FINANCIAL STATEMENTS

2003

FOR THE YEAR ENDED 30 SEPTEMBER 2003

TOWER

PRICEWATERHOUSECOOPERS

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AUDITOR'S REPORT TO THE SHAREHOLDERS OF TOWER LIMITED

We have audited the financial statements on pages 1 to 37. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 September 2003 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 6 to 12.

DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 September 2003 and their financial performance and cash flows for the year ended on that date.

AUDITOR'S RESPONSIBILITIES

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

BASIS OF OPINION

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

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

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

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

We have no relationship with, or interests in, the Company or any of its subsidiaries other than in our capacities as auditor, tax advisor and provider of other assurance services.

UNQUALIFIED OPINION

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

In our opinion:

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

(b) the financial statements on pages 1 to 37:

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

  (ii) give a true and fair view of the financial position of the Company and Group as at 30 September 2003 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 26 November 2003 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

CHARTERED ACCOUNTANTS

Wellington

		GROUP		COMPANY	
As at 30 September 2003	Note	2003 NZ$000	2002 NZ$000	2003 NZ$000	2002 NZ$000
Cash		34,186	29,314	2	1,425
Accounts receivable	9	210,965	224,976	378,120	174,364
Fixed interest securities	10	2,272,251	2,206,957	-	-
Equity securities	10	1,447,345	1,564,071	-	-
Property investments	10	259,053	264,430	-	-
Other investments	10	448,416	700,404	441,717	658,450
Taxation receivable	8	90,401	63,465	17,263	27,144
Other current assets		6,468	11,471	-	-
Property, plant and equipment	14	110,057	122,857	-	-
Deferred tax benefit	8	42,029	62,025	-	-
Goodwill and intangibles	11	83,211	3,541	-	-
TOTAL ASSETS		**5,004,382**	**5,253,511**	**837,102**	**861,383**
Accounts payable	15	361,005	194,975	913	1,032
Senior debt	16	86,155	318,202	-	-
Insurance provisions	17	222,125	210,064	-	-
Other liabilities	18	29,442	25,606	-	-
Policyholder liabilities	5	3,420,987	3,613,071	-	-
Capital bonds	16	125,000	125,000	-	-
TOTAL LIABILITIES		**4,244,714**	**4,486,918**	**913**	**1,032**
NET ASSETS		**759,668**	**766,593**	**836,189**	**860,351**
REPRESENTED BY:					
Equity share capital	19	983,908	835,972	1,035,940	835,972
Retained earnings	19	(175,891)	(27,034)	(199,751)	24,379
Reserves	19	(48,386)	(42,371)	-	-
Minority interests	19	37	26	-	-
SHAREHOLDERS' EQUITY		**759,668**	**766,593**	**836,189**	**860,351**
Net asset backing per share		1.90	4.36		
Gearing[1]		21.75%	36.63%		

Note: (1) Gearing is defined as total debt to total debt plus equity.

The financial statements were approved for issue by the Board on 26 November 2003.

Olaf B. O'Duill
Chairman

Keith B. Taylor
Group Managing Director

The Statement of Accounting Policies and the Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

For the year ended 30 September 2003	Note	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
OPENING EQUITY		**766,593**	**903,477**	**860,351**	**850,619**
Net (deficit)/surplus after taxation		(148,857)	(74,951)	(224,130)	42,016
Distribution from TOWER Safe Trust	33	-	5,054	-	5,054
Movement in foreign currency translation reserve		(6,015)	(29,675)	-	-
TOTAL RECOGNISED REVENUE AND EXPENSES		**(154,872)**	**(99,572)**	**(224,130)**	**47,070**
Shares issued	19	199,968	12,645	199,968	12,645
Sale of rights issued on holdings in TOWER Limited shares	19	2,722	-	-	-
Distribution to shareholders	27	-	(49,983)	-	(49,983)
Reclassification of holdings in TOWER Limited shares	19	(54,754)	-	-	-
Movement in minority interests	19	11	26	-	-
EQUITY AT END OF PERIOD		**759,668**	**766,593**	**836,189**	**860,351**

The Statement of Accounting Policies and the Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2003	Note	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES					
CASH WAS PROVIDED FROM/(APPLIED TO)					
Premiums received		806,314	933,135	-	-
Interest received		135,870	144,782	2,309	3,887
Dividends received		40,182	38,176	-	40,000
Investment income		24,025	42,685	-	26
Non-life company operating income		157,367	174,743	-	-
Payments to policyholders		(824,467)	(820,403)	-	-
Payments to suppliers and employees		(414,958)	(484,190)	(3,251)	(4,367)
Interest paid		(25,801)	(31,734)	-	-
Income taxation paid		(23,819)	(92,348)	(4,444)	(18,528)
NET CASH FLOW FROM OPERATING ACTIVITIES	**22**	**(125,287)**	**(95,154)**	**(5,386)**	**21,018**
CASH FLOWS FROM INVESTING ACTIVITIES					
CASH WAS PROVIDED FROM/(APPLIED TO)					
Sale of investments(1)					
Fixed interest		15,610	40,788	-	11,448
Property		236	23,415	-	-
Equities		132,992	89,208	-	-
Disposal of subsidiary		24,334	-	-	-
Purchase of property, plant and equipment		(15,747)	(42,724)	-	-
NET CASH FLOW FROM INVESTING ACTIVITIES		**157,425**	**110,687**	**-**	**11,448**
CASH FLOWS FROM FINANCING ACTIVITIES					
CASH WAS PROVIDED FROM/(APPLIED TO)					
Issue of equity share capital		202,690	-	202,690	-
Partly paid shares instalment	7	-	67,957	-	67,957
Distribution from TOWER Safe Trust	33	-	5,054	-	5,054
Issue of Capital Bonds	16	-	125,000	-	-
Borrowings received		79,189	-	-	-
Borrowings (repaid)		(305,977)	(171,287)	-	-
Dividends paid		-	(37,338)	-	(37,338)
Net advances to subsidiaries		-	-	(198,727)	(66,714)
NET CASH FLOW FROM FINANCING ACTIVITIES		**(24,098)**	**(10,614)**	**3,963**	**(31,041)**
NET INCREASE/(DECREASE) IN CASH HELD		**8,040**	**4,919**	**(1,423)**	**1,425**
Cash at beginning of year		19,330	14,886	1,425	-
Effect of exchange rate change on foreign currency balance		(150)	(475)	-	-
CASH AT END OF YEAR		**27,220**	**19,330**	**2**	**1,425**
COMPRISING:					
Cash at bank		34,186	29,314	2	1,425
Bank overdraft	16	(6,966)	(9,984)	-	-
CASH AT END OF YEAR		**27,220**	**19,330**	**2**	**1,425**

Note: (1) 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 flows for these items. This is based on the fact that either, the turnover of these items is quick, the amounts are large and the maturities are short or in the case of property, plant and equipment the value of the sales are immaterial.

The Statement of Accounting Policies and the Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

REPORTING ENTITY

TOWER Limited and its subsidiaries ("TOWER") operate in the Savings and Investment, Risk Insurance, Asset Management and Trustee Services market segments.

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with the New Zealand Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements are based on the general principles of historical cost accounting, modified by the revaluation of certain assets and liabilities as stated in the specific accounting policies below.

SPECIFIC ACCOUNTING POLICIES

The specific accounting policies used in the preparation of the financial statements are as follows:

BASIS OF CONSOLIDATION

The Group financial statements include the financial statements of TOWER and all of its subsidiary companies which have been consolidated using the purchase method. The results of any subsidiaries acquired during the year are consolidated from the effective dates of acquisition.

Subsidiaries of the life insurance companies have been consolidated in accordance with Financial Reporting Standard 34 Life Insurance Business. The difference between the net assets of those subsidiaries and their fair value is recorded in the Group Statement of Financial Position as "Excess of Directors' valuation over net tangible assets".

Where the holding company ceases to be a life insurer, the difference between the subsidiary's net assets and the subsidiary's fair value as at the date is analysed between goodwill and intangible assets, and these amounts are amortised over the following periods:

- Intangible assets 12 – 15 years
- Goodwill 3 – 20 years

The principal trading subsidiary companies are detailed in Note 12 Subsidiary Companies.

All intercompany transactions and balances are eliminated on consolidation.

VALUATION OF INVESTMENTS

Investment assets included in the financial statements are recorded at net market value as determined by the financial markets where such values are readily ascertainable. For some asset categories, where market values cannot be so determined, specific valuation procedures have been adopted as detailed below. All valuations are at the reporting date.

Properties owned by the life companies are shown at net market value, supported by an independent valuation at 30 September 2003 by Jones Lang LaSalle New Zealand Limited for New Zealand properties, and Colliers International Consultancy and Valuation Pty Limited for Australian properties.

INVESTMENTS IN SUBSIDIARIES

Subsidiaries acquired prior to demutualisation are recorded at the lower of Directors' valuation determined as at the date of demutualisation, and subsequent valuation. Subsidiaries acquired after demutualisation are recorded at the lower of cost and Directors' valuation.

INVESTMENT INCOME

Dividends, property income, interest, realised gains/losses and unrealised gains/losses on investment assets are brought to account in the Statement of Financial Performance as follows:

Dividends

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 an accrual basis.

Realised Gains/Losses on Investment Assets

Realised gains/losses on investment assets represent the difference between the carrying amount and the sale price which are brought to account through the Statement of Financial Performance.

Unrealised Gains/Losses on Investment Assets

Unrealised gains/losses on investment assets are brought to account through the Statement of Financial Performance.

For those investments purchased in the current financial year, unrealised gains/losses on investment assets represent the difference between the purchase price and the market value at the end of the year. For those investments purchased in previous years, unrealised gains/losses are the difference between market value at the beginning and end of the current financial year.

PREMIUM INCOME

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.

Unearned premiums on general insurance business represent the portion of premiums on policies written in the current year, relating to cover provided in a subsequent period. For inward treaty reinsurances accepted, the amount has been calculated in accordance with the terms of each contract.

CLAIMS' EXPENSE

Claims are separated into their expense and withdrawal components when a valid claim is received. Claims paid on risk business are treated as an expense. 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 recognised as a decrease in policy liabilities. Claims in respect of investment account and investment linked business are recognised when the policies concerned cease to participate, in whole or part, in the earnings of the relevant fund. Where it is not practicable to split out the two components, all claims have been recognised as an expense.

Provisions have been made for the estimated cost of all claims notified but not settled, and for the estimated cost of claims incurred but not reported at reporting date.

Provision has been made for the estimate of claim recoveries from third parties in respect of general insurance business.

CAPITALISED ACQUISITION COSTS

Superannuation and Medical Products:
The initial planned costs of establishing contracts for certain superannuation and medical products have been capitalised since inception. These costs are disclosed in Note 10 Investment Assets and Note 13 Value of Capitalised Acquisition Costs. These costs are amortised over the period of expected future benefit. A comparison to recoverable value is carried out annually, with any variance below carrying value taken to the Statement of Financial Performance in that year.

General Insurance Products:
A portion of acquisition costs relating to unearned premium is deferred and recognised as an asset, in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount and are amortised over the financial years expected to benefit from the expenditure.

TAXATION

Income taxation expense is accounted for on the comprehensive basis, using the liability method. A debit balance in the deferred taxation account is only carried forward to the extent that there is virtual certainty of its recovery.

Income taxation benefits arising from income tax losses are recognised only to the extent of accumulated net credits from timing differences in the deferred taxation account unless there is virtual certainty of their realisation.

ACCOUNTS RECEIVABLE

Accounts receivable are shown after making due allowance for amounts considered doubtful.

REINSURANCE AND OTHER RECOVERIES RECEIVABLE

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and claims incurred but not reported are recognised as revenue. Recoveries receivable on reported claims not yet paid, and claims incurred but not reported, are assessed in a manner similar to the assessment of outstanding claims. For the general insurance business, recoveries receivable in relation to long-tail classes are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

OUTWARDS REINSURANCE

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment.

PROPERTY AND PLANT AND EQUIPMENT DEPRECIATION

Property, plant and equipment is shown at cost and is depreciated at the following rates:

Office furniture and equipment	5% – 25% straight line
Computer hardware and software	20% – 33% straight line
Refurbishment costs (owned buildings)	10% straight line
Motor vehicles less an allowance for residual value	20% straight line
Leasehold property improvements	Over the term of the lease

All items of property, plant and equipment are subject to an annual impairment review. Any adjustments are taken to the Statement of Financial Performance.

FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are translated into the reporting currency using the exchange rate in effect at the transaction date.

Monetary items receivable or payable in a foreign currency, including forward exchange contracts, are translated at reporting date at the closing exchange rate.

Exchange differences on foreign currency balances are recognised in the Statement of Financial Performance, with the exception of exchange differences relating to items hedging investments in foreign subsidiaries which are taken directly to the Foreign Currency Translation Reserve.

DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, transactions are entered into involving derivative financial instruments in order to manage TOWER's exposure to risk. These include foreign exchange contracts, swaps, financial futures and options. Instruments not taken up as hedging transactions are valued at market rates ruling at the reporting date. The resulting gains or losses are recognised in the Statement of Financial Performance as other investment income.

Derivative financial instruments taken up as hedges are accounted for on the same basis as related exposures.

Collateral is provided where necessary to cover the risk of the derivative financial instrument. Collateral will include cash, mortgages, debentures, equities and financial covenants.

TRANSLATION OF FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

Assets and liabilities of independent foreign operations are translated at the closing rate. At balance date the exchange rate used to translate TOWER's Australian subsidiaries was NZ$1.00 = A$0.8735 (30 September 2002 A$0.8641). Revenue and expense items are translated at a weighted average of exchange rates over the period, as a surrogate for the spot rates at transaction dates. The rate used to translate TOWER's Australian operations was NZ$1.00 = A$.8945 (2002 A$0.8310). Exchange differences are taken to the foreign currency translation reserve and recognised in the Statement of Movements in Equity.

The financial statements of integrated foreign operations are translated in the same way as if the underlying transactions had been entered into by the reporting entity itself.

Exchange differences on monetary liabilities designated as a hedge against investments in independent foreign operations are taken to the foreign currency translation reserve and recognised in the Statement of Movements in Equity to the extent that they are offset by the exchange differences on the net investments.

SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS – LIFE INSURANCE BUSINESS

POLICYHOLDER LIABILITIES

Policyholder liabilities for life insurance business have been determined in accordance with Actuarial Standard 1.03 issued by the Life Insurance Actuarial Standards Board for TOWER Australia and Professional Standard No.3 "Determination of Life Insurance Policy Liabilities" issued by the New Zealand Society of Actuaries for TOWER Life, TOWER Life (NZ) and TOWER Health & Life. The standards require that the policyholder liabilities be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins essentially as services are provided to policyholders.

The policyholder liability is the amount which, together with future premiums and investment earnings, is expected to:

(i) meet the payment of future benefits and expenses; and

(ii) provide for future profits.

Actuarial reports on policyholder liabilities and prudential reserves are prepared for each period at the respective balance dates. The Chief Actuary, Herwig Raubal, FIAA, FNZSA, has calculated policyholder liabilities in New Zealand for TOWER Life, TOWER Life (NZ) and TOWER Health & Life, and the Appointed Actuary, Megan Beer, FIAA, a Director of Tillinghast-Towers Perrin, Consulting Actuaries, has calculated policyholder liabilities for TOWER Australia. The actuaries are satisfied as to the accuracy of the data from which the policyholder liabilities have been determined.

VALUATION APPROACH

The profit carriers used for the major product groups in order to achieve the systematic release of planned margins were as follows:

MAJOR PRODUCT GROUPS	METHOD	PROFIT CARRIERS
BOTH AUSTRALIA AND NEW ZEALAND		
• Traditional participating	Projection	Cost of supportable bonuses
• 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
NEW ZEALAND		
• Non-participating investment account	Accumulation	
• Investment linked	Accumulation	
• Group risk insurances and renewable insurances	Cash flow	
AUSTRALIA		
• Participating investment account	Projection	Cost of supportable dividends
• Non-participating investment account	Projection	Investment income
• Investment linked – Stat Fund 2	Accumulation	
• Investment linked – Stat Fund 3	Accumulation	
• Group risk insurances and renewable insurances	Cash flow	
• Group salary continuance – open claims	Projection	

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	SIGNIFICANT CHANGES
DISCOUNT RATES	The discount rates assumed in calculating policyholder liabilities were derived from the expected long-term average rates of return for the relevant asset pools based on a neutral asset mix for each pool. Discount rates assumed are net of taxation and investment expenses.	The discount rates used are as follows: **NEW ZEALAND** / **AUSTRALIA** September 2003: 3.7% to 5.8% / 3.0% to 7.2% September 2002: 4.0% to 6.0% / 3.4% to 7.8%
INFLATION	A specific allowance for each country reviewed annually.	September 2003: 2.0% / 2.5% September 2002: 2.0% / 2.5%
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.	The assumptions for maintenance expenses for annuities in TOWER Life (NZ) have reduced over 50% as a result of a reorganisation of the management of these products.
RATES OF TAXATION	Rates of taxation have been assumed to remain at current levels.	None
MORTALITY – RISK PRODUCTS	Standard mortality tables, primarily NZ95 in New Zealand and IA90-92 in Australia. These are adjusted for company experience.	Mortality rates for some classes of business sold through TOWER Health & Life were reduced by varying amounts to reflect recent years' experience. Mortality rates for Funeral Plan business sold through TOWER Australia were increased by approximately 40% to reflect recent years' experience.
MORTALITY – ANNUITIES	Standard mortality tables, primarily PML80C10 in New Zealand and IM/IF80 in Australia. These are adjusted for company experience.	None
DISABILITY – LUMP SUM	Based on past reinsurer experience and adjusted for differing product definitions. Some wholesale schemes use specific company experience.	Crisis rates for business sold through TOWER Australia were increased by 10-20% to reflect recent years' experience.
DISABILITY INCOME	CIDA tables used in New Zealand and IAD89-93 tables in Australia. These are 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 (before the demutualisation announcement in the case of TOWER Life (NZ)). 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.	None

For the year ended 30 September 2003

REQUIRED ASSUMPTION	BASIS OF ASSUMPTION	SIGNIFICANT CHANGES
SURRENDER VALUES	Surrender values are based on the current practice of the various companies.	None
RATES OF GROWTH FOR UNIT LINKED BUSINESS	Australian unit linked business is valued using gross rates depending on market conditions. New Zealand and Australian non-super unit linked business is valued on an accumulation basis.	The gross rates of growth used are as follows: September 2003 6.4% to 8.4% 4.5% to 8.0% September 2002 6.6% to 8.7% 8.1% to 8.5%
RATES OF FUTURE SUPPORTABLE PARTICIPATING BENEFITS	Assumed future supportable bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions. The rate of shareholder participation assumed is generally at the maximum allowable of 25% of the value of bonuses distributed to participating policyholders subject to policy conditions. Additional policy bonuses will emerge from the assets representing policyholders' unvested benefits.	None

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 Financial Performance.

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

BASIS OF EXPENSE APPORTIONMENT

The apportionment process adopted varies across the life insurance companies. This section provides a general indication only of the methods applied:

(i) Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned. Expenses directly attributable to the ordinary and superannuation participating and non–participating classes of business are apportioned based on appropriate cost drivers.

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

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

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

SOLVENCY REQUIREMENTS

These are amounts required to meet actuarial standards to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance companies.

The methodology and bases for determining solvency requirements are in accordance with the requirements of AS2.03 "Solvency Standard" issued by the Life Insurance Actuarial Standards Board of Australia for TOWER Australia. For New Zealand companies Guidance Note 5 "Life Insurance Company Prudential Reserving" issued by the New Zealand Society of Actuaries is adopted.

CHANGES IN ACCOUNTING POLICY

CONSOLIDATION OF SUBSIDIARIES OF NON-LIFE COMPANIES

The company has changed its accounting policy in respect to investments in subsidiaries where the holding company ceases to be a life insurer. Previously, the difference between the net assets of the subsidiary and the Directors' valuation at the date the holding company ceased to be a life insurer was included in the consolidated Statement of Financial Position as "Excess of Directors' valuation over net tangible assets". The balance was subjected to an annual impairment review with any decreases taken to the Statement of Financial Performance. No recognition was made for any increase in value.

Investments in subsidiaries where the holding company ceases to be a life insurer are now accounted for as follows in the consolidated financial statements:

- The Excess of Directors' valuation over the subsidiaries' net tangible assets recognised as at the date the holding company ceases to be a life insurer is analysed into its components, being principally value of in-force business and goodwill.
- The value of in-force business and goodwill are amortised over their period of expected benefit, with effect from the date that the holding company ceases to be a life insurer. The period of expected benefit is:

– Value of in-force business 12 – 15 years
– Goodwill 3 – 20 years.

All goodwill amortised over a three year period was fully amortised in the current year. The goodwill remaining as at 30 September 2003 will be amortised over periods between 15 and 20 years.

In the absence of any specific accounting standards applicable to the Excess of Directors' valuation over net tangible assets the company considers it appropriate to adopt this new accounting policy to align the accounting treatment with the accounting principles applicable to intangible assets and goodwill.

This change in accounting policy has been applied in the current period with the effect being an increase in amortisation expense and a reduction in net surplus and shareholders' funds of $148.4 million in the twelve months ended 30 September 2003. There was no effect on cash flows.

The amortisation during the current period includes recognition of amortisation for the full period since subsidiaries ceased to be held by life insurers and can be split over the financial reporting periods as follows:

For the year ended 30 September 2003	Year ended	IMPACT Impact NZ$000
	30 September 2000	40,721
	30 September 2001	40,721
	30 September 2002	40,721
	30 September 2003	26,209
		148,372

ACCOUNTING FOR INVESTMENTS IN TOWER LIMITED

The company has changed its accounting policy in respect to investments in TOWER Limited shares. Previously, investments in TOWER Limited shares, held to support policyholder liabilities, were accounted for as investments. The company now accounts for these investments as a deduction from share capital.

In the absence of any specific accounting standards applicable to ownership of parent company shares held in a life company to support policyholder liabilities, the company considers it appropriate to adopt this new accounting policy to show the net assets available to external shareholders.

This change in accounting policy has been applied in the current period with the effect being a reversal of the unrealised after-tax loss of $32.3 million on the shares and a reduction in share capital of $54.8 million in the twelve months ended 30 September 2003. There was no effect on cash flows.

The reversal of the unrealised after-tax loss of $32.3 million during the current period includes the recognition of the unrealised after-tax losses for the full period since the investments were acquired and can be split over the financial reporting periods as follows:

	Year ended	IMPACT Impact NZ$000
	30 September 2000	4,183
	30 September 2001	3,346
	30 September 2002	6,541
	30 September 2003	18,238
		32,308

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 1 PREMIUM INCOME				
Life insurance premiums	644,484	811,557	-	-
Less: Deposits recognised as an increase in policy liabilities	(337,077)	(477,428)	-	-
LIFE INSURANCE PREMIUMS RECOGNISED AS REVENUE	**307,407**	**334,129**	**-**	**-**
General insurance premiums (refer Note 31)	163,091	155,932	-	-
Health insurance premiums (refer Note 31)	63,464	53,672	-	-
	533,962	**543,733**	**-**	**-**
Less: Reinsurance ceded	(86,676)	(84,945)	-	-
TOTAL NET PREMIUM INCOME	**447,286**	**458,788**	**-**	**-**
NOTE 2 INVESTMENT INCOME				
FIXED INTEREST				
Interest	135,959	144,961	2,311	3,887
Realised gains/(losses)	36,558	(12,696)	-	-
Unrealised losses	(60,873)	(28,631)	-	-
TOTAL INVESTMENT INCOME FROM FIXED INTEREST	**111,644**	**103,634**	**2,311**	**3,887**
EQUITIES				
Dividend income	39,901	39,356	-	40,000
Realised gains/(losses)	(76,726)	14,106	-	-
Unrealised gains/(losses)	95,517	(235,134)	-	-
TOTAL INVESTMENT INCOME FROM EQUITIES	**58,692**	**(181,672)**	**-**	**40,000**
PROPERTY				
Rents, interest and recoveries	19,630	24,023	-	-
Realised gains	8,612	2,421	-	-
Unrealised gains	1,218	1,449	-	-
TOTAL INVESTMENT INCOME FROM PROPERTY	**29,460**	**27,893**	**-**	**-**
CHANGE IN EXCESS OF DIRECTORS' VALUATION OVER NET TANGIBLE ASSETS OF SUBSIDIARIES OWNED BY LIFE INSURANCE COMPANIES	**(7,079)**	**(34,138)**	**-**	**-**
OTHER (INCLUDING FOREIGN EXCHANGE)				
Realised gains	35,951	14,831	-	26
Unrealised gains/(losses)	(4,904)	16,219	(5,402)	-
Unrealised write-down of subsidiaries	-	-	(216,733)	-
TOTAL OTHER INVESTMENT INCOME	**31,047**	**31,050**	**(222,135)**	**26**
TOTAL INVESTMENT INCOME	**223,764**	**(53,233)**	**(219,824)**	**43,913**
NOTE 3 FEE AND OTHER INCOME				
Investment and management fees	97,321	97,076	-	-
Trustee services	62,050	69,679	-	-
Fund management fees	7,564	8,239	-	-
Other revenue	147	98	-	-
TOTAL FEE AND OTHER INCOME	**167,082**	**175,092**	**-**	**-**

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 4 PAYMENTS TO POLICYHOLDERS				
Life insurance claims	741,453	773,525	-	-
Less: Withdrawals recognised as a decrease in policy liabilities	(519,924)	(556,789)	-	-
LIFE INSURANCE CLAIMS RECOGNISED AS EXPENSE	**221,529**	**216,736**	-	-
General insurance claims (refer Note 31)	96,126	94,412	-	-
Health insurance claims (refer Note 31)	38,135	35,380	-	-
	355,790	**346,528**	-	-
Less: Reinsurance proceeds received	(62,443)	(60,169)	-	-
TOTAL PAYMENTS TO POLICYHOLDERS	**293,347**	**286,359**	-	-
NOTE 5 POLICYHOLDER LIABILITIES AND LIFE INSURANCE BUSINESS				
(A) POLICYHOLDER LIABILITIES REPRESENT:				
Value of policy liabilities – Projection Method				
Future policy benefits	2,241,439	3,911,773	-	-
Future bonuses	216,587	287,179	-	-
Future expenses	545,809	637,408	-	-
Reinsurance	45,362	(6,357)	-	-
Future profit margins	252,006	363,735	-	-
Future premiums	(1,985,550)	(2,078,062)	-	-
	1,315,653	3,115,676	-	-
Value of policy liabilities – Accumulation Method				
Future policy benefits	2,229,593	411,498	-	-
Future charges for acquisition expenses	(214,713)	(8,757)	-	-
	2,014,880	402,741	-	-
	3,330,533	**3,518,417**	-	-
Unvested policyholder benefits	90,454	94,654	-	-
TOTAL POLICYHOLDER LIABILITIES	**3,420,987**	**3,613,071**	-	-

The movement in policyholder liabilities in the Statement of Financial Position does not equal the movement in policyholder liabilities in the Statement of Financial Performance. A reconciliation is as follows:

RECONCILIATION OF MOVEMENTS IN POLICYHOLDER LIABILITIES	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
Opening balance	3,613,071	4,019,659	-	-
Movement in Statement of Financial Performance	26,136	(194,192)	-	-
Deposits recognised as an increase in policy liabilities (refer Note 1)	337,077	477,428	-	-
Withdrawals recognised as a decrease in policy liabilities (refer Note 4)	(519,924)	(556,789)	-	-
Other adjustments including foreign exchange	(35,373)	(133,035)	-	-
CLOSING BALANCE	**3,420,987**	**3,613,071**	-	-

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 5 POLICYHOLDER LIABILITIES AND LIFE INSURANCE BUSINESS (CONTINUED)				
(B) ANALYSIS OF LIFE INSURANCE RESULTS				
Planned profit margins	35,251	42,346	-	-
Experience losses	(39,190)	(67,419)	-	-
Capitalised loss recognition	(7,782)	(12,376)	-	-
Investment earnings on assets in excess of policy liabilities of life companies	(5,000)	(13,997)	-	-
OPERATING DEFICIT AFTER TAX ATTRIBUTABLE TO SHAREHOLDERS ARISING FROM THE LIFE INSURANCE FUNDS	**(16,721)**	**(51,446)**	**-**	**-**
(C) POLICY ACQUISITION EXPENSES – LIFE INSURANCE BUSINESS				
Commission	38,532	38,933	-	-
Other acquisition expenses	44,083	59,800	-	-
(D) POLICY MAINTENANCE EXPENSES – LIFE INSURANCE BUSINESS				
Policy maintenance expense	131,782	183,418	-	-

(E) SOLVENCY REQUIREMENTS OF LIFE FUNDS

The minimum equity required to be retained to meet solvency requirements over and above the policy liabilities for each of the life insurance companies in the Group is shown below. The shareholder equity retained in each of the life insurance companies exceeds these minimum requirements.

		TOWER LIFE(NZ) 2003 NZ$000	TOWER LIFE(NZ) 2002 NZ$000	TOWER LIFE 2003 NZ$000	TOWER LIFE 2002 NZ$000	TOWER AUSTRALIA 2003 NZ$000	TOWER AUSTRALIA 2002 NZ$000	TOWER HEALTH & LIFE 2003 NZ$000	TOWER HEALTH & LIFE 2002 NZ$000
Solvency requirement	A	848,589	957,717	383,747	-	2,848,936	3,123,585	57,443	64,357
Represented by:									
Policyholder liabilities		815,465	875,098	1,801	-	2,627,535	2,767,898	11,446	17,047
Other liabilities		27,556	35,559	2,488	-	92,949	151,081	4,534	7,629
Solvency reserve	B	5,568	47,060	379,458	-	128,452	204,606	41,463	39,681
SOLVENCY REQUIREMENT		**848,589**	**957,717**	**383,747**	**-**	**2,848,936**	**3,123,585**	**57,443**	**64,357**
Assets available to meet solvency reserve	C	57,235	65,283	462,859	-	243,891	248,102	53,690	43,800
Solvency reserve	B	5,568	47,060	379,458	-	128,453	204,606	41,463	39,681
EXCESS ASSETS ABOVE REQUIRED		**51,667**	**18,223**	**83,401**	**-**	**115,438**	**43,496**	**12,227**	**4,119**
Required solvency reserve	(B/(A-B))x100	0.7%	5.2%	8847.2%	N/A	4.7%	7.0%	259.5%	160.8%
Coverage of required solvency reserve	C/B	10.3	1.4	1.2	N/A	1.9	1.2	1.3	1.1

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 6 EXPENSES AND PROFIT FROM OPERATIONS				
INCLUDED IN TOTAL MANAGEMENT AND SALES EXPENSES ARE THE FOLLOWING:				
Amortisation of capitalised acquisition costs	7,570	9,960	-	-
Bad debts written off	10	17	-	-
Change in provision for doubtful debts	(181)	219	-	
Depreciation:				
Office equipment and furniture	3,089	4,695	-	-
Motor vehicles	208	276	-	-
Computer hardware and software	14,166	17,309	-	-
Directors' fees	816	881	474	471
Donations	35	68	-	-
Fees paid to auditors:[1]				
Audit of financial statements	2,984	1,112	90	90
Other assurance-related services	1,717	3,441	-	-
Non-recurring or unusual items:				
Impairment – computer hardware and software	14,781	44,631	-	-
Restructuring costs	13,027	14,462	-	-

Note: (1) During the year PricewaterhouseCoopers was appointed auditor replacing Deloitte Touche Tohmatsu. The fees paid to auditors includes the payments to both firms during the year.

INCLUDED IN FINANCING COSTS IS:				
Interest	27,964	31,574	-	-
NOTE 7 RECEIVABLES – PARTLY PAID SHARES				
Opening balance	-	67,957	-	67,957
Partly paid shares converted during the year	-	(67,957)	-	(67,957)
TOTAL RECEIVABLES – PARTLY PAID SHARES	-	-	-	-

Receivables – partly paid shares represent the net present value of the amount due to TOWER from partly paid shares issued on demutualisation. The shares were issued at 50% of the issue price of $5.65. All amounts were due on 1 October 2001, and paid during the 2002 financial year.

TOWER used the receipts from the final instalment to repay debt. The receipt of the final instalment did not affect the equity of TOWER Limited as the paid up value of the shares was recognised at the date of issue.

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 8 TAXATION				
Profit before taxation	**(132,612)**	**(100,454)**	**(222,956)**	**39,546**
Income tax at the current rate of 33 cents	(43,762)	(33,150)	(73,575)	13,050
Taxation effect of permanent differences:				
Life insurance companies permanent differences	23,351	(8,175)	-	-
Australian non-life insurance companies tax rate adjustment	4,175	1,937	-	-
Write-down of subsidiaries	-	-	71,521	-
Non-life insurance companies permanent differences	32,470	13,869	3,228	(15,520)
TAXATION EXPENSE	**16,234**	**(25,519)**	**1,174**	**(2,470)**

The Group taxation expense includes both tax on shareholder profits and on returns attributed to policyholders. The rates of taxation applicable to significant classes of business are as follows:

	GROUP 2003 %	GROUP 2002 %
NEW ZEALAND	33	33
AUSTRALIA		
Ordinary life insurance business	30	30
Shareholders' funds	30	30
Superannuation business (via establishment of a Virtual Pooled Superannuation Trust)	15	15
Immediate annuity and current pension business (via segregation as Segregated Exempt Assets)	Nil	Nil

OTHER REGIONS

Pursuant to New Zealand tax law, tax at 33% is applied against the taxable income of all non-Australian TOWER-controlled foreign entities and foreign branches except for the Solomon Islands (35%).

	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
ANALYSIS OF TAXATION				
Current taxation	(3,762)	31,743	1,174	(2,470)
Deferred taxation	19,996	(57,262)	-	-
	16,234	**(25,519)**	**1,174**	**(2,470)**
MOVEMENTS IN DEFERRED TAXATION LIABILITY/(ASSET)				
Opening balance	(62,025)	(4,763)	-	-
Market value adjustments	18,129	(31,622)	-	-
Other adjustments	1,867	(25,640)	-	-
CLOSING BALANCE	**(42,029)**	**(62,025)**	**-**	**-**

NOTE 8 TAXATION (CONTINUED)

TAXATION RECEIVABLE

The increase in the taxation receivable between 2002 and 2003 has principally arisen due to the payment of income tax to satisfy policyholder income tax requirements and the effect of current year tax losses.

The potential income tax effect of all outstanding timing differences in respect of the current and prior periods not recognised is $5.5 million (2002: $5.5 million). Any subsequent recognition of this tax asset will be substantially offset by an increase in policyholder liabilities.

	GROUP		COMPANY	
	2003 NZ$000	2002 NZ$000	2003 NZ$000	2002 NZ$000
IMPUTATION CREDIT ACCOUNT				
Opening balance	1,566	-	1,554	-
Transfer from Policyholder Credit Account	2,707	3,000	2,707	3,000
Attached to dividends received	5,387	3,812	-	3,812
Taxation paid	17,876	13,110	2,162	13,098
Attached to dividends paid	(29)	(2,925)	-	(2,925)
Other including transfers to Policyholder Credit Account	(26,507)	(15,431)	(6,423)	(15,431)
CLOSING BALANCE	**1,000**	**1,566**	**-**	**1,554**
POLICYHOLDER CREDIT ACCOUNT				
Opening balance	17,204	14,967	-	-
Previous year's policyholder tax liability	(13,093)	(10,194)	-	-
Transfer to Imputation Credit Account	(2,707)	(3,000)	-	-
Transfer from Imputation Credit Account	26,507	15,431	-	-
CLOSING BALANCE	**27,911**	**17,204**	**-**	**-**

The Policyholder Credit Account enables TOWER Life (NZ) to satisfy the income tax liability on the policyholder income for the year. The company does this by electing to transfer imputation credits from the Imputation Credit Account to the Policyholder Credit Account subject to a number of tax rules.

The policyholder tax liability is based on actuarial calculations which are finalised after year end. The balance in the Policyholder Credit Account is available to meet any policyholder tax liability.

Recent changes to Australian tax legislation allow New Zealand companies such as TOWER Limited which have Australian subsidiaries to elect to attach Australian franking credits on a pro rata basis to any dividends paid after 1 October 2003. The credits arise from payment of Australian tax by the TOWER Limited Group. These franking credits may be used by Australian resident shareholders as credits against their Australian tax liability. As at 30 September 2003 the TOWER Limited Group has Australian franking credits totalling A$22,942,608 available.

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 9 ACCOUNTS RECEIVABLE				
Reinsurance debtors	39,386	33,146	-	-
Premium debtors and trade receivables	158,179	163,586	-	-
Subsidiaries	-	-	378,120	174,104
Other receivables	13,400	28,244	-	260
TOTAL ACCOUNTS RECEIVABLE	**210,965**	**224,976**	**378,120**	**174,364**
NOTE 10 INVESTMENT ASSETS				
FIXED INTEREST SECURITIES				
Government securities	588,898	348,194	-	-
Local authority securities	246,414	325,264	-	-
Loans on mortgages	3,758	6,662	-	-
Loans on policies	37,409	36,537	-	-
Short term deposits	515,714	514,600	-	-
Other fixed interest securities	577,126	541,613	-	-
Multi currency unit trusts	302,932	434,087	-	-
TOTAL FIXED INTEREST SECURITIES	**2,272,251**	**2,206,957**	**-**	**-**
EQUITY SECURITIES				
Investments in equities	607,918	740,290	-	-
Multi currency unit trusts	839,427	823,781	-	-
TOTAL EQUITY SECURITIES	**1,447,345**	**1,564,071**	**-**	**-**
PROPERTY	**259,053**	**264,430**	**-**	**-**
OTHER INVESTMENTS				
Excess of Directors' valuation over net tangible assets of subsidiaries(1)	380,374	634,317	-	-
Value of capitalised acquisition costs (refer Note 13)	68,042	66,087	-	-
Investment in subsidiaries	-	-	441,717	658,450
TOTAL OTHER INVESTMENTS	**448,416**	**700,404**	**441,717**	**658,450**

Note: (1) Directors' valuation as at 30 September 2003 is for subsidiaries that are subsidiaries of life insurance companies. Refer to changes in accounting policy.

NOTE 10 **INVESTMENT ASSETS** (CONTINUED)

EXCESS OF DIRECTORS' VALUATION OVER NET TANGIBLE ASSETS OF SUBSIDIARIES COMPRISES:

	GROUP		COMPANY	
For the year ended 30 September 2003	2003 NZ$000	2002 NZ$000	2003 NZ$000	2002 NZ$000
NON-LIFE COMPANY SUBSIDIARIES:				
TOWER Australia Limited	-	234,298		
TOWER Trust Limited (New Zealand)	-	14,130	-	-
TOWER Managed Funds Limited	-	21,388	-	-
TOWER Asset Management Limited	-	49,819	-	-
TOWER Insurance Limited	-	26,615	-	-
TOWER Health & Life Limited	-	39,222	-	-
TOWER Trust Limited (Australia)	-	73,657	-	-
LIFE COMPANY SUBSIDIARIES:				
TOWER Australia Limited	134,306	-	-	-
TOWER Managed Funds Limited	(1,801)	-	-	-
TOWER Life (NZ) Limited	16,553	-	-	-
TOWER Health & Life Limited	76,895	-	-	-
Bridges Financial Services Group Pty Limited	139,340	162,107	-	-
TOWER Medical Insurance Limited	15,081	13,081	-	-
	380,374	**634,317**	-	-

In the current financial year TOWER changed its accounting policy in respect to investments where the holding company ceases to be a life insurer. The impact was to reclassify Excess of Directors' valuation over net tangible assets for non-life company subsidiaries to goodwill and intangibles. Goodwill and intangibles are amortised over the expected useful life (refer to change in accounting policies).

On 30 September 2003 TOWER New Zealand Limited the parent company of TOWER Managed Funds Limited, TOWER Health & Life Limited, TOWER Medical Insurance Limited and TOWER Australia Limited was renamed TOWER Life Limited and commenced business as a life insurer. Under Financial Reporting Standard 34 Life Insurance Business TOWER Life Limited is required to carry investments in subsidiaries at market value. In the Group Statement of Financial Position the excess is classified as "Excess of Directors' valuation over net tangible assets". This resulted in a reclassification of some goodwill and the remaining balance of intangibles back to "Excess of Directors' valuation over net tangible assets".

RECONCILIATION OF MOVEMENT IN EXCESS OF DIRECTORS' VALUATION OVER NET TANGIBLE ASSETS OF SUBSIDIARIES COMPRISES:

	GROUP		COMPANY	
	2003 NZ$000	2002 NZ$000	2003 NZ$000	2002 NZ$000
Opening balance	634,317	694,334	-	-
Transfer to intangibles and goodwill	(459,129)	-	-	-
Transfer from intangibles and goodwill	214,415	-	-	-
Revaluations of subsidiaries	(7,079)	(34,138)	-	-
Other including impact from movement in foreign exchange	(2,150)	(25,879)	-	-
	380,374	**634,317**	-	-

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 11 GOODWILL AND INTANGIBLES				
INTANGIBLES				
Opening balance	-	-	-	-
Transfer from Excess of Directors' valuation over net tangible assets (refer Note 10)	229,224	-	-	-
Current year amortisation	(59,404)	-	-	-
Impact from movement in foreign exchange	(3,223)	-	-	-
Transfer to Excess of Directors' valuation over net tangible assets (refer Note 10)	(166,597)	-	-	-
	-	**-**	**-**	**-**
GOODWILL				
Opening balance	3,541	3,606	-	-
Transfer from Excess of Directors' valuation over net tangible assets (refer Note 10)	229,905	-	-	-
Current year amortisation	(89,158)	(204)	-	-
Disposal of TOWER Trust (New Zealand)	(10,519)	-	-	-
Impact from movement in foreign exchange	(2,740)	139	-	-
Transfer to Excess of Directors' valuation over net tangible assets	(47,818)	-	-	-
	83,211	**3,541**	**-**	**-**

Goodwill and intangibles are amortised over the period of expected future benefit.

NOTE 12 SUBSIDIARY COMPANIES

TOWER Limited holds its subsidiary companies under a holding company, TOWER Financial Services Group Limited. Principal trading subsidiary companies at 30 September 2003 are as follows:

All subsidiary companies have a balance date of 30 September 2003.

NAME OF COMPANY	HOLDINGS		NATURE OF COMPANY
Name of Company	2003	2002	*Nature of Business*
INCORPORATED IN NEW ZEALAND			
TOWER Corporation Holdings Limited	100%	100%	Management services
TOWER Managed Funds Limited	100%	100%	Life insurance administration and personal superannuation management
TOWER Life (NZ) Limited	100%	100%	Life insurance and superannuation management
TOWER Life Limited	100%	100%	Life insurance
TOWER Employee Benefits Limited	100%	100%	Superannuation management
TOWER Managed Funds Investments Limited	100%	100%	Unit trust management
TOWER Asset Management Limited (NZ)	100%	100%	Investment management services
TOWER Insurance Limited	100%	100%	Fire and general insurance
TOWER Health & Life Limited	100%	100%	Term, disability and medical insurance
TOWER Medical Insurance Limited	100%	100%	Medical insurance
TOWER Finance Limited	100%	100%	Issue of Capital Bonds
Goldridge Limited	85%	85%	Financial advisory services
INCORPORATED IN AUSTRALIA			
TOWER Australia Limited	100%	100%	Life insurance and superannuation management
TOWER Trust Limited (Australia)	100%	100%	Trustee services
TOWER Asset Management Limited (Australia)	100%	100%	Investment management services
Bridges Financial Services Group Pty Limited	100%	100%	Master trust and financial planning

On 31 July 2003 TOWER Limited disposed of its interest in TOWER Trust Limited (New Zealand). The disposal gave rise to a profit of $3.921 million which was reported through the Statement of Financial Performance.

There were no subsidiary disposals in 2002.

SUMMARY OF EFFECT OF DISPOSAL OF SUBSIDIARY

	GROUP	
	2003 NZ$000	2002 NZ$000
Investments	17,770	-
Current assets	2,579	-
Other assets	912	-
Current liabilities	(533)	-
Net assets disposed of	20,728	-
Gain on sale	3,921	-
Cash received	24,649	-
Cash disposed of	(315)	-
NET CASH IMPACT OF DISPOSAL	**24,334**	-

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 13 CAPITALISED ACQUISITION COSTS				
Opening balance	66,087	69,830	-	-
Costs deferred during the period	9,525	6,217	-	-
Current period amortisation	(7,570)	(9,960)	-	-
CLOSING BALANCE	**68,042**	**66,087**	**-**	**-**
NOTE 14 PROPERTY, PLANT AND EQUIPMENT				
COST				
Office equipment and furniture	40,444	43,701	-	-
Motor vehicles	1,195	1,660	-	-
Computer hardware and software	135,971	140,093	-	-
	177,610	185,454	-	-
LESS ACCUMULATED DEPRECIATION				
Office equipment and furniture	30,530	31,965	-	-
Motor vehicles	849	930	-	-
Computer hardware and software	99,788	89,477	-	-
	131,167	122,372	-	-
NET BOOK VALUE	**46,443**	**63,082**	**-**	**-**
VALUATION				
Properties owned and occupied by TOWER companies	63,614	59,775	-	-
TOTAL PROPERTY, PLANT AND EQUIPMENT	**110,057**	**122,857**	**-**	**-**
NOTE 15 ACCOUNTS PAYABLE				
Trade payables	145,999	139,553	913	1,032
Holiday pay	10,605	13,709	-	-
Provisions (other than insurance provisions)	6,112	4,880	-	-
Accrued investment purchases	169,315	20,519	-	-
Other payables	28,974	16,314	-	-
	361,005	**194,975**	**913**	**1,032**

As at 30 September 2003 accrued investment purchases include a contracted forward settlement for $161 million of Government stock. The asset is recognised under Government securities within Note 10.

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 15 ACCOUNTS PAYABLE (CONTINUED)				
RESTRUCTURING PROVISION				
Opening balance	3,639	195	-	-
Additions	3,351	3,522	-	-
Amount used	(3,449)	(78)	-	-
CLOSING BALANCE	**3,541**	**3,639**	**-**	**-**

This provision primarily relates to the cost of redundancies. These amounts are expected to be settled within one year.

EXCESS LEASE PROVISION				
Opening balance	1,241	13	-	-
Additions	1,337	1,236	-	-
Amount used	(7)	(8)	-	-
CLOSING BALANCE	**2,571**	**1,241**	**-**	**-**

As a result of Group rationalisation certain office accommodation leased by the Group companies is no longer required. The amount recognised as a provision reflects the net present value of the future obligation of the Group in respect of these leases. These amounts are expected to be settled within six years.

	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 16 BORROWING				
(I) SENIOR RANKING BORROWING				
Overdraft	6,966	9,984	-	-
Floating rate notes	-	215,728	-	-
Other borrowing	79,189	92,490	-	-
	86,155	**318,202**	**-**	**-**

Other borrowings as at 30 September 2003 comprise a revolving cash advance facility of NZ$28.3 million and a A$45.0 million bank accepted bill facility which matures in August 2006.

Borrowings are secured by guarantees provided by TOWER's principal holding companies.

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 16 BORROWING (CONTINUED)				
(II) CAPITAL BONDS				
Capital Bonds	125,000	125,000	-	-

On 19 March 2002 TOWER Finance Limited, a subsidiary of TOWER Limited, issued a prospectus offering $125 million of unsecured, subordinated Capital Bonds (the Bonds). The issue was fully subscribed. The Bonds are non-cumulative debt securities of TOWER Finance Limited, and are convertible into TOWER Limited shares in certain circumstances. TOWER Limited provides a subordinated guarantee for these Bonds.

On the first election date of 15 October 2007 a bondholder may elect to:

- retain some or all of the Bonds at the new interest rate and/or
- request the company to sell some or all of the Bonds at the issue price on the election date using the resale facility established by the company for that purpose.

The Bonds had an issue price of $1.00 and interest will be paid quarterly in arrears at a fixed rate of 8.75% until the first election date of 15 October 2007. Interest on the Bonds will be paid in priority to dividends paid on TOWER Limited ordinary shares.

In certain circumstances, bondholders may require that some or all of their Bonds be converted into TOWER Limited shares:

- on any election date but only in respect of any Bonds which the Bondholder requested TOWER Finance Limited sell but which were not sold through the resale facility at the issue price; or
- if a Takeover (as defined in the Capital Bonds Trust Deed) of TOWER Limited occurs.

TOWER Finance Limited may also convert all Bonds on issue into TOWER Limited shares:

- on any election date;
- where the TOWER Finance Limited Board resolves that a change in law or the application or interpretation of any law risks exposing TOWER Limited to more than a negligible increase in costs (including for example tax) or impose unacceptable additional requirements in respect of the Bonds; or
- where the aggregate issue price of Bonds on issue is less than $30 million.

Funds raised from the Bond issue were used to repay senior ranking borrowing.

MATURITY ANALYSIS

	GROUP Effective Interest Rate	GROUP 2003 NZ$000	COMPANY Effective Interest Rate	COMPANY 2002 NZ$000
Maturing within 12 months	5.3% to 7.8%	6,966	5.3% to 7.8%	318,202
Maturing 12 to 24 months	-	-	-	-
Maturing 24 to 36 months	6.4% to 6.6%	79,189	-	-
Maturing over 36 months	8.8%	125,000	8.8%	125,000
		211,155		**443,202**

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 17 INSURANCE PROVISIONS				
Unearned premiums – fire and general	75,144	69,844	-	-
Unearned premiums – health and disability	10,457	8,927	-	-
Outstanding claims – fire and general	57,195	63,334	-	-
Outstanding claims – life, health and other	79,329	67,959	-	-
	222,125	**210,064**	-	
NOTE 18 OTHER LIABILITIES				
FuturePlan Debenture	16,627	15,953	-	-
Other	12,815	9,653	-	-
	29,442	**25,606**	-	-

TOWER Life (NZ) has issued a debenture to the TOWER FuturePlan. The debenture is maintained as a separate fund within TOWER Life (NZ). Interest on the debenture is directly linked to the investment earnings of this fund.

NOTE 19 SHAREHOLDERS' EQUITY	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
EQUITY SHARE CAPITAL – ORDINARY SHARES				
Opening balance	835,972	823,327	835,972	823,327
Shares issued during the year	199,968	12,645	199,968	12,645
Sale of rights issued on holdings in TOWER Limited shares	2,722	-	-	-
Reclassification of holdings in TOWER Limited shares	(54,754)	-	-	-
CLOSING BALANCE	**983,908**	**835,972**	**1,035,940**	**835,972**
REPRESENTED BY:				
	Number of Shares on Issue		*Number of Shares on Issue*	
FULLY PAID SHARES				
Opening balance	175,636,080	151,763,858	175,636,080	151,763,858
New issues	234,183,612	2,777,876	234,183,612	2,777,876
Partly paid shares fully paid during year	-	27,054,916	-	27,054,916
Shares cancelled on TOWER Safe Trust wind up (refer Note 33)	-	(5,960,570)	-	(5,960,570)
Reclassification of holdings in TOWER Limited shares	(9,767,952)	-	-	-
	400,051,740	**175,636,080**	**409,819,692**	**175,636,080**

In July and August 2003 TOWER Limited raised a net $200 million through a rights issue of 234.2 million shares. The rights issue was a renounceable, tradeable issue of four new shares for every three shares held, at an issue price of $0.90 each. The rights issue was fully underwritten by Guinness Peat Group plc (GPG).

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

	GROUP		COMPANY	
For the year ended 30 September 2003	2003 NZ$000	2002 NZ$000	2003 NZ$000	2002 NZ$000
NOTE 19 SHAREHOLDERS' EQUITY (CONTINUED)				
PARTLY PAID SHARES				
Opening balance	-	27,054,916	-	27,054,916
Partly paid shares fully paid during year	-	(27,054,916)	-	(27,054,916)
	-	-	-	-

Partly paid shares were issued 50% paid up at the date of demutualisation, with the balance payable on 1 October 2001. Refer Note 7 for further discussion.

	GROUP 2003	GROUP 2002	COMPANY 2003	COMPANY 2002
RESERVES				
Foreign currency translation reserve	(48,386)	(42,371)	-	-
RETAINED EARNINGS				
Opening balance	(27,034)	92,846	24,379	27,292
Net (deficit)/surplus after taxation	(148,857)	(74,951)	(224,130)	42,016
Distribution from TOWER Safe Trust (refer Note 33)	-	5,054	-	5,054
Distribution to shareholders (refer Note 27)	-	(49,983)	-	(49,983)
CLOSING BALANCE	**(175,891)**	**(27,034)**	**(199,751)**	**24,379**
MINORITY INTERESTS				
Opening balance	26	-	-	-
Equity contributed	-	15	-	-
Share of surpluses in subsidiaries	11	16	-	-
Distributions to minority interests	-	(5)	-	-
CLOSING BALANCE	**37**	**26**	-	-

NOTE 20 FINANCIAL INSTRUMENTS

MATURITY ANALYSIS OF MONETARY ASSETS AND LIABILITIES – GROUP

For the year ended 30 September 2003	Effective Interest Rate	0 – 12 months NZ$000	12 – 24 months NZ$000	24 – 60 months NZ$000	Over 60 months NZ$000	Total NZ$000
2003						
Government securities	6.02%	34,865	48,640	73,164	432,229	588,898
Local authority	5.92%	2,445	32,941	104,914	106,114	246,414
Loans on mortgages	4.00%	1,591	564	605	998	3,758
Loans on policies	10.00%	24,690	3,861	3,861	4,997	37,409
Short term deposits	5.24%	511,485	2,751	1,146	332	515,714
Other fixed interest securities	5.83%	55,488	146,717	252,729	122,192	577,126
Multi currency unit trusts	4.00%	145,506	8,844	31,839	116,743	302,932
TOTAL ASSETS		**776,070**	**244,318**	**468,258**	**783,605**	**2,272,251**
Capital Bonds	8.75%	-	-	-	125,000	125,000
Other borrowing	5.3% to 7.8%	6,966	-	79,189	-	86,155
TOTAL LIABILITIES		**6,966**	**-**	**79,189**	**125,000**	**211,155**
2002						
Government securities	6.50%	2,132	85,870	69,607	190,585	348,194
Local authority	6.51%	703	29,680	165,927	128,954	325,264
Loans on mortgages	4.91%	2,417	1,547	306	2,392	6,662
Loans on policies	10.00%	23,719	3,867	3,878	5,073	36,537
Short term deposits	5.22%	510,863	741	1,234	1,762	514,600
Other fixed interest securities	5.50%	114,385	83,399	241,460	102,369	541,613
Multi currency unit trusts	3.76%	183,182	10,465	133,428	107,012	434,087
TOTAL ASSETS		**837,401**	**215,569**	**615,840**	**538,147**	**2,206,957**
Capital notes	8.75%	-	-	-	125,000	125,000
Other borrowing	5.3% to 7.8%	318,202	-	-	-	318,202
TOTAL LIABILITIES		**318,202**	**-**	**-**	**125,000**	**443,202**

All other interest insensitive monetary assets and liabilities are due or payable in 0 – 12 months.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Capital Bonds as at 30 September 2003 was $119.1 million (2002: $123.9 million).

All other financial assets and liabilities are recorded at values which approximate fair value.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS AND COMMITMENTS

Disclosed below are the estimated fair values of TOWER Limited's derivative financial instruments at the respective balance dates. Carrying values are equivalent to fair value and are calculated using estimated discounted cash flows at current rates. The carrying values calculated depend on the terms and risk characteristics of the various instruments.

NOTE 20 **FINANCIAL INSTRUMENTS (CONTINUED)**

For the year ended 30 September 2003	2003 Contract or Carrying value NZ$000	2003 face value NZ$000	2002 Contract Carrying value NZ$000	2002 face value NZ$000
Foreign exchange hedging on shares	850	1,286	356	171,016
Interest rate swaps	-	-	-	453,066

	GROUP Assets NZ$000	GROUP Liabilities NZ$000	GROUP Net Exposure NZ$000
FOREIGN CURRENCY DENOMINATED ASSET AND LIABILITIES			
Assets and liabilities not hedged			
AS AT 30 SEPTEMBER 2003			
Exposure to Australian dollars	3,465,416	2,814,571	650,845
Exposure to other currencies	75,024	63,710	11,314
AS AT 30 SEPTEMBER 2002			
Exposure to Australian dollars	3,873,215	3,308,861	564,354
Exposure to other currencies	66,680	60,123	6,557

CONCENTRATION OF CREDIT RISK

Concentrations of credit risk arise where TOWER is exposed to the risk that a party may fail to discharge an obligation. The only significant concentrations of credit risk are outlined below.

	GROUP 2003 Carrying value NZ$000	GROUP 2002 Carrying value NZ$000	COMPANY 2003 Carrying value NZ$000	COMPANY 2002 Carrying value NZ$000
Australian government	244,041	189,792	-	-
New Zealand government	344,857	156,831	-	-
Subsidiaries	-	-	378,120	174,104

Additionally, TOWER has normal clearing house exposures associated with dealings through recognised exchanges and financial intermediaries.

MANAGEMENT POLICIES

Interest Risk

TOWER manages interest risk arising from external borrowings in accordance with the Board approved treasury policy. This policy allows for the use of interest rate swaps. As at 30 September 2003 there were no interest rate swaps in place.

Credit Risk

All activities which result in credit exposure for TOWER are subject to credit risk guidelines. These guidelines have been prepared on the basis of prudent international asset management practice. Regular reviews are conducted to ensure adherence to these policies.

Market Risk

TOWER's Board sets limits for the management of market risk based on prudent international asset management practice. Regular reviews are conducted to ensure that these limits are adhered to.

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 21 OPERATING LEASES				
Rent paid under non-cancellable operating leases during the year	14,136	14,977	-	-
Rent payable under non-cancellable operating leases to the end of the lease terms are:				
• Not later than one year	10,764	13,116	-	-
• Later than one year and not later than two years	6,361	7,665	-	-
• Later than two years and not later than five years	11,083	9,160	-	-
• Later than five years	2,273	2,721	-	-
	30,481	**32,662**	-	-
NOTE 22 RECONCILIATION OF NET (DEFICIT)/SURPLUS WITH NET CASH FLOW FROM OPERATING ACTIVITIES				
NET (DEFICIT)/SURPLUS	**(148,857)**	**(74,951)**	**(224,130)**	**42,016**
ADD/(LESS) NON CASH ITEMS				
Depreciation	17,463	22,280	-	-
Write-off capitalised expenditure	14,781	44,631	-	-
Amortisation of Goodwill and intangibles	148,562	204	-	-
Movement in capitalised acquisition costs	(1,955)	3,743	-	-
Change in policyholder liabilities	(163,158)	(267,630)	-	-
Unrealised (gain)/loss on fixed interest	60,873	28,631	-	-
Unrealised (gain)/loss on shares	(95,517)	235,134	-	-
Unrealised (gain)/loss on property	(1,218)	(1,449)	-	-
Unrealised (gain)/loss on other	14,141	11,605	5,400	-
Unrealised (gain)/loss on subsidiaries	-	-	216,733	-
Increase/(decrease) in deferred taxation	19,996	(57,260)	-	-
	(134,889)	(55,062)	(1,997)	42,016
ADD/(LESS) MOVEMENTS IN WORKING CAPITAL RELATING TO OPERATING ACTIVITIES				
(Increase)/decrease in accounts receivable	4,161	6,975	(7,751)	(38,003)
Increase/(decrease) in accounts payable	33,022	13,540	(119)	947
(Increase)/decrease in taxation	(27,581)	(60,607)	4,481	16,058
	9,602	(40,092)	(3,389)	(20,998)
NET CASH (OUTFLOWS) INFLOWS FROM OPERATING ACTIVITIES	**(125,287)**	**(95,154)**	**(5,386)**	**21,018**

NOTE 23 CONTINGENT LIABILITIES

Guarantees have been given in respect of the Capital Guaranteed Fund of the TOWER FuturePlan and the capital of the TOWER Mortgage Income Trust. Additionally, TOWER guarantees certain funds managed by TOWER Australia and TOWER Life (NZ), as referred to in Note 29 Guaranteed Returns on Funds Invested – Life Insurance Companies.

The company has guaranteed the revolving cash advance facility and the bank accepted bill facility held within subsidiary holding companies (refer Note 16).

NOTE 24 CAPITAL COMMITMENTS

Commitments for capital expenditure not otherwise provided for in the Financial Statements:

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
Computer, software and support services	1,084	2,163	-	-

NOTE 25 TRANSACTIONS WITH RELATED PARTIES

The majority of TOWER's related party transactions result solely from normal dealings of entities in their capacity as a financial services provider, trustee or asset manager and are therefore not recorded in this Note. Shares and other financial securities have been traded between TOWER, its subsidiaries, unit trusts and superannuation funds where TOWER or its subsidiaries have an interest. Trade amounts owing between related parties are payable under normal commercial terms.

SUBSIDIARIES AND ASSOCIATES

During the year there have been transactions between TOWER Limited, its subsidiaries and associates which have been conducted on a commercial basis. The transactions from the Parent's perspective comprise:

	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
Operating costs	3,028	4,367
Dividend revenue	-	40,000

For balances outstanding at year end refer to Note 9.

EMPLOYEE INCENTIVE SCHEMES

TOWER Limited has three Employee Incentive Schemes as approved by shareholders on demutualisation. These Schemes allow TOWER to issue shares and grant options for shares to employees, up to a maximum of 7.5% of TOWER Limited's capital.

GROUP STAFF SHARE PURCHASE SCHEME

On demutualisation, all employees with at least six months service were given the opportunity to subscribe for a parcel of shares at 80% of the issue price ($5.65). No employee was offered more than $2,340 worth of shares. Employees under this Scheme were entitled to a three year interest free loan (repayable over the term of the loan) from TOWER Limited in respect of those shares. During the term of the loan, employees are entitled to participate in dividends, bonus issues and rights issues. The shares issued are held by a Trustee on behalf of the employees.

Total shares held by the Trustee at 30 September 2003 are 10,340 (30 September 2002: 263,670).

All loans have been fully paid up.

NOTE 25 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

GROUP EXECUTIVE SHARE PURCHASE SCHEME

Under this Scheme, key employees were given the opportunity to subscribe for shares. The price of the shares was the market value of the shares ($5.65 at listing date). The maximum number of shares offered to employees could not exceed in value the employee's annual fixed remuneration divided by the market value of the shares. Employees under this Scheme were obliged to take an eight year interest free loan from TOWER Limited, with dividends received being applied to the repayment of the loan. Employees are entitled to have the shares transferred to them by the Trustee after three years if they have repaid the loan. The shares issued are held by a Trustee on behalf of the employees. Total shares held by the Trustee at 30 September 2003 are 1,750,845 (30 September 2002: 2,008,936).

SENIOR EXECUTIVE SHARE OPTION SCHEME

Under this Scheme, principal officers and senior executives were offered options to subscribe for shares. There is no limit on the amount of options which can be offered to any one employee. The options can not be exercised until at least three years after they have been granted and until certain performance criteria have been met. The options must be exercised within nine years of when the options are granted, otherwise the options will lapse.

Total options held by employees at 30 September 2003 are 4,662,192 (30 September 2002: 7,465,121).

LOANS TO DIRECTORS

Mr Taylor was granted loans under the Group Executive Share Purchase Scheme.

Total shares held by Mr Taylor at 30 September 2003 under the Scheme are 61,946 (30 September 2002: 61,946).

Total options held by Mr Taylor at 30 September 2003 are 487,390 (30 September 2002: 487,390).

TRANSACTIONS WITH DIRECTORS

Directors hold various policies and accounts with TOWER Group companies. These are operated in the normal course of business on normal customer terms.

GUINNESS PEAT GROUP PLC

Guinness Peat Group plc (GPG) which is the largest holder of TOWER Limited shares and has two elected Directors on the TOWER Limited Board provided a full underwrite of the rights issue in July 2003. The fees paid to GPG were based on market rates and totalled $6.3 million. The fees comprised an underwriting fee of 2.5% of the total number of rights being issued, multiplied by the issue price of $0.90 as well as a management fee of 0.5% of the total subscription moneys payable in respect of all new shares.

TOWER also paid GPG a break fee of $0.5 million on the cancellation of their underwriting agreement which the Board chose not to proceed with.

NOTE 26 SEGMENTAL REPORTING

For the year ended 30 September 2003	Savings & Investment NZ$000	Risk Insurance NZ$000	Asset Management NZ$000	Trustee Services NZ$000	Other NZ$000	Total NZ$000
	BUSINESS SEGMENTS					
2003						
Operating margins including revaluation of life insurance subsidiaries	(36,509)	13,476	2,249	4,225	(122,377)	(138,936)
Investment return on shareholder capital	8,267	9,940	259	605	(8,332)	10,739
Financing costs	-	-	-	-	(20,660)	(20,660)
NET (DEFICIT)/SURPLUS AFTER TAXATION	**(28,242)**	**23,416**	**2,508**	**4,830**	**(151,369)**	**(148,857)**
Total revenue	479,436	259,964	16,729	65,112	16,891	838,132
Total assets	4,327,794	357,633	8,245	33,400	277,310	5,004,382
Assets under management	10,670,186	357,633	1,911,813	7,563,035	277,310	20,779,977
2002						
Operating margins including revaluation of life insurance subsidiaries	(65,364)	9,044	3,750	5,996	(23,622)	(70,196)
Investment return on shareholder capital	8,984	7,061	349	629	919	17,942
Financing costs	-	-	-	-	(22,697)	(22,697)
NET (DEFICIT)/SURPLUS AFTER TAXATION	**(56,380)**	**16,105**	**4,099**	**6,625**	**(45,400)**	**(74,951)**
Total revenue	271,190	236,120	19,267	73,752	(19,682)	580,647
Total assets	4,194,172	356,031	7,960	58,736	636,612	5,253,511
Assets under management	9,939,300	356,031	1,765,820	7,977,558	636,612	20,675,321

Note: (1) Other includes parent company assets, head office expenses, financing costs, and eliminations.

	Total Revenue NZ$000	Revaluations and amortisations NZ$000	Net (deficit)/surplus after Tax NZ$000	Total Assets NZ$000	Assets Under Management NZ$000
	GEOGRAPHICAL SEGMENTS				
2003					
New Zealand	372,210	(2,181)	39,909	1,463,942	5,873,000
Australia	440,265	(153,460)	(191,843)	3,465,416	14,831,953
Other	25,657	-	3,077	75,024	75,024
TOTAL	**838,132**	**(155,641)**	**(148,857)**	**5,004,382**	**20,779,977**
2002					
New Zealand	276,692	-	5,669	1,348,060	6,302,714
Australia	275,965	(34,342)	(82,210)	3,838,771	14,305,927
Other	27,990	-	1,590	66,680	66,680
TOTAL	**580,647**	**(34,342)**	**(74,951)**	**5,253,511**	**20,675,321**

Interest on inter-company loans are charged at market rates. There are no other significant inter-segment revenues.

Amortisation relates to the amortisation of in-force business and goodwill.

Revaluations relate to the change in the net market value of subsidiaries of the life insurance companies.

NOTE 27 DISTRIBUTIONS TO SHAREHOLDERS

No dividends were paid during the year ended 30 September 2003.

The following dividends were paid during the year ended 30 September 2002.

	Fully Paid Share	Total Dividend NZ$000
January 2002	14 cents	25,311
July 2002	14 cents	24,672
		49,983

NOTE 28 DISCLOSURES ON ASSET RESTRICTIONS, MANAGED ASSETS AND TRUSTEE ACTIVITIES

RESTRICTIONS ON ASSETS

Investments and other assets held in each of the life insurance companies can only be used to meet the liabilities and expenses of that company, to acquire investments to further the business of the company or as distributions to shareholders. Distributions may be made to shareholders only when solvency requirements are met and sufficient equity remains for the ongoing operation of the business.

MANAGED ASSETS

TOWER conducts investment and other fiduciary activities that result in the holding or placing of assets on behalf of individuals, managed funds, trusts, retirement benefit plans and other institutions. These assets are not the property of TOWER and accordingly are not included in these financial statements.

The value of assets subject to funds management and other fiduciary activities were as follows:

	GROUP	
	2003 NZ$000	**2002** NZ$000
Superannuation funds	3,103,366	2,930,082
Unit trust and group investment funds	1,096,450	1,242,101
Trustee administered funds	3,823,760	4,117,071
Managed investment funds	7,752,019	7,132,556
	15,775,595	15,421,810
Assets on Statement of Financial Position	5,004,382	5,253,511
TOTAL ASSETS UNDER MANAGEMENT	**20,779,977**	**20,675,321**

Arrangements are in place to ensure that the asset management activities of these funds continue to be managed separately from TOWER's financial services and life insurance operations.

TRUSTEE ACTIVITIES

TOWER subsidiaries act as trustees in relation to superannuation policies issued or managed by both TOWER Group Companies and other companies. Arrangements are in place to ensure that the activities of the trustee companies are managed separately.

NOTE 29 GUARANTEED RETURNS ON FUNDS INVESTED – LIFE INSURANCE COMPANIES

TOWER or its subsidiaries guarantees capital contributed by policyholders together with any declared dividends for the following funds.

At balance date the net assets of these funds were:

	2003 NZ$000	2002 NZ$000
TOWER LIFE (NZ)		
Capital Preservation Fund	74,157	86,592
Capital Protected Plan	16,592	24,428
Personal Retirement Fund	239	129
VITAL	3,911	4,378
TOTAL	**94,899**	**115,527**
TOWER AUSTRALIA		
Statutory Fund 1	178,813	177,801
Statutory Fund 2	4,040	5,498
Statutory Fund 3	179,814	167,135
TOTAL	**362,667**	**350,434**

NOTE 30 INVESTMENT LINKED AND NON-INVESTMENT LINKED BUSINESS OF LIFE INSURANCE COMPANIES

	2003 Investment linked NZ$000	2003 Non-investment linked NZ$000	2002 Investment linked NZ$000	2002 Non-investment linked NZ$000
Investment assets	1,822,486	2,034,270	1,922,857	1,926,343
Other assets	117,033	194,384	171,364	245,386
Policyholder liabilities	(1,866,902)	(1,463,634)	(1,973,100)	(1,545,316)
Other liabilities	(4,122)	(251,656)	(10,359)	(241,202)
NET ASSETS	**68,495**	**513,364**	**110,762**	**385,211**
RETAINED EARNINGS	**4,222**	**167,015**	**34,793**	**162,110**
Net premium income	14,410	283,068	24,520	290,514
Investment income	110,979	76,757	(72,112)	(2,150)
Claims expense	-	(200,261)	(8,239)	(190,157)
Other operating expenses	(61,913)	(190,574)	(59,328)	(252,087)
	63,476	**(31,010)**	**(115,159)**	**(153,880)**
Change in policyholder liabilities	(63,408)	37,272	108,554	85,639
OPERATING SURPLUS/(DEFICIT) BEFORE TAXATION	**68**	**6,262**	**(6,605)**	**(68,241)**
Taxation expense/(credit)	9,892	13,159	(4,348)	(19,052)
OPERATING SURPLUS/(DEFICIT) AFTER TAXATION	**(9,824)**	**(6,897)**	**(2,257)**	**(49,189)**

For the year ended 30 September 2003	GROUP 2003 NZ$000	GROUP 2002 NZ$000	COMPANY 2003 NZ$000	COMPANY 2002 NZ$000
NOTE 31 GENERAL INSURANCE BUSINESS				
(A) ANALYSIS OF GENERAL INSURANCE OPERATING RESULT				
Premium revenue	226,555	209,604	-	-
Outward reinsurance expense	(13,185)	(12,088)	-	-
NET PREMIUM INCOME	**213,370**	**197,516**	**-**	**-**
Claims expense	134,261	129,792	-	-
Reinsurance recoveries	(3,039)	(5,386)	-	-
NET CLAIMS INCURRED	**131,222**	**124,406**	**-**	**-**
Acquisition costs	41,621	39,165	-	-
Other underwriting expenses	33,332	29,298	-	-
UNDERWRITING RESULT	**7,195**	**4,647**	**-**	**-**
Investment income from general insurance business:				
Investment revenue	18,335	12,320	-	-
Investment expenses	(402)	(564)	-	-
INVESTMENT INCOME	**17,933**	**11,756**	**-**	**-**
OPERATING SURPLUS BEFORE INCOME TAX	**25,128**	**16,403**	**-**	**-**
(B) ANALYSIS OF EXPENSE CLAIMS				
Gross claims incurred were in respect of events occurring during:				
Current financial year	135,500	129,693	-	-
Previous financial years	(1,239)	1,161	-	-
TOTAL GROSS CLAIMS	**134,261**	**130,854**	**-**	**-**
Claims incurred net of reinsurance recoveries were in respect of events occurring during:				
Current financial year	132,216	122,275	-	-
Previous financial years	(993)	2,131	-	-
TOTAL NET CLAIMS	**131,223**	**124,406**	**-**	**-**
(C) OUTSTANDING CLAIMS				
Gross outstanding claims provision including prudential margins and claims settlement costs	90,196	73,083	-	-
Discount to present value	3,970	4,508	-	-
TOTAL OUTSTANDING CLAIMS	**86,226**	**68,575**	**-**	**-**
Reinsurance recoveries on outstanding claims	22,132	24,415	-	-
Discount to present value	3,640	4,213	-	-
	18,492	**20,202**	**-**	**-**
Outstanding claims net of reinsurance recoveries:				
Current	55,979	32,994	-	-
Non-current	11,755	15,378	-	-
	67,734	**48,372**	**-**	**-**

NOTE 31 GENERAL INSURANCE BUSINESS (CONTINUED)

(D) ASSUMPTIONS ADOPTED IN CALCULATION OF GENERAL INSURANCE PROVISIONS

The long tail claims provisions have been assessed having regard to external actuarial assessments. The actuary used was:

New Zealand and the Pacific Islands – P. Davies, B.Bus.Sc, FIA, FNZSA, AIA, AIAA.

The external actuarial assessments are in accordance with the standards of the Societies of Actuaries in New Zealand and Australia. The actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liabilities. The key assumptions used were:

	2003	2002
Inflation rates varied from	1.5% to 15.5%	1.5% to 8.0%
Discount rates varied from	4.0% to 19.0%	2.5% to 5.5%
The weighted average expected term to settlement of outstanding claims from balance date is estimated to be:		
Short tail claims	within 1 year	within 1 year
Long tail claims in the Pacific Islands	2.1 to 3.1 years	2.1 to 3.1 years
All Australian long tail claims are fully reinsured		
Inwards reinsurance	in excess of 10 years	in excess of 10 years

(E) INSURER FINANCIAL STRENGTH RATING

TOWER Insurance Limited has an insurer financial strength rating of "BBB+" (Good) issued by Standard & Poors (Australia) Pty Limited.

TOWER Medical Insurance Limited has not obtained a credit rating.

(F) REINSURANCE PROGRAMME

Reinsurance programmes are structured to adequately protect the general insurance companies' solvency and capital positions. They cover per risk and event losses in each country, including a major Wellington earthquake, assessed as the worst possible scenario. Large global companies and major Lloyds syndicates account for the majority of the programme and are all of high quality. Reinsurers' security is regularly reviewed.

NOTE 32 EARNINGS PER SHARE

	GROUP 2003 NZ$000	GROUP 2002 NZ$000
Earnings per share has been calculated as follows:		
NET DEFICIT AFTER TAXATION	**(148,857)**	**(74,951)**
Weighted average fully paid equivalent shares	209,640,824	178,563,802
Number of shares held on behalf of policyholders[1]	(9,767,952)	-
Net weighted average shares held on issue	199,872,872	178,563,802
EARNINGS PER SHARE (CENTS PER SHARE)	**(74.48)**	**(41.97)**

NOTE 33 TOWER SAFE TRUST

The TOWER Safe Trust was established on demutualisation of TOWER Corporation to hold shares on behalf of unconfirmed participants, that is policyholders that TOWER could not locate. On 5 July 2002 the trustee of the TOWER Safe Trust resolved to wind up the trust and distribute the proceeds to TOWER Limited. TOWER Limited has cancelled the remaining shares held by the Trust and recognised surplus funds of $5,054,000 as an adjustment through retained earnings.

Note: (1) During the 2003 financial year TOWER reclassified TOWER shares held by subsidiary companies to meet policyholders liabilities as treasury stock.

TOWER