10059960182

TOWER

TOWER LIFE (N.Z.) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2010

TOWER LIFE (N.Z.) LIMITED
FINANCIAL STATEMENTS
For the year ended 30 September 2010

Table of Contents

TOWER LIFE (N.Z.) LIMITED
DIRECTORS' REPORT
For the year ended 30 September 2010

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 2010.

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 40 for issue on 23 December 2010.

For and on behalf of the board:

Director

Director

TOWER LIFE (N.Z.) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 September 2010

	Note	2010 $000	2009 $000
Premium revenue from insurance contracts	3	31,193	31,720
Less: Outwards reinsurance expense	3	(10,205)	(8,186)
Net premium revenue	3	20,988	23,534
Investment revenue	4	118,083	30,206
Net operating revenue		**139,071**	**53,740**
Claims expense	5	61,541	56,246
Less: Reinsurance recoveries revenue	5	(7,408)	(5,782)
Net claims expense	5	54,133	50,464
Change in life insurance contract liabilities	17	25,740	(18,290)
Change in life investment contract liabilities	17	2,167	(117)
Policy maintenance costs - life insurance contracts	6a	10,332	11,437
Policy maintenance costs - life investment contracts	6b	206	307
FuturePlan debenture finance costs		2,275	1,288
Net claims and operating expenses		**94,853**	**45,089**
Financing costs			
Interest expense	6c	7,850	-
Profit before taxation		**36,368**	**8,651**
Income tax expense	7	31,610	4,709
Profit from operations		**4,758**	**3,942**
Total profit and comprehensive income for the year attributed to shareholders		**4,758**	**3,942**

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

TOWER LIFE (N.Z.) LIMITED
BALANCE SHEET
As at 30 September 2010

	Note	2010 $000	2009 $000
Assets			
Cash and cash equivalents	21	13,617	2,739
Trade and other receivables	8	32,088	32,626
Financial assets at fair value through profit or loss	9	655,396	697,518
Derivative financial assets	19	63,019	46,045
Intercompany receivables	13	2,649	3,732
Prepaid tax asset	7	23,476	34,700
Policyholder loans		5,610	5,866
Assets arising from reinsurance contracts	17	10,716	9,116
Deferred tax asset	7	21	17,629
Total assets		**806,592**	**849,971**
Liabilities			
Trade and other payables	11	10,621	8,487
Intercompany payables	14	31,077	3,733
Derivative financial liabilities	19	1,652	20,634
Provisions	12	181	-
Other liabilities	12	-	22,745
Taxation payable		2,212	28,654
Deferred tax liability	7	3,806	-
Life insurance contract liabilities	17	699,504	702,821
Life investment contract liabilities	17	31,759	32,651
Total liabilities		**780,812**	**819,725**
Net assets		**25,780**	**30,246**
Equity			
Contributed equity	15	10,000	10,000
Retained earnings	16	15,780	20,246
Total equity		**25,780**	**30,246**

The Directors authorised these financial statements for issue on 23 December 2010.

Director

Director

TOWER LIFE (N.Z.) LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2010

	Attributed to shareholders		
	Share capital $000	Retained earnings $000	Total $000
Year ended 30 September 2010			
At the beginning of the year	10,000	20,246	30,246
Comprehensive income			
Profit for the year	-	4,758	4,758
Total comprehensive income	-	4,758	4,758
Transactions with shareholders			
Dividends paid	-	(9,224)	(9,224)
Total transactions with shareholders	-	(9,224)	(9,224)
At the end of the year	10,000	15,780	25,780
Year ended 30 September 2009			
At the beginning of the year	10,000	16,304	26,304
Comprehensive income			
Profit for the year	-	3,942	3,942
Total comprehensive income	-	3,942	3,942
Transactions with shareholders			
Dividends paid	-	-	-
Total transactions with shareholders	-	-	-
At the end of the year	10,000	20,246	30,246

The 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 2010

	Note	2010 $000	2009 $000
Cash flows from operating activities			
Premium revenue		33,715	44,683
Reinsurance revenue		5,518	4,459
Interest received		58,389	32,521
Dividends received		2,194	3,855
Investment income		(1,427)	-
Payments to policyholders		(93,493)	(75,640)
Reinsurance payments		(10,762)	(7,373)
Payments to suppliers and employees		(6,300)	(9,549)
Interest paid		(7,850)	-
Net cash outflow from operating activities	21	**(20,016)**	**(7,044)**
Cash flows from investing activities			
Net (purchase) / sale of investments		65,139	8,344
Net cash inflow from investing activities[1]		**65,139**	**8,344**
Cash flows from financing activities			
Repayment of Futureplan debenture		(25,021)	-
Payment of dividends		(9,224)	-
Net cash (outflow)/inflow from financing activities		**(34,245)**	**-**
Net increase in cash and cash equivalents		**10,878**	**1,300**
Cash and cash equivalents at beginning of year		2,739	1,439
Cash and cash equivalents at end of year		**13,617**	**2,739**

[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.

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 23 December 2010.
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 financial report has been prepared in accordance with the New Zealand Companies Act 1993 and the Financial Reporting Act 1993.

The principal activity of TOWER Life (N.Z.) Ltd is the provision of life insurance. The Company operates in New Zealand. The financial report of the Company has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). It complies with New Zealand Equivalents to International Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for profit-oriented entities.

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

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

PRINCIPLES 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 a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked, or only partly linked, to the market value of the investments held by the life insurer, and the financial risks are substantially borne by the life insurer. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

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

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

PRICEWATERHOUSECOOPERS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)
PRINCIPLES UNDERLYING CONDUCT OF LIFE INSURANCE BUSINESS (cont.)

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) Fee and other revenue

Fee revenue on investment contracts and other services provided by the Company is recognised in the period the services are provided.

(c) Investment revenue

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

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 statement of comprehensive income.

(d) Claims expense

Life insurance contracts

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

Life investment contracts

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

SPECIFIC ACCOUNTING POLICIES (cont.)

(e) 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.

(ii) Expenses directly attributable to the participating and non–participating classes of business are apportioned based on appropriate cost drivers.

(iii) Commission expenses that cannot be allocated to a class of business, for example volume bonuses, are apportioned on the basis of new business and renewal commissions of each class, allowing for limits implied by the basis of adviser remuneration.

(iv) Investment expenses are apportioned to the classes of business on the mean balance of assets under management.

(v) Other expenses that cannot be allocated to a particular class of business are apportioned to the classes of business based on appropriate cost drivers, including number of new policies issued and related premiums, number of new units issued, mean balances of assets under management, average number of policies in-force and time and activity based allocations.

(f) Policy acquisition costs
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 statement of comprehensive income.

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.

(g) 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 statement of comprehensive income over the period of indemnity of the reinsurance contract.

(h) Financing costs
Financing costs include interest on internal and external debt (borrowing costs).

(i) Taxation

Current taxation
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at the 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 assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted for each jurisdiction. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Tax consolidation

The Company is part of the TOWER tax consolidated group of which TOWER Limited is the head entity. All members of the tax consolidated group are jointly and severally liable for the tax liabilities of the Group.

Income tax expense

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

GST

All revenues, expenses and certain assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

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

(j) Foreign currency

Functional and presentation 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 Company 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 statement of comprehensive income.

(k) 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.

(l) Receivables

Receivables including policyholder loans, 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.

PRICEWATERHOUSECOOPERS

SPECIFIC ACCOUNTING POLICIES (cont.)

(m) 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 TOWER Limited 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 measured at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as follows:

- Cash assets and bank overdrafts are carried at face value which approximates fair value;
- Shares, fixed interest securities, options and units in trusts listed on stock exchanges are valued at the quoted bid price of the instrument at balance 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 redemption prices; and
- Receivables are carried at book value, which is the best estimate of fair value, as they are settled within a short period.

(n) Derivative and other financial instruments

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

All purchases and sales of financial assets 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 receivables are recognised at settlement date, which is the date that the assets are delivered or received.

(i) Loans and receivables

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

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

Financial assets at fair value through profit or loss comprise of financial assets that are either held for trading or designated on initial recognition at fair value through profit or loss. A financial asset is 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 statement of comprehensive income. The net gain or loss recognised in the statement of comprehensive income 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.

(iii) Fair value

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

SPECIFIC ACCOUNTING POLICIES (cont.)

(o) 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 statement of comprehensive income.

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

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

(p) 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.

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

(r) Employee entitlements
Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, annual leave and long service leave, but excludes share-based payments. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided up to the balance date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities which have terms to maturity approximating the terms of the related liability.

SPECIFIC ACCOUNTING POLICIES (cont.)

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

(t) 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 statement of comprehensive income. 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 basis.

(u) 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 statement of comprehensive income 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.

(v) Contributed equity
Ordinary shares are classified as equity and are recognised at fair value less direct issue costs.

(w) Code of conduct disclosure – Chief Actuary
TOWER's Chief Actuary's remuneration includes bonuses that are, in part, dependent upon the reported profits of the Company. The policy liabilities that are assessed by him therefore impact his total remuneration.

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

PRICEWATERHOUSECOOPERS

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.

	2010 $000	2009 $000
3. Premium revenue		
Life insurance premiums	34,322	41,161
Life investment premiums	469	530
Total life premium revenue	34,791	41,691
Less deposits recognised as an increase in policy liabilities	(3,598)	(9,971)
Life insurance premiums recognised as revenue	31,193	31,720
Less reinsurance ceded	(10,205)	(8,186)
Total net premium revenue	20,988	23,534
4. Investment revenue		
Fixed interest securities [1]		
Interest income	19,776	26,026
Net realised gain	898	5,146
Net unrealised gain	825	1,386
	21,499	32,558
Equity securities [1]		
Dividend income	2,194	3,728
Net realised loss	(1,817)	(20,089)
Net unrealised gain	16,182	2,946
	16,559	(13,415)
Property securities [1]		
Property income	2,010	2,033
Net realised gain	6	590
Net unrealised gain/(loss)	3,679	(10,102)
	5,695	(7,479)
Other		
Other investment income	8,987	2,601
Net realised gain	28,641	25,077
Net unrealised gain/(loss)	36,702	(9,138)
	74,330	18,540
Total investment revenue		
Total investment revenue	32,967	34,388
Total net realised gain	27,728	10,726
Total net unrealised gain/(loss)	57,388	(14,908)
	118,083	30,206

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

TOWER LIFE (N.Z.) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 September 2010

	2010 $000	2009 $000
5. Claims expense		
Life insurance claims	95,328	69,169
Life investment contract payments	3,527	2,846
Total life claims and payments	98,855	72,015
Less withdrawals recognised as a decrease in policy liabilities	(37,314)	(15,769)
Life insurance claims recognised as expense	61,541	56,246
Less reinsurance proceeds received	(7,408)	(5,782)
Total net claims expense	54,133	50,464

	2010 $000	2009 $000
6. Other expenses		
(a) Life insurance contracts		
Policy acquisition costs:		
Commission	-	-
Policy maintenance costs:		
Commission	2,351	1,720
Other maintenance costs	7,525	9,182
Investment management expenses	456	535
Total policy maintenance costs-life insurance contracts	10,332	11,437
Total life insurance expenses	10,332	11,437
(b) Life investment contracts		
Policy maintenance costs:		
Commission	16	21
Other maintenance costs	190	286
Total life investment expenses	206	307
Total underwriting expenses	10,538	11,744
(c) Financing costs		
Interest expense	7,850	-
Total financing costs	7,850	-

Interest of $7,850,000 has been incurred by TOWER Life (N.Z.) Limited in respect of tax losses generated by other members of the TOWER tax consolidated group used by TOWER Life (N.Z.) Limited for which payments have been outstanding. The interest was calculated using the average return on TOWER Life (N.Z.) Limited's assets for the relevant period.

Other expenses
Included in total management and sales expenses are the following:
Fees paid to auditors PricewaterhouseCoopers:

	2010	2009
Audit of financial statements	-	72

No audit fees were paid by TOWER Life (N.Z.) Limited to its auditors during the year (2009: $72,000). TOWER New Zealand Limited paid all fees for audit services provided to TOWER Life (N.Z.) Limited for the year ended 30 September 2010.

PRICEWATERHOUSECOOPERS

	2010 $000	2009 $000
7. Taxation		
(a) Analysis of taxation expense - current and deferred		
Current taxation	31,610	8,515
Deferred taxation	-	(3,806)
Income tax expense for year	**31,610**	**4,709**
Income tax expense attributed to policyholders	25,700	3,764
Income tax expense attributed to shareholders	5,910	945
	31,610	4,709
The tax expense recognised can be reconciled to the accounting (loss)/profit as		
Profit before taxation		
Continuing operations	36,368	8,651
Income tax at the current rate of 30% (2009: 30%)	10,910	2,595
Taxation effect of:		
Life insurance companies permanent differences	19,468	3,252
Recognition of prior period current tax	1,311	(2)
Non deductible losses/(income) from PIEs	(1,221)	4,570
Benefit of imputation credits received	(364)	(358)
Deduction available on redemption of FuturePlan Debenture	(2,656)	-
Write down of prepaid tax	4,590	-
Non taxable release of provision		(5,351)
Other	(428)	3
Taxation expense	31,610	4,709

Certain life insurance policies issued prior to 1 July 2010 are not taxable on accounting profits, but instead on a formula pursuant to the Income Tax Act 2007. The life insurance companies permanent differences represent the amount of accounting (profit)/loss reported in the period which is not (taxable)/deductible.

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

In May 2010, legislation was passed to reduce the company tax rate from 30% to 28%. This is effective for the Group from 1 October 2011. There is no financial impact on the Company in the current period.

(b) Prepaid tax assets

A prepaid tax asset of $23,476,000 (2009: $34,700,000) is recognised in the financial statements of the Company as at 30 September 2010. The Company prepaid tax asset balance recognised is after the amount expected to be utilised to meet the Company's tax liabilities and a write-down of $4,590,000 to ensure that the balance reflects the amount expected to be recovered.

7. Taxation (cont.)

(c) Deferred tax assets and liabilities

2010	Opening balance $000	Intercompany Transfer $000	Charged/ (credited) to profit and loss $000	Charged to equity $000	Closing balance $000
Movements in deferred taxation assets					
Provisions and accruals	102	-	(81)	-	21
Unrealised losses	17,527	-	(17,527)	-	-
Total deferred tax assets	17,629	-	(17,608)	-	21
Movements in deferred taxation liabilities					
Provisions and accruals	-	-	-	-	-
Unrealised gains	-	-	3,806	-	3,806
Total deferred tax liabilities	-	-	3,806	-	3,806
Net deferred tax	17,629	-	(21,414)	-	(3,785)

2009	Opening balance $000	Intercompany Transfer $000	Charged/ (credited) to profit and loss $000	Charged to equity $000	Closing balance $000
Movements in deferred taxation assets					
Provisions and accruals	80	-	22	-	102
Unrealised losses	19,848	-	(2,321)	-	17,527
Total deferred tax assets	19,928	-	(2,299)	-	17,629
Movements in deferred taxation liabilities					
Provisions and accruals	-	-	-	-	-
Unrealised losses	-	-	-	-	-
Total deferred tax liabilities	-	-	-	-	-
Net deferred tax	19,928	-	(2,299)	-	17,629

(d) Imputation credit account

TOWER Limited, the ultimate parent company of TOWER Life (N.Z.) Limited, holds an imputation credit account as the representative member of the TOWER consolidated tax group to which TOWER Life (N.Z.) Limited belongs.

(e) Policyholder credit account

The Policyholder Credit Account enables TOWER Life (N.Z.) Limited to satisfy the income tax liability on policyholder income for the year, which is disclosed in the TOWER Limited Group Financial Statements. The Taxation (International Taxation, Life Insurance and Remedial Matters) Act 2009 was passed on 6 October 2009 which has resulted in the cessation of the policyholder credit account as at 30 June 2010.

	2010 $000	2009 $000
8. Trade and other receivables		
Outstanding premiums and trade receivables	26,503	29,480
Reinsurance recoveries receivable	4,404	2,513
Other receivables	1,181	633
Total receivables	**32,088**	**32,626**
Analysed as:		
Current	32,088	32,626
	32,088	32,626

	2010 $000	2009 $000
9. Financial assets at fair value through profit or loss		
Fixed interest securities		
Government securities	23,002	21,099
Local authority securities	99,191	36,803
Other fixed interest securities & short term deposits	240,154	363,791
Total fixed interest securities	**362,347**	**421,693**
Equity securities		
Investments in equities	48,063	50,030
Multi currency unit trusts	168,651	154,432
Total equity securities	**216,714**	**204,462**
Property securities		
Property trusts	76,335	71,363
Total investment in property	**76,335**	**71,363**
Total financial assets at fair value through profit or loss	**655,396**	**697,518**

10. Investment in subsidiaries

The Company had a 100% interest in TOWER Bourke Street Limited which has a balance date of 30 September and is incorporated in New Zealand. During the 2010 financial year, TOWER Bourke Street was amalgamated with TOWER Financial Services Group Limited. TOWER Bourke Street is non-trading and had been fully impaired prior to amalgamation.

	2010 $000	2009 $000
11. Trade and other payables		
Trade payables	4,193	5,033
Accrued investment purchases	480	248
Outstanding claims – life and other	5,948	3,206
Total payables	**10,621**	**8,487**
Analysed as:		
Current	10,621	8,487
Non-current	-	-
	10,621	8,487

PRICEWATERHOUSECOOPERS

	2010 $000	2009 $000
12. Other liabilities and provisions		
Employee provisions	181	-
FuturePlan Debenture	-	22,745
	181	22,745
Analysed as:		
Current	181	-
Non-current	-	22,745
	-	22,745

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

	2010	2009
Employee provisions		
Opening balance at 1 October	-	-
Additions	181	-
Closing balance at 30 September	181	-
FuturePlan Debenture		
Opening balance at 1 October	22,745	21,457
Additions	-	1,288
Withdrawals	(22,745)	-
Closing balance at 30 September	-	22,745

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

13. Intercompany receivables	2010 $000	2009 $000
TOWER Managed Funds Limited	11	-
TOWER Financial Services Group Limited	-	1,432
TOWER New Zealand Limited	-	2,300
TOWER Insurance Limited	2,638	-
	2,649	3,732

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	2010 $000	2009 $000
TOWER Asset Management Limited	1,709	597
TOWER Managed Funds Limited	638	1,278
TOWER Managed Funds Investments Limited	549	549
TOWER Medical Insurance Limited	1,376	-
TOWER New Zealand Limited	3,372	-
TOWER Limited	4,691	-
TOWER Health and Life Limited	11,735	-
TOWER Financial Services Group Limited	7,007	1,309
	31,077	3,733

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

	2010 $000	2009 $000
Ordinary share capital		
Fully paid	10,000	10,000

	2010 Number of shares	2009 Number of shares
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.

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

PRICEWATERHOUSECOOPERS

	2010 $000	2009 $000
16. Retained earnings		
Opening balance at 1 October	20,246	16,304
Net profit for the year	4,758	3,942
Dividends paid	(9,224)	-
Closing balance at 30 September	15,780	20,246

17. Life insurance business

(a) Policyholder liabilities

	2010 $000	2009 $000
Life insurance contract liabilities		
Value of policy liabilities – Projection Method		
Future policy benefits	496,723	495,181
Future bonuses	167,558	148,893
Future expenses	46,525	48,783
Future profit margins	43,168	38,986
Future premiums	(106,912)	(110,406)
	647,062	621,437
Value of policy liabilities – Accumulation Method		
Future policy benefits	16,858	47,486
	16,858	47,486
Unvested policyholder benefits	24,867	24,782
Net policyholder liabilities - life insurance contracts	**688,787**	**693,705**
Reconciliation of movements in insurance contract policyholder liabilities		
Gross life insurance liabilties at 1 October	702,821	723,011
Acquired insurance contract liablites		
Increase /(decrease) in net life insurance contract liabilities recognised in the statementof comprehensive income	25,740	(18,290)
Increase in liabilities ceded under reinsurance	1,600	1,581
Deposits recognised as an increase in policy liabilities	3,129	9,442
Withdrawals recognised as a decrease in policy liabilities	(33,786)	(12,923)
Gross life insurance liabilities at 30 September	**699,504**	**702,821**
Life investment contract liabilities		
Value of policy liabilities – Accumulation Method		
Future policy benefits	31,759	32,651
Net policyholder liabilities - life investment contracts	**31,759**	**32,651**

	2010 $000	2009 $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	32,651	35,084
Increase/(decrease) in life investment contract liabilities recognised in the statement of comprehensive income	2,167	(117)
Deposits recognised as an increase in policy liabilities	469	530
Withdrawals recognised as a decrease in policy liabilities	(3,528)	(2,846)
Gross life investment contract liabilities at 30 September	31,759	32,651
Total gross policyholder liabilities	731,263	735,472
Liabilities ceded under reinsurance		
At 1 October	(9,116)	(7,535)
Movement in statement of comprehensive income	(1,600)	(1,581)
At 30 September	(10,716)	(9,116)
Net policyholder liabilities - non current	720,547	726,356

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

(b) Analysis of life insurance and life investment contract results

	2010 $000	2009 $000
Life insurance contracts		
Planned profit margins	4,369	4,115
Experience profits/(losses)	206	57
Investment (losses)/earnings on assets in excess of policy liabilities of life companies	(130)	(446)
Operating profit after tax attributable to shareholders arising from the life insurance contracts	4,445	3,726
Life investment contracts		
Planned profit margins	47	200
Experience profits	266	14
Operating profit after tax attributable to shareholders arising from the life investment contracts	313	214

(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 shown below. The shareholder equity retained in the Company exceeds these minimum requirements.

		2010 $000	2009 $000
Solvency requirement	A	758,865	743,636
Represented by:			
Policyholder liabilities		695,680	706,655
Other liabilities		57,272	35,711
Solvency reserve	B	5,913	1,270
Solvency requirement		758,865	743,636
Assets available to meet solvency reserve:	C	50,647	49,945
less solvency reserve	B	5,913	1,270
Excess assets above required		44,734	48,675
Coverage of required solvency reserve	C/B	8.57	39.33

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

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 2010. The Chief Actuary, Eric Judd, BSC, FIAA, FNZSA has calculated policy liabilities for TOWER Life (N.Z.) Limited. The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

This note summarises the assumptions made and the methods adopted for the 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 (N.Z.) 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 projection method)
Traditional participating	Projection	Cost of supportable bonus
Traditional non-participating, renewal and level term and mortgage repayment insurance	Projection	Expected death claims
Annuities	Projection	Expected annuity payments
Individual lump sum life insurance risk (life, temporary and permanent disability and trauma) and disability income protection insurance	Projection	Expected claims
Non-participating investment account	Accumulation	
Investment linked	Accumulation	
Group risk insurances and renewable insurances	Accumulation	

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 2010 — 4.7% from 1/10/2010 to 30/09/2011; 4.9% from 1/10/2011 onward September 2009 — 5.2%
Discount rates for non-participating life insurance contracts	Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on the swap rates, depending on the nature structure and term of the contract liabilities. Discount rates are assumed net of investment management expenses.	The discount rates used are as follows: September 2010 — 3.1% to 3.2% September 2009 — 4.1% to 4.2%
Inflation	Benefit indexation is before allowance for the proportion of policyholders who take up indexation.	Benefit indexation September 2010 — 2.0% September 2009 — 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.	Expense for Annuity has been increased by 19% Expense for traditional business has been reduced by 6%
Rates of taxation	Rates of taxation have been assumed to remain at current levels.	Allowance has been made for the tax rate change from 30% to 28% from 1/10/2011. Also for participating products, underwriting tax has been set to zero to reflect the change in taxtion regime.
Mortality – risk products	Standard mortality tables, primarily NZ97 in New Zealand. These are adjusted for company experience.	None
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.	Minor changes were made to assumed lapse rates in response to recent experience
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.	Future supportable bonus rates for participating benefits have been increased by $0.7 per $1,000 None None

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

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

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

For the year end 30 September 2010

	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				
Mortality and Morbility	198,376	(5,145)	28,868	(5,774)
Discontinuances	513,909	25,086	(168,654)	33,731
Expenses	2,901,184	171,922	(796,843)	159,369
Other	(223,717)	(28,225)	-	-

For the year end 30 September 2009

	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				
Mortality and Morbility	797,314	31,802	(173,508)	34,702
Expenses	333,069	25,643	(110,827)	22,165
Other	(159)	(268)	-	-

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 describes how the change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit or loss and equity net of reinsurance to changes in assumptions.

New Zealand

VARIABLE	MOVEMENT	Change in next financial year's shareholder profit and equity net of reinsurance 2010 $000	2009 $000
Mortality	Adverse movement of 10%	(238,735)	(278,952)
Morbidity Claims Costs	Adverse movement of 10%	(179,805)	(175,320)
Annuitant Mortality	Adverse movement of 10%	(197,009)	(179,130)
Lapses and Surrenders	Adverse movement of 10%	(83,067)	(75,189)
Renewal expenses	Adverse movement of 10%	(289,596)	(296,990)

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 basis 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 staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Group risk insurance policies are underwritten on the merits of an employee group as a whole, subject to certain limits for individual members.

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

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	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 group risk business. The Company uses reinsurance to limit the insurance risk exposure for any one individual. The group risk business unit offers insurance in respect of groups of employees. The 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.

17. Life insurance business (cont.)

(vii) Liquidity risk and future net cash outflows

	less than one year '$000	one to two years '$000	two to three years '$000	three to four years '$000	four to five years '$000	over five years '$000	No maturity '$000	Total '$000
Life insurance contract liabilities								
30 September 2010	38,204	34,574	32,270	29,864	28,356	394,102	-	557,370
30 September 2009	38,526	36,153	32,555	30,110	27,744	368,580	-	533,668

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.

	2010 Carrying value $000	2009 Carrying value $000
New Zealand government	23,002	21,099
Other governments	99,191	36,803
Banks	225,029	378,396
Other non-investment related receivables	33,250	14,585
Other industries	95,820	57,646
Intercompany receivables	2,649	2,300
Total financial assets with significant credit exposure	478,941	510,829

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

	2010 Carrying value $000	2009 Carrying value $000
Cash and cash equivalents	13,617	2,739
Reinsurance recoveries receivable	4,404	2,513
Outstanding premiums and trade receivables	14,706	16,736
Unsettled investments sale	523	346
Intercompany receivable	2,649	2,300
Fixed interest securities	362,347	421,693
Government securities	-	-
Derivative financial asset	63,019	46,045
Loans receivable	3,891	3,698
Interest receivable	13,785	14,759
	478,941	510,829

(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:

	2010 $000	2009 $000
Credit Exposure by credit rating		
AAA	23,002	21,099
AA	279,979	299,412
A	86,451	149,969
BBB	-	-
Below BBB	-	-
Total counterparties with external credit rating by Standard and Poor's.	389,432	470,480

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

	2010	2009
Group 1	4,718	3,620
Group 1A	2,649	2,300
Group 2	24,296	2,014
Group 2A	-	-
Group 3	53,442	3,698
Other assets with no credit rating.	85,105	11,632
Total assets	474,537	482,112

Group 1 - trade debtors (less than 6 months old)
Group 2 - trade debtors (more than 6 months) with some defaults in the past
Group 3 - unrated investments

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.

PRICEWATERHOUSECOOPERS

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 2010	$000	$000	$000	$000	$000
Reinsurance recoveries receivable	823	315	477	2,789	4,404
Total	**823**	**315**	**477**	**2,789**	**4,404**
As at 30 September 2009					
Reinsurance recoveries receivable	968	132	416	997	2,513
Total	**968**	**132**	**416**	**997**	**2,513**

(vi) Financial assets that are individually impaired
There were no assets that were individually impaired.

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

(c) Financing and liquidity risk

Financing and liquidity risk is the risk that the 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.

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 2010

	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	1,962	1,962	1,962	-	-	-	-	-	-	1,962
Unsettled investment purchases	480	480	480	-	-	-	-	-	-	480
Life investment contract liabilities	31,759	31,759	-	-	-	-	-	-	31,759	31,759
FuturePlan debenture	-	-	-	-	-	-	-	-	-	-
Intercompany payables	31,076	31,076	31,076	-	-	-	-	-	-	31,076
Derivative financial liabilities	1,652	4,352	(1,122)	(629)	(289)	(36)	215	6,213	-	4,352
Other payables (specify)	3,341	3,341	3,341	-	-	-	-	-	-	3,341
Total Liabilities	70,270	72,970	35,737	(629)	(289)	(36)	215	6,213	31,759	72,970

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	28,544	628	2,533	3,265	3,436	31,964	32,651	103,020

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

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

(iv) Derivative financial liabilities and assets
The fair value of derivative financial liabilities is determined by the reference to the quoted market price of the underlying equity securities.

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

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

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

		2010		
	Total	Level 1	Level 2	Level 3
	$000	$000	$000	$000
Assets				
Derivative financial assets	63,019	-	63,019	-
Investment in listed equity securities	216,714	48,084	168,630	-
Investments in fixed interest securities	362,347	-	362,347	-
Investments in property securities	76,336	-	76,336	-
Other	-	-	-	-
Total financial assets	718,416	48,084	670,332	-

	Total	Level 1	Level 2	Level 3
	$000	$000	$000	$000
Liabilities				
Derivative financial liabilities	(1,652)	-	(1,652)	-
Life investment contract liabilities	(31,759)	-	(31,759)	-
Total financial liabilities	(33,411)	-	(33,411)	-

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

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

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

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

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

(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:

Outstanding interest rate Swap contracts to Receive fixed pay floating rates	Average contracted fixed interest		Notional principal amount		Fair value	
	2010	2009	2010	2009	2010	2009
	%	%	$000	$000	$000	$000
Less than 1 year	0.00%	8.32%	-	4,000	-	106
1 to 2 years	6.64%	0.00%	3,500	-	134	-
2 to 5 years	7.84%	7.45%	7,900	9,400	1,077	952
over 5 years	6.66%	6.77%	465,750	515,750	60,414	19,706
			477,150	529,150	61,625	20,764

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
As at 30 September 2010		
Forward foreign exchange contracts		
Outflow	87,972	87,972
Inflow	87,714	87,714
As at 30 September 2009		
Forward foreign exchange contracts		
Outflow	65,371	65,371
Inflow	70,017	70,017

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 (2009: 50 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.

	2010 Impact on		2009 Impact on	
	profit after tax	*equity*	*profit after tax*	*equity*
	$000	$000	$000	$000
Change in variables				
+50 basis points	(1,086)	(1,086)	(1,190)	(1,190)
-50 basis points	1,086	1,086	1,190	1,190

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 (2009: 50 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.

	2010 Impact on		2009 Impact on	
	profit after tax	*equity*	*profit after tax*	*equity*
	$000	$000	$000	$000
Change in variables				
+50 basis points	681	681	660	660
-50 basis points	(712)	(712)	(668)	(668)

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.

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

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

The risks assumed and methods used for deriving sensitivity information and significant variables 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 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.

	2010		2009	
	Impact on		*Impact on*	
	profit after tax	*equity*	*profit after tax*	*equity*
	$000	$000	$000	$000
Change in variables				
+10% in New Zealand equities	74	74	100	100
-10% in New Zealand equities	(74)	(74)	(100)	(100)

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.

	2010		2009	
	Impact on		*Impact on*	
	profit after tax	*equity*	*profit after tax*	*equity*
	$000	$000	$000	$000
Change in variables				
+10% property funds	836	836	803	803
-10% property funds	(836)	(836)	(803)	(803)
+10% in international equities	287	287	366	366
-10% in international equities	(287)	(287)	(366)	(366)

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 2010

	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	13,617	13,617	-	-	-
Reinsurance recoveries receivable	4,404	4,404	-	-	-
Outstanding premiums and trade receivables	26,503	26,503	-	-	-
Unsettled investments sale	523	523	-	-	-
Related party receivable	2,649	2,649	-	-	-
Other receivables	366	366	-	-	-
Loans on policy	5,610	5,610	-	-	-
Derivative financial assets	63,019	-	-	-	63,019
Investment in listed equity securities	216,714	-	-	216,714	-
Fixed interest securities	362,347	-	-	362,347	-
Property securities	76,335	-	-	76,335	-
Total financial assets	772,087	53,672	-	655,396	63,019

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	29,480	29,480	-	-	-
Unsettled investments sale	346	346	-	-	-
Related party receivable	2,300	2,300	-	-	-
Loans on policy	5,712	5,712	-	-	-
Derivative financial assets	46,045	-	-	-	46,045
Investment in listed equity securities	204,462	-	-	204,462	-
Fixed interest securities	421,693	-	-	421,693	-
Property securities	71,363	-	-	71,363	-
Total financial assets	786,653	43,090	-	697,518	46,045

30 September 2010

	Total	Fair value through profit or loss		Financial liabilities
		Designated	Held for trading	at amortised cost
	$000	$000	$000	$000
Liabilities				
Reinsurance payables	1,962	-	-	1,962
Unsettled investment purchases	480	-	-	480
Intercompany payables	31,076	-	-	31,076
Other payables	3,341	-	-	3,341
Derivative financial liabilities	1,652	-	1,652	-
Life investment contract liabilities	31,759	31,759	-	-
FuturePlan Debenture	-	-	-	-
Total financial liabilities	70,270	31,759	1,652	36,859

30 September 2009

	Total	Fair value through profit or loss		Financial liabilities
		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 liabilities	85,441	-	53,285	32,156

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.

	2010 $000	2009 $000
TOWER Life (N.Z.) Limited shareholder equity	25,780	30,246
Total capital resources	25,780	30,246

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

(a) Reconciliation of cash at the end of the year	2010 $000	2009 $000
Cash at bank and in hand	13,617	2,739
Total cash and cash equivalents	13,617	2,739

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

	2010	2009
Profit attributable to shareholders	4,758	3,942
Add/(less) non cash items		
Impairment of Assets	57	-
Change in life insurance and life investment contract liabilities	(4,044)	(24,204)
Unrealised (gain)/loss on investments	(56,640)	8,662
Decrease in deferred tax	21,366	2,347
	(39,261)	(13,195)
Add/(less) movements in working capital relating to operating activities		
Decrease/(increase) in receivables	410	(3,810)
Increase in payables	26,969	3,666
(Increase)/decrease in taxation	(15,168)	2,353
	12,211	2,209
Add/(less) other items classified as investing/financing activities		
Loss on repayment of FuturePlan Debenture	2,276	-
	2,276	-
Net cash outflows from operating activities	(20,016)	(7,044)

22. Contingent liabilities
The Company had no material contingent liabilities at balance date (2009: nil)

23. Capital commitments
The Company had no material capital commitments at balance date (2009: nil)

PRICEWATERHOUSECOOPERS

24. Transactions with related parties

The Company is a wholly owned subsidiary of TOWER Health and Life Limited. The ultimate owner of TOWER Health and Life Limited is TOWER Limited. During the year TOWER Life (N.Z.) Limted was sold by TOWER Managed Funds Limited to TOWER Health and Life Limited.

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

Related party	2010 NZ$000	2009 NZ$000	Nature of Relationship	Type of Transactions
TOWER Health and Life Limited	(105)	-	Parent	Operating expenses
TOWER Health and Life Limited	(6,097)	-	Parent	Interest
TOWER Health and Life Limited	(5,532)	-	Parent	Tax loss
TOWER Asset Management Limited	(1,709)	(597)	Fellow subsidiary	Operating expenses
TOWER Managed Funds Limited	(627)	(1,278)	Fellow subsidiary	Operating expenses
TOWER Managed Funds Investments Limited	(549)	(549)	Fellow subsidiary	Operating expenses
TOWER Medical Insurance Limited	(1,376)	-	Fellow subsidiary	Tax losses
TOWER New Zealand Limited	(2,368)	-	Fellow subsidiary	Tax losses
TOWER New Zealand Limited	(920)	2,300	Fellow subsidiary	Loan/Advance
TOWER New Zealand Limited	(84)	-	Fellow subsidiary	Operating expenses
TOWER Limited	(7,504)	-	Ultimate parent	Tax losses
TOWER Limited	2,812	-	Ultimate parent	Interest
TOWER Financial Services Group Limited	(7,007)	123	Parent of TOWER Health & Life	Loan/Advance
TOWER Insurance Limited	2,638	-	Fellow subsidiary	Tax gains

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

Related party	2010 NZ$000	2009 NZ$000	Nature of Relationship	Type of Transactions
TOWER Health and Life Limited	(4,700)	-	Parent	Dividend
TOWER Health and Life Limited	(6,097)	-	Parent	Interest
TOWER Health and Life Limited	(5,532)	-	Parent	Tax losses
TOWER Health and Life Limited	(354)	-	Parent	Operating expenses
TOWER Asset Management Limited	(3,101)	(3,117)	Fellow subsidiary	Investment management fees
TOWER Managed Funds Limited	(2,686)	(9,776)	Fellow subsidiary	Operating expenses
TOWER Managed Funds Limited	(4,524)	-	Fellow subsidiary	Dividend
TOWER New Zealand Limited	(2,721)	-	Fellow subsidiary	Operating expenses
TOWER New Zealand Limited	(2,368)	-	Fellow subsidiary	Tax losses
TOWER New Zealand Limited	(3,304)	-	Fellow subsidiary	Advances
TOWER Financial Services Group Limited	(1,753)	-	Limited	Interest
TOWER Financial Services Group Limited	(12,531)		Limited	Tax losses
TOWER Financial Services Group Limited	7,155		Limited	Loan
TOWER Insurance Limited	2,638	-	Fellow subsidiary	Tax losses
TOWER Limited	(7,504)	-	Ultimate parent	Tax losses
TOWER Medical Insurance Limited	(1,376)	-	Fellow subsidiary	Tax losses

25. Key management personnel compensation

TOWER New Zealand Limited and TOWER Health and Life Limited paid all key management personnel compensation on behalf of TOWER Life (N.Z.) Limited for the year ended 30 September

26. Loans to key management personnel

There have been no loans made to directors and other key management personnel of the Company, including their personally related parties (2009: Nil).

27. Other transactions with key management personnel

Key management also hold various policies and accounts with TOWER Life (N.Z.) Limited. These are operated in the normal course of business on normal customer terms.

28. 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:

	2010 $000	2009 $000
Capital Preservation Fund	-	29,123
Capital Protected Plan	7,452	8,462
VITAL	1,466	1,642
Total	8,918	39,227

29. Investment linked and non-investment linked business

	Investment linked 2010 $000	Non-investment linked 2010 $000	Investment linked 2009 $000	Non-investment linked 2009 $000
Investment assets	31,759	700,273	32,651	747,118
Other assets	-	71,567	-	28,448
Policyholder liabilities	(31,759)	(688,767)	(32,651)	(688,622)
Other liabilities	-	(57,273)	-	(56,698)
Net assets	-	25,780	-	30,246
Retained earnings	-	15,780	-	20,245
Net premium income	-	20,988	-	23,534
Investment income	2,897	105,062	317	28,601
Net claims expense	-	(54,133)	-	(50,464)
Other operating expenses	(194)	(10,344)	(296)	(11,448)
Change in policyholder liabilities	(2,168)	(25,740)	117	18,290
Profit/(loss) before taxation	535	35,833	138	8,513
Taxation credit/(expense)	(222)	(31,388)	77	(4,786)
Profit after taxation	313	4,445	215	3,727

PRICEWATERHOUSECOOPERS

30. Impact of amended NZ IFRS

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

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

NZ IFRS 9 'Financial Instruments' (effective from 1 January 2013). The standard is the first step in replacing NZ IAS 39 and establishes two primary measurement categories for financial assets: amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. The Company is in the process of evaluating the potential effect of this standard.

IAS 24, 'Related party disclosures' (effective from 1 January 2011). The revised standard amends the definition of a related party. The Company is in the process of evaluating the potential effect of this standard.

IFRS 7, 'Financial instruments' (effective retrospectively from 1 January 2011). The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The Company will apply the IFRS 7 amendments from 1 October 2010.

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

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

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

All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or two statements (an income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. The change in accounting policy has only impacted presentation aspects.

NZ IFRS 7 (Amendment), 'Financial Instruments: Disclosures' (effective from 1 January 2009). The amendment requires disclosure of all the level of the fair value hierarchy into which fair value measurements are categorised based on a three level fair value hierarchy for financial instruments. In addition, the amendment provides further clarification around liquidity risk disclosures and additional quantitative disclosures based on liquidity risk of financial liabilities. The change in accounting policy has only resulted in additional disclosures.

31. Subsequent events

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

32. Company Information

TOWER Life (N.Z.) Limited is a profit oriented entity incorporated and domiciled in New Zealand. Its registered office and principal place of business is: Level 11, 22 Fanshawe Street, Auckland New Zealand.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
188 Quay Street
Private Bag 92162
Auckland 1142
New Zealand
Telephone +64 9 355 8000
Facsimile +64 9 355 8001
www.pwc.com/nz

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

Report on the Financial Statements

We have audited the financial statements of TOWER Life (N.Z.) Limited on pages 3 to 40, which comprise the balance sheet as at 30 September 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

We have no relationship with, or interest in, TOWER Life (N.Z.) Limited other than in our capacities as auditors and providers of other assurance, advisory and taxation services. These matters have not impaired our independence as auditor of the Company.

PRICEWATERHOUSECOOPERS

Independent Auditors' Report

TOWER Life (N.Z.) Limited

Opinion

In our opinion, the financial statements on pages 3 to 40

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

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company as at 30 September 2010, its financial performance and its cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

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

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

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

Restriction on Distribution or Use

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

Chartered Accountants
23 December 2010

Auckland