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TOWER LIFE (N.Z) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2009

TOWER LIFE (N.Z) LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2009

The Board of Directors have pleasure in presenting the annual report of TOWER Life (N.Z.) Limited, incorporating the financial statements and auditors' report, for the year ended 30 September 2009.

With the unanimous agreement of all shareholders, the Company has taken advantage of the reporting concessions available to it under Section 211(3) of the Companies Act 1993.

The Board of Directors of TOWER Life (N.Z.) Limited authorised these financial statements presented on pages 3 to 38 for issue on 21 December 2009.

For and on behalf of the board:

Director

Director

TOWER LIFE (N.Z) LIMITED
INCOME STATEMENT
For the year ended 30 September 2009

	Note	2009 $000	2008 $000
Revenue from continuing operations			
Premium revenue from insurance contracts	3	31,720	32,403
Less: Outwards reinsurance expense	3	(8,186)	(7,705)
Net premium revenue	3	23,534	24,698
Investment revenue	4	30,206	8,533
Net operating revenue		**53,740**	**33,231**
Claims expense	5	56,246	59,036
Less: Reinsurance recoveries revenue	5	(5,782)	(4,327)
Net claims expense	5	50,464	54,709
Change in life insurance contract liabilities	17	(18,290)	(17,633)
Change in life investment contract liabilities	17	(117)	(4,816)
Policy maintenance costs - life insurance contracts	6	11,437	10,212
Policy maintenance costs - life investment contracts	6	307	506
Policy acquisition costs	6	-	70
FuturePlan debenture finance costs	12	1,288	530
Net claims and operating expenses		**45,089**	**43,578**
Profit/(loss) before taxation		**8,651**	**(10,347)**
Income tax expense/(credit)	7	4,709	(17,202)
Profit from operations		**3,942**	**6,855**
Profit for the year attributable to shareholders		**3,942**	**6,855**

The above Income Statement should be read in conjunction within the accompanying notes.

TOWER LIFE (N.Z) LIMITED
BALANCE SHEET
For the year ended 30 September 2009

	Note	2009 $000	2008 $000
Assets			
Cash and cash equivalents	21	2,739	1,439
Trade and other receivables	8	6,198	4,755
Financial assets at fair value through profit or loss	9	729,658	785,847
Derivative financial assets	19	46,045	369
Intercompany receivables	13	3,732	373
Prepaid tax asset	2c	6,046	8,449
Other assets		154	97
Assets arising from reinsurance contracts	17	9,116	7,535
Net deferred tax asset	7	17,629	19,928
Total assets		**821,317**	**828,792**
Liabilities			
Trade and other payables	11	8,487	9,728
Intercompany payables	14	3,733	7,336
Derivative financial liabilities	19	20,634	5,872
Other liabilities	12	22,745	21,457
Life insurance contract liabilities	17	702,821	723,011
Life investment contract liabilities	17	32,651	35,084
Total liabilities		**791,071**	**802,488**
Net assets		**30,246**	**26,304**
Equity			
Contributed equity	15	10,000	10,000
Retained earnings	16	20,246	16,304
Total equity		**30,246**	**26,304**

The Directors authorised these financial statements for issue on 21 December 2009.

Director

Director

The above Balance Sheet should be read in conjunction with the accompanying notes.

TOWER LIFE (N.Z) LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2009

	Note	2009 $000	2008 $000
Total equity at the beginning of the financial year		**26,304**	**33,396**
Profit for the year		3,942	6,855
Total recognised income and expense for the year		**3,942**	**6,855**
Dividends provided for and paid	16	-	(13,947)
		-	**(13,947)**
Total equity at the end of the financial year		**30,246**	**26,304**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

TOWER LIFE (N.Z) LIMITED
STATEMENT OF CASH FLOWS
For the year ended 30 September 2009

	Note	2009 $000	2008 $000
Cash flows from operating activities			
Premium revenue		44,683	40,998
Reinsurance revenue		4,459	4,013
Interest received		32,521	29,210
Dividends received		3,855	16,612
Payments to policyholders		(75,640)	(76,034)
Reinsurance payments		(7,373)	(6,704)
Payments to suppliers and employees		(9,549)	(10,504)
Net cash outflow from operating activities	22	**(7,044)**	**(2,409)**
Cash flows from investing activities			
Net (purchase) / sale of investments:			
Fixed interest		27,049	(173,372)
Property		(40,073)	45,076
Equities		21,368	143,824
Net cash inflow from investing activities[1]		**8,344**	**15,528**
Cash flows from financing activities			
Payment of dividends		-	(13,947)
Repayment of advance		-	-
Net cash (outflow)/inflow from financing activities		-	**(13,947)**
Net increase in cash and cash equivalents		**1,300**	**(828)**
Cash and cash equivalents at beginning of year		1,439	2,267
Cash and cash equivalents at end of year		**2,739**	**1,439**

[1]The statements of cash flows presents the net changes in cash flow for financial assets. TOWER considers that knowledge of gross receipts and payments is not essential to understanding certain activities of TOWER and it is considered acceptable to report only the net changes in cash flow for these items. This is based on the fact that either the turnover of these items is quick, the amounts are large, and the maturities are short.

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

TOWER LIFE (N.Z) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2009

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 years presented, unless otherwise stated.

GENERAL INFORMATION

These financial statements have been approved for issue by the Directors on 21 December 2009.
TOWER Life (N.Z) Limited ("the Company") is a New Zealand incorporated life insurance company, domiciled in New Zealand and an issuer in terms of the Securities Act 1978.

The address of its registered office is:

Level 11
TOWER Centre
22 Fanshawe Street
Auckland Central
New Zealand

BASIS OF PREPARATION

These financial statements are for the Company as a separate legal entity. The Company is designated as a profit-oriented entity for financial reporting purposes.
This general purpose financial report has been prepared in accordance with the New Zealand Companies Act 1993 and the Financial Reporting Act 1993.
Group financial statements have not been prepared as the ultimate controlling entity TOWER Limited, issues group financial statements.
The principal activity of TOWER Life (NZ) Ltd is the provision of life insurance. The Company operates in New Zealand.

The Company has a 100% investment in TOWER Bourke St Limited, a company incorporated in New Zealand.

Compliance with International Financial Reporting Standards (IFRS)
The financial statements comply with International Financial Reporting Standards (IFRS), New Zealand equivalents to International Financial Reporting Standards (NZIFRS) and other applicable financial reporting standards as applicable for a proft-oriented entity.
The financial statements have been prepared on a fair value basis with any exceptions noted in the accounting policies below.

PRINCIPLES UNDERLYING CONDUCT OF LIFE INSURANCE BUSINESS

The life insurance operations of the Company comprise the selling and administration of contracts which are classified as either life insurance contracts or life investment contracts. Contracts that include both investment and insurance elements are separated into these two elements and reported accordingly.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of an specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked, or only partly linked, to the market value of the investments held by the life insurer, and the financial risks are substantially borne by the life insurer. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held. While the underlying assets are registered in the name of the life insurer and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the investment performance. The life insurer derives fee income from the administration of investment-linked policies.

Participating policyowner benefits, both vested and unvested, are treated as expenses when incurred and liabilites until paid.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

PRINCIPLES UNDERLYING CONDUCT OF LIFE INSURANCE BUSINESS (*cont.*)

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

For the purposes of this financial report, holders of life insurance and life investment contracts are referred to as policyholders.

SPECIFIC ACCOUNTING POLICIES

(a) Premium revenue

Life insurance contracts
Premiums on life insurance business are separated into their revenue and deposit components. Only those amounts earned by providing services and bearing risks are treated as revenue. Other premium amounts received are similar to deposits and are recognised as an increase in policy liabilities. 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 Company receives deposits from policyholders and those funds are invested on behalf of the policyholders. There are no premiums recognised as revenue in respect of these contracts. Amounts received comprise an origination fee and ongoing management fee or amounts credited directly to investment contract liabilities and recognised in the change in value of the investment contract.

(b) Investment revenue

Dividends, property income, interest, realised gains/losses and unrealised gains/losses on investment assets are brought to account in the income statement 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".

Property income
Property income is recognised on an accrual basis, in accordance with the substance of the relevant agreement.

Interest income
Interest income is recognised on a time proportion basis using the effective interest method.

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

(c) Claims expense

Life insurance contracts
Claims are recognised when the liability to a policyholder under a policy 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. 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.

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.

SPECIFIC ACCOUNTING POLICIES (cont.)

(d) Basis of expense apportionment
All operating expenses in respect of life insurance or life investment contracts have been apportioned between policy acquisitions, policy maintenance and investment management expenses with regard to the objective when incurring the expense and the outcome achieved.

The apportionment process is adopted by applying the following methodology:

(i) Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned. Expenses directly attributable to the participating and non–participating classes of business are apportioned based on 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 bases 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 in-force, mean balances of assets under management, average number of policies in-force and time and activity based allocations.

(e) Policy acquisition costs
Policy acquisition costs comprise the fixed and variable costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs are recorded in the income statement.

The Chief Actuary, in determining the policyholder liabilities, takes account of the deferral and future recovery of acquisition costs, resulting in policyholder liabilities being lower and those costs being amortised over the period in which they will be recoverable.

(f) Outwards reinsurance
Premiums ceded to reinsurers under insurance contracts held by the Company are recorded as an outwards reinsurance expense and are recognised in the income statement over the period of indemnity of the reinsurance contract.

(g) Taxation

Income tax for life 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.
Life investment contracts and life insurance contracts liabilities are established net of the policyholders' share of any current tax payable and deferred tax balances.

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

SPECIFIC ACCOUNTING POLICIES (cont.)

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 liabilities are generally recognised for all taxable temporary differences. 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 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recorded in equity.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities and where they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax, including amounts in respect of life investment contracts and life insurance contracts, is not discounted to present value.

Deferred tax on policy liabilities
Life insurance policy liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognised in the income statement over the period services are provided to policyholders.

Under NZ IFRS, taxable temporary differences implicitly embedded within life insurance policy liabiliites should be disclosed separately. This would result in a reclassification between life insurance policy liabilities and deferred tax liabilities rather than impacting net profit, total assets or total liabilities of the Company. The Company has undertaken an exercise to quantify the level of deferred taxation within insurance policy liabilities and have concluded that it is immaterial and have therefore not made any reclassification.

(h) Foreign currency

Functional and presentational currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

Transactions and balances
In preparing the financial statements of the individual entity 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 and 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.

(i) Cash and cash equivalents
Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Receivables (Loans and 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.

SPECIFIC ACCOUNTING POLICIES (cont.)

(k) Assets backing insurance businesses
All assets held within the insurance business are assets backing the policy liabilities of the life insurance business. 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. The Company has therefore deemed that these assets should be valued at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as follows:

- Cash assets and bank overdrafts are carried at face value which approximates fair value;
- Shares, fixed interest securities, options and units in trusts listed on stock exchanges are valued at the quoted bid price of the instrument at balance sheet date;
- Unlisted fixed interest securities, are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable traded investments at balance date;
- Unlisted unit trusts are recorded at fund managers' quoted redmeption prices; and
- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.

(l) Financial assets

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

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

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

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement includes any dividend or interest earned on the financial assets.
Derivatives are also categorised as held for trading unless they are designated as hedges. All derivatives entered into by the Company are classified as held for trading as the Company does not apply hedge accounting.

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

SPECIFIC ACCOUNTING POLICIES (cont.)

(m) Impairment of assets

(i) Impairment of non-financial assets
The Company assesses annually whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

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

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

For all financial assets, other than trade receivables, the carrying amount is reduced by the impairment loss directly. For trade receivables the carrying amount is reduced via an allowance account, against which an uncollectible trade receivable is written off. A trade receivable is deemed to be uncollectible upon notification of insolvency of the debtor or upon reciept of similar evidence that the Company will be unable to collect the amount. Changes in the carrying amount of the allowance account are recognised in the income statement.

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

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

(n) FuturePlan debenture

The FuturePlan debenture is stated at cost plus compounded accrued interest based on the annual rate of return of a supporting portfolio of fixed interest securities.

(o) Borrowings

Interest bearing debt and overdrafts are initially measured at fair value, net of transaction costs incurred and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings. Borrowing costs are expensed as incurred.

(p) Payables

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

SPECIFIC ACCOUNTING POLICIES (cont.)

(q) Life investment contract liabilities

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

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

(r) Life insurance contract liabilities

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

Under MoS the excess of premium received over claims and expenses ('the profit margin') is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder ('the service'), hence the term Margin on Services. The movement in life insurance contract liabilities recognised in the income statement reflects the planned release of this margin.

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

The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date. A summary of the significant actuarial methods and assumptions used is set out in note 17.

(s) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(t) Contributed equity

Ordinary shares are classified as equity and are recognised at fair value.

(u) Comparatives

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where critical accounting estimates are applied are noted below.

(a) Policy liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

The key factors that affect the estimation of these liabilities and related assets are:
- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets.

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 Company 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 17.

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

(c) Prepaid tax asset

Included in the Provision for tax asset is a prepaid tax asset of $34.7m. This prepaid tax asset has arisen because the Company is required to pay tax in relation to its own profits and on behalf of policyholders. Tax paid by the Company on its taxable profits can be used to satisfy the policyholder tax liability. Due to tax on policyholder liabilities exceeding tax on Company taxable profits it has been necessary to prepay income tax resulting in a prepaid tax asset.

Under the current tax regime, the prepaid tax can be used to satisfy tax liabilities on future Group taxable profits. A change in the tax regime applying to life insurance companies from 1 July 2010 allows the prepaid tax to be used to meet policyholder tax liabilities arising after this date. This prepaid tax is not affected by shareholder continuity requirements.

The directors undertook an exercise to assess the appropriateness of the carrying value of the asset including the likely period over which the Group was expected to utilise this prepaid tax asset using the following assumptions:

- Tax rate of 30% for all years.
- A conservative estimate of growth in TOWER operating profits after 2009.
- Utilisation of prepaid tax against future policyholder tax liabilities.
- Realisation of investment assets occurring on implementation of the new tax regime on 2010, based on investment values as at 30 September 2009.

Based on the above assumptions the Directors estimated the prepaid tax asset would be recovered in full against future Group tax liabilities by the 2015 financial year (2008: 2018). Changes in the above assumptions could impact on the timeframe in which the prepaid tax asset would be utilised by the Group. If the actual tax liabilities of the Group and policyholders differed from Directors' estimates by 20% the prepaid tax asset would be fully utilised between 2014 - 2016.

While the Directors have considered the timeframe for realisation of the prepaid tax asset based on future profits from the Group's existing business activities, the timeframe for realising the prepaid tax asset can also be affected by future actions such as business acquisitions or further changes in tax legislation.

(d) Deferred taxation asset

The Company has recognised a significant deferred taxation asset of $17.6m as at 30 September 2009 (2008: $19.9m). Under NZIAS12: Income Taxes, recognition of a deferred tax asset is permitted if it is probable that future economic benefits will flow to the Company. Management have assessed the future profitability of the Company and have determined that, based on current forecasts, utilization of the deferred tax asset is probable. As such a deferred tax asset has been recognised.

TOWER LIFE (N.Z) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2009

	2009 $000	2008 $000
3. Premium revenue		
Life insurance premiums	41,161	40,590
Life investment premiums	530	671
Total life premium revenue	41,691	41,261
Less deposits recognised as an increase in policy liabilities	(9,971)	(8,858)
Life insurance premiums recognised as revenue	**31,720**	**32,403**
Less Reinsurance ceded	(8,186)	(7,705)
Total net premium revenue	**23,534**	**24,698**
4. Investment revenue		
Interest income	26,026	28,558
Dividend income	3,728	16,822
Net realised and unrealised gains	(2,149)	(34,317)
Other investment income	2,601	(2,530)
Total investment revenue	**30,206**	**8,533**
5. Claims expense		
Life insurance claims	69,169	69,996
Life investment contract payments	2,846	5,867
Total life claims and payments	72,015	75,863
Less withdrawals recognised as a decrease in policy liabilities	(15,769)	(16,827)
Life insurance claims recognised as expense	**56,246**	**59,036**
Less reinsurance proceeds received	(5,782)	(4,327)
Total net claims expense	**50,464**	**54,709**
6. Underwriting and other expenses		
Life insurance contracts		
Policy acquisition costs:		
Commission	-	70
Policy maintenance costs:		
Commission	1,720	1,538
Other maintenance costs	9,182	8,219
Investment management expenses	535	455
Total policy maintenance costs-life insurance contracts	11,437	10,212
Total life insurance expenses	**11,437**	**10,282**
Life investment contracts		
Policy maintenance costs:		
Commission	21	18
Other maintenance costs	286	488
Total life investment expenses	307	506
Total underwriting and other expenses	**11,744**	**10,788**
Included in total management and sales expenses are the following:		
Fees paid to auditors PricewaterhouseCoopers:		
Audit of financial statements	**72**	**104**

	2009 $000	2008 $000
7. Taxation		
Analysis of taxation expense - current and deferred		
Current taxation	2,410	10,334
Deferred taxation	2,299	(27,536)
Income tax expense for year	**4,709**	**(17,202)**

The tax expense recognised can be reconciled to the accounting (loss)/profit as

	2009 $000	2008 $000
Profit/(loss) before taxation		
Continuing operations	8,651	(10,347)
Income tax at the current rate of 30% (2008: 33%)	2,595	(3,415)
Taxation effect of:		
Life insurance companies permanent differences & other differences	3,252	(12,896)
Non-deductible investment losses	4,570	-
Non-taxable release of accrual	(5,351)	-
Other	(355)	-
Recognition of prior period current tax	(2)	(891)
Taxation expense	**4,709**	**(17,202)**

In April 2007, the Government announced a reduction in the corporate tax rate from 33% to 30% effective in tax years ending after April 2008.

Deferred taxation

	Opening balance $000	(Charged)/ credited to income statement $000	Closing balance $000
Provisions and accruals	215	(135)	80
Unrealised losses	(7,823)	27,671	19,848
30 September 2008	**(7,608)**	**27,536**	**19,928**
Provisions and accruals	80	22	102
Unrealised losses	19,848	(2,321)	17,527
30 September 2009	**19,928**	**(2,299)**	**17,629**

The Company has not disclosed any entries in either an Imputation Credit Account or Policyholder Credit Account because these accounts are maintained at a Tax Consolidated Group level. The Company is a member of the Tax Consolidated Group.

TOWER LIFE (N.Z) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2009

	2009 $000	2008 $000
8. Trade and other receivables		
Outstanding premiums and trade receivables	3,053	2,417
Reinsurance recoveries receivable	2,513	1,190
Other receivables	632	1,148
Total receivables	**6,198**	**4,755**
Analysed as:		
Receivable within 12 months	6,198	4,755
	6,198	**4,755**

	2009 $000	2008 $000
9. Financial assets at fair value through profit or loss		
Fixed interest securities		
Government securities	21,099	4,055
Local authority securities	36,803	7,750
Loans on policies	32,140	31,913
Other fixed interest securities & short term deposits	363,791	406,343
Multi currency unit trusts	-	31,225
Total fixed interest securities	**453,833**	**481,286**
Equity securities		
Investments in equities[(1)]	50,030	43,375
Multi currency unit trusts	154,432	180,183
Total equity securities	**204,462**	**223,558**
[(1)] The majority of these investments are held in unit trusts.		
Property securities		
Property trusts	71,363	81,003
Total investment in property	**71,363**	**81,003**
Total financial assets at fair value through profit or loss	**729,658**	**785,847**

10. Subsidiary companies

The Company has a 100% interest in TOWER Bourke Street Limited which has a balance date of 30 September and is incorporated in New Zealand. TOWER Bourke Street is non-trading and has been fully impaired within these financial statements.

	2009 $000	2008 $000
11. Trade and other payables		
Trade payables	5,033	5,656
Accrued investment purchases	248	306
Outstanding claims – life and other	3,206	3,521
Other accruals	-	245
Total payables	**8,487**	**9,728**
Analysed as:		
Payable within 12 months	8,487	9,728
	8,487	**9,728**

TOWER LIFE (N.Z) LIMITED
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	2009 $000	2008 $000
12. Other liabilities		
FuturePlan Debenture	22,745	21,457
	22,745	**21,457**
Analysed as:		
Payable within 12 months	22,745	21,457
	22,745	**21,457**

The Company has issued a debenture to the TOWER FuturePlan. The debenture is maintained as a separate fund within the Company. Interest on the debenture is directly linked to the investment earnings of this fund. The debenture has no fixed repayment term and is repayable on demand.

13. Intercompany receivables	2009 $000	2008 $000
TOWER Managed Funds Limited (parent)	-	373
TOWER Financial Services Group Limited	1,432	-
TOWER Corporate Holdings Limited	2,300	-
	3,732	**373**

All intercompany balances are current. Trade amounts owing between related parties are payable under normal commercial terms. No debts have been written off or forgiven during the year.

14. Intercompany payables	2009 $000	2008 $000
TOWER Asset Management Limited	597	268
TOWER Managed Funds Limited (parent)	1,278	-
TOWER Managed Funds Investments Limited	549	549
TOWER Bourke Street Limited (subsidiary)	-	1,252
TOWER Corporate Holdings	-	1
TOWER Insurance Limited	-	5,266
TOWER Financial Services Group Limited	1,309	-
	3,733	7,336

All intercompany balances are current and repayable on demand. Trade amounts owing are payable under normal commercial terms. No debts have been written off or forgiven during the year.

15. Contributed equity

	2009 $000	2008 $000
Ordinary share capital		
Fully paid	10,000	10,000
Represented by:		
Ordinary shares issued	10,000	10,000

All ordinary shares are ranked equally with one vote attached to each fully paid up ordinary share. Ordinary shares issued have no par value.

16. Reserves and retained earnings

	2009 $000	2008 $000
Retained earnings		
Opening balance at 1 October	16,304	23,396
Net profit for the year	3,942	6,855
Dividends paid	-	(13,947)
Closing balance at 30 September	20,246	16,304

TOWER Life (N.Z) Limited has no equity or debt that is publicly traded.

17. Life insurance business

(a) Policyholder liabilities

	2009 $000	2008 $000
Life insurance contract liabilities		
Value of policy liabilities – Projection Method		
Future policy benefits	495,181	472,846
Future bonuses	148,893	185,246
Future expenses	48,783	49,761
Future profit margins	38,986	48,299
Future premiums	(110,406)	(112,069)
	621,437	644,083
Value of policy liabilities – Accumulation Method		
Future policy benefits	47,486	49,234
	47,486	49,234
Unvested policyholder benefits	24,782	22,159
Net policyholder liabilities - life insurance contracts	**693,705**	**715,476**
Reconciliation of movements in insurance contract policyholder liabilities		
Gross life insurance liabilities at 1 October	723,011	743,555
Acquired insurance contract liabilites		
(Decrease) in net life insurance contract liabilities recognised in the income statement	(18,290)	(17,633)
Increase /(decrease)in liabilities ceded under reinsurance	1,581	(138)
Deposits recognised as an increase in policy liabilities	9,442	8,187
Withdrawals recognised as a decrease in policy liabilities	(12,923)	(10,960)
Gross life insurance liabilities at 30 September	**702,821**	**723,011**
Life investment contract liabilities		
Value of policy liabilities – Accumulation Method		
Future policy benefits	32,651	35,084
Net policyholder liabilities - life investment contracts	**32,651**	**35,084**

	2009 $000	2008 $000
17. Life insurance business (cont.)		
(a) Policyholder liabilities (cont.)		
Reconciliation of movements in investment contract policyholder liabilities		
Gross life investment contract liabilities at 1 October	35,084	45,095
(Decrease) in life investment contract liabilities recognised in the income statement	(117)	(4,816)
Deposits recognised as an increase in policy liabilities	530	672
Withdrawals recognised as a decrease in policy liabilities	(2,846)	(5,867)
Gross life investment contract liabilities at 30 September	**32,651**	**35,084**
Total gross policyholder liabilities	**735,472**	**758,095**
Liabilities ceded under reinsurance		
At 1 October	(7,535)	(7,673)
Movement in income statement	(1,581)	138
At 30 September	**(9,116)**	**(7,535)**
Net policyholder liabilities - non current	**726,356**	**750,560**
(b) Analysis of life insurance and life investment contract results		
Life insurance contracts		
Planned profit margins	4,115	4,424
Experience profits/(losses)	57	(211)
Investment (losses)/earnings on assets in excess of policy liabilities of life companies	(446)	2,338
Operating profit after tax attributable to shareholders arising from the life insurance contracts	**3,726**	**6,551**
Life investment contracts		
Planned profit margins	200	200
Experience profits	14	104
Operating profit after tax attributable to shareholders arising from the life investment contracts	**214**	**304**

(c) Solvency requirements of life funds
The minimum equity required to be retained to meet solvency requirements over and above the policy liabilities for the Company is sh

		2009 $000	2008 $000
Solvency requirement	A	743,636	764,679
Represented by:			
Policyholder liabilities		706,655	728,401
Other liabilities		35,711	36,278
Solvency reserve	B	1,270	-
Solvency requirement		743,636	764,679
Assets available to meet solvency reserve:	C	49,945	48,463
less solvency reserve	B	1,270	-
Excess assets above required		48,675	48,463
Coverage of required solvency reserve	C/B	39.33	n/a

17. Policyholder liabilities and life insurance contracts (cont.)

(d) SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS - LIFE INSURANCE

The effective date of the policy liabilities and solvency reserves calculation is 30 September 2009. The Chief Actuary, Herwig Raubal, FIAA, FNZSA has calculated policy liabilities for TOWER Life (NZ) Ltd. The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

This note summarises the assumptions made and the methods adopted for the calculations of Policy Liabilities and Solvency Requirements.

(i) Policy liabilities

Policy liabilities for life insurance business have been determined in accordance with Professional Standard No.3 "Determination of Life Insurance Policy Liabilities" issued by the New Zealand Society of Actuaries for TOWER Life (NZ) Ltd. This standard requires that policy liabilities be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins as services are provided to policyholders.

Valuation of policy liabilities

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

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

The company incurs costs in selling new policies. Any costs not recovered by specific charges received from the policy owner at inception are normally deferred. New business selling costs (or acquisition costs) related to the acquisition of new business are deferred as long as the underlying policies are expected to be profitable. Where costs are deferred, they are recovered from premiums or charges receivable in the future.

Methods used to value policy liabilities

(i) Projection method

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

(ii) Accumulation method

Under the accumulation method for risk policies the policy liability is the sum of the unearned premiums, outstanding claims plus an allowance for claims incurred but not yet reported. For investment policies, the policy liability is determined as the policy account balance including accrued interest to the balance date, plus investment fluctation reserves subject to a minimum of the current surrender value.

17. Policyholder liabilities and life insurance contracts

(d) Summary of significant actuarial methods and assumptions - life insurance (cont.)

(i) Policy liabilities (cont)

Methods used

Where the policy liability is determined by the projection method, actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called "profit carriers". The profit carriers adopted for the major product groups are shown in the table below:

MAJOR PRODUCT GROUPS	METHOD	PROFIT CARRIERS (for business valued using project method)
Traditional participating	Projection	Cost of supportable bonus
Traditional non-participating, renewal and level term and mortgage repayment insurance	Projection	Expected death claims
Annuities	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance	Projection	Expected claims
Non-participating investment account	Accumulation	
Investment linked	Accumulation	
Group risk insurances and renewable insurances	Accumulation	

TOWER LIFE (N.Z) LIMITED
STATEMENT OF ACCOUNTING POLICIES
For the year ended 30 September 2009

17. Life insurance business (cont.)

(d) Summary of significant actuarial methods and assumptions - life insurance (cont.)
(ii) 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	As the value of benefits is contractually linked to the performance of assets, a discount rate based on the market return on the asset backing policy liabilities is used. The discount rate assumed in calculating policyholder liabilities was derived from the expected long term average rates of return for the assets pool backing this business, based on the benchmark asset mix. Discount rates assumed are net of taxation and investment expense.	The discount rates used are as follows: September 2009 5.2% September 2008 5.7%
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 the swap rates, depending on the nature structure and term of the contract liabilities.	The discount rates used are as follows: September 2009 4.1% to 4.2% September 2008 4.4% to 4.7 %
Inflation	Benefit indexation is before allowance for the proportion of policyholders who take up indexation.	Benefit Indexation September 2009 2.0% September 2008 2.0%
Future expenses	Future maintenance expenses have been set based on experience analyses conducted by the various companies as well as the actuaries' expectations of future expense levels. Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.	Changes have been made in line with budget.
Rates of taxation	Rates of taxation have been assumed to remain at current levels.	None
Mortality – risk products	Standard mortality tables, primarily NZ97 in New Zealand. These are adjusted for company experience.	All multiples have been reduced by 3% to allow for mortality improvements to next year.
Mortality – annuities	Standard mortality tables (New Zealand use PML80C10) adjusted for company experience.	None
Disability – lump sum	Based upon recent company and reinsurer experience adjusting for different product definitions. Some wholesale schemes use specific company experience.	None
Disability income	Standard morbidity tables (IAD89-93) adjusted for company experience. Specific company experience is used for certain wholesale schemes.	None
Discontinuances	Discontinuance rates have been assumed to be consistent with the experience of recent years. Assumed discontinuance rates vary by sub-grouping within a class and vary according to the length of time tranches of business have been in-force and other relevant factors.	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.	Changes have been made in line with budget. Changes have been made in line with budget. Changes have been made in line with budget.

TOWER LIFE (N.Z) LIMITED
STATEMENT OF ACCOUNTING POLICIES
For the year ended 30 September 2009

17. Life insurance business (cont.)

(d) Summary of significant actuarial methods and assumptions - life insurance (cont.)

iii) Effect of changes in actuarial assumptions during the reporting period

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

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

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

Where the value of future profit margins are insufficient to absorb the assumption changes, the resulting losses are recognised in the current year via a change in the insurance contract liability. These losses may be reversed in subsequent periods should experience is improved.

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

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

	Change in future shareholder profit margins $	Change in next Financial Year's Shareholder Planned Profit $	Change in Current Period Contract Liability $	Change in Current Period Shareholder Profit $
Assumption change				
Non-market related economic assumptions	(159)	(268)	-	-
Mortality and Morbidity	797,314	31,802	(173,508)	34,702
Discontinuances	-	-	-	-
Expenses	333,069	25,643	(110,827)	22,165
Other	-	-	-	-

There were no material changes in the life insurance contract liabilities due to assumption changes for the year ending 30 September 2009.

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Group will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims 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 or totally and permanently disabled and, in the case of temporary disablement, the duration which they remain temporarily disabled. Higher than expected incidence and duration would 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 change in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variable as disclosed above. The movement in any key variable will impact the performance of the company. The table below illustrates the profit/(loss) impact of each variable net of reinsurance.

New Zealand		Change in next financial year's shareholder profit
VARIABLE	**MOVEMENT**	**NET OF REINSURANCE ($)**
Mortality	Adverse movement of 10%	(278,952)
Morbidity Claims Costs	Adverse movement of 10%	(175,320)
Annuitant Mortality	Adverse movement of 10%	(179,130)
Lapses and Surrenders	Adverse movement of 10%	(75,189)
Renewal expenses	Adverse movement of 10%	(296,996)

17. Life insurance business (cont.)

(iv) Solvency requirements
Separate to the policy liabilities recognised in the Statement of Balance Sheet, the life insurance companies maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on life insurance companies.

The methodology and bases for determining the Solvency Requirement are in accordance with the requirements of "Profesional Standard No. 5.01 Solvency Reserving for Life Insurance Business" issued by the New Zealand Society of Actuaries.

(v) Life insurance risk
The life insurance business of the Company involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders.

Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Chief Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Underwriting management procedures
Underwriting is managed by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Company provides appropriate training and development of underwriting and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Company risk insurance policies are underwritten on the merits of an employee Company as a whole, subject to certain limits for individual members.

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.

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

Terms and conditions of life insurance contracts
The nature of the terms of the insurance contracts written by the Company is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cash flows are dependent.

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability including renewable term)	Guaranteed benefits paid on death, permanent and temporary disablement or maturity that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities
Life annuity contracts	These policies provide a guaranted regular income for the life of the insured for a initial single premium.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, benefit inflation, expenses and market earnings on assets backing the liabilities
Traditional life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured that is payable on death. The guarantee amount is increased throughout the duration of the policy by the addition of bonuses annually that once added are not removed. An additional (terminal) bonus is payable on claims paid as a result of death or maturity. Terminal bonus amounts are not guaranteed.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract. Operating profit arising from these contracts is allocated between the policyholders and shareholders. The amount allocated to policyholders is held as an unvested policy liability until it is distributed to 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. On certain contracts withdrawals can be deferred over limited time periods.	Fees, lapses, expenses and market earnings on assets backing the liabilities

(vi) Concentration of insurance risk
The Company aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographical locations for the individual and Company risk business. The Company uses reinsurance to limit the insurance risk exposure for any one individual. The Company risk business unit offers insurance in respect of Companys of employees. The Company is exposed to a greater risk of loss from events affecting a location where groups of insured employees work. The Company has purchased catastrophe reinsurance to limit the exposure from any one group event.

18. Risk management and financial instrument information

The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Financial risks include market risk, credit risk and financing and liquidity risk. The non-financial risks include insurance risk, compliance risk and operational risk. The Company's objectives and policies in respect of insurance risks are disclosed in note 17, while the managing of financial risk is set out in the remainder of this section.

The Company's objective is to satisfactorily manage these risks in line with the TOWER Limited Group's risk management policy and guidance which are approved by the Board. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk. Exposure to all risks is monitored by the TOWER Limited Group Risk and Compliance Manager and this exposure is reported monthly to executive management and quarterly to the TOWER Limited Group Audit and Compliance Committee.

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

Financial risks are generally monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored to ensure that there are no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits. For those life insurance and life investment contracts where the benefits paid are directly impacted by the value of the underlying assets, the Company is exposed to the risk of future decreased asset management fees as a result of a decline in assets under management.

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

- reviewing investment policy for shareholder and policyholder funds;
- reviewing the risk management policy and statements in respect of investment management, including the derivative policy;
- considering the establishment, adjustment or deletion of limits and counter-party approvals, and the scope of financial instruments to be used in the management of investments;
- reviewing the appointment of external investment managers; and
- monitoring compliance with investment policies and client mandates.

Compliance risk and operational risk are both monitored by internal committees and report regularly to the TOWER Limited Board.

(a) Market risk

Market risk is the risk of change in the fair value of financial instruments from fluctuations in the foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market.

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

- what constitutes market risk for the Company;
- the basis used to fair value financial assets and liabilities;
- asset allocation and portfolio limit structures;
- diversification benchmarks by type of instrument and geographical areas; and
- sets out reporting of market risk exposures and the monitoring thereof.

(i) Currency risk

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

The TOWER Limited Group Investment Committee sets limits for the management of currency risk arising from Company investments based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to.

The Company enters into forward foreign exchange contracts in accordance with its investment policies as economic hedges of foreign currency exposure in investments in international equities through its holdings in international equities funds. The main foreign currencies exposure of the funds is to the Australian and US dollars, Japanese Yen, Euro, British Pounds and Chinese Yuan.

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

18. Risk management and financial instrument information (cont.)

(a) Market risk (cont.)

(ii) Interest rate risk

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

The Company manages interest rate risk arising from its interest bearing investments in accordance with TOWER Limited Group Investment Committee approved policies.

Life insurance

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

The primary areas of mismatch for the Company's life insurance business are:

- For non-participating life insurance contracts, the mismatch between the risk free discount rates used in the policy liability calculations and the backing asset values.
- For a portion of the life investment contract business, the mismatch between the value of the financial instrument liabilities (including the discount rates used in their calculation, if applicable) and the backing asset values.

Interest rate and other market risks are managed by the Company through a strategic asset allocation policy and an investment management policy that has regard to policyholder expectations and risks and to target surplus for both capital adequacy and solvency as advised by the Chief Actuary.

(iii) Price risk

Price risk is the risk of loss resulting from the decline in prices of equity securities or other assets. The Company is exposed to the price risk because The price risk is managed by diversification of the investment portfolio, which is done in accordance with the limits set by the investment mandates and monitored by the TOWER Limited Group Investment Committee.

(b) Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitment in full and on time, or from losses arising from the change in value of a trading financial instrument as a result in changes in credit risk of that instrument.

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

(i) Credit risk concentration

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

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

	2009 Carrying value $000	2008 Carrying value $000
New Zealand government	21,099	21,466
Other governments	36,803	654
Banks	378,396	304,726
Finance institutions	-	35,495
Other non-investment related receivables	8,651	34,650
Other industries	63,580	60,006
Intercompany receivables	2,300	-
Total financial assets with significant credit exposure	510,829	456,997

TOWER LIFE (N.Z) LIMITED
STATEMENT OF ACCOUNTING POLICIES
For the year ended 30 September 2009

18. Risk management and financial instrument information (cont.)

(b) Credit risk (cont)

(ii) Maximum exposure to credit risk

The Company's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements is the carrying amount of financial assets held

	2009 Carrying value $000	2008 Carrying value $000
Cash and cash equivalents	2,739	1,439
Reinsurance recoveries receivable	2,513	1,190
Outstanding premiums and trade receivables	3,053	2,417
Unsettled investments sale	346	847
Other trade and receivables	-	301
Intercompany receivable	2,300	373
Fixed Interest securities	421,693	414,092
Government securities	-	4,055
Derivative financial asset	46,045	369
Loans receivable	32,140	31,913
	510,829	456,996

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

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

Credit Exposure by credit rating	$000	$000
AAA	21,099	4,000
AA	296,671	399,739
A	149,969	43,588
BBB	2,739	0
Below BBB	-	0
Total counterparties with external credit rating by Standard and Poor's.	470,478	447,327

For exposures with no credit rating, the financial assets can be classified in the following group:

Group 1	3,399	3,275
Group 1A	2,300	301
Group 2	-	-
Group 2A	-	-
Group 3	-	-
Group 4	5,934	7,240
Other assets with no credit rating.	11,633	10,816
Total assets	482,111	458,143

Group 1 - trade debtors (less than 6 months old)
Group 2 - trade debtors (more than 6 months with no defaults in the past)
Group 3 - trade debtors (more than 6 months) with some defaults in the past. All defaults were fully recovered
Group 4 (with no external credit rating)

Group 1A - intercompany receivables (less than 6 months old)
Group 2A - intercompany receivables (more than 6 months with no defaults in the past)

(iv) Financial assets that would otherwise be past due whose terms have been renegotiated
None of the financial assets that are fully performing have been renegotiated in the past year.

18. Risk management and financial instrument information (cont.)

(b) Credit risk (cont)

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

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

	Past due but not impaired				
	Less than 31 days	31 to 60 days	61 to 90 days	over 90 days	Total
As at 30 September 2009	$000	$000	$000	$000	$000
Reinsurance recoveries receivable	968	132	416	997	2,513
Loans on policies	-	-	-	26,206	26,206
Total	**968**	**132**	**416**	**27,203**	**28,719**
As at 30 September 2008					
Reinsurance recoveries receivable	968	-	-	222	1,190
Loans on policies	-	223	64	31,626	31,913
Total	**968**	**223**	**64**	**31,848**	**33,103**

(vi) Financial assets that are individually impaired

There were no assets that were individually impaired.

Outstanding premiums are covered by the underlying assets invested. When outstanding premiums reach a predetermined percentage of the value of the assets invested, the assets are realised and offset against the outstanding debt. Assets invested relate to investments in fixed interest, equities and unit linked funds.

(c) Financing and liquidity risk

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

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

TOWER LIFE (N.Z) LIMITED
STATEMENT OF ACCOUNTING POLICIES
For the year ended 30 September 2009

18. Risk management and financial instrument information (cont.)

(c) Financing and liquidity risk

(i) Financial liabilities by contractual maturity

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

The following contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

As at 30 September 2009

	Carrying value	Contractual cash flows *	less than one year	one to two years	two to three years	three to four years	four to five years	over five years	No maturity	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Liabilities										
Reinsurance payable	2,519	2,519	2,519	-	-	-	-	-	-	2,519
Unsettled investment purchases	248	248	248	-	-	-	-	-	-	248
Life investment contract liabilities	32,651	-	-	-	-	-	-	-	32,651	32,651
FuturePlan Debenture	22,745	22,745	22,745	-	-	-	-	-	-	22,745
Intercompany payables	3,733	3,733	3,733	-	-	-	-	-	-	3,733
Derivative financial Liabilities	20,634	38,213	(3,613)	628	2,533	3,265	3,436	31,964	-	38,213
Other payables	2,911	2,911	2,911	-	-	-	-	-	-	2,911
Total Liabilities	85,441	70,369	28,543	628	2,533	3,265	3,436	31,964	32,651	103,020

As at 30 September 2008

	Carrying value	Contractual cash flows *	less than one year	one to two years	two to three years	three to four years	four to five years	over five years	No maturity	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Liabilities										
Reinsurance payable	1,801	1,801	1,801	-	-	-	-	-	-	1,801
Unsettled investment purchases	306	306	306	-	-	-	-	-	-	306
Life investment contract liabilities	35,084	-	-	-	-	-	-	-	35,084	35,084
FuturePlan Debenture	21,457	21,457	21,457	-	-	-	-	-	-	21,457
Derivative financial Liabilities	5,782	5,872	5,872	-	-	-	-	-	-	5,872
Intercompany payables	6,083	6,083	6,083	-	-	-	-	-	-	6,083
Other payables	1,897	1,897	1,897	-	-	-	-	-	-	1,897
Total Liabilities	72,410	37,416	37,416	-	-	-	-	-	35,084	72,500

18. Risk management and financial instrument information (cont.)

(d) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial instruments traded in active markets are based on quoted market prices at balance date. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The valuation techniques used to value life investment contract liabilities are described in note 17. Refer below for details of valuation methods used for each remaining category of financial assets and liabilities.

The carrying amounts of all financial assets and liabilities reasonably approximate their fair values.

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

(i) Cash and cash equivalents
The carrying amount of cash and cash equivalents reasonably approximates its fair values.

(ii) Financial assets at fair value through profit or loss and available for sale

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

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

(iv) Derivative financial liabilities and assets
The fair value of derivative financial liabilities and assets is determined by the reference to the quoted market price of derivatives with similar maturity dates as at balance date, refer to part (e).

(e) Derivative financial instruments

Derivative financial instruments used include interest rate swaps and foreign exchange forward contracts.

18. Risk management and financial instrument information (cont.)

(e) Derivative financial instruments (cont.)

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

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

	Average contracted fixed interest		Notional principal amount		Fair value	
Outstanding Interest rate Swap contracts to Receive fixed pay floating rates	**2009 %**	**2008 %**	**2009 $000**	**2008 $000**	**2009 $000**	**2008 $000**
Less than 1 year	8.32%	0.00%	4,000	-	106	-
1 to 2 years	0.00%	8.32%	-	4,000	-	75
2 to 5 years	7.45%	7.05%	9,400	1,500	952	14
over 5 years	6.77%	7.51%	515,750	433,650	19,706	37,717
			529,150	**439,150**	**20,764**	**37,806**

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

The fair value of interest rate swaps is included within fixed interest securities in Note 9.

	Total contractual cash flows $000	Less than one year $000	One to two years $000	Two to five years $000	Over five years $000
As at 30 September 2009					
Forward foreign exchange contracts					
Outflow	65,371	65,371	-	-	-
Inflow	70,017	70,017	-	-	-
As at 30 September 2008					
Forward foreign exchange contracts					
Outflow	87,309	87,309	-	-	-
Inflow	81,806	81,806	-	-	-

18. Risk management and financial instrument information (cont.)

(f) Sensitivity analysis

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

(i) Interest rate

The impact of a 50 basis point change (2008: 100 basis point) in New Zealand and International rates on the Company profit after tax is as below. The sensitivity analysis should assume changes in interest rates only. All other variables are held constant.

	2009 Impact on		2008 Impact on	
	profit after tax	*equity*	*profit after tax*	*equity*
	$000	$000	$000	$000
Change in variables				
+50 basis points	(1,190)	(1,190)	(1,655)	(1,655)
-50 basis points	1,190	1,190	1,655	1,655

This analysis assumes that the sensitivity applies to the closing market yields of fixed interest investments. A parallel shift in the yield curve is assumed. The dollar impact of the change in interest rates is estimated by reference to the average duration of the investment assets.

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

The impact of changes in market interest rates presented in (i) above excludes life insurance contract liabilities, which are also affected by the changes in market interest rates that determine the discount rates applicable to these contracts. The table below provides a sensitivity analysis in respect of changes in interest rates (2008: 100 basis point) as applied to life insurance contract liabilities. A combined effect is necessary to appreciate the sensitivity of the Company's profit to movements in interest rates.

	2009 Impact on		2008 Impact on	
	profit after tax	*equity*	*profit after tax*	*equity*
	$000	$000	$000	$000
Change in variables				
+50 basis points	660	660	1,360	1,360
-50 basis points	(668)	(668)	(1,508)	(1,508)

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

18. Risk management and financial instrument information (cont.)

(f) Sensitivity analysis (cont.)

(ii) Foreign currency

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

	2009		2008	
	Impact on		*Impact on*	
	profit after tax	*equity*	*profit after tax*	*equity*
	$000	$000	$000	$000
Change in variables				
10% appreciation of New Zealand dollar	(179)	(179)	(65)	(65)
10% depreciation of New Zealand dollar	179	179	65	65

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

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

(iii) Equity price

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

The table below demonstrates the impact of a 10% movement in New Zealand and international equities on the profit after tax and equity of the Company. The potential impact is assumed as at the reporting date. The analysis below excludes investment linked business, which is disclosed in note 27. Investment linked business can be excluded because any asset movement will flow through to the policyholder.

	2009		2008	
	Impact on		*Impact on*	
	profit after tax	*equity*	*profit after tax*	*equity*
	$000	$000	$000	$000
Change in variables				
+10% in New Zealand equities	100	100	29	29
-10% in New Zealand equities	(100)	(100)	(29)	(29)

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

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

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

(iv) Other price

Other price sensitivity includes sensitivity to unit price fluctuations. The unit price risk is the risk that the fair value of investments in property fund units will decrease as a result of changes in the value of these units. The Company holds all of its investments in property securities at fair value through profit or loss.

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

	2009		2008	
	Impact on		*Impact on*	
	profit after tax	*equity*	*profit after tax*	*equity*
	$000	$000	$000	$000
Change in variables				
+10% property funds	803	803	256	256
-10% property funds	(803)	(803)	(256)	(256)
+10% in International equities	366	366	154	154
-10% in International equities	(366)	(366)	(154)	(154)

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

19. Financial instruments by category

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

	30 September 2009				
	Total	Loans and Receivables	Held to maturity	Fair value through profit or loss	
				Designated	Held for trading
	$000	$000	$000	$000	$000
Assets					
Cash and cash equivalents	**2,739**	2,739	-	-	-
Reinsurance recoveries receivable	**2,513**	2,513	-	-	-
Outstanding premiums and trade receivables	**3,053**	3,053	-	-	-
Unsettled investments sale	**346**	346	-	-	-
Related party receivable	**2,300**	2,300	-	-	-
Derivative financial assets	**46,045**	-	-	-	46,045
Investment in listed equity securities	**204,462**	-	-	204,462	-
Fixed interest securities	**453,833**	-	-	453,833	-
Property securities	**71,363**	-	-	71,363	-
Total financial assets	**786,654**	10,951	-	729,658	46,045

	30 September 2008				
	Total	Loans and Receivables	Held to maturity	Fair value through profit or loss	
				Designated	Held for trading
	$000	$000	$000	$000	$000
Assets					
Cash and cash equivalents	**1,439**	1,439	-	-	-
Reinsurance recoveries receivable	**1,190**	1,190	-	-	-
Outstanding premiums and trade receivables	**2,718**	2,718	-	-	-
Unsettled investments sale	**847**	847	-	-	-
Derivative financial assets	**369**	-	-	-	369
Investment in listed equity securities	**223,557**	-	-	223,557	-
Fixed interest securities	**481,287**	-	-	481,287	-
Property securities	**81,003**	-	-	81,003	-
Total financial assets	**792,410**	6,194	-	785,847	369

	30 September 2009			
		Fair value through profit or loss		Financial liabilities
	Total	Designated	Held for trading	at amortised cost
	$000	$000	$000	$000
Liabilities				
Reinsurance payables	**2,519**	-	-	2,519
Unsettled investment purchases	**248**	-	-	248
Intercompany payables	**3,733**	-	-	3,733
Other payables	**2,911**	-	-	2,911
Derivative financial liabilities	**20,634**	-	20,634	-
Life investment contract liabilities	**32,651**	-	32,651	-
FuturePlan Debenture	**22,745**	-	-	22,745
Total financial instruments	**85,442**	-	53,285	32,156

	30 September 2008			
		Fair value through profit or loss		Financial liabilities
	Total	Designated	Held for trading	at amortised cost
	$000	$000	$000	$000
Liabilities				
Reinsurance payables	**1,801**	-	-	1,801
Unsettled investment purchases	**306**	-	-	306
Other payables (unclaimed monies)	**1,897**	-	-	1,897
Other payables	**1,957**	-		1,957
Related party payables	**6,083**	-	-	6,083
Other (Derivative financial liability)	**5,872**	-	5,872	-
Life investment contract liabilities	**35,084**	-	-	35,084
FuturePlan Debenture	**21,457**	-	-	21,457
Total financial instruments	**74,457**	-	5,872	68,585

20. Capital risk management

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

The Company's capital resources are made up of ordinary equity.

	2009 $000	2008 $000
TOWER Life (NZ) Limted shareholder equity	30,246	26,304
Total capital resources	**30,246**	**26,304**

The Company measures the adequacy of its capital against published capital standards. Refer to Note 17 (c): Solvency requirements of life funds. The Company's capital management strategy is incorporated within the TOWER Limited Group's capital management strategy which, in turn, forms part of the Group's broader strategic planning process overseeen by the Group Audit and Compliance Committee.

21. Cash and cash equivalents

	2009 $000	2008 $000
Cash at bank and in hand	2,739	1,439
Total cash and cash equivalents	**2,739**	**1,439**

22. Reconciliation of profit for the period to net cash flows from operating activities

Profit attributable to shareholders	3,942	6,855
Add/(less) non cash items		
Change in life insurance and life investment contract liabilities	(24,204)	(30,417)
Unrealised loss on investments	8,662	34,846
Decrease in deferred tax	2,347	(27,536)
	(13,195)	(23,107)
Add/(less) movements in working capital relating to operating activities		
Decrease/(increase) in receivables	(3,810)	542
Increase in payables	3,666	399
Related party movement	-	105
Decrease in taxation	2,353	12,797
	2,209	13,843
Net cash outflows from operating activities	**(7,044)**	**(2,409)**

23. Contingent liabilities

The Company had no material contingent liabilities at balance date (2008: nil)

24. Capital commitments

The Company had no material capital commitments at balance date (2008: nil)

25. Transactions with related parties

The Company is a wholly owned subsidiary of TOWER Managed Funds Limited. The ultimate owner of TOWER Managed Funds Limited is TOWER Limited.

	2009	2008
(a) Related party transactions during the year -	**$000**	**$000**
TOWER Managed Funds Limited		
Company	(9,776)	(9,114)
Dividend paid	-	(13,947)

26. Guaranteed returns on funds invested – life insurance companies

The Company guarantees capital contributed by policyholders together with any declared dividends for the following funds. At balance date the net assets of these funds were:

	2009 $000	2008 $000
Capital Preservation Fund	29,123	30,764
Capital Protected Plan	8,462	9,295
VITAL	1,642	1,713
Total	39,227	41,772

27. Investment linked and non-investment linked business

	Investment linked 2009 $000	Non-investment linked 2009 $000	Investment linked 2008 $000	Non-investment linked 2008 $000
Investment assets	32,651	752,882	35,084	772,677
Policyholder liabilities	(32,651)	(693,705)	(35,084)	(715,476)
Other liabilities	-	(28,932)	-	(30,897)
Net assets	-	30,245	-	26,304
Retained earnings	-	(20,245)	-	(16,304)
Net premium income	-	23,534	-	24,698
Investment income	317	28,601	(5,711)	13,714
Net claims expense	-	(50,464)	-	(54,709)
Other operating expenses	(296)	(11,448)	(467)	(10,321)
Change in policyholder liabilities	117	18,290	4,816	17,633
Profit/(loss) before taxation	**138**	**8,513**	**(1,362)**	**(8,985)**
Taxation credit/(expense)	77	(4,786)	1,666	15,536
Profit after taxation	**215**	**3,727**	**304**	**6,551**

28. Impact of amended NZ IFRS

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 October 2008 or later periods, but the Company has not early adopted them:

-NZ IFRS 8, 'Operating segments ' (effective from 1 January 2009). NZ IFRS 8 replaces NZ IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Following a recent revision to NZ IFRS8, the standard no longer applies to the Company.

- NZ IAS 1 (Amendment), 'Presentation of financial statements' (effective for annual periods beginning on or after 1 January 2009). The revised NZ IAS 1 requires an entity to present all owner changes in equity, separately from non-owner changes in equity, in a statement of changes in equity.

All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or two statements (an income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity.The Company will apply the revised standard from 1 October 2009. This is not expected to have a material impact on the Company.

- NZ IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classifed as debt subsequently re-measured thorugh the income statement.

There is a choice on an acquisiton-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply NZ IFRS 3 (Revised) prospectively to all business combinations from 1 October 2009.

29. Subsequent events

There were no events subsequent to balance date that require adjustment or disclosure within the financial statement.

PRICEWATERHOUSECOOPERS

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Auditors' Report
to the shareholders of TOWER Life (N.Z.) Limited

We have audited the financial statements on pages 3 to 38. The financial statements provide information about the past financial performance and cash flows of the Company for the year ended 30 September 2009 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 7 to 13.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company as at 30 September 2009 and its financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company other than in our capacities as auditors and providers of other assurance and advisory services.

PRICEWATERHOUSECOOPERS

Auditors' Report
TOWER Life (N.Z.) Limited

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(b) the financial statements on pages 3 to 38:

  (i) comply with generally accepted accounting practice in New Zealand;

  (ii) comply with International Financial Reporting Standards; and

  (iii) give a true and fair view of the financial position of the Company as at 30 September 2009 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 21 December 2009 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants Wellington