissed by the Board. They are accountable to the Board through the Chairman, for the corporate governance processes of TOWER Australia and its controlled entities in conjunction with the Head of Corporate Governance.

It is the responsibility of the Company Secretary to:

- monitor Board policy and ensure that procedures are followed;
- distribute the Board agenda and briefing materials before each meeting;
- record, maintain and distribute the minutes of all General Meetings of TOWER Australia;
- notify the Directors of Board meetings; and
- assist in oversight of TOWER Australia's compliance programme.

6. RISK MANAGEMENT

APPROACH TO RISK MANAGEMENT

Management of risks is essential to the prudent management of the TOWER Australia business. Management, through the Managing Director, is responsible for designing, implementing and reporting on the adequacy of TOWER Australia's risk management and internal control system.

While the Board retains the overall responsibility for ensuring that TOWER Australia has a strong system of risk management and internal compliance, the Board has delegated specific monitoring and evaluation of the effectiveness of risk management policies to the Audit, Compliance and Risk Management Committee including:

- reviewing the internal accounting and financial controls that are in place to safeguard TOWER Australia's financial and physical resources;
- ensuring TOWER Australia's risk management strategies reflect the Company's risk profile and risk appetite;
- approving the risk appetite of TOWER Australia;
- assessing the risk management framework against the expectations of the regulators;
- reviewing TOWER Australia's risk profile.
- ensuring measures are in place to manage compliance with the laws, regulatory obligations and policies; and
- ensuring that processes are in place to produce information for external use which is accurate, reliable and compliant with relevant laws.

In approaching risk management TOWER Australia's overall goal is to reduce risk to an acceptable level within its risk appetite by ensuring that all material risks that have the potential to significantly impact business operations, capital or customer entitlements are identified and managed appropriately at the correct level within TOWER Australia. A standardised approach to risk assessment is used to ensure the risks are consistently assessed and reported.

RISK MANAGEMENT FRAMEWORK

TOWER Australia operates a Risk Management Framework aligned with APRA Prudential Standard LPS 220. The Risk Management Framework is designed to assist TOWER Australia achieve its overall risk management goal by:

- establishing the context for the management of risk;
- establishing a process for the identification, analysis, evaluation, treatment, monitoring and review of risk;
- developing a risk-aware culture that has an understanding of risk tolerance in terms of downside risk and upside risk; and
- managing its risks.

TOWER Australia's Risk Management Framework consists of:

- the Risk Management Strategy (RMS);
- risk class and risk appetite statements;
- Board approved policies and associated procedures;
- the risk management process;
- the risk management function;
- documented roles and responsibilities;
- documented delegations; and
- procedure manuals and other controls.

The Risk Management Strategy is reviewed by the Board each year.

BUSINESS RISKS WHICH MAY AFFECT TOWER AUSTRALIA

The nature of TOWER Australia's business means that risks within the following classes have the ability to impact on its performance:

Class	Definition
Insurance Risk	The risk of loss due to changes in policyholder claim rates, changes in related assumptions and reinsurer defaults. Insurance risk also considers inadequate or inappropriate insurance pricing, policy design, underwriting and claims management that exposes TOWER Australia to financial loss and the consequent inability to meet its liabilities.
Asset Risk	The risk of loss due to changes in interest rates or asset prices. The risk of loss considers both asset and liability impacts. On materiality grounds losses due to credit risk exposures (except reinsurers) are included in this asset class.
Fiduciary-type Risk	The risk of not managing investment funds in line with policyholder or superannuation member reasonable expectations or in accordance with TOWER Australia's Directors' duties. It also includes the risk of conflict between the interests of policyholders, superannuation members and shareholders.
Operational Risk	The risk of loss occurring through the failure of people, fraud, outsourcing processes, business continuity and systems to perform as required. It also includes the risk resulting from the breakdown of controls or from external events where these losses relate (principally) to the balance sheet value of TOWER Australia.
Compliance Risk	The risk of loss due to compliance breaches which could result in penalties, reputation damage and ultimately loss of licence to conduct business.
Strategic Risk	The risk of loss due to inadequate or failed internal processes, people or systems from external events or from failure of strategic initiatives where these losses relate (principally) to the franchise value of TOWER Australia.

7. BOARD DELEGATION TO MANAGEMENT

DELEGATION TO MANAGING DIRECTOR

The Board has delegated authority to the Managing Director to manage the day-to-day leadership and business of TOWER Australia within the delegation limits that are set by the Board from time to time. The Managing Director may sub-delegate responsibilities within these delegation limits; however the Managing Director remains accountable for all authority that has been delegated to management. The delegations from the Board to the Managing Director are set out in the Board Charter delegation, a copy of which is available on the TOWER Australia website at www.toweraustralia.com.au/investor/corporate_governance.

8. ETHICAL BUSINESS CONDUCT

ETHICAL AND RESPONSIBLE DECISION MAKING

TOWER Australia has adopted a Code of Ethics (Code) which applies to its Directors, Senior Executives and employees.

The Code sets out the standards of honest, ethical and law-abiding behaviour that is expected by TOWER Australia. It encourages employees to bring breaches of the Code to the attention of management or the Board. The Code also provides protection for those who report breaches.

A copy of the Code is available on the TOWER Australia website at www.toweraustralia.com.au/investor/corporate_governance. The Code is regularly reviewed and updated to ensure it reflects the highest standards of behaviour.

INSIDER TRADING

The Board has approved a Trading Policy for TOWER Australia which sets out the manner in which Directors, Senior Executives and employees can trade in TOWER Australia securities.

The Policy states that no Director, Senior Executive or employee may trade while in the possession of inside information concerning TOWER Australia.

Trading in TOWER Australia shares by Directors, Senior Executives and certain employees is restricted to trading windows. Trading must not be done during the six weeks:

- prior to the announcement of TOWER Australia's full year financial results to ASX; and
- prior to the announcement of TOWER Australia's half year financial results to ASX.

A copy of the TOWER Australia Trading Policy can be found on the TOWER Australia website at www.toweraustralia.com.au/investor/corporate_governance.

CORPORATE AND SOCIAL RESPONSIBILITY

For TOWER Australia to continue to be successful in business, it must also be an active and responsible member of the community. TOWER Australia takes its social and environmental responsibilities very seriously. Information on TOWER Australia's workplace and community programmes are included in the 2008 TOWER Australia Group Limited Shareholder Review.

9. CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

CONTINUOUS DISCLOSURE

TOWER Australia is committed to providing timely and relevant information about its business operations to all shareholders and potential investors to enable them to make informed decisions about their investments.

TOWER Australia ensures all disclosures:

- are made in a timely manner;
- are factual;
- do not omit material information; and
- are expressed in a clear and objective manner to allow an investor to assess the impact of the information when making investment decisions.

All material information relating to TOWER Australia is accessible on the TOWER Australia website as soon as it is disclosed to the ASX.

TOWER Australia's approach to communicating with shareholders and the market is set out in its Corporate Disclosure Policy. A copy of the Corporate Disclosure Policy can be found on the TOWER Australia website at www.toweraustralia.com.au/investor/corporate_governance.

COMMUNICATING WITH SHAREHOLDERS

The Board works to ensure that shareholders are informed of all material information necessary to assess TOWER Australia's performance. Information is communicated to shareholders through:

- Annual Reports;
- Shareholder Newsletters;
- Market Briefings;
- Annual General Meetings;
- Media Releases; and
- the TOWER Australia website.

TOWER Australia encourages all shareholders to attend, participate and vote at its Annual General Meeting (AGM). The Notice of Annual General Meeting is accompanied by explanatory notes on the items of business to assist shareholders to understand the business that will be considered at the meeting. Questions can be registered prior to the meeting by completing the relevant form accompanying the Notice of Meeting.

The Board also requests that the Company's External Auditor attends the meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Proceedings at shareholder meetings and important briefings are webcast live on the TOWER Australia website.