NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Compliance with IFRS

Compliance with AIFRS ensures that the financial statements and notes to the financial statements 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.

The financial statements are presented in Australian dollars.

Rounding

The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of TOWER Australia Group Limited ("Company" or "parent entity") as at 30 September 2008 and the results of all controlled entities for the year then ended. TOWER Australia Group Limited and its controlled entities together are referred to in this financial report as "the Group" or "the consolidated entity".

Controlled entities 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 controlled entities acquired during the year are consolidated from the date on which control is transferred to the consolidated entity and the results of any controlled entities 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.

Inter-company transactions and balances between Group entities are eliminated on consolidation.

Investments in associates

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise it's judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

COMPARATIVES

The accounting policies adopted are consistent with those of the previous financial year. Comparatives are adjusted from time to time for changes in disclosures to improve comparability of information.

In the comparative period:

• fees earned from some life investment contracts have been reclassified and disclosed as fee and other revenue on the income statement where previously these were classified and disclosed as movement in policy liabilities; and

• assets arising from reinsurance contracts and life insurance contract liabilities have been grossed up for the inclusion of reinsurance amounts which were previously shown net.

These reclassifications have no impact on income or net assets for the comparative period.

PRINCIPLES UNDERLYING THE CONDUCT OF THE 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 of 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 partially 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.

The Group operates predominantly in the financial services industry. As such, the assets and liabilities disclosed in the consolidated balance sheet are grouped by nature and listed in an order that reflects their relative liquidity.

SPECIFIC ACCOUNTING POLICIES

a) Premium revenue

Life Insurance contracts

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

Life investment contracts

Under life investment contracts the life company receives deposits from policyholders which are then invested on behalf of the policyholders and taken to the balance sheet. No premiums are recognised as revenue. Fees deducted from members accounts are accounted for as fee revenue. Life investment premiums are treated as a movement in life investment contract liabilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 Income

Investment income is recognised as follows:

Dividends and distributions

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

Interest Income

Interest income is recognised on an effective interest method.

Fair value gains and losses

Fair value gains and losses on financial assets at fair value are recognised through the income statement.

d) Claims Expense

Life Insurance contracts

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

Life investment contracts

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

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 allocated directly to that class of business. Expenses directly attributable to the ordinary and superannuation participating and non-participating classes of business but cannot be directly allocated to a particular class of business are apportioned based upon the appropriate cost drivers.

(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 balance of assets under management, average number of policies in-force and time and activity based allocations.

f) Policy Acquisition Costs

Life insurance contracts

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

Other contracts

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

Deferred acquisition costs are recognised for the products noted below and are amortised in line with the provision of services.

Superannuation 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.

Life investment contracts

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

g) Outward Reinsurance Expense

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

Current tax

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

Deferred tax

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

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

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

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

Income tax for investment contracts and life insurance contracts business

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

Income tax for other business

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

Tax consolidation

TOWER Australia Group Limited is the head entity of the tax consolidated group comprised of TOWER Australia Group Limited and its wholly-owned entities. Under tax consolidation the head entity assumes the following balances from controlled entities within the tax consolidated group:

(i) current tax balances arising from external transactions recognised by entities in the tax consolidated group which occurred after implementation date; and

(ii) deferred tax assets arising from unused tax losses and unused tax credits recognised by entities in the tax-consolidated group which occurred after implementation date.

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

GST

All revenues, expenses and assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense.

Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

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

j) Foreign Currency

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.

k) Cash and Cash Equivalents

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

l) Receivables

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

m) Plant and equipment

Plant and equipment

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

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

n) Financial Assets Backing Insurance Business

The Group has determined that all assets held within the statutory funds of life insurance companies are assets backing the policy liabilities of the life insurance business. As these assets are managed under the Group's Risk Management Statement on a fair value basis and are reported to the board on this basis, they have been valued at fair value through the income statement wherever the applicable standard allows.

o) Investments and Other Financial Assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 11) in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial instruments is determined are disclosed in note 32.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

p) Intangibles

Goodwill

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 Segment Reporting.

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.

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.

Value of in-force

Value of in-force business acquired represents the amount paid to purchase in-force life policies within a business combination in excess of the net assets of the business acquired. The book value of in-force business has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated to allocate the cost of in-force business over the estimated useful lives which vary from eight to 20 years from date of acquisition.

q) Impairment of non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested semi-annually for impairment. Assets with a definite useful life are subject to amortisation in line with that useful life 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 level for which there are separately identifiable cash flows (cash generating units).

r) Acquisition of Assets

Identifiable assets acquired and liabilities assumed in a 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 a discount on acquisition then this is recognised directly in the income statement.

s) Derivative Financial Instruments

All derivatives are recognised at fair value through the income statement.

t) 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 term of the lease.

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

u) Borrowings or Interest Bearing Liabilities

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Preference shares and convertible notes, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as finance costs.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

v) Payables

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

w) Provisions

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

x) Employee Benefits

Provision is made for employee benefits 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 benefits expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee benefits are measured at the present value of the estimated future cash outflows to be made in respect of services provided up to the balance date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities which have terms to maturity approximating the terms of the related liability.

y) Capital Guarantees

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

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

z) Life Investment Contract Liabilities

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

(i) Deposit component

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

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

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

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

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

(ii) Revenue component

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

Accounting standards define this part as the Management Services Element.

The difference between the consideration received and the fair value of the deposit element relates to future management services revenue and is initially recognised on the balance sheet as Deferred Revenue Liability.

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

aa) Life Insurance Contract Liabilities

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

Under MoS the excess of premium received over claims and expenses (‘the profit margin’) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder as services are provided (‘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.

Accounting standards allow life insurance contracts to be determined using either:

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

b) accumulation method, whereby estimates of accumulated benefit to policyholders are offset by a portion of acquisition costs. For most policies TOWER adopts an accumulation type methodology where the policy liability is disaggregated into a number of specific items relating to the underlying cash flows and business drivers, and where deferred acquisition costs are amortised, in a way that the policy liability is materially unchanged from an equivalent projection methodology. This methodology provides the business with greater insights into the drivers and sources of operating profit.

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

bb) Contributed Equity

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

cc) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

dd) Share Based Payments

The Group issues share-based compensation packages to Senior Executives as part of their remuneration packages.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

Where terms are changed during the period the increase in cost of the options is then 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 previously recognised.

ee) Segment reporting

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

ff) Earnings Per Share

Basic earnings per share

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

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.

gg) New Accounting Standards and UIG Interpretations

The Australian Accounting Standards Board (AASB) has issued the following amendments to Australian Accounting Standards:

AASB No.	Title	Operative Date
2007-3	Amendments to Australian Accounting Standards arising from AASB 8 (AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038)	1 January 2009
2007-6	Amendments to Australian Accounting Standards arising from AASB 123 (AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12)	1 January 2009
2007-8	Amendments to Australian Accounting Standards arising from AASB 101	1 January 2009
2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations (AASB 2)	1 January 2009
2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation (AASB 7, AASB 101, AASB 132, AASB 139 & Interpretation 2)	1 January 2009
2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107)	1 July 2009
2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 7, 101, 102, 107, 108, 110, 116, 118, 119, 120, 123, 127, 128, 129, 131, 132, 134, 136, 138, 139, 140, 141, 1023 & 1038)	1 January 2009
2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 1 & AASB 5)	1 July 2009
2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136)	1 January 2009
2008-9	Amendments to AASB 1049 for Consistency with AASB 101	1 January 2009

These amendments are not effective at balance date and have not been applied in preparing the Groups' financial statements. The Group expects to adopt these standards where applicable for the annual reporting periods beginning on or after the operative dates set out above. The Group does not expect there to be any material adjustments, or disclosure impacts, upon application of the above standards.

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.

Other financial assets and intangible assets reported on the balance sheet are tested for impairment at least annually. The impairment test compares the carrying value to the fair value. Group policies and procedures require that fair value be determined by an appropriately qualified person who will determine fair value with reference to observable market transactions or using discounted cash flow techniques. The valuation process involves the use of judgement. In the current period valuations reports have been prepared that support the carrying value of other financial assets and intangible assets and in the case of two assets within the other financial assets category has resulted in an impairment of the carrying value of these assets. Refer to note 13.

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 and present value of in-force business 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:

(i) The cost of providing benefits and administering these insurance contracts;

(ii) Mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;

(iii) Discontinuance experience, which affects the Group's ability to recover the cost of acquiring new business over the lives of the contracts; and

(iv) 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 31.

Change from projection method to accumulation method

The life company uses estimates and judgements in the determination of certain balances in the financial statements, and periodically reassesses the methodology in arriving at these estimates and judgements.

During the period the valuation method used to estimate policy liabilities for the individual lump sum life insurance and disability income product groups changed from the projection method to the accumulation method. This change in valuation methodology has no material impact on the value of policy liabilities. As this is a change in methodology comparatives do not require restatement.

Under the accumulation method, the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported, less any deferred acquisition costs. The amortisation of the deferred acquisition cost asset is determined in such a way that reported profit is materially similar to the projection method. Under the projection method, the policy liability is the sum of the net present value of future receipts from and payments to policyholders and planned profit margins. The following table lists the valuation method used for each major product group.

Major Product Groups	Method	Method	Profit Carriers
	2007	**2008**	
Traditional participating	Projection	Projection	Cost of supportable bonuses
Traditional non-participating	Projection	Projection	Expected death claims
Lifetime annuities	Projection	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance	Projection	Accumulation	Premiums (2007: Expected claims)
Participating investment account	Projection	Projection	Cost of supportable bonuses
Group risk insurance	Accumulation	Accumulation	N/A
Group salary continuance – open claims	Accumulation	Accumulation	N/A

Following the above change in valuation methodology the definition of the assets arising from reinsurance contracts has been reviewed. The prior year comparatives have been restated to ensure comparability resulting in an increase in assets arising from reinsurance contracts and life insurance contract liabilities with no impact on net assets.

Profit carrier

During the year the profit carrier for the individual lump sum life insurance risk and disability income product group was changed from claims to premiums. This will have no cumulative impact on profit over the life of the contracts but will give rise to a timing difference from year-to-year.

For the year the change from a claims carrier to a premium carrier has given rise to an additional profit of $7.079 million (after tax) than would have been reported using the claims profit carrier. This change was made to align to industry practice and to reflect that premiums provide a better indicator of the delivery of service. The change in profit carrier is considered a change in methodology. As such, prior period comparatives are not required to be restated.

b) 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 and these amounts can be reliably measured.

	Group		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
3. PREMIUM REVENUE				
Life insurance contract premiums [1]	730,574	659,402	–	–
Less: deposits recognised as an increase in policy liabilities	(17,767)	(18,164)	–	–
Life insurance contract premiums recognised as revenue	**712,807**	**641,238**	–	–
Less: reinsurance expense	(226,687)	(221,356)	–	–
Total net premium revenue	**486,120**	**419,882**	–	–
Investment contract premiums that are deposit in nature, recognised as in increase in policy liabilities (refer note 31)	105,308	228,618	–	–

Note:

1 2007 premium income is net of certain commission amounts. In 2008 these amounted to $12.092 million, and have been disclosed within commission expense. Refer note 7.

	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
4. INVESTMENT INCOME				
Interest	19,960	62,667	1,986	1,904
Dividends and distributions	213,453	208,311	16,200	71,118
Property	–	7,663	–	–
Net fair value gains/(losses) on financial assets at fair value through profit or loss	(536,693)	88,648	45	174
Total investment income	**(303,280)**	**367,289**	**18,231**	**73,196**

On 1st April 2007 the Company received a $71.1 million dividend immediately prior to TOWER Holdings (Australia) Limited, a controlled entity, being wound up.

At the same time the Company impaired the carrying value of TOWER Holdings (Australia) Limited by $70.6 million to reflect the reduction in fair value. See note 39 for more detail.

	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
5. FEE AND OTHER REVENUE				
Fees from life investment contracts	52,105	58,234	–	–
Investment management fees	6,909	7,411	–	–
Other revenue	11,566	7,374	–	–
Total fee and other revenue	**70,580**	**73,019**	–	–

	Group		Company	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**

6. CLAIMS EXPENSE

	2008 $000	2007 $000	2008 $000	2007 $000
Life insurance claims	366,455	359,336	–	–
Less: withdrawals recognised as an decrease in policy liabilities	(60,057)	(61,186)	–	–
Life insurance claims recognised as expense	**306,398**	**298,150**	**–**	**–**
Less: reinsurance recoveries revenue	(169,890)	(181,999)	–	–
Total net claims expense	**136,508**	**116,151**	**–**	**–**
Investment contract claims recognised as in decrease in policy liabilities (refer note 31)	329,410	403,290		

7. EXPENSES

Profit before income tax includes the following specific expenses

	2008 $000	2007 $000	2008 $000	2007 $000
Life insurance contracts				
Policy acquisition expenses:				
Commission [1]	65,342	33,253	–	–
Other acquisition expenses	46,943	36,428	–	–
Policy maintenance expenses:				
Commission	97,492	113,472	–	–
Other maintenance expenses	93,700	88,679	–	–
Investment management expenses	760	1,699	–	–
Total life insurance expenses	**304,237**	**273,531**	**–**	**–**
Life investment contracts				
Policy acquisition expenses:				
Commission	2,262	2,886	–	–
Other acquisition expenses	5,063	3,942	–	–
Policy maintenance expenses:				
Commission	6,891	7,495	–	–
Other maintenance expenses	21,322	23,021	–	–
Investment management expenses	4,165	6,318	–	–
Total life investment expenses	**39,703**	**43,662**	**–**	**–**
Other non-life expenses	**25,486**	**21,873**	**2,476**	**2,062**
Total management and sales expenses	**369,426**	**339,066**	**2,476**	**2,062**
Included in total management and sales expenses are the following:				
Amortisation of deferred acquisition costs	8,234	8,990	–	–
Change in provision for doubtful debts	204	748	–	–
Depreciation:				
Office equipment and furniture	589	841	–	–
Motor vehicles	–	7	–	–
Computer hardware	186	1,249	–	–
Donations	59	64	–	–
Employee benefits expense	86,081	70,725	–	–
Project costs	12,753	12,901	–	–

Note:

1 2007 policy acquisition expenses commissions exclude certain amounts which were included within premiums in note 3. In 2008 these amounted to $12.092 million, and have been disclosed as commission expense. Comparatives have not been restated as premiums received were net of commission in 2007 whereas they are now gross.

7. EXPENSES CONTINUED

	Group		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Auditors remuneration				
Assurance services				
Audit services				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports	1,048	1,101	237	245
Audit of regulatory returns	131	143	23	20
Audit of superannuation funds	248	270	–	–
Total remuneration for audit services	1,427	1,514	260	265
Other audit and assurance services				
PricewaterhouseCoopers Australian firm				
Other audit related work	158	259	–	–
Total remuneration for other audit and assurance services	158	672	–	–
Total remuneration	1,585	1,773	260	265
Finance costs				
Interest expense	8,190	7,853	–	–
Total financing costs	8,190	7,853	–	–

8. TAXATION

Analysis of taxation expense

	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
Current taxation	37,857	75,584	2,583	227
Deferred taxation	(52,055)	(45,462)	(1,994)	(1,343)
Over provided in prior years	(3,302)	(1,616)	–	(824)
Income tax expense/(benefit) for the year	**(17,500)**	**28,506**	**589**	**(1,940)**
Total profit before taxation	**51,192**	**69,171**	**15,755**	**546**
Income tax at the current rate of 30% (2007: 30%)	15,358	20,751	4,727	164
Taxation effect of non-deductible expenses/non-assessable revenue:				
Permanent difference arising from taxation of life company	(22,469)	15,119	–	–
Permanent difference arising from taxation of non life company	(6,727)	(299)	(4,118)	619
Utilisation of previously unrecognised tax benefits	(20)	(2,133)	(20)	(1,900)
Tax benefit recognised on PrefSure acquisition	–	(3,172)	–	–
Imputation tax credits	(340)	(256)	–	–
Under/(over) provided in prior years	(3,302)	(1,616)	–	(823)
Other	–	112	–	–
Income tax expense/(benefit)	**(17,500)**	**28,506**	**589**	**(1,940)**

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

	Opening balance at 1 October $000	(Charged)/ credited to income $000	(Charged)/ credited to equity $000	Closing balance at 30 September $000
2008				
Movements in deferred taxation				
Deferred revenue liability	24,148	(2,473)	–	21,675
Provisions and accruals	8,533	(681)	–	7,852
Carried forward losses	8,201	(1,486)	–	6,715
Fair value	8,534	56,480	–	65,014
Deferred acquisition costs	(18,202)	2,176	–	(16,026)
Tax benefit recognised on PrefSure acquisition	3,172	–	–	3,172
Other	(1,894)	(2,652)	691	(3,855)
Total deferred tax asset	**32,492**	**51,364**	**691**	**84,547**
2007				
Movements in deferred taxation				
Deferred revenue liability	24,787	(639)	–	24,148
Provisions and accruals	5,035	3,498	–	8,533
Carried forward losses	9,544	(1,343)	–	8,201
Fair value	(31,222)	39,756	–	8,534
Deferred acquisition costs	(20,367)	2,165	–	(18,202)
Tax benefit recognised on PrefSure acquisition	–	3,172	–	3,172
Other	(2,394)	(1,147)	1,647	(1,894)
Total deferred tax	**(14,617)**	**45,462**	**1,647**	**32,492**

Utilisation of deferred tax assets

The method and timing of the realisation of deferred tax assets has been reviewed in conjunction with the Tax Group's current and future tax liabilities. This review indicates that the Group is able to realise these deferred tax assets within a reasonable timeframe, and therefore the recognition of these assets is justified.

Unrecognised temporary differences and losses

There are no unrecognised temporary differences in respect of revenue losses from current and prior periods. Capital tax losses not recognised are $78.0 million, tax effect of $23.4 million. (2007: $78.0 million, tax effect of $23.4 million). Of the $23.4 million, $5.3 million of the benefit is due to the unutilised loss incurred by TOWER Group (Australia) Pty Limited in 2002 from the share buyback in FAI Life holding company, and $18.1 million of the benefit is due to the loss incurred by the Company on the sale of Bridges in 2005.

Refer to note 28 for information on franking credits.

	Group		Company	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
9. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	7,921	22,270	–	–
Deposits at call	157,820	41,284	32,224	4,361
Total cash and cash equivalents	**165,741**	**63,554**	**32,224**	**4,361**

The effective interest rate for cash at bank is 6.97% (2007: 5.36%) and deposits at call is 6.76% (2007: 6.00%). Deposits at call primarily mature within three months of balance date.

(a) Reconciliation to cash at the end of the year

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

	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
Balances as above	165,741	63,554	32,224	4,361
Balances per Statement of Cash Flows	**165,741**	**63,554**	**32,224**	**4,361**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(b) Reconciliation of profit for the period to net cash flows from operating activities

	Group		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Profit attributable to shareholders	68,692	40,665	15,166	2,486
Add/(less) non-cash items				
Depreciation	775	2,096	–	–
Amortisation of intangibles	5,925	6,963	–	71,118
Movement in deferred acquisition costs	7,252	7,217	–	–
Change in life insurance and life investment contract liabilities	(591,605)	97,216	–	–
Unrealised (gain)/loss on investments	536,692	(88,648)	–	–
Dividend and interest income reinvested	(232,666)	(284,270)	(16,200)	(71,118)
Share of profits from associates	(105)	(95)	–	–
Non-cash employee benefits expense – share based payments	2,608	3,251	2,109	2,062
Loans repaid	–	(65,649)	–	
Decrease/(increase) in deferred tax	(52,055)	(45,618)	–	(3,930)
	(254,487)	(326,872)	1,075	618
Add/(less) movements in working capital relating to operating activities				
(Increase)/decrease in receivables	40,821	191,092	78,610	(56,063)
(Decrease)/increase in payables	(4,607)	(108,803)	(18,256)	3,713
Decrease/(increase) in taxation	(59,190)	45,166	(55,122)	49,372
	(22,976)	127,455	5,232	(2,978)
Net cash inflows/(outflows) from operating activities	(277,463)	(199,417)	6,307	(2,360)

(c) Disposal of subsidiaries

On 26 September 2008, the Company sold its ownership of 100% in TOWER Managed Funds Limited, which was dormant at the time of disposal. On the date of sale the value of the company was $2.00. Consideration received on the sale was $2.00.

On 21 September 2007, the Company sold its total ownership of 100% in the controlled entities listed below.

- TOWER Holdings (Australia) Pty Ltd
- TOWER Superannuation Pty Ltd
- TOWER Asset Management Ltd
- Lighthouse (Australia) Ltd
- Oris Funds Management Ltd
- PrefSure Financial Services Pty Ltd
- PrefSure Business Solutions Pty Ltd
- Security & General Nominees Pty Ltd

All of these controlled entities were dormant at the time of disposal. On the date of sale the value of each of the companies sold was $2.00. Consideration received on the sale was $2.00 per company.

10. NON-CASH INVESTING AND FINANCING ACTIVITIES

During the financial year the Group did not undertake non-cash investment or financing activities other than reinvestment of distributions.

11. RECEIVABLES

	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
Reinsurance recoveries receivable	53,863	73,399	–	–
Outstanding premiums and trade receivables	60,088	81,478	–	–
Prepayments	2,353	1,709	–	–
Unsettled investment sales	(174)	–	–	–
Other	1,213	3,070	–	77
Related party receivables	–	–	1,223	78,934
Total receivables	**117,343**	**159,656**	**1,223**	**79,011**
Analysed as:				
Current	103,335	154,424	1,223	79,011
Non-current	14,008	5,232	–	–
	117,343	**159,656**	**1,223**	**79,011**

	Group		Company	
	2008 $000	2007 $000	2008 $000	2007 $000

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008 $000	2007 $000	2008 $000	2007 $000
Fixed interest securities	94,111	117,657	–	11,684
Equity securities	37,718	–	–	–
Unlisted unit trusts	2,386,005	3,090,933	–	–
Total financial assets at fair value through profit	**2,517,834**	**3,208,590**	**–**	**11,684**
Analysed as:				
Current	2,189,644	1,154,000	–	11,684
Non-current	328,190	2,054,590	–	–
	2,517,834	**3,208,590**	**–**	**11,684**

13. OTHER FINANCIAL ASSETS

	2008 $000	2007 $000	2008 $000	2007 $000
Available-for-sale financial assets (a)	30,798	33,282	–	–
Investments in controlled entities carried at cost (b)	–	–	436,615	436,615
Investments in associates (c)	811	706	–	–
	31,609	**33,988**	**436,615**	**436,615**

a) Available-for-sale financial assets represent strategic investments, meeting the criteria set out in accounting policy note 1(o).

	2008 $000	2007 $000	2008 $000	2007 $000
Opening Balance	33,282	31,460	–	–
Purchases [1]	579	122	–	–
Sales [2]	(2,000)	–	–	–
Revaluations [3]	712	1,700	–	–
Impairment [4]	(1,774)	–	–	–
Closing Balance	**30,798**	**33,282**	**–**	**–**

Note

1 Purchases – During the period TOWER acquired a 10% stake in a distribution company.

2 Sales – During the year TOWER sold its interest in Pro Super Holdings Pty Limited, a company acquired as part of the acquisition of the PrefSure group in 2006. The was no profit or loss recognised on this disposal.

3 Revaluations – During the year the carrying value of TOWER's investment in InsuranceLine Holdings Pty Limited was increased to $24m, which equates to 15% of the fair value of the InsuranceLine Holdings Pty Limited, implied by TOWER's acquisition of this group on 2 October 2008. Refer note 40 for the details of this subsequent event.

4 Impairment – During the year the fair value of TOWER's investment in distribution entities fell reflecting the impact of the global credit crisis and tightening economic environment in Australia. Refer to note 32 for more information on TOWER's assessment of fair value.

b) TOWER Australia Group Limited holds its controlled entity companies under a holding company, TOWER Group (Australia) Pty Limited. All controlled entity companies have a balance sheet date of 30 September 2008. Principal trading controlled entity companies at 30 September 2008 and 2007 are as follows:

Name of Company	Holdings 2008	Holdings 2007	Nature of Business
TOWER Australia Limited	100%	100%	Life insurance and superannuation provider
TOWER Group (Australia) Limited	100%	100%	Holding company
TOWER Distribution Management Limited	100%	100%	Holding company
Beacon Investment Management Services Limited	100%	100%	Financial services distribution
Pivotal Financial Advisers Limited	100%	100%	Financial adviser services
TOWER Australia Distribution Limited	100%	100%	Distribution company
TOWER Australian Superannuation Limited	100%	100%	Superannuation trustee company
TOWER Direct Pty Limited	100%	100%	Distribution company
TOWER Risk and Investment Management Limited	100%	100%	Service company
TOWER Executive Share Options Pty Limited	66%	66%	Trustee
TOWER Managed Funds Limited	0%	100%	Investment management services
PrefSure Holdings Limited	100%	100%	Dormant company
ACN 000 017 194 Limited	100%	100%	Dormant company

c) Investments in associates

(i) Carrying amounts

Information relating to associates is set out below.

Name of company	Principal activity	Ownership interest	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
Australian Financial Risk Management Pty Limited	Insurance services	20%	811	706	–	–
AAA Wealth Intelligence Limited	Dealer Group	50%	–	–	–	–
			811	706	–	–

TOWER's interest in AAA Wealth Intelligence Limited was acquired in November 2007 for $7.00.

	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
(ii) Movements in carrying amounts				
Opening value	706	995	–	–
Acquisitions	–	–	–	–
Disposals	–	(384)	–	–
Share of profits	105	95	–	–
Total investments accounted for using the equity method	**811**	**706**	**–**	**–**
(iii) Summarised financial information in respect of the Group's associates is shown below:				
Total assets	4,434	4,556	–	–
Total liabilities	2,761	3,417	–	–
Revenue	2,680	1,870	–	–
Profit	523	366	–	–
(iv) Share of profits				
Profit before income tax	150	136	–	–
Income tax expense	(45)	(41)	–	–
Profit after income tax	105	95	–	–

The above associates have a 30 June reporting date.

14. DEFERRED ACQUISITION COSTS

	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
Opening balance	60,672	67,889	–	–
Acquisition costs deferred during the period	982	1,773	–	–
Current period amortisation	(8,234)	(8,990)	–	–
Closing balance	**53,420**	**60,672**	**–**	**–**
Analysed as:				
Current	7,540	8,058	–	–
Non-current	45,880	52,614	–	–
	53,420	**60,672**	**–**	**–**

Note – deferred acquisition costs relate to life investment contracts only. Deferred acquisition costs for life insurance contracts are included within policy liabilities.

15. PLANT AND EQUIPMENT

	Group			
	Office equipment and furniture $000	Computer hardware $000	Motor vehicles $000	Total $000
Year ended 30 September 2007				
Opening net book amount	1,375	1,458	24	2,857
Additions	2,471	–	90	2,561
Disposals	–	–	(107)	(107)
Depreciation charge	(841)	(888)	(7)	(1,736)
Net book amount 30 September 2007	**3,005**	**570**	**–**	**3,575**
At 30 September 2007				
At cost	15,327	16,954	22	32,303
Accumulated depreciation	(12,322)	(16,384)	(22)	(28,728)
Net book amount 30 September 2007	**3,005**	**570**	**–**	**3,575**
Year ended 30 September 2008				
Opening net book amount	3,005	570	–	3,575
Additions	1,182	196	–	1,378
Disposals	–	–	–	–
Depreciation charge	(589)	(186)	–	(775)
Net book amount 30 September 2008	**3,598**	**580**	**–**	**4,178**
At 30 September 2008				
At cost	16,509	17,150	22	33,681
Accumulated depreciation	(12,911)	(16,570)	(22)	(29,503)
Net book amount 30 September 2008	**3,598**	**581**	**–**	**4,178**

The parent company does not hold any plant and equipment.

16. INTANGIBLE ASSETS

	Goodwill $000	Value of In-force Business $000	Software $000	Total $000
Year ended 30 September 2007				
Opening balance	128,349	25,860	1,482	155,691
Additional goodwill recognised	270	–	–	270
PrefSure goodwill derecognised [1]	(3,172)	–	–	(3,172)
Amortisation expense during period	–	(3,791)	(361)	(4,152)
Closing net book amount at 30 September 2007	**125,447**	**22,069**	**1,121**	**148,637**
At 30 September 2007				
Cost	181,118	27,756	27,366	236,239
Accumulated amortisation and impairment losses	(55,671)	(5,687)	(26,244)	(87,602)
Net book amount at 30 September 2007	**125,447**	**22,069**	**1,122**	**148,638**
Year ended 30 September 2008				
Additional goodwill recognised	327	–	–	327
Amortisation expense during period	–	(3,791)	(360)	(4,151)
Closing net book amount at 30 September 2008	**125,774**	**18,278**	**762**	**144,814**
At 30 September 2008				
Cost	181,445	27,756	27,366	236,567
Accumulated amortisation and impairment losses	(55,671)	(9,478)	(26,604)	(91,753)
Net book amount at 30 September 2008	**125,774**	**18,278**	**762**	**144,814**

Note

1 The Group recognised a $3.2 million deferred tax asset during 2007 which related to the acquisition of PrefSure in 2006. This is a pre acquisition asset so goodwill has been derecognised to reflect the value of goodwill acquired at date of acquisition.

16. INTANGIBLE ASSETS CONTINUED

Impairment testing for goodwill

The amount of goodwill is subject to annual impairment testing at the cash generating unit level, as outlined in accounting policy note 1(p).

Carrying amount of goodwill	$000
TOWER Australia Limited	118,469
Other	7,305
Total	125,774

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

An analysis of these key indicators and other valuations performed for the current year confirms that at 30 September 2008 goodwill has not been impaired.

	Group		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
17. PAYABLES				
Trade payables	44,085	61,651	6,954	11,950
Unsettled investment purchases	(53)	210	–	–
Reinsurance premiums payable	67,797	56,249	–	–
Related party payables	–	–	(1,974)	11,286
Total payables	**111,829**	**118,110**	**4,980**	**23,236**
Analysed as:				
Current	109,630	112,736	4,980	23,236
Non-current	2,199	5,374	–	–
	111,829	**118,110**	**4,980**	**23,236**
18. PROVISIONS				
Employee benefits	14,178	12,614	–	–
Stamp duty	6,677	4,399	–	–
Other	2,052	2,948	–	–
Total provisions	**22,907**	**19,961**	**–**	**–**
Analysed as:				
Current	17,306	14,587	–	–
Non-current	5,601	5,374	–	–
	22,907	**19,961**	**–**	**–**
Movements in provisions				
Movements in each class of provision other than employee benefits during the financial year are set out below:				
Stamp duty				
Opening balance at 1 October	4,399	4,860	–	–
Additions	2,278	–	–	–
Amounts used	–	(461)	–	–
Closing balance at 30 September	**6,677**	**4,399**	**–**	**–**

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

	Group		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Other provisions				
Opening balance at 1 October	2,948	3,372	–	–
Additions	228	3,543	–	–
Amount used	(1,124)	(4,578)	–	–
Reversal of unused amount	–	(370)	–	–
Controlled entity provisions acquired	–	981	–	–
Closing balance at 30 September	**2,052**	**2,948**	**–**	**–**

Included in Other Provisions are provisions for:

- Liabilities arising from legacy compliance issues that require remediation and provisions for any potential compensation payments to policyholders
- Bad and doubtful debtors
- Surplus lease space

All payments are expected to be finalised in the next 12 months.

19. OUTSTANDING CLAIMS – LIFE INSURANCE

	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
Outstanding claims – life insurance contracts	68,477	72,036	–	–
Analysed as:				
Current	68,477	72,036	–	–

20. INTEREST BEARING LIABILITIES

	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
Unsecured bank loan	100,000	100,000	–	–
Transaction costs	(321)	(424)	–	–
Total interest bearing liabilities	**99,679**	**99,576**	**–**	**–**

The above interest-bearing liabilities are non-current and unsecured.

The loan is split into two tranches. Tranche A of $75 million due to mature December 2009 and Tranche B of $25 million due to mature December 2011. Both tranches attract a floating interest rate which had a weighted average interest rate of 8.21% for the period (2007: 7.33%).

Post year end on 7 November 2008 TOWER borrowed $63.5 million to make an acquisition. These borrowings are in the form of bank debt that attracts a floating interest rate and is due to mature in November 2011. Refer to note 40 for further information relating to this acquisition.

21. OTHER LIABILITIES

	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
Unearned revenue – rental incentive	1,206	1,435	–	–
	1,206	1,435	–	–
Analysed as:				
Current	229	229	–	–
Non-current	977	1,206	–	–
	1,206	**1,435**	**–**	**–**

22. DEFERRED REVENUE LIABILITY

	Group 2008 $000	Group 2007 $000	Company 2008 $000	Company 2007 $000
Opening balance	93,671	100,693	–	–
Movement	(7,822)	(7,022)	–	–
Closing balance	**85,849**	**93,671**	**–**	**–**
Analysed as:				
Current	8,715	11,121	–	–
Non-current	77,134	82,550	–	–
	85,849	**93,671**	**–**	**–**

	Group		Company	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
23. OPERATING LEASES				
As lessee				
Rent paid under non-cancellable operating leases during the year	8,317	4,697	–	–
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
– Not later than one year	5,392	5,324	–	–
– Later than one year and not later than five years	18,035	17,554	–	–
– Later than five years	1,770	3,698	–	–
	25,197	**26,576**	**–**	**–**

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

24. CONTINGENT LIABILITIES

	Group		Company	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
The estimated maximum amounts of unsecured contingent liabilities not provided for in the financial statements are:				
AFS licence guarantees (i)	60	60	–	–
RSE licence guarantee (ii)	5,000	5,000	–	–
Operating lease guarantee (iii)	2,000	2,000	–	–
Rental guarantee (iv)	95	95	–	–
Investment commitments (v)	6,243	6,661	–	–
Complaint (vi)	300	–		
Total contingent liabilities	**13,698**	**13,816**	**–**	**–**

(i) AFS licence guarantee
The consolidated entity has provided guarantees to the Australian Securities & Investments Commission relating to the Australian Financial Services Licences of three of its controlled entities to the value of $20,000 per licence.

(ii) RSE licence guarantee
The consolidated entity has provided a guarantee to the Australian Prudential Regulation Authority relating to the Registrable Superannuation Entity Licence of one of its controlled entities to the value of $5,000,000.

(iii) Operating lease guarantee
The consolidated entity has provided a guarantee to support the commercial lease on it's Milsons Point, Sydney office premises $2,000,000.

(iv) Rental guarantee
The Company has provided a guarantee of $95,000 (2007: $95,000) to the landlord to cover any default in rental payments. No material losses are anticipated in respect of this contingent liability.

(v) Investment commitments
During the 2008 and 2007 financial years, the consolidated entity had partly paid shares in various investments that it is committed to paying further calls on capital (if any) made by the investee.

(vi) Complaints
A financial planner for a wholly owned subsidiary provided advice to a client that invested in securities issued by Westpoint and Neovest. A contingent liability has been reported representing the value of the investment pending full investigation of the advice given and the extent of the liability.

(vii) Buyer of last resort facility
The consolidated entity has contractual agreements with its advisers to provide a "Buyer of last resort facility" should an adviser want to sell their business and on the satisfaction of certain criteria. The terms and conditions provide that on the satisfaction of specific requirements, the adviser's book of business will be purchased for a price based on the adviser's recurring income stream from the consolidated entity. It is possible that the market value or resale value of such a business purchased may be less than the cost to the consolidated entity. Due to the uncertainty of these circumstances arising no value can be reliably placed on the contingent liability.

No material losses are anticipated in respect of any of the above contingent liabilities.

25. CONTRIBUTED EQUITY

Movements in ordinary share capital during the financial year:

	Group		Company	
Date/Details	**Number of shares**	**$'000**	**Number of shares**	**$'000**
1 October 2006 – opening balance	234,243,388	230,573	234,243,388	230,573
19 December 2006 – rights issue	99,998,011	159,997	99,998,011	159,997
Less transaction costs	–	(6,328)	–	(6,328)
Less options exercised	–	(105)	–	(105)
30 September 2007 – opening balance	**334,241,399**	**384,137**	**334,241,399**	**384,137**
Share options exercised	1,329,157	1,896	1,329,157	1,896
Shares issued under dividend reinvestment plan	1,946,079	5,147	1,946,079	5,147
30 September 2008 – closing balance	**337,516,635**	**391,180**	**337,516,635**	**391,180**

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

On 20 November 2006 the consolidated entity separated from its New Zealand parent, TOWER Limited, and separately listed on the Australian Securities Exchange on 21 November 2006. On the same day the parent entity issued 100,000,000 entitlements to existing shareholders to acquire new shares for $1.60. On 19 December 2006 99,998,011 ordinary shares were allocated to those persons who subscribed under the Entitlements Offer. The transaction costs incurred of $6,328,000 were offset against the proceeds of the entitlements. The net proceeds were used to repay all of TOWER's debt and intercompany advances from its NZ parent as part of the capital restructure which occurred at the time of the separation.

26. EARNINGS PER SHARE

	Group	
	2008 Cents	**2007 Cents**
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company	20.4	13.0
(b) Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company	20.1	13.0

	Group	
	2008 $000	**2007 $000**
(c) Reconciliations of earnings used in the calculating earnings per share		
Profit from continuing operations	68,692	40,665
Profit attributable to the ordinary equity holders of the Company used in the calculation of basic and diluted earnings per share	68,692	40,665

(d) Weighted average number of shares used as the denominator

	Group	
	2008 Number	**2007 Number**
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating the basic earnings per share.	335,992,349	312,323,673
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating the diluted earnings per share.	341,640,055	312,323,673

(e) Information concerning the classification of securities

Options granted to employees under the TOWER Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 38.

There are 6,400,000 options granted which are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 September 2008. These options could potentially dilute basic earnings per share in the future.

27. RESERVES AND RETAINED PROFITS

	Group		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Share based payments reserve				
Opening balance at 1 October	2,856	795	2,061	–
Option expense	2,110	2,061	2,110	2,061
Closing balance at 30 September	**4,966**	**2,856**	**4,171**	**2,061**
Available-for-sale financial assets reserve				
Opening balance at 1 October	1,190	–	–	–
Movement in fair value of investments held for sale	712	1,700	–	–
Tax effect of movement in fair value of investments held for sale	(214)	(510)		
Closing balance at 30 September	**1,688**	**1,190**	**–**	**–**
Total Reserves	**6,654**	**4,046**	**4,171**	**2,061**
Retained profit/(loss)				
Opening balance at 1 October	146,301	105,636	72,050	69,564
Net profit for the year	68,692	40,665	15,166	2,486
Dividends paid	(13,370)	–	(13,370)	–
Closing balance at 30 September	**201,623**	**146,301**	**73,846**	**72,050**

Nature and purpose of reserves

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

b) Available-for-sale financial assets reserve
Changes in the fair value of investments, such as equities classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve, as described in note 1(o). Amounts are recognised in the income statement when the associated assets are sold or impaired.

28. DIVIDENDS PAID TO SHAREHOLDERS

	Company	
	2008 $000	2007 $000
Final dividend for the year ended 30 September 2007 of 4 cents per fully paid share paid on 21 January 2008 (2007: nil)	13,370	–
Franking credits available for subsequent financial years based on a tax rate of 30% (2007: 30%)	56,555	59,079

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

29. SEGMENTAL REPORTING

Description of segments

Business segments

Life insurance and funds management includes all life and disability insurance and wealth management services in Australia.

Other financial services includes all other financial services such as the provision of financial advice.

Corporate includes all head office related costs.

Primary reporting format

Business Segments	Life insurance and funds management $000	Other financial services $000	Corporate $000	Total $000
2008				
Segment results				
Profits from continuing operations	80,479	(242)	(11,545)	68,692
Profit for the year	**80,479**	**(242)**	**(11,545)**	**68,692**
Segment revenue				
Revenue – external	234,584	15,362	3,474	253,420
Total revenue	**234,584**	**15,467**	**3,370**	**253,420**
Segment assets and liabilities				
Total assets	3,170,634	54,865	191,224	3,416,724
Total liabilities	2,678,881	(28)	138,415	2,817,267
Other segment information				
Acquisition of property, plant and equipment, intangibles and other non-current assets	–	–	1,379	1,379
Depreciation and amortisation	2,426	1,730	2,634	6,790
Other non-cash expenses	(287,579)	–	2,608	(284,971)
Profit from associates, joint ventures and investments accounted for under the equity method	–	105	–	105
Investments in associates, joint ventures and investments accounted for under the equity method	–	815	–	815
2007				
Profits from operations				
Profits from continuing operations	47,760	3,680	(10,775)	40,665
Profit for the year	**47,760**	**3,680**	**(10,775)**	**40,665**
Revenue				
Revenue – external	842,990	15,140	2,059	860,190
Total revenue	**842,990**	**15,140**	**2,059**	**860,190**
Segment assets and liabilities				
Total assets	3,634,784	81,029	250,417	3,966,230
Total liabilities	3,233,046	21,637	177,063	3,431,747
Other segment information				
Acquisition of property, plant and equipment, intangibles and other non-current assets	–	272	(3,172)	(2,900)
Depreciation and amortisation	8,990	2,089	3,798	14,877
Other non-cash expenses	(275,701)	3,251	(65,649)	(338,099)
Profit from associates, joint ventures and investments accounted for under the equity method	–	95	–	95
Investments in associates, joint ventures and investments accounted for under the equity method	–	706	–	706

Secondary reporting format

Geographical Segments

The economic entity operates solely in Australia.

30. RISK MANAGEMENT

TOWER'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.

TOWER operates a Risk Management Framework aligned with APRA Prudential Standard LPS 220 and designed to assist TOWER achieve its overall 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 through the operation of appropriate controls.

TOWER'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 & Responsibilities;
- documented Delegations; and
- procedure manuals and other controls.

Risk Classes

TOWER's Risk Classes are defined in the following table:

Risk 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 the Group to financial loss and the consequent inability to meet its liabilities.
Financial risk	Financial risk is 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 Risk Class.
Fiduciary-type risk	The risk of not managing investment funds in line with policyholder or superannuation member reasonable expectations or in accordance with the Companies or its subsidiaries Directors' duties, and 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 and resulting from the breakdown of controls or from external events where these losses relate (principally) to the balance sheet value of the Group.
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 a failure of strategic initiatives, where these losses relate (principally) to the franchise value of the Group.

The Company has mechanisms and procedures in place to manage these risks as follows:

Insurance Risk

The Company's objectives and policies in respect of insurance risk are outlined in Note 31.

Financial Risk

Financial risk is generally managed by selecting appropriate assets given the nature of policy liabilities and policyholder benefit expectations and the Board's risk appetite. The assets are regularly monitored to ensure that asset/liability mismatch risks, credit risk, liquidity risk, market risk and financing risk are maintained within acceptable limits.

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

(i) reviewing investment policy for shareholder and policyholder funds;
(ii) reviewing the risk management policy and statements in respect of investment management, including the derivative policy;
(iii) reviewing the appointment of external investment managers; and
(iv) monitoring compliance with investment policies and client mandates.

TOWER's activities expose it to a variety of financial risks, which can be categorised as follows:

- market risk including interest rate, currency, equity and other market price risk;
- credit risk; and
- liquidity risk.

These risks emerge directly where TOWER holds a direct interest in the financial asset or liability or indirectly where it is invested in a Managed Investment Scheme (MIS). Where TOWER is invested in a MIS the risk is mitigated through the operations of the MIS but where the residual risk is retained it is explained in more detail below.

Other Risks

Fiduciary-type risks, operational risk, compliance and strategic risks are monitored by an internal committee and reports are provided to the Audit, Risk Management and Compliance Committee of the Board on a quarterly basis or as deemed appropriate.

Exposure to Risks

Company:

The parent is a non-operating holding company and has limited exposure to non financial instrument risks. Its exposure to financial risks is limited to holding $32,224,000 in cash and cash equivalents (2007: $4,361,000). The impact of interest rate risk is not material to the Company's result. The credit rating is in line with the Group's exposure to cash balances. See note 32 for further details.

Group:

TOWER's Risk Management Framework considers the risks borne by both the shareholder and policyholder. The extent, to which the shareholder is exposed to market risk, depends on the contractual relationship with the policyholder. Certain contractual relationships transfer the financial risk to the policyholder as described in the table below.

Class of Business	Risk borne by:
Lump sum life insurance and disability income life insurance. These non-participating contracts make a payment to the policyholder when an insured event occurs: • individual lump sum life insurance, temporary and permanent disability and trauma; • individual disability and income protection; • group risk insurance; and • group salary continuance.	Shareholders bear all the financial and non-financial risk.
Other life insurance contracts with non-participating features. These non-participating contracts contain insurance features but are in the form of savings or annuity stream products where the policyholder receives their original investment plus a return on this investment: • a maturity or termination of a conventional life insurance contract; and • annuity stream with longevity risk.	Shareholders bear the majority of the financial risk and all the non-financial risk. Where the shareholder does not bear all the financial risk, the policyholder is exposed to some of this financial risk but the shareholder continues to provide some form of guarantee (with relation to earnings rates or capital) or the annual investment return credited to the policyholder is not matched by the investment return generated by the investment assets during that same period. In addition, there is an insurance element to these contracts that means the policyholder may receive more than what was contributed.
Life insurance contracts with discretionary participating features	Shareholders bear only a small proportion of the financial risk. Policyholders bear the majority of the risk and in particular: – risk of variations in the value of assets supporting policy liabilities; and – risk arising from asset allocation within the mandated ranges. While the financial instrument assets and liabilities pertaining to these life insurance contracts are reported on the face of the Balance Sheet, the associated risks have limited direct impact on shareholders.
Life investment contracts	Policyholders bear the full financial risk of variations in the value of assets supporting policy liabilities and the risk arising from asset allocation within the mandated ranges. The financial instrument assets and liabilities pertaining to life investment contracts are reported on the face of the Balance Sheet. The associated risks have no direct impact on shareholders but there remains an indirect impact as a fall in asset values leads to lower fee revenue for the shareholders.
General reserves	Shareholders bear all the financial and non-financial risk.

For presentation purposes, the financial risks associated with financial securities that back insurance and investment contract assets and liabilities are classified into three categories:

- those financial securities where the shareholder bears 100% of the financial risk;
- those financial securities where the shareholder bears some but not all the financial risk; and
- those financial securities where the shareholder bears none of the financial risk.

30. RISK MANAGEMENT CONTINUED

Group exposure to Financial Risk	100% shareholder risk $'000	Limited shareholder risks $'000	Shareholder and insurance contracts $'000	Policyholder (investment Contracts) $'000	Total Group $'000
Financial Assets					
Cash and cash equivalents	165,351	390	165,741	–	165,741
Receivables	118,085	931	119,016	(1,673)	117,343
Financial assets at fair value through profit and loss	376,061	381,975	758,036	1,759,796	2,517,832
Other financial assets	31,609	–	31,609	–	31,609
Total financial assets	**691,106**	**383,296**	**1,074,402**	**1,758,123**	**2,832,525**
Financial Liabilities					
Payables	118,506	7,229	125,735	(13,906)	111,829
Outstanding claims – life insurance	63,711	2,585	66,296	2,181	68,477
Interest bearing liabilities	99,679	–	99,679	–	99,679
Life insurance contract liabilities (net)	(94,042)	372,994	278,952	–	278,952
Life investment contract liabilities (net)	42,684	–	42,684	1,806,317	1,849,001
Total financial liabilities	**230,538**	**382,808**	**613,346**	**1,794,592**	**2,407,938**
Non Financial Instruments	125,299	13,102	138,401	36,469	174,870
Net Assets	**585,867**	**13,590**	**599,457**	**–**	**599,457**

The financial risk disclosures in note 32 explain in more detail the risks borne by the shareholder and exclude those risk borne exclusively by the policyholder.

31. LIFE INSURANCE BUSINESS

(i) LIFE INSURANCE RISK

The insurance contracts transfer risk to the Group where the Group commits to making a claim payment to the policyholder upon the occurrence of a specified uncertain future event. These future events are inherently uncertain.

Insurance risks are controlled through adequate premium rates and policy charges for the policy terms and conditions and sufficient reinsurance arrangements, all of which are approved by the appointed actuary. In addition, insurance risk is controlled via the underwriting process and tight controls are maintained over claims management practices to ensure the correct and timely payment of insurance claims.

There are two points at which the Group can manage insurance risks, the acceptance of risk that occurs when a life insurance contract is entered into and the management of claims.

Contract issuance

The Group adopts a disciplined approach that requires certain policies and procedures be adhered to. These policies and procedures are broadly broken into:

(a) 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 table in point (ii) on page 54 provides an overview of the key variables upon which the amount of related cash flows are dependent.

(b) Pricing
Statistical models are used that combine historical and projected data to calculate premiums. A pricing report is prepared and formally reviewed by the appointed actuary before business is accepted.

(d) Underwriting management procedures
The Group's Chief Underwriting Officer and the Audit Compliance and Risk Management Committee establishes, reviews and monitors the underwriting policies and procedures. This committee delegates to the Chief Underwriter authority to accept risk within predefined limits. The underwriting of large numbers of uncorrelated individual risks is monitored monthly with a detailed actuarial analysis of these risks performed semi-annually. To ensure adherence to these controls, underwriting is managed by a separate department who evaluate cases where a decision is required to accept the risk, policies and procedures that govern the acceptance of risk for policies that meet predefined selection criteria. In some cases there is automated underwriting software to enforce appropriate risk selection criteria. The Group provides appropriate training and development of underwriting staff in instances where new policies cannot be accepted using the automated selection criteria to ensure all new policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually.

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

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.

Classification of life insurance risks

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 disability 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 a whole.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities.
Life annuity contracts	These policies provide a guaranteed regular income for the life of the insured for 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 or maturity. The guarantee amount is increased throughout the duration of the policy by the addition of regular bonuses annually that once added are not removed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders via bonuses.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities.
Investment account contracts with discretionary participating features	The gross value of the premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance. Interest is credited regularly.	The payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early termination. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to specific policyholders as interest credits.	Fees, lapses, expenses and market earnings on assets backing the liabilities.

Concentration of insurance risk

The Group aims to maintain a portfolio of policyholders with a diversified spread of insurance risk types, ages, sex, 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 if an event affects a location where groups of insured employees work. The Group has reflected the geographical concentration risk in the premium rates. The Group has purchased catastrophe reinsurance to limit some of the exposure from any one event.

Liquidity risks – solvency requirements

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

The methodology and bases for determining the solvency requirement is in accordance with the requirements of LPS2.04 "Solvency Standard" issued by the Australian Prudential Regulatory Authority for life insurance companies.

The minimum equity required to be retained to meet solvency requirements over and above the policy liabilities for the life insurance company in the Group is shown on page 54. The shareholder equity retained in the life insurance company exceeds these minimum requirements.

31. LIFE INSURANCE BUSINESS CONTINUED

		TOWER Australia Limited	
		2008 $000	2007 $000
Solvency requirement	A	2,912,384	3,217,567
Represented by:			
Minimum Termination Value (excluding investment-linked risk margin)		2,688,327	2,862,098
Other liabilities		134,473	263,592
Solvency reserve	B	89,584	91,877
Solvency requirement		**2,912,384**	**3,217,567**
Assets available to meet solvency reserve:	C	226,292	264,224
Solvency reserve	B	89,584	91,877
Excess assets above required		**136,708**	**172,347**
Required solvency reserve %	(B/(A-B))x100	3.2%	2.9%
Coverage of required solvency reserve	C/B	2.5	2.9

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

Disclosure of Assumptions

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

Required Assumption	Basis of Assumption (By product Group)	Significant Changes
Discount rates for participating business	The discount rates assumed in calculating policyholder liabilities were derived from the expected long term average rates of return for the relevant asset pools backing this business, based on a neutral asset mix for each pool. Discount rates assumed are net of taxation and investment expenses.	The discount rates used are as follows: September 2008 3.1% to 6.6% p.a. September 2007 3.7% to 7.3% p.a.
Discount rates for non-participating life insurance contracts	Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on government bond rates, or the inter bank mid swap rates, depending on the nature, structure and term of the contract liabilities.	The discount rates used are as follows: September 2008 5.5% to 6.6% p.a. September 2007 6.3% to 7.1% p.a.
Inflation	A specific allowance before allowance for the proportion of policyholders who take up indexation.	Benefit Indexation: September 2008 3.35% p.a September 2007 3.53% p.a
Future expenses	Future maintenance expenses have been set based on the expected cost of servicing each in force policy over the next year, excluding any one off costs, with allowance for future inflation. Future investment management expenses have been set based on the actual costs of the Group's investment managers.	No change in methodology during the year. The assumed unit costs move in line with actual costs that are determined using an activity based costing model. This means that even though the model has not changed the inputs to the model do change reflecting a change in future profit margins.
Rates of taxation	Rates of taxation have been assumed to remain at current levels.	None
Mortality – risk products	Standard mortality tables, primarily GCLA2006. These are adjusted for company experience.	None
Mortality – annuities	IM/IF80 standard mortality table adjusted for company experience.	None
Disability – lump sum	Based upon recent company experience.	None
Disability income	Standard morbidity table, IAD89-93, adjusted for company experience. Specific company experience is used for certain wholesale schemes.	None

Required Assumption	Basis of Assumption (By product Group)	Significant Changes
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.	None
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. 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. Additional policy bonuses will emerge from the assets representing policyholders' unvested benefits.	None

Effect of changes in actuarial assumptions during the reporting period

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

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

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

The assumption changes in the above table have had the following impact on insurance contract future profit margins.

	Change in future profit margins $000
Assumption change	
Non-market related economic assumptions	20
Mortality [1]	–
Discontinuances	536
Expenses	(9,057)
Morbidity [1]	–

Note:
1 no changes were made to mortality or morbidity assumptions during the year.

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 other material changes in the life insurance contract liabilities due to assumption changes for the year ending 30 September 2008.

31. LIFE INSURANCE BUSINESS CONTINUED

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

Sensitivity analysis

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

Impact of changes in variables

Variable	Movement	Change in Life Insurance Contract Liabilities Net of Reinsurance $000	Change in Shareholder Profit After Tax and Equity $000
Insured life mortality	Worsening by 10%	5,737	(3,829)
Morbidity claims costs	Worsening by 10%	11,101	(7,771)
Annuitant mortality	Worsening by 10%	3,079	(2,156)
Lapses and surrenders	Worsening by 10%	161	(11)
Renewal expenses	Worsening by 10%	1,506	(516)

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

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2008. The appointed actuary, Robert Daly, FIAA has calculated policyholder liabilities for TOWER Australia Limited, the "life company". The appointed actuary is satisfied as to the accuracy of the data from which the policyholder liabilities have been determined.

Policy liabilities for life insurance business have been determined in accordance with Life Prudential Standard 1.04 issued by the Australian Prudential Regulatory Authority. The standard requires that the policyholder liabilities be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins as services are provided to policyholders.

Valuation of Policy Liabilities

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

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

The life 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) directly related to the acquisition of new business are deferred as long as the underlying policy is expected to be profitable. Where costs are deferred, they are recovered from premiums or charges receivable in the future.

Methods used to value policy liabilities

(i) Projection method

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

(ii) Accumulation method

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

Methods used

Where the policy liability is determined by the projection method, Actuarial Standard 1.04 requires 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
Traditional participating	Projection	Cost of supportable bonuses
Traditional non-participating, renewable and level term insurance	Accumulation	Expected premium payments
Lifetime annuities	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance	Accumulation	Expected premium payments
Participating investment account	Projection	Cost of supportable bonuses
Group risk insurances	Accumulation	Expected premium payments
Group salary continuance – open claims	Accumulation	N/A

(iv) POLICYHOLDER LIABILITIES REPRESENT:

	Life Insurance Contracts		Life Investment Contracts		Total	
	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000
Policyholder liabilities						
Value of policy liabilities – Projection Method						
Future policy benefits	337,541	1,937,837	1,708,441	2,215,501	2,045,982	4,153,338
Future bonuses	31,725	94,502	–	–	31,725	94,502
Future expenses	38,173	1,012,452	–	–	38,173	1,012,452
Reinsurance	(961)	191,348	(36,784)	(39,285)	(37,745)	152,063
Future charges for acquisition expenses	–	(713)	–	–	–	(713)
Future profit margins	5,575	353,106	–	–	5,575	353,106
Future premiums	(36,495)	(3,343,404)	–	–	(36,495)	(3,343,404)
	375,558	245,128	1,671,657	2,176,216	2,047,215	2,421,344
Value of policy liabilities – Accumulation Method						
Future policy benefits	565,822	118,864	98,528	100,734	664,350	219,598
Reinsurance	(257,882)	7,088	–	–	(257,882)	7,088
Future charges for acquisition expenses	(379,440)	(4,309)	–	–	(379,440)	(4,309)
	(71,500)	121,643	98,528	100,734	27,028	222,377
Total vested policy liabilities	**304,058**	**366,771**	**1,770,185**	**2,276,950**	**2,074,243**	**2,643,721**
Unvested policyholder benefits	53,711	68,014	–	–	53,711	68,014
Net policyholder liabilities	**357,769**	**434,785**	**1,770,185**	**2,276,950**	**2,127,954**	**2,711,735**

Note that during the year certain life insurance contracts were previously valued using the projection method and are now valued using the accumulation method. Historical balances have not been restated. There are no material changes in net policyholder liabilities as a result of the change in methodology. Refer to note 2 for further details.

Note life insurance contracts include conventional business which is exposed to movements in the market value of financial securities.

31. LIFE INSURANCE BUSINESS CONTINUED

	Life Insurance Contracts		Life Investment Contracts		Total	
	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000
Reconciliation of movements in net policy liabilities						
Opening Balances						
Gross policyholder liabilities opening balance	650,447	654,679	2,316,235	2,175,427	2,966,682	2,830,106
Assets arising from reinsurance contracts at opening balance	(215,662)	(189,522)	(39,285)	(32,236)	(254,947)	(221,758)
Net policyholder liabilities opening balance	**434,785**	**465,157**	**2,276,950**	**2,143,191**	**2,711,735**	**2,608,348**
Movements in net policy liabilities reflected in the Income Statement						
Increase in gross policy liabilities	(815)	32,350	(285,734)	315,675	(286,549)	348,025
Movement in policy liabilities ceded	(43,507)	(26,139)	2,501	(7,049)	(41,006)	(33,188)
Deferred aquisition costs	–	–	7,822	7,022	7,822	7,022
Deferred revenue liabilities	–	–	(7,252)	(7,217)	(7,252)	(7,217)
Terminal bonus paid during the year	9,269	6,439	–	–	9,269	6,439
Change in net policy liabilities	**(35,053)**	**12,650**	**(282,663)**	**308,431**	**(317,716)**	**321,081**
Movements in net policy liabilities not reflected in the income statement						
Net movement in reinsurance	327	–	–	–	327	–
Deposits recognised as an increase in policy liabilities	17,767	18,164	105,308	228,618	123,075	246,782
Withdrawals and fees recognised as a decrease in policy liabilities	(60,057)	(61,186)	(329,410)	(403,290)	(389,467)	(464,476)
Net policy liabilities at 30 September	**357,769**	**434,785**	**1,770,185**	**2,276,950**	**2,127,954**	**2,711,735**
Disclosed as:						
Gross policy liabilities at 30 September	616,612	650,447	1,806,969	2,316,235	2,423,581	2,966,682
Assets arising from reinsurance contracts at 30 September	(258,843)	(215,662)	(36,784)	(39,285)	(295,627)	(254,946)
Net policyholder liabilities at 30 September	**357,769**	**434,785**	**1,770,185**	**2,276,950**	**2,127,954**	**2,711,736**
Reconciliation of movements in gross policyholder liabilities						
Gross policy liabilities opening balance	650,447	654,679	2,316,235	2,175,427	2,966,682	2,830,106
Increase in gross policy liabilities recognised in the income statement	(815)	32,350	(285,734)	315,675	(286,549)	348,025
Deferred aquisition costs	–	–	7,822	7,022	7,822	7,022
Deferred revenue liabilities	–	–	(7,252)	(7,217)	(7,252)	(7,217)
Terminal bonus paid during the year	9,270	6,440	–	–	9,270	6,440
Deposits recognised as an increase in policy liabilities	17,767	18,164	105,308	228,618	123,075	246,782
Withdrawals and fees recognised as a decrease in policy liabilities	(60,057)	(61,186)	(329,410)	(403,290)	(389,467)	(464,476)
Gross policy liabilities at 30 September	**616,612**	**650,447**	**1,806,969**	**2,316,235**	**2,423,581**	**2,966,682**
Reconciliation of movements in assets arising from reinsurance contracts						
Assets arising from reinsurance contracts opening balance	(215,662)	(189,522)	(39,285)	(32,236)	(254,947)	(221,758)
Movement in policy liabilities ceded	(43,181)	(26,139)	2,501	(7,049)	(40,680)	(33,188)
Assets arising from reinsurance contracts at 30 September	**(258,843)**	**(215,661)**	**(36,784)**	**(39,285)**	**(295,627)**	**(254,946)**
Balances at 30 September						
Life insurance contract liabilities	616,612	650,447	–	–	616,612	650,447
Life investment contract liabilities	–	–	1,806,969	2,316,235	1,806,969	2,316,235
Assets arising from reinsurance contracts	(258,843)	(215,661)	(36,784)	(39,285)	(295,627)	(254,946)
Net policyholder liabilities	**357,769**	**434,786**	**1,770,185**	**2,276,950**	**2,127,954**	**2,711,736**
Analysed as:						
Payable within 12 months	32,551	75,678	244,059	396,322	276,610	472,000
Payable in more than 12 months	325,218	359,108	1,526,126	1,880,628	1,851,344	2,239,736
	357,769	**434,786**	**1,770,185**	**2,276,950**	**2,127,954**	**2,711,736**

(V) ANALYSIS OF LIFE INSURANCE AND LIFE INVESTMENT CONTRACT RESULTS

	Life Insurance Contracts		Life Investment Contracts		Total	
	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000
Life insurance and life investment contracts						
Planned profit margins	55,757	28,178	4,418	7,110	60,175	35,288
Experience profits/(losses)	(6,095)	(1,080)	7,897	(5,917)	1,802	(6,997)
Capitalised loss/(recognition) and reversal	(436)	(247)	–	–	(436)	(247)
Impact of yield changes	6,800	(3,029)	–	–	6,800	(3,029)
Investment earnings on assets in excess of policy liabilities of life companies	12,438	21,898	3,491	1,103	15,929	23,001
Operating profit after tax attributable to shareholders arising from life insurance and life investment contracts	**68,464**	**45,720**	**15,806**	**2,296**	**84,270**	**48,016**

32. FINANCIAL INSTRUMENT INFORMATION

FINANCIAL RISKS

The Group's activities expose it to a variety of financial risks, which can be categorised as follows:

Market risk including interest rate, currency, equity and other market price risk;

Credit risk; and

Liquidity risk.

The Company has no material exposure to financial instrument risk and has been excluded from the risk disclosures below.

(a) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

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

- the asset risk appetite;
- the establishment of investment mandates to set limits on credit risk, liquidity risk , asset liability mismatch risk, duration risk, currency risk, counterparty risk and on asset classes assets;
- the asset managers and custodians the Group uses;
- what constitutes market risk for the Group;
- the basis used to fair value financial assets and liabilities;
- assets allocation and portfolio structures;
- diversification benchmarks by type of instrument and geographical areas; and
- reporting of market risk exposures and the monitoring thereof.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

TOWER Australia Group Limited's principal transactions are carried out in Australian Dollars (AUD) and its gross exposure to foreign exchange risk is limited to $35,305,983 (2007: $69,618,000) investment in a non associated externally managed Australian domiciled managed investment scheme that itself invests in foreign investments that for most part are hedged. The net exposure to fluctuations in foreign currency rates is immaterial.

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.

(ii) Interest rate risk

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

Assets:

The Group holds cash and cash equivalents, receivables, directly held interest bearing securities, and indirectly held interest bearing securities via investments in non associated externally managed investment schemes. The Group manages the interest rate risk arising from these investments in accordance with Group Investment Committee approved policies. These policies allow for the use of interest rate swaps. As at 30 September 2008 there were interest rate swaps of nil (2007: $6,230,000).

32. FINANCIAL INSTRUMENT INFORMATION CONTINUED

Liabilities:

The Group holds financial securities in the form of interest bearing liabilities and certain life insurance contracts that are exposed to interest rate risk. These liabilities are held at fair value with resulting changes in interest rates taken to profit.

The Board is responsible for the management of the interest risk arising from external borrowings via Board approved policies and management delegations. All existing interest bearing liabilities are in the form of a fixed duration bank debt with surety in the form of a guarantee given by TOWER Australia Group Limited. The interest rate applied to these liabilities is variable and is reset at six monthly or on a more regular basis. Consequently the carrying value equates to the amortised historic cost that in turn reflects the current fair value of the security.

Financial liabilities in the form of payables, outstanding claims and other liabilities are not exposed to interest rate risk.

The following table demonstrates the impact of a 100 basis point change in Australian interest rates on Group profit after tax and equity. It is assumed that the change occurs at the reporting date and all other variables are held constant.

	2008	2008	2007	2007
	Impact on profit after tax $'000	Impact on equity $'000	Impact on profit after tax $'000	Impact on equity $'000
Change in variable				
+100 basis points	(8,692)	(8,692)	(7,982)	(7,982)
- 100 basis points	7,444	7,444	8,501	8,501

Life insurance asset liability mismatch

Interest rate risk and other price risk arise in life insurance to the extent that there is a mismatch between the statutory fund assets and policyholder liabilities. The impact of these mismatches impact operating profits. The primary areas of mismatch for the life insurance businesses are:

- for non-participating life insurance contracts, the mismatch between the risk free discount rates used in the policy liability calculations and the asset backing values; and
- 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) and the assets backing those liabilities.

Interest rate and other price risks are managed by the Group through a strategic asset allocation policy and an investment management policy that has regard to policyholder expectations and financial risks and capital requirements as advised by the appointed actuary.

(iii) Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity securities price risk. This arises from investments held and classified on the balance sheet either as available-for-sale or at fair value through profit or loss.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group Investment Committee.

The majority of the Group's and the parent entity's equity investments are publicly traded and are included either in the ASX 200 Index or the NYSE International 100 Index.

The table below summarises the impact of increases/decreases of these two indices on the Group's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity indexes had increased/decreased by 25% (2007: 25%) with all other variables held constant and all equity instruments moved according to the expected correlation with the index.

	2008	2008	2007	2007
	Impact on profit after tax $'000	Impact on equity $'000	Impact on profit after tax $'000	Impact on equity $'000
Change in variable				
25%	4,308	4,308	(333)	(333)
-25%	(4,070)	(4,070)	414	414

The price risk for the unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity. It has therefore not been included in the sensitivity analysis.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk is managed on a group basis. Monitoring of exposures and counterparty credit rating of investments and reinsurance assets is performed on a regular basis. Exposures above specified limits and breaches are escalated to the Group Investment Committee.

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

The following table provides information on credit risk exposure of the Group by reference to credit ratings for the counterparties. Exposure to fixed interest securities includes accrued interest.

	2008 $'000	2007 $'000
Fixed interest securities		
AAA	34,865	48,811
AA	39,736	60,520
A	14,525	6,335
BBB	4,985	1,992
	94,111	**117,658**
Cash and cash equivalents		
AA	**165,741**	**63,554**
Reinsurance Recoveries		
AAA	7,930	7,148
AA	45,933	66,251
	53,863	**73,399**
Outstanding premiums and trade receivables		
Unrated	**60,088**	**81,478**

There are no material amounts of collateral held, renegotiated amounts, or amounts that are impaired.

Analysis past due but not impaired:

	Neither past due nor impaired $'000	<3 months $'000	3 months – 12 months $'000	Greater than 1 year $'000	Total $'000
2008					
Reinsurance recoveries receivable	45,535	3,905	2,693	1,730	53,863
Outstanding premiums	1,231	33,294	2,444	3,344	40,313
Trade receivables	2,606	8,616	4,832	3,720	19,774
Other	1,040	–	–	–	1,040
Total receivables	**50,412**	**45,815**	**9,969**	**8,794**	**114,990**
2007					
Reinsurance recoveries receivable	45,097	15,435	8,272	4,596	73,400
Outstanding premiums	10,179	55,779	3,093	3,917	72,968
Trade receivables	(986)	(3,256)	7,285	5,467	8,510
Other	340	2,699	–	29	3,068
Total receivables	**54,630**	**70,657**	**18,650**	**14,009**	**157,946**

32. FINANCIAL INSTRUMENT INFORMATION CONTINUED

(c) Financing and liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Financing risk is the risk that the Group will not be able to refinance debt obligations or may not be able to raise cash when required or on acceptable terms.

Liquidity requirements are financed through a mixture of cash, reinsurance and the liquidation of units in non-associated externally managed investment schemes.

To mitigate financing risk, the Group maintains capital management policies that ensure the Group retains a funding capacity that enables it to raise funds in excess of projected funding requirements. The Group's liquidity policy and procedures provide diversification benefits that further mitigate liquidity risk.

The following table summarises the maturity profile of the Group's financial liabilities. This is based on contractual undiscounted repayment obligations except for life insurance contract liabilities (including outstanding claims) where the maturity profile is based on discounted net cash outflows.

	Up to 1 year $'000	1 to 5 years $'000	Over 5 Years $'000	No term $'000	Total $'000
2008					
Payables	109,630	2,199	–	–	111,829
Outstanding claims – life insurance	68,476	–	–	–	68,476
Interest bearing liabilities	–	100,000	–	–	100,000
Life insurance contract liabilities	191,870	99,077	159,365	379,028	829,340
Total financial liabilities	369,976	201,276	159,365	379,028	1,109,645
2007					
Payables	112,736	5,374	–	–	118,110
Outstanding claims – life insurance	72,036	–	–	–	72,036
Interest bearing liabilities	–	100,000	–	–	100,000
Life insurance contract liabilities	168,898	98,028	148,788	416,077	831,791
Total financial liabilities	353,670	203,402	148,788	416,077	1,121,937

Note :

(i) The totals in the table will not agree to the Balance Sheet as the Balance Sheet is based on discounted cash flows while some of the amounts in the table are undiscounted.

(ii) No term items relate to payments which have no contracted final payment dates, mainly relating to disability income payments.

(d) Fair values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity. The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives and investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available for similar financial instruments.

All assets shown on the balance sheet are at fair value unless otherwise noted.

(e) Derivative financial instruments

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

Derivative financial instruments used include directly held interest rate swaps, and within the investment portfolio there is indirect use of forward foreign exchange contracts, futures and currency swaps.

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

(f) Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern and to ensure it can meet its obligations to customers, creditors and shareholders.

The Group's capital comprises the assets which represent its contributed equity, reserves and retained earnings.

The Group manages its capital to achieve the following objectives:

- continuation as a going concern;
- meeting minimum regulatory requirements including solvency, capital adequacy and management capital requirements of the Life Act and capital and liquidity requirements under Australian Financial Services Licenses;
- meeting economic capital requirements including complying with an internal target surplus policy. The policy defines the level of free assets above minimum regulatory requirements that TOWER Australia Limited (TAL) aims to hold. The target surplus is the amount of assets sufficient to reduce the risk of breaching minimum regulatory requirements of TAL over the next 12 months to 2.5%;
- meeting bank debt covenants;
- provision of benefits to the Group's policyholders in accordance with the terms of life insurance contracts which TOWER issues; and
- compliance with capital management plan and TOWER business plan including the capitalization and dividend policies for companies within the Group.

The Board regularly monitors the Group's capital position with a detailed calculation of TOWER's capital position performed at least monthly.

The Group has complied with all externally imposed capital requirements at all times during 2007 and 2008.

33. DISCLOSURES ON ASSET RESTRICTIONS AND MANAGED ASSETS

Restrictions on assets

Investments and other assets held in the life insurance company 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 solvency requirements are met and sufficient equity remains for the ongoing operation of the business.

34. GUARANTEED RETURNS ON FUNDS INVESTED

The life insurance company guarantees capital contributed by policyholders together with any declared bonuses for the following funds. At balance date the policy liabilities of these funds were:

	2008 $000	2007 $000
Statutory Fund 1 (participating and non-participating)	123,588	130,532
Statutory Fund 2 (non participating)	2,110	2,484
Statutory Fund 3 (non-participating)	69,597	78,928
Total	**195,295**	**211,944**

35. INVESTMENT LINKED AND NON-INVESTMENT LINKED BUSINESS OF LIFE INSURANCE COMPANY

	Group			
	Investment linked 2008 $000	Non-investment linked 2008 $000	Investment linked 2007 $000	Non-investment linked 2007 $000
Investment assets	1,648,786	868,956	2,227,232	969,674
Other assets	68,757	548,773	40,690	331,581
Policyholder liabilities	(1,679,107)	(744,474)	(2,174,426)	(676,821)
Other liabilities	(50,042)	(169,892)	(105,522)	(184,077)
Net assets/(liabilities)	**(11,606)**	**503,363**	**(12,026)**	**440,357**
Net premium income	–	486,120	12,017	419,882
Investment income	(334,149)	26,085	300,287	64,569
Fee income	54,104	2,424	55,737	2,497
Claims expense	–	(136,506)	–	(116,152)
Other operating expenses	(37,392)	(315,484)	(97,346)	(287,202)
Change in policyholder liabilities	275,081	42,634	(256,355)	(18,509)
Operating surplus/(deficit) before taxation	**(42,356)**	**105,273**	**14,340**	**65,085**
Taxation (expense)/credit	42,356	(28,846)	(14,175)	(24,670)
Operating surplus after taxation	**–**	**76,427**	**165**	**40,415**

36. RELATED PARTIES TRANSACTIONS

(a) Parent entities

Prior to separation on 20 November 2006, the immediate parent of TOWER Australia Group Limited, was TOWER Group Network Ltd, a New Zealand resident company, which owned 100% of the issued ordinary shares. The ultimate 100% parent entity was TOWER Limited, a company incorporated in New Zealand. As part of the separation TOWER Australia Group Limited became the ultimate parent entity and is listed on the Australian Securities Exchange (ASX).

(b) Controlled entities

Interests in controlled entities are set out in note 12.

(c) Transactions with related parties

The following transactions occurred with related parties:

	Group		Company	
	2008 $000	2007 $000	2008 $000	2007 $000
Sales of services				
Service fees charged to related party	–	274	–	–
Purchase of services				
Management fees and commissions charged to related party	–	837	–	–

Following the separation of the Group from TOWER Limited on 20 November 2006, there are no related party transactions outside the Group. The 2007 balances comprise of related party transactions pre the November 2006 separation. There are no balances outstanding at year end.

37. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly, or indirectly, including any directors (whether executive or otherwise) of that entity.

a) Directors

The following persons were directors of the Company during the financial year:

(i) Executive directors

Jim Minto

(ii) Non-executive directors

Peter Lewinsky

Ralph Pliner

Robert Thomas

John Spencer (resigned 30 November 2007)

Gary Weiss (resigned 8 August 2008)

Michael Jefferies (resigned 8 August 2008)

Elana Rubin (appointed 30 November 2007)

Donald Findlater (appointed 7 July 2008)

(b) Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the activities of the entity, directly, or indirectly during the financial year.

Name	**Position**
Jim Minto	Managing Director
John de Zwart	Chief Financial Officer
David Callander	CEO Retail Life Insurance (resigned 28 March 2008)
Brett Clark	CEO Retail Life Insurance (appointed 11 August 2008)
Geoff Black	CEO Group Life & Alliances
Gavin Pearce	CEO Investments

(c) Key management personnel compensation

The remuneration of directors and other members of key management during the year was as follows:

	Group		**Company**	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
Salaries and other short-term employee benefits	5,077	5,326	–	–
Termination benefits	467	–	–	–
Post-employment benefits	302	280	–	–
Share based payments	1,313	1,205	–	–
	7,159	**6,811**	**–**	**–**

Following the separation of the New Zealand and Australian entities the Company was listed on the ASX. A new Board was established to oversee the TOWER Australia Group Limited. These directors are also on the Board of the subsidiary life insurance company.

As the Directors are appointed to a number of Boards within the Group it is not possible to allocate the compensation on a reasonable basis to any one controlled entity as it is in connection to the management of the affairs of a number of controlled entities. Therefore compensation disclosed equates to the total compensation received by the Directors from the Group.

(d) 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 related parties.

(e) Other transactions with key management personnel

Key management also hold various policies and accounts with the Group. These are operated in the normal course of business on normal customer terms.

For further information please refer to the Remuneration Report, included with the Annual Report.

38. SHARE BASED PAYMENTS

As part of the separation TOWER Australia Group Limited established an Executive Share Option Scheme. Prior to the separation of the New Zealand and Australian companies the Australian executives were covered under the TOWER Limited Executive Share Option Scheme. Upon separation Australian executives were no longer entitled to TOWER Limited options so replacement options, tranches 1, 2, 3 and 4, were issued by TOWER Australia Group Limited on terms commensurate with the original options as far as practicable. As part of the capital restructure which occurred at the time of separation the number of options also reduced in proportion to the number of shares on issue, the exercise price per option was reduced, however, the exercise dates and exercise periods remained unchanged.

New tranches (8, 9 and 10, and performance shares 1 and 2) were offered to executives during the financial year under the TOWER Australia Group Limited Executive Share Options Scheme therefore the Company now has 12 executive share option tranches. Each has differing conditions which are set out in the table below. Subject to the discretion of the Board, options are forfeited if an employee leaves the Group before the options vest.

All shares options will be equity settled.

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

Terms of share schemes	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9	Tranche 10	Performance Shares 1	Performance Shares 2
Exercise price	**$0.79**	**$1.21**	**$1.21**	**$1.45**	**$1.88**	**$2.93**	**$2.60**	**$2.44**	**$3.00**	**$2.90**	**$0.00**	**$0.00**
Grant date	27-Feb-07	27-Feb-07	27-Feb-07	27-Feb-07	27-Feb-07	27-Feb-07	30-Mar-07	18-Dec-07	30-Jun-08	30-Sep-08	30-Jun-08	30-Sep-08
Vesting date	1-Apr-07	9-Aug-08	9-Aug-09	5-Apr-09	21-Nov-10	23-Feb-10	30-Mar-10	18-Dec-10	30-Jun-11	30-Sep-11	30-Jun-11	1-Jan-10
Expiry date	31-Mar-10	9-Aug-11	9-Aug-12	5-Apr-12	20-Nov-13	22-Feb-13	30-Mar-13	17-Dec-13	29-Jun-13	29-Sep-13	29-Jun-13	29-Sep-13
Expected volatility	20%	20%	20%	20%	20%	20%	20%	40%	40%	40%	40%	40%
Risk free rate	5.71%	5.71%	5.71%	5.73%	5.73%	5.73%	5.92%	5.98%	6.47%	5.66%	6.47%	5.66%
Fair value of the plan ($000)	295	648	135	1,857	2,600	5,050	786	1,368	1,596	1,488	1,578	134
Amount expensed during the year ($000)	–	337	16	522	434	763	93	180	62	–	71	–

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 amount expensed during the year is based on best estimates of management of the probability of the number of options that will vest, allowing for non-transferability, exercise restrictions and behavioural considerations.

Details of the share options outstanding as at 30 September were as follows:

Number of options

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9	Tranche 10	Performance Shares 1	Performance Shares 2	Weighted average exercise price
2008													
Outstanding at start of year	1,378,126	2,577,533	654,750	4,801,500	4,000,000	5,800,000	1,364,000	–	–	–	–	–	$1.95
Granted	–	–	–	–	–	–	–	1,200,000	1,400,000	1,200,000	526,000	46,150	$2.43
Forfeited	–	–	–	–	–	–	–	–	–	–	–	–	–
Exercised	359,511	582,000	97,000	291,000	–	–	–	–	–	–	–	–	$1.15
Lapsed	–	145,500	194,000	291,000	–	800,000	500,000	–	–	–	–	–	$2.32
Outstanding at the end of the year	**1,018,615**	**1,850,033**	**363,750**	**4,219,500**	**4,000,000**	**5,000,000**	**864,000**	**1,200,000**	**1,400,000**	**1,200,000**	**526,000**	**46,150**	**$2.06**
Exercisable at the end of the year	1,018,615	1,850,033	–	–	–	–	–	–	–	–	–	–	
2007													
Outstanding at start of year	–	–	–	–	–	–	–						–
Granted	1,438,045	2,577,533	654,750	5,820,000	4,000,000	5,900,000	1,364,000						$1.92
Forfeited	–	–	–	1,018,500	–	100,000	–						$1.58
Exercised	59,919	–	–	–	–	–	–						$0.79
Lapsed	–	–	–	–	–	–	–						–
Outstanding at the end of the year	**1,378,126**	**2,577,533**	**654,750**	**4,801,500**	**4,000,000**	**5,800,000**	**1,364,000**	–	–	–	–	–	**$1.95**
Exercisable at the end of the year	–	–	–	–	–	–	–						

39. ACQUISITION

2008

The Group did not acquire any businesses in the 2008 financial year.

2007

TOWER Holdings (Australia) Pty Limited

On 19 November 2006 the Group acquired 100% of the share capital of TOWER Holdings (Australia) Pty Limited (acquiree), a provider of investment funds management services, and its controlled entity TOWER Asset Management Limited, an investment funds manager for $70,588,000 from TOWER Limited as part of the separation.

The acquired business contributed a net profit of $1,109,000 to the consolidated entity during the period from 20 November 2006 to 30 September 2007.

Excluding the costs associated with the separation of the consolidated entity with TOWER Limited, if the acquisition had occurred on 1 October 2006, revenue from the acquired company would have been $170,000 and the loss would have been $2,368,000.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount $'000
Cash	2,308
Accounts receivable	238,578
Property, plant and equipment	26
Deferred tax benefit	1,491
Total assets	**242,403**
Accounts payable	3,365
Provisions	13,426
Interest bearing liability	155,024
Total liabilities	**171,815**
Net assets	**70,588**
Purchase consideration settled in cash	(70,588)
Cash and cash equivalents in controlled entity acquired	2,308
Cash outflow on acquisition	**(68,280)**

The above carrying amount of the assets and liabilities acquired approximate their fair value at 20 November 2006. Subsequent to the acquisition TOWER Holdings (Australia) Pty Limited has since been disposed of. A dividend of $71.1 million was paid reducing the net assets to $2.00 and subsequently sold for $2.00.

40. SUBSEQUENT EVENTS

Dividends

On 26 November 2008, the Group proposed a final dividend on ordinary shares of $15.766 million representing 4.5 cents per share fully franked. The dividend will be paid on 19 January 2009. Since the dividend has not been declared at year end it has not been recognised as a payable in these financial statements.

Acquisition of Insurance Line Holdings Pty Limited

On 2 October 2008 the Group announced it had acquired the remaining 85% of the share capital of InsuranceLine Holdings Pty Limited, a distributor of life insurance products, for $136,000,000, plus $1,247,891 of transaction costs. This brought the Group's holdings in InsuranceLine Holdings Pty Limited to 100%.

The acquisition took place 2 October 2008 and settlement occurred on 7 November 2008. The consideration paid is valued using the fair value as of 7 November 2008 and this consideration is made up as follows:

(i) cash consideration of $60,448,066. This cash was funded via bank debt that will be classified as interest bearing liabilities on the balance sheet. This debt matures 7 November 2011 and attracts a variable interest rate calculated with reference to the bank bill rate plus an agreed margin; and

(ii) TOWER Australia Group Limited issued 12,842,466 ordinary shares to the vendors that at the date of settlement were worth $2.20 or $28,253,425. This amount differs to the estimate made in the public announcement of $37,500,000 that assumed a share price of $2.92.

40. SUBSEQUENT EVENTS CONTINUED

(iii) TOWER Australia Group Limited issued convertible notes with a face value of $37,500,000. Key terms and conditions of this Convertible Note include:

- (a) The convertibles notes will mature on 1 October 2011;
- (b) at any time before 1 October 2009 the holder(s) may convert all or any part of the notes into Ordinary Shares provided:
  - (i) the TOWER share price is not less than $3.20 in the 10 days prior to conversion; and
  - (ii) the aggregate face value converted within the 30 days prior to conversion does not exceed $9.375 million.
- (c) at any time after 1 October 2009 the holder(s) may convert all or any part of the notes into Ordinary Shares without restriction for an issue price of $2.92 per share.
- (d) at any time before 1 October 2011 TOWER Australia Group Limited may:
  - (i) redeem all or any part of the Face Value of the notes;
  - (ii) convert all or any part of the Face Value of the notes into Ordinary Shares at an issue price per share determined by the Company. Such shares will then be sold by placement and the proceeds will reduce the Face Value of the Notes (pro rata amongst the notes).
- e) TOWER Australia Group Limited may not redeem convert or transfer with respect to the series 1 convertible notes unless at least $5,000,000 of the face value of series 2 convertible notes has been redeemed, converted or transferred.

Purchase consideration:	**$000**
Cash	60,448
Issue of ordinary shares	28,253
Convertible note	37,500
Direct costs related to acquisition paid in cash	1,248
	127,449
Total purchase consideration	127,449
Fair value of net assets acquired	(4,362)
Intangibles	**123,087**
Value of in-force business	69,154
Goodwill	53,933
Intangibles	**123,087**

The intangible assets comprise goodwill and the value of in-force business over and above the fair value of the net assets acquired. The goodwill is attributable to the profitability of the acquired business and the synergies expected to arise as a result of the acquisition. The value of in-force business is the present value of the future profits on the life insurance policies in-force at the date of acquisition over and above the tangible assets acquired.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount $'000
Cash and cash equivalents	(540)
Other financial assets	43
Trade receivables	2,880
Other assets	698
Fixed assets	2,059
Deferred tax asset	945
IT development	10,107
Total Assets	**16,192**
Trade creditors	7,265
Provisions	3,533
Tax payable	263
Total liabilities	**11,061**
Net assets	**5,131**
Bank Debt (interest bearing liabilities)	61,696
Purchase consideration settled in cash	(60,448)
Direct costs related to acquisition paid in cash	(1,248)
Cash and cash equivalents in controlled entity acquired	(540)
Cash outflow on acquisition	**(540)**

The above carrying amount of the assets and liabilities acquired approximate their fair value at 2 October 2008.

The financial effects of the above transaction have not been brought to account at 30 September 2008. The operating results and assets and liabilities of the acquiree will be consolidated from 2 October 2008.