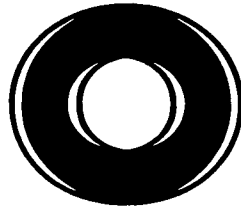


# **MACQUARIE LIFE LIMITED**

ABN 56 003 963 773



MACQUARIE

## **Annual Report**

31 March 2009

## **MACQUARIE LIFE LIMITED**

ABN 56 003 963 773

ANNUAL REPORT

### **GENERAL INFORMATION**

#### **Date of Incorporation**

3 April 1990

#### **Place of Incorporation**

New South Wales

#### **Registered Office**

Mezzanine Level  
No.1 Martin Place  
SYDNEY N.S.W. 2000

#### **Directors**

H. Brown  
R.D. Cartwright  
J. Delaney  
P. Jowett  
M. Mulcare  
B.N. Terry

#### **Company Secretaries**

D. Leong  
P. Walsh  
N.G. Donnelly

#### **Auditor**

S. K. Fergusson  
PricewaterhouseCoopers

#### **Appointed Actuary**

G. Martin  
Director  
KPMG Actuaries Pty Ltd

#### **Issued Capital**

\$173,712,000 being 55,676,000 ordinary shares.

#### **Shareholders**

66% owned by Macquarie Bank Limited  
34% owned by Macquarie Funds Management Holdings Limited

**MACQUARIE LIFE LIMITED**  
for the year ended 31 March 2009  
**ANNUAL REPORT**

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# MACQUARIE LIFE LIMITED

ABN 56 003 963 773

ANNUAL REPORT

## DIRECTORS' REPORT

In accordance with a resolution of the Directors, the Directors submit herewith the Financial Report at 31 March 2009 of Macquarie Life Limited ("the Company") for the year ended on that date and report as follows:

### Directors

During the year and up to the date of this report the Directors of the company were:

H. Brown  
R.D. Cartwright  
J. Delaney  
P. Jowett  
M. Mulcare  
B.N. Terry

Unless indicated, the above Directors each held office as a Director of the company throughout the year ended 31 March 2009.

### Principal Activities

The principal activity of the company during the financial year was the provision of life insurance and investment management services to its policy holders, as well as investment products to its other clients.

### Review of Operations

The net loss for the year was \$12,281,000 (2008: \$55,364,000 loss) after including an income tax expense of \$12,064,000 (2008: \$9,374,000 credit). The loss for the year was attributed to losses on the Macquarie Property Index Plus ("MPIP") investment in the Shareholders' Fund. During the year the net loss in the Shareholders' Fund amounted to \$15,971,000 (2008: \$59,255,000 loss) as detailed in note 26(d) and 26(e) to the Financial Statements. During the year the Shareholders' Fund returned capital of \$35,000,000 and received a subsequent capital injection of \$10,000,000 from Macquarie Funds Management Holdings Limited as detailed in note 21 to the Financial Statements.

The company redeemed \$112,400,000 of Enhanced Property Performance Note ("EPPN") to MPIP during the financial year. The EPPN offers its investor a floating return based on the cash rate plus a fixed premium, as well as a variable return component based on the performance of a reference portfolio of listed property securities. This is detailed in note 18(b) to the Financial Statements.

### Dividends

No dividends (2008: \$33,812,000) were declared and paid during the financial year.

### Significant changes in the state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review not otherwise disclosed in this report.

### Events subsequent to balance date

At the date of this report, the Directors are not aware of any matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company in the financial years subsequent to 31 March 2009 not otherwise disclosed in this report.

### Rounding of amounts

In accordance with the Australian Securities and Investments Commission Class Order 98/0100 (as amended), amounts in the directors' report have been rounded off to the nearest thousand dollars unless otherwise indicated.

## **MACQUARIE LIFE LIMITED**

ABN 56 003 963 773

ANNUAL REPORT

### **DIRECTORS' REPORT (cont.)**

#### **Environmental regulations**

The company's operations are not subject to any significant environmental regulations either under Commonwealth or State legislation.

#### **Likely developments, business strategies and prospects**

Disclosure of information relating to the future developments in the operations, business strategies and prospects for future financial years of the economic entity have not been included in the report because the Directors believe it may result in unreasonable prejudice to the economic entity.

#### **Directors' indemnification**

Under the Company's Constitution, the Company indemnifies all past and present Directors and Secretaries of the Company or of a wholly-owned subsidiary of the Company, including at this time the Directors named in this report and the Secretary or Secretaries, against every liability incurred by them in, and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which they become involved because of, their respective capacities unless:

- the liability is owed to the Company or to a related body corporate;
- the liability did not arise out of the conduct of good faith;
- the liability is for a pecuniary penalty order or a compensation order under the Corporations Act 2001 ("the Act");
- in the case of legal costs, the costs are incurred in defending or resisting a liability excluded above, criminal proceedings in which the person is found guilty or proceedings brought by the Australian Securities and Investments Commission or a liquidator where grounds for a court order are established (but excluding costs relating to investigations before commencement of proceedings for the court order), or the costs are incurred in relation to proceedings for relief to the person under the Corporations Act 2001 in which the court denies relief;
- the Company is forbidden by statute to indemnify the person against the liability or legal costs; or
- an indemnity by the Company or the person against the liability or legal costs would, if given, be made void by statute.

Each of the Directors and Secretaries have the benefit of the indemnity provisions under the Company's Constitution, agreed by deed poll that those indemnities would not apply to the extent to which an indemnity for any liability or legal costs is forbidden by Australian statute or would, if given, be made void by Australian statute. The limitations on the indemnities have subsequently been adopted into the indemnity provisions of the Company's Constitution with the effect that these limitations now apply directly to the Directors and Secretaries.

#### **Directors' benefit**

No Director of the company has, since the end of the previous year, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by Directors shown in the financial statements) by reason of a contract made by the company or a related body in which the director has a substantial financial interest.

**MACQUARIE LIFE LIMITED**

ABN 56 003 963 773

ANNUAL REPORT

**DIRECTORS' REPORT (cont.)**

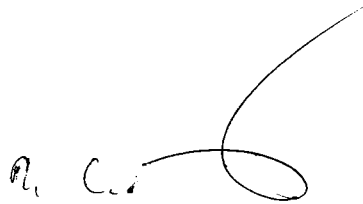
**Auditors**

PricewaterhouseCoopers, Chartered Accountants, continue in office in accordance with section 327 of the Companies Act 2001.

**Auditors' independence declaration**

A copy of the auditors' independence declaration, as required under section 307C of the Act, is set out on page 7 of this report.

This report is made in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'R. D. Cartwright', with a large, sweeping flourish extending upwards and to the right.

**R. D. Cartwright**  
Director  
Sydney, 12 May 2009

PricewaterhouseCoopers  
ABN 52 780 433 757

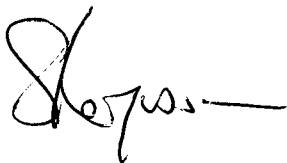
Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
[www.pwc.com/au](http://www.pwc.com/au)  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999

## Auditors' Independence Declaration

As lead auditor for the audit of Macquarie Life Limited for the year ended 31 March 2009, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Macquarie Life Limited during the period.



S K Fergusson  
Partner  
PricewaterhouseCoopers

Sydney  
12 May 2009

**MACQUARIE LIFE LIMITED**

Income statement for the year ended 31 March 2009

	Note	2009 \$'000	2008 \$'000
Life insurance premium revenue	8	19,803	8,364
Outward reinsurance expense		(5,107)	(3,018)
<b>Net life insurance premium revenue</b>		<b>14,696</b>	<b>5,346</b>
Investment revenue	9(a)	111,696	152,840
Net fair value gains on financial assets at fair value through profit or loss	9(a)	(260,970)	(222,750)
Other revenue	9(b)	23,939	29,431
<b>Net revenue</b>		<b>(110,639)</b>	<b>(35,133)</b>
Life insurance claims expense	10	1,946	594
Reinsurance recoveries revenue		(1,507)	(479)
<b>Net life insurance claims expense</b>		<b>439</b>	<b>115</b>
Administration expenses	11	50,548	38,866
Finance costs		5,370	15,328
Change in life insurance contract liabilities	17(a)	(18,078)	(4,051)
Change in life investment contract liabilities	17(a)	(154,174)	(20,530)
Change in reinsurers' share of life insurance liabilities	17(a)	5,473	(123)
<b>Net claims and expenses</b>		<b>(110,422)</b>	<b>29,605</b>
<b>Profit/(loss) before income tax</b>		<b>(217)</b>	<b>(64,738)</b>
Income tax (expense)/benefit	20(b)	(12,064)	9,374
<b>Profit/(loss) after income tax</b>		<b>(12,281)</b>	<b>(55,364)</b>
<b>NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF MACQUARIE LIFE LIMITED</b>		<b>(12,281)</b>	<b>(55,364)</b>

*The above income statement should be read in conjunction with the accompanying notes.*

**MACQUARIE LIFE LIMITED**  
**Balance sheet as at 31 March 2009**

	Note	2009 \$'000	2008 \$'000
<b>Assets</b>			
Cash & cash equivalents	14	221,042	242,493
Receivables	15	23,536	20,407
Financial assets at fair value through profit or loss	16	1,390,785	1,930,735
Gross policy liabilities ceded under reinsurance	17(a)	(3,031)	2,442
Deferred acquisition costs	19	865	1,120
Deferred tax assets	20(c)	26,520	12,722
<b>TOTAL ASSETS</b>		<b>1,659,717</b>	<b>2,209,919</b>
<b>Liabilities</b>			
Trade and other payables	18(a)	47,136	58,588
Interest bearing liabilities	18(b)	42,500	154,900
Deferred fee revenue	19	1,905	2,244
Deferred tax liabilities	20(c)	548	2,606
Life investment contract liabilities	17(a)	1,468,199	1,836,793
Life insurance contract liabilities	17(a)	(21,010)	(2,932)
<b>TOTAL LIABILITIES</b>		<b>1,539,278</b>	<b>2,052,199</b>
<b>NET ASSETS</b>		<b>120,439</b>	<b>157,720</b>
<b>Equity</b>			
Contributed equity	21	173,712	198,712
Capital reserve	22	11,000	11,000
Retained profits	5	(64,273)	(51,992)
<b>TOTAL EQUITY</b>		<b>120,439</b>	<b>157,720</b>

*The above balance sheet should be read in conjunction with the accompanying notes.*

## MACQUARIE LIFE LIMITED

### Statement of recognised income and expenses for the year ended 31 March 2009

	Share Capital \$'000	Capital Reserves Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance at 1 April 2007</b>	87,900	11,000	37,184	136,084
Profit for the year	-	-	(55,364)	(55,364)
Issue of share capital	110,812	-	-	110,812
Dividend paid	-	-	(33,812)	(33,812)
<b>Balance at 31 March 2008</b>	198,712	11,000	(51,992)	157,720
Profit for the year	-	-	(12,281)	(12,281)
Issue of share capital	(25,000)	-	-	(25,000)
Dividend paid	-	-	-	-
<b>Balance at 31 March 2009</b>	173,712	11,000	(64,273)	120,439

*The above statement of recognised income and expenses should be read in conjunction with the accompanying notes.*

**MACQUARIE LIFE LIMITED**

Cash flow statement for the year ended 31 March 2009

	Note	2009 \$'000	2008 \$'000
<b>Cash flows from operating activities</b>			
Premiums received - life insurance		19,190	8,239
Claim payments - life insurance		(1,920)	(594)
Life investment contract contribution receipts		608,876	1,088,727
Life investment contract withdrawal payments		(803,422)	(1,251,197)
Interest received		22,295	36,819
Dividends received		9,603	33,844
Distributions received		80,234	109,563
Other revenues received		11,661	2,934
Commissions and expenses paid		(84,708)	(61,726)
Bank charges paid		(145)	(35)
Borrowing expenses paid		(5,369)	(15,406)
Call payment		-	(208)
Other expenses		(1,167)	(6,473)
<b>Net cash outflow from operating activities</b>	24(b)	<b>(144,872)</b>	<b>(55,513)</b>
<b>Cash flows from investing activities</b>			
Purchase of financial assets		(3,948,330)	(4,781,441)
Proceeds from sale of financial assets		4,209,151	4,906,241
<b>Net cash inflows from investing activities</b>		<b>260,821</b>	<b>124,800</b>
<b>Cash flows from financing activities</b>			
Redemption of Enhanced Property Performance Note		(112,400)	(35,000)
Issue of share capital		(25,000)	85,000
Dividends paid		-	(33,812)
<b>Net cash inflow from financing activities</b>		<b>(137,400)</b>	<b>16,188</b>
Net increase in cash and cash equivalents		(21,451)	85,475
Cash and cash equivalents at the beginning of the financial year		242,493	157,018
<b>Cash and cash equivalents at the end of the financial year</b>	24(a)	<b>221,042</b>	<b>242,493</b>

*The above cash flow statement should be read in conjunction with the accompanying notes.*

## MACQUARIE LIFE LIMITED

Notes to the financial statements  
for the year ended 31 March 2009

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### 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 consistently applied to all the years presented, unless otherwise stated.

#### i) Basis of preparation

Macquarie Life Limited is registered under the Life Insurance Act 1995.

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (which includes Australian interpretations by virtue of AASB 1048), and the Corporations Act 2001.

#### Compliance with IFRSs

Compliance with Australian Accounting Standards ensures that the financial statements and notes of Macquarie Life Limited comply with International Financial Reporting Standards (IFRS).

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

#### Critical accounting estimates

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

#### Standards, interpretations and amendments to published standards that are not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2009 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

*AASB 8 Operating Segments* and *AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8*  
AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Company has not adopted this standard early. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

*Revised AASB 123 Borrowing Costs* and *AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123* [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]  
The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and when adopted, will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The Company has not adopted these standards early. There will be no impact on the financial report of the Company, as the Company already capitalises borrowing costs relating to qualifying assets.

## MACQUARIE LIFE LIMITED

Notes to the financial statements  
for the year ended 31 March 2009

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards, interpretations and amendments to published standards that are not yet effective (continued)

Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Company intends to apply the revised standard from 1 April 2009.

#### ii) Principles for life insurance business

The life insurance operations of the Company are conducted within separate funds as required by the Life Insurance Act 1995 (the Life Act) and are reported in aggregate with the shareholders' fund in the income statement, balance sheet and cash flow statement of the Company. The life insurance operations of the Company comprise the selling and administration of life insurance and life investment contracts.

##### *Life insurance contracts*

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 (i.e. have no discernible effect on the economics of the transaction). 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 not linked to the market value of the investments held by the Company, and the financial risks are substantially borne by the Company. For the purpose of the Company's accounts life insurance contracts are classified under non investment linked business. Any products sold that do not meet the definition of a life insurance contract are classified as life investment contracts.

##### *Life investment contracts*

Life investment contracts comprise of investment-linked contracts where the benefit amounts are directly linked to the market value of the investments held in the particular investment-linked fund. While the underlying assets are registered in the name of the Company 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 fund's investment performance. The Company derives fee income from the administration of investment-linked policies and funds. For the purpose of the Company's accounts life investment contracts are classified under investment-linked business.

#### iii) Revenue recognition

Premium revenue is earned on life insurance contracts. Premiums with a regular due date are recognised as revenue on a due basis. Premiums with no due date are recognised as revenue on a cash received basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included as "Outstanding Premiums" in the notes to the accounts.

Fees for investment management services are recognised as revenue as the services are provided. Entry fees are charged to the client on inception. The consideration received is deferred as a liability and recognised over the life of the contract on a straight line basis.

Regular fees are charged to the customer periodically (monthly, quarterly or annually) either directly or by making a deduction from invested funds. Regular charges billed in advance are recognised on a straight-line-basis over the billing period, which is equivalent to the period over which the service is rendered. Fees charged at the end of the period are accrued as a receivable.

#### iv) Claims expense

Claims are separated into their expense and change in policy liability components. AASB 1038 requires separate disclosure for life investment contracts (investment linked) and life insurance contracts (non investment linked).

##### *Life insurance contracts*

Claims incurred relating to life insurance contracts (providing services and bearing risks including protection business) are treated as expenses. Claims are recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event depending on the type of claim.

## MACQUARIE LIFE LIMITED

Notes to the financial statements  
for the year ended 31 March 2009

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### iv) Claims expense (continued)

##### *Life investment contracts*

There is no claims expense in respect of life investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Surrenders are recognised when the policyholder formally notifies of their intention to end the policy previously contracted to.

Unrecouped acquisition costs attaching to life investments contracts surrendered are recognised as a reduction in the carrying value of deferred acquisition costs.

#### v) Deferred acquisition costs

The pattern of future profits of the investment linked product is affected by factors such as the level of acquisition costs that can be deferred and amortisation pattern applied to deferred acquisition costs.

##### *Life insurance contracts*

The costs incurred in acquiring specific life insurance contracts include advisor fees, commission payments, underwriting costs, application processing costs, relevant advertising costs, and promotion of products and related activities.

The proportion of life insurance contract acquisition costs not recovered by specific charges received from the contract holder at inception is deferred provided that these amounts are recoverable out of future product margins. The deferred income and costs are recognised on the balance sheets as a reduction in life insurance liabilities and are amortised through the income statement over the expected duration of the relevant policies.

##### *Life investment contracts*

The Company defers commissions incurred in selling new life investment contracts. These deferred commissions are recognised in the balance sheet as deferred assets and are amortised as the Company recognises the revenue to which costs relate. All other acquisition costs are expensed as incurred.

#### vi) Asset backing policy liabilities

The Company has determined that all assets held within its statutory funds are assets backing policy liabilities. All assets of the Company are managed under the Company's Risk Management Statement on a fair value basis and corresponding performance is reported to the Board. On this basis, all assets of the Company have been valued at fair value through profit or loss where applicable.

##### *Financial assets*

Financial assets are classified at fair value through profit or loss. Initial recognition is at cost and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised in the income statement. Fair value is determined as follows:

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of the cash assets and bank overdrafts approximate to their fair value. For the purposes of the cash flow statements, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts.
- Shares, fixed interest securities, options and units listed on stock exchanges: fair value is taken as the bid price of the instrument.
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at balance date.
- Unlisted unit trusts are recorded at fund manager's valuation.
- Receivables are carried at amortised cost, which is the best estimate of fair value as they are settled within a short period.
- Derivatives contracts are currently used to economically hedge exposures to interest rates and foreign currency. Under AASB 139, all derivative contracts, whether used for hedging purposes or not, are carried in the balance sheet, at fair value. Derivative contracts that do not qualify for hedge accounting are required to have any subsequent changes in fair value recognised in the income statement.

## MACQUARIE LIFE LIMITED

Notes to the financial statements  
for the year ended 31 March 2009

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### vii) Financial liabilities

Payables are carried at amortised cost, which is the best estimate of fair value as they are settled within a short period.

#### viii) Derivative instruments

Derivative instruments entered into by the Company include futures, swaps and options in the interest rate and equity markets. These derivative instruments are principally used for the risk management of existing financial assets and liabilities in relation to the Statutory Funds and as part of the operations of the Shareholders' Fund.

All derivatives, including those used for balance sheet hedging purposes, are recognised on the balance sheet and are disclosed as an asset where they have a positive fair value at balance date or as a liability where the fair value at balance date is negative.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Movements in the carrying amounts of derivatives are recognised in the income statement, unless the derivative meets the requirements for hedge accounting.

The best evidence of a derivative's fair value at initial recognition is the transaction price, unless its fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. Where such evidence exists, the Company recognises profits immediately when the derivative is recognised.

#### ix) Basis of expense apportionments

Bank charges, investment management charges and agents' fees incurred by Macquarie Investment Management Limited (MIML) required no apportionment as they were a direct charge to the appropriate fund. These charges are apportioned between acquisition and maintenance cost by life and investment contracts. Acquisition costs are the fixed and variable costs of acquiring new business, including commissions and similar distribution costs and costs of accepting, issuing and initially recording policies. Investment management costs include the costs involved with buying and selling investments and the ongoing management costs of an investment portfolio.

All other expenses are incurred by Macquarie Bank Limited on behalf of Macquarie Life Limited. These expenses are allocated to Macquarie Life Limited on the basis of staff time allocations and are recharged at cost plus a margin of 10% in the form of a management fee.

#### x) Income tax

The Company is part of a consolidated group, of which Macquarie Group Limited is the head entity.

As a consequence the Company is not subject to income tax and does not recognise any tax assets or liabilities in its own financial statements unless the head entity is in default of its obligations, or a default is probable, under the tax consolidation legislation. Under the terms and conditions of a tax contribution agreement, the Company will be charged or reimbursed for tax assets or liabilities incurred by Macquarie Group Limited in connection with the Company's activities. The effect of the tax contribution agreement is that the subsidiary records an amount as income tax expense equal to the amount that would have been calculated had the subsidiary continued to be subject to income tax.

A balance sheet method is used to determine deferred tax assets and deferred tax liabilities, which requires a comparison between the carrying amount and the tax base for each asset and liability.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amount in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on the prevailing tax rates. The relevant tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that the future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balance attributable to amounts recognised directly in equity are also recognised directly in equity.

## MACQUARIE LIFE LIMITED

Notes to the financial statements  
for the year ended 31 March 2009

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### x) Trade receivables and accounts payable

Accounts receivable generally settled within 30 days are carried at amounts due. Accounts payable, including accruals not yet billed, are recognised when the Company becomes obliged to make future payments as a result of a purchase of assets or services. Accounts payable are generally settled within 30 days.

#### xii) Cash and cash equivalents

For the purpose of the cash flow statement, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts which are readily convertible to cash on hand at the investor's option, and have an insignificant risk to changes in value.

#### xiii) Comparative figures

Where necessary, comparative figures have been restated to conform with changes in presentation in the current year.

#### xiv) Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## MACQUARIE LIFE LIMITED

Notes to the financial statements  
for the year ended 31 March 2009

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### 2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities at year end. 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 areas where critical accounting estimates are applied are noted below.

It has been determined that no critical accounting judgements have been made in the year.

#### (a) Life insurance contract liabilities

Life insurance contract liabilities 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 class of life insurance business written. Deferred policy acquisition costs is connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- (i) the cost of providing benefits and administering these insurance contracts;
- (ii) mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- (iii) discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contract
- (iv) the amounts credited to policyholders' accounts compared to the returns on invested assets through asset-liability management and strategic and tactical asset allocation

In addition factors such as regulation, competition, interest rates, securities market conditions and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods are set out in note 3.

Balances of insurance contract liabilities 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 are expected to 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.

Balances of reinsurance contracts are set out in note 17.

#### (c) Investments contracts - deferred acquisition cost and deferred revenue

The assessment of recoverability and amortisation of deferred acquisition costs is an inherently uncertain process. There is no reliable measure of the future economic benefits that will arise from the acquisition costs incurred. This is largely due to uncertainty surrounding continuance or surrender of particular policies. The acquisition costs are capitalised and separately disclosed as an intangible asset in the balance sheet and amortised over the period to which the benefits are received.

The amortisation of deferred revenue is an inherently uncertain process, involving assumptions about factors related to the period a policy will be in force. This is largely due to uncertainty surrounding continuance or surrender of particular policies. The deferred revenue is capitalised and separately disclosed as an other liability in the balance sheet and amortised over the period to which the policy is expected to provide income.

Balances of deferred acquisition costs are set out in note 19.

## MACQUARIE LIFE LIMITED

Notes to the financial statements  
for the year ended 31 March 2009

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### 3. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS

The effective date of the actuarial report on life insurance liabilities, life investment contract liabilities and solvency reserves is 31 March 2009. The actuarial report was prepared by Greg Martin BA, FIAA, ASIA on 12th May 2009. The actuarial report indicates that Greg Martin is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The policy liabilities have been determined in accordance with the applicable accounting standards. Policy liabilities for life insurance contracts are valued in accordance with AASB 1038, whereas life investment contracts are valued in accordance with AASB 139.

#### PART 1 - POLICY ASSUMPTIONS

Life insurance contract liabilities have been calculated in accordance with relevant actuarial guidance. Life insurance contract liabilities have been calculated in a way which allows for the systematic release of planned margins as services are provided to policyholders and premiums are received.

Policy liabilities have been calculated in accordance with Life Prudential Standard LPS 1.04 "Valuation of Policy Liabilities" issued by the APRA. The Life Prudential Standard requires that life insurance contract policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners and premiums are received.

For life investment contracts, the Life Prudential Standard requires the policy liabilities to be calculated in accordance with Australian Accounting Standards outlined in note 1.

#### **Disclosure of Assumptions for Life Insurance Contracts**

The methods and profit carriers for particular policy types are as follows:

Actuarial Methods

BUSINESS TYPE	METHOD	PROFIT CARRIER(S)
Term Life and Disability Insurance	Accumulation	Premiums

#### PART 2 - SOLVENCY REQUIREMENTS

These are amounts required to meet the prudential standards specified by the APRA to provide protection against the impact of fluctuations and unexpected adverse circumstances on the Company.

The methodology and bases for determining Solvency Requirements are in accordance with the requirements of APRA Prudential Standards.

#### PART 3 - DISCLOSURE OF ASSUMPTIONS

(i) **Discount Rates**

Discount rates assumed were 4.4% p.a. (2008: 6.2% p.a.).

(ii) **Inflation Rates**

Allowance for future inflation of 2.6% pa (2008: 3.2%) is assumed.

(iii) **Future Expenses and Indexation**

Future maintenance expenses have been assumed based on the 2009/10 budget.

Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies.

Benefits and/or premiums under most of the regular premium policies are automatically indexed. Assumed future take-up of these indexation options has been based on the Company's previous experience and industry experience.

(iv) **Rates of Taxation**

The life insurance contract liabilities have been determined on a gross of tax basis.

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**3. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS (Continued)**

**DISCLOSURE OF ASSUMPTIONS (continued)**

**(v) Decrements**

*Mortality*

Mortality rates vary by product from 64% to 80% of IA95/97 insured lives mortality table, published by the Institute of Actuaries of Australia, disaggregated by smoker status and adjusted to allow for the effects of initial selection and industry experience (2008: 73% to 80%).

*Morbidity*

The morbidity rates for lump sum TPD benefits are based on a combination of reinsurance company experience and industry experience (No change from 2008).

*Disability*

Disability rates, which vary by sex, age, smoking status and occupation have been based on industry experience. The claim termination rates as shown below.

Termination between 25% - 125% IAD 89-93 (No change from 2008).

*Rates of discontinuance*

Future rates of discontinuance for the major classes of business are assumed in aggregate to be in the order of :

Term life insurance: 5%-20% (No change from 2008).

Assumed rates may vary by sub-grouping within a class and vary according to the length of time tranches of business have been in force.

**(vi) Surrender values**

Surrender values are based on the provisions specified in policy contracts and include a recovery of policy establishment and maintenance costs.

**(vii) Effects of changes in actuarial assumptions from 31 March 2008 to 31 March 2009**

The policy liabilities are calculated on an accumulation basis. No changes to the accumulation basis assumptions were made during the year. The policy liability is subject to a recoverability test. The changes in the assumptions adopted for recoverability test did not have a material impact (less than \$0.1 million) on policies inforce at 31 March 2009.

## MACQUARIE LIFE LIMITED

Notes to the financial statements  
for the year ended 31 March 2009

### 3. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

#### PART 4 - PROCESSES USED TO SELECT ASSUMPTIONS

##### *Risk discount rate*

The discount rates adopted are risk free rates based on current observable, objective rates that relate to the nature, structure and term of the future obligations.

##### *Expense level and Inflation*

The budgeted level of expenses is taken as an appropriate expense base. Expense inflation is based on current inflation rates and the outlook for inflation over the term of the liabilities.

##### *Tax*

It has been assumed that current tax legislation and rates continue unaltered.

##### *Mortality and Morbidity*

Assumed claim rates were based on various published tables, primarily those most recently published by the Institute of Actuaries of Australia, adjusted in light of most recent industry experience and the Appointed Actuary's best estimate of claims experience of the Company.

##### *Discontinuance*

Assumed discontinuance rates are based on recent actual discontinuance experience and the appointed actuaries best estimate of future discontinuance rates. Assumed rates vary by subgroupings within a category and vary according to the length of time tranches of business have been in force.

##### *Interest rates*

The gross interest rates used are the gross yield to redemption of benchmark government securities.

#### PART 5 - SENSITIVITY ANALYSIS

The Company conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables such as interest rate, equity prices, mortality, morbidity and inflation. The valuations included in the reported results and the Company's best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Company and as such represents a risk.

<u>Variable</u>	<u>Impact of movement in underlying variable</u>
Expense Risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholders' equity.
Market Interest Rate	An increase in market interest will cause the value of the entity's financial assets and interest rate sensitive liabilities to fall. 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	Greater mortality rates would lead to higher levels of claims occurring, increasing claims cost and therefore reducing profit and shareholders' equity.
Morbidity Rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. 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 performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome from increase in discontinuance rates.

**MACQUARIE LIFE LIMITED**Notes to the financial statements  
for the year ended 31 March 2009**3. SUMMARY OF SIGNIFICANT ACTUARIAL METHODS AND ASSUMPTIONS (Continued)****PART 5 - SENSITIVITY ANALYSIS (continued)**

The table below illustrates how changes in key assumptions would impact the reported profit and equity of the Company.

	Gross (of reinsurance)			Net (of reinsurance)	
	Change in Variable	Profit/(Loss) 2009	Life Insurance Liabilities	Profit/(Loss) 2009	Life Insurance Liabilities
	%	\$'000	\$'000	\$'000	\$'000
Results of change in variables:					
Market Interest Rate (Increase)	0.5%	(1,041)	1,488	(656)	936
Worsening of mortality	10%	(3,226)	4,608	(432)	617
Worsening of discontinuance rate	10%	(2,826)	4,038	(1,795)	2,564
Increase in Maintenance Expenses	10%	(1,862)	2,660	(1,862)	2,660

#### **4. RISK MANAGEMENT POLICY AND PROCEDURES**

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 (including foreign exchange risk, interest rate risk and price risk), credit risk, liquidity and cash flow risk. The non-financial risks are insurance risk, compliance risk and operational risk. The Company's objective and policies in respect of managing these risks are set out in the remainder of this section.

##### **(a) Risk management objectives and policies for mitigating insurance risk**

The Company's objective is to satisfactorily manage these risks in line with the Company's Risk Management Policies 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. The Company's exposure to key risks is monitored by management in conjunction with the risk management compliance and operations teams and this exposure is regularly reported to the Board.

Financial risks are generally monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored by management to ensure that there is 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 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.

Insurance risks are controlled through the use of product design, underwriting procedures, adequate premium rates and sufficient reinsurance arrangements. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims and monitoring of claims experience to ensure consistency with assumptions.

##### **(b) Strategy for managing insurance risk**

###### *Portfolio of risks*

The Company issues term life insurance contracts and disability insurance contracts. The performance of the Company and its continuing ability to write business depends on its ability to pre-empt and control risks. The Company has a risk strategy which has been approved by the Board. It summarises the Company's approach to risk and risk management.

###### *Risk strategy*

In compliance with the contractual and regulatory requirements, a strategy is in place to ensure that the risks underwritten satisfy policyholder's risk and reward objectives whilst not adversely affecting the Company's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital management is also a key aspect of the Company's risk management strategy. Capital requirements are measured using a risk based capital model and all of the various regulatory reporting requirements to which the Company is subject.

###### *Allocation of capital*

Capital is allocated by the Company to the portfolios of contracts or is held in a central reserve based on management's assessment of the risk to which each line of business is exposed and its view of the profitability of the products that are sold.

Solvency margin requirements established by the Australian Prudential Regulation Authority (APRA) are in place to reinforce safeguards for policyholders interest, which are primarily the ability to meet future claims payments to policyholders. The solvency margins measure the excess of the value of the insurers' assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the year, not just at year end. These solvency requirements also take into account specific risks faced by the Company. Where the outcome of specific adverse scenarios differ from expectations, this has also been identified.

## MACQUARIE LIFE LIMITED

Notes to the financial statements  
for the year ended 31 March 2009

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### 4. RISK MANAGEMENT POLICY AND PROCEDURES (Continued)

#### (c) Methods to monitor and assess insurance risk exposures

##### *Exposure to Risk*

In an effort to protect and enhance shareholder value, the Company actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets, insurance cycles, and economic and political environments. Risk exposures are managed using various analysis and valuation techniques, such as duration analysis, to calculate the economic capital required to support adverse risk scenarios, along with other cash flow analysis, and prudent and diversified underwriting and investing.

##### *Financial Monitoring*

The Company reports quarterly financial and operational results, mortality and morbidity experience, claims frequency and severity, and exposure for each portfolio of contracts (gross and net of reinsurance) to the Directors. This information is combined with the detail of the Company's performance and its gross net exposure. The process by which it is gathered and the controls over the process are reviewed by the risk management and compliance teams on a quarterly basis and are subject to annual review by the Company's Appointed Actuary.

#### (d) Methods to limit or transfer insurance risk exposures

##### *Reinsurance*

All reinsurance treaties are analysed using a number of analytical modelling tools to assess the impact on the Company's exposure to risk.

##### *Underwriting procedures*

Underwriting decisions are put into effect using the underwriting procedures detailed in the Company's underwriting manual. Such procedures include limits to delegated authorities and signing powers. The underwriting process is regularly monitored by the reinsurer to ensure adequate controls are in place over the underwriting process and that the controls are effective.

##### *Claims management*

Claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions. This is particularly necessary for the disability business where claims are paid as income. Disability income claims are monitored on a monthly basis to track the experience of the portfolio.

##### *Asset and liability management techniques*

Duration analysis is primarily used to manage asset liability management risk.

Management of market risks is generally less critical for short-term insurance products, as the amounts and timing of claims do not vary significantly with interest rates or other market changes that affect the underlying investments. The premiums received and the investment returns (net investment income and realised gains and losses) provide substantial liquidity to meet claims payments and associated expense as they arise. Consequently, there is greater flexibility in investment strategies while managing investments to ensure sufficient liquidity to meet the claims as they become due, based on actuarial assessments.

## MACQUARIE LIFE LIMITED

Notes to the financial statements  
for the year ended 31 March 2009

### 4. RISK MANAGEMENT POLICY AND PROCEDURES (Continued)

#### (e) Concentration of insurance risk

*Insurance risks associated with human life events*

The Company aims to maintain a wide age profile spread and mix of the sexes within its portfolio of policyholders.

The Company has various reinsurance arrangements in place which are designed to protect the statutory funds from very large claims, to provide protection against volatility of profit from claims fluctuations and deteriorating experience.

#### (f) Terms and conditions of insurance contracts

The nature of the terms of the life insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provide an overview of the key variables on which related cash flows are dependent.

Type of Contract	Detail of contract workings	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Term Life and Disability	Benefits paid on death or ill health that are fixed and not at the discretion of the issuer	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of the underlying assets or performance of the contracts as a whole	Mortality Morbidity Market earning rates Interest rates Discontinuance rates Expenses

**MACQUARIE LIFE LIMITED**  
Notes to the financial statements  
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**5. SUMMARY OF SHAREHOLDERS' INTERESTS**

The total interest of the Shareholders in the operating profit after income tax and net assets of Macquarie Life Limited is as follows:

	2009	2009	2009	2008	2008	2008
	Statutory	Shareholders'	Company	Statutory	Shareholders'	Company
	Funds	Fund	Funds	Funds	Fund	Funds
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net profit attributable to shareholders of Macquarie Life Limited	3,690	(15,971)	(12,281)	3,891	(59,255)	(55,364)
Retained profits at the beginning of the year	6,391	(58,383)	(51,992)	2,684	34,500	37,184
Transfers of profits between funds	(4,000)	4,000	-	(184)	184	-
Dividends provided for or paid	-	-	-	-	(33,812)	(33,812)
<b>RETAINED PROFITS AT THE END OF THE YEAR</b>	<b>6,081</b>	<b>(70,354)</b>	<b>(64,273)</b>	<b>6,391</b>	<b>(58,383)</b>	<b>(51,992)</b>
Contributed equity	10,383	163,329	173,712	18,967	179,745	198,712
Transfer of capital between Funds	24,000	(24,000)	-	(8,584)	8,584	-
Capital reserve	11,000	-	11,000	11,000	-	11,000
<b>TOTAL SHAREHOLDERS' INTERESTS</b>	<b>51,464</b>	<b>68,975</b>	<b>120,439</b>	<b>27,774</b>	<b>129,946</b>	<b>157,720</b>

**COMPONENTS OF SHAREHOLDERS' INTERESTS IN**

STATUTORY FUNDS (1)	6,081
- Shareholders' retained profits (non-participating)	21,383
- Shareholders' capital reserves	<u>27,774</u>

**EXPLANATORY NOTE:**

(1) Shareholders' access to the retained profits and shareholders' capital within statutory funds is restricted by the extent these monies are required to meet solvency and capital adequacy standards under the Life Insurance Act 1995.

## **MACQUARIE LIFE LIMITED**

Notes to the financial statements  
for the year ended 31 March 2009

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### **6. RECONCILIATION TO THE LIFE INSURANCE ACT 1995 OPERATING PROFIT AND RETAINED PROFITS OF THE STATUTORY ACCOUNTS**

The following principles have been applied to the allocation and distribution of profits.

#### **Part 1 - ALLOCATION OF OPERATING PROFIT**

The Company writes only Australian non-participating business. Therefore 100% of profits are allocated to shareholders.

#### **Part 2 - DISTRIBUTION OF RETAINED PROFITS**

Distribution of retained profits to the shareholders is made in accordance with the requirements in section 62 of the Life Insurance Act 1995. For the year ended 31 March 2009, distributions of profit have been determined by the Directors on the recommendation of the actuary.

#### **Part 3 - DETAILS OF OPERATING AND RETAINED PROFITS**

There is no difference between the operating profit and retained profit of the statutory funds as reported in these financial statements and as calculated in accordance with the Life Insurance Act, 1995. There are no policy owners' interests in the statutory funds, and the shareholders' interests are detailed in note 5.

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**MACQUARIE LIFE LIMITED**  
Notes to the financial statements  
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**7. SOLVENCY REQUIREMENTS OF THE STATUTORY FUNDS**

Distribution of the retained profits shown in Note 5 is limited by the prudential capital requirements of the Life Insurance Act 1995, the detailed provisions of which are specified by Actuarial Standards.

The Solvency Standard prescribes a minimum capital requirement - the Solvency Requirement - for each statutory fund of the Company. The Solvency Requirements, and ratios in respect of those requirements are as follows:

	2009 No. 1 Statutory Fund \$'000	2009 No. 3 Statutory Fund \$'000	2009 No. 4 Statutory Fund \$'000	2009 Total Statutory Funds \$'000	2008 No. 1 Statutory Fund \$'000	2008 No. 3 Statutory Fund \$'000	2008 No. 4 Statutory Fund \$'000	2008 Total Statutory Funds \$'000
<b>SOLVENCY REQUIREMENT (1)</b>	<b>709,201</b>	<b>803,132</b>	<b>1,662</b>	<b>1,513,995</b>	<b>1,054,954</b>	<b>842,425</b>	<b>9,822</b>	<b>1,907,201</b>
REPRESENTED BY:								
Minimum Termination Value (2)	703,636	764,564	(600)	1,467,600	1,038,938	797,856	3,476	1,840,270
Other liabilities	2,992	36,642	2,134	41,768	12,302	42,562	6,290	61,154
Solvency "reserve"	2,573	1,926	128	4,627	3,714	2,007	56	5,777
<b>ASSETS AVAILABLE FOR SOLVENCY</b>	<b>7,114</b>	<b>5,867</b>	<b>19,008</b>	<b>31,989</b>	<b>7,743</b>	<b>4,511</b>	<b>10,143</b>	<b>22,397</b>
COMPRISED OF:								
- Excess of policy liability over Minimum Termination Value	935	-	(20,410)	(19,475)	1,031	-	(6,408)	(5,377)
- Retained profits required for solvency	1,638	1,926	20,538	24,102	2,683	2,007	6,464	11,154
- Excess assets	4,541	3,941	18,880	27,362	4,029	2,504	10,087	16,620
Solvency "reserve" % (B / (A-B)) X 100	0.36%	0.24%	8.34%	0.31%	0.35%	0.24%	0.57%	0.30%
Coverage of solvency "reserve" (3) C/B	2.76	3.05	148.50	6.91	2.08	2.25	181.13	3.88

**EXPLANATORY NOTES:**

- (1) The minimum level of assets required to be held in each Statutory Fund, prescribed by the Solvency standard referred to in Part 5 of the Life Insurance Act 1995.
- (2) The Minimum Termination Value (MTV) is determined in accordance with the Solvency Standard and is the base figure upon which reserves against liability and asset risks are layered in determining the Solvency Requirement. The Minimum Termination Value represents the minimum obligation of the Company to policy owners at the reporting date.
- (3) A Coverage of Solvency Reserve ratio in excess of 1.0 demonstrates that the Solvency Requirement has been met.

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	Note	2009		2009		2009		2009		2008		2008		2008	
		Investment Linked Business \$'000	Total Statutory Funds \$'000	Shareholders' Fund \$'000	Total Company \$'000	Investment Linked Business \$'000	Non Investment Linked Business \$'000	Investment Linked Business \$'000	Total Statutory Funds \$'000	Shareholders' Fund \$'000	Total Company \$'000				
Life insurance contract premium revenue		19,803	19,803	-	19,803	8,364	8,364	-	-	8,364	-	-	8,364	-	8,364
Investment revenue	9(a)	1,505	87,562	24,134	111,696	978	129,080	128,102	23,760	152,840	23,760	152,840	129,080	23,760	152,840
Other revenue	9(b)	-	23,369	570	23,939	-	29,431	29,431	-	29,431	-	29,431	29,431	-	29,431
<b>TOTAL REVENUE</b>		<b>21,308</b>	<b>130,734</b>	<b>24,704</b>	<b>155,438</b>	<b>9,342</b>	<b>166,875</b>	<b>157,533</b>	<b>23,760</b>	<b>190,635</b>	<b>23,760</b>	<b>190,635</b>	<b>166,875</b>	<b>23,760</b>	<b>190,635</b>

**MACQUARIE LIFE LIMITED**

Notes to the financial statements  
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**9(a). INVESTMENT REVENUE**

	2009 Investment Linked Business \$'000	2009 Investment Linked Business \$'000	2009 Statutory Funds \$'000	2009 Total Shareholders' Fund \$'000	2009 Total Company \$'000	2008 Investment Linked Business \$'000	2008 Statutory Funds \$'000	2008 Total Shareholders' Fund \$'000	2008 Total Company \$'000
Interest, dividend, rent and similar									
Revenue sourced from:									
Equity securities	-	60,521	60,521	-	60,521	85,205	85,205	-	85,205
Debt securities	-	14,633	14,633	-	14,633	20,632	20,632	-	20,632
Property securities	-	4,775	4,775	5,064	9,839	13,284	13,284	16,221	29,505
Other	1,505	6,128	7,633	19,070	26,703	8,981	9,959	7,539	17,498
<b>TOTAL INVESTMENT REVENUE</b>	<b>1,505</b>	<b>86,057</b>	<b>87,562</b>	<b>24,134</b>	<b>111,696</b>	<b>128,102</b>	<b>129,080</b>	<b>23,760</b>	<b>152,840</b>
Net fair value gains and losses	-	(219,031)	(219,031)	(41,939)	(260,970)	(130,292)	(130,292)	(92,458)	(222,750)
<b>TOTAL INVESTMENT INCOME</b>	<b>1,505</b>	<b>(132,974)</b>	<b>(131,469)</b>	<b>(17,805)</b>	<b>(149,274)</b>	<b>(2,190)</b>	<b>(1,212)</b>	<b>(68,698)</b>	<b>(69,910)</b>

**9(b). OTHER REVENUE**

	2009 Investment Linked Business \$'000	2009 Investment Linked Business \$'000	2009 Statutory Funds \$'000	2009 Total Shareholders' Fund \$'000	2009 Total Company \$'000	2008 Investment Linked Business \$'000	2008 Statutory Funds \$'000	2008 Total Shareholders' Fund \$'000	2008 Total Company \$'000
Fee and other income	-	23,369	23,369	570	23,939	29,431	29,431	-	29,431
<b>TOTAL OTHER REVENUE</b>	<b>-</b>	<b>23,369</b>	<b>23,369</b>	<b>570</b>	<b>23,939</b>	<b>29,431</b>	<b>29,431</b>	<b>-</b>	<b>29,431</b>

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**10. LIFE INSURANCE CLAIMS EXPENSE**

	2009 Non Investment Linked Business \$'000	2009 Investment Linked Business \$'000	2009 Total Statutory Funds \$'000	2009 Total Shareholders' Fund \$'000	2009 Total Company \$'000	2008 Non Investment Linked Business \$'000	2008 Investment Linked Business \$'000	2008 Total Statutory Funds \$'000	2008 Total Shareholders' Fund \$'000	2008 Total Company \$'000
Death and disability claims	1,946	-	1,946	-	1,946	594	-	594	-	594
<b>LIFE INSURANCE CLAIMS EXPENSE</b>	<b>1,946</b>	<b>-</b>	<b>1,946</b>	<b>-</b>	<b>1,946</b>	<b>594</b>	<b>-</b>	<b>594</b>	<b>-</b>	<b>594</b>

**MACQUARIE LIFE LIMITED**

Notes to the financial statements  
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**11. ADMINISTRATION COSTS**

	2009 Investment Linked Business \$'000	2009 Non Investment Linked Business \$'000	2009 Investment Linked Business \$'000	2009 Total Statutory Funds \$'000	2009 Shareholders' Fund \$'000	2009 Total Company \$'000	2008 Investment Linked Business \$'000	2008 Total Statutory Funds \$'000	2008 Shareholders' Fund \$'000	2008 Total Company \$'000
<i>Policy acquisition expenses</i>										
Commissions	11,803		205	12,008	-	12,008	317	3,508	-	3,508
Other	9,491		1,410	10,901	-	10,901	1,875	7,934	-	7,934
<i>Policy maintenance expenses</i>										
Commissions	1,974		4,370	6,344	-	6,344	5,664	6,526	-	6,526
Other	3,547		12,997	16,544	-	16,544	13,932	16,204	-	16,204
Non-recurring expenses	3,170		-	3,170	-	3,170	-	2,834	-	2,834
Investment management expenses	-		878	878	703	1,581	1,161	1,161	699	1,860
<b>TOTAL ADMINISTRATION EXPENSE</b>	<b>29,985</b>		<b>19,860</b>	<b>49,845</b>	<b>703</b>	<b>50,548</b>	<b>22,949</b>	<b>38,167</b>	<b>699</b>	<b>38,866</b>

**ANALYSIS OF EXPENSES BY NATURE**

Commissions	13,777	4,575	18,352	18,352	4,053	5,981	10,034	-	10,034
Macquarie Group allocation of expenses	13,720	14,819	28,539	29,242	9,702	14,990	24,692	699	25,391
Bank charges	-	-	-	-	19	10	29	-	29
Other	2,488	466	2,954	2,954	1,444	1,968	3,412	-	3,412
<b>TOTAL ADMINISTRATION EXPENSE</b>	<b>29,985</b>	<b>19,860</b>	<b>49,845</b>	<b>50,548</b>	<b>15,218</b>	<b>22,949</b>	<b>38,167</b>	<b>699</b>	<b>38,866</b>

**MACQUARIE LIFE LIMITED**

Notes to the financial statements  
for the year ended 31 March 2009

**12. AUDITOR REMUNERATION**

	2009	2008
	\$	\$

Amounts received, or due and receivable, by the auditor from  
the Company for:

Audit	132,535	116,000
Other services	-	-
<b>TOTAL AUDITOR REMUNERATION</b>	<b>132,535</b>	<b>116,000</b>

**MACQUARIE LIFE LIMITED**

Notes to the financial statements  
for the year ended 31 March 2009

**13. STATEMENT OF SOURCES OF OPERATING PROFIT IN STATUTORY FUNDS**

a) SHAREHOLDERS' OPERATING PROFIT IN STATUTORY FUNDS	2009		2009		2008		2008	
	Non Investment Linked Business \$'000	Investment Linked Business \$'000	Total Statutory Funds \$'000	Non Investment Linked Business \$'000	Investment Linked Business \$'000	Total Statutory Funds \$'000	Non Investment Linked Business \$'000	Investment Linked Business \$'000
The shareholders' operating profit after income tax of the statutory funds is represented by:								
Investment earnings on Shareholders' retained profits and shareholders' capital	1,392	1,647	3,039	358	1,331	1,689		
Emergence of Shareholders' planned profits Experience (loss)/profit	(1,941) (584)	3,857 (681)	1,916 (1,265)	(2,467) (1,085)	4,600 1,152	2,133 67		
<b>SHAREHOLDERS OPERATING PROFIT AFTER INCOME TAX</b>	<b>(1,133)</b>	<b>4,823</b>	<b>3,690</b>	<b>(3,194)</b>	<b>7,083</b>	<b>3,889</b>		

**MACQUARIE LIFE LIMITED**

Notes to the financial statements

for the year ended 31 March 2009

**14. CASH AND CASH EQUIVALENTS**

	2009 Investment Linked Business \$'000	2009 Investment Linked Business \$'000	2009 Statutory Funds \$'000	2009 Shareholders' Fund \$'000	2009 Total Company \$'000	2008 Non Investment Linked Business \$'000	2008 Investment Linked Business \$'000	2008 Statutory Funds \$'000	2008 Shareholders' Fund \$'000	2008 Total Company \$'000
Cash at Bank	146	121,912	122,058	22,434	144,492	110	105,406	105,516	88,975	194,491
Cash in Unit Trust	17,481	-	17,481	59,069	76,550	12,268	-	12,268	35,734	48,002
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>17,627</b>	<b>121,912</b>	<b>139,539</b>	<b>81,503</b>	<b>221,042</b>	<b>12,378</b>	<b>105,406</b>	<b>117,784</b>	<b>124,709</b>	<b>242,493</b>

**MACQUARIE LIFE LIMITED**

Notes to the financial statements  
for the year ended 31 March 2009

15. RECEIVABLES	2009		2009		2009		2009		2009		2008		2008	
	Investment Linked Business \$'000	Non Investment Linked Business \$'000	Investment Linked Business \$'000	Statutory Funds \$'000	Total Statutory Funds \$'000	Shareholders' Fund \$'000	Total Company \$'000	Investment Linked Business \$'000	Non Investment Linked Business \$'000	Investment Linked Business \$'000	Statutory Funds \$'000	Total Statutory Funds \$'000	Shareholders' Fund \$'000	Total Company \$'000
Outstanding settlements	-	1,295	1,295	1,295	1,295	-	1,295	-	-	-	-	-	-	-
Investment income accrued & receivable	92	383	383	475	1,852	1,377	1,852	3,657	164	3,821	3,821	1,608	5,429	
Amounts due from the ultimate parent entity	4,007	11,232	11,232	15,239	18,318	3,079	18,318	8,317	3,543	11,860	11,860	339	12,199	
Outstanding premiums	1,490	-	-	1,490	1,490	-	1,490	-	718	718	718	-	718	
Other	357	224	224	581	581	-	581	643	590	1,233	1,233	828	2,061	
<b>TOTAL RECEIVABLES</b>	<b>5,946</b>	<b>13,134</b>	<b>13,134</b>	<b>19,080</b>	<b>23,536</b>	<b>4,456</b>	<b>23,536</b>	<b>12,617</b>	<b>5,015</b>	<b>17,632</b>	<b>17,632</b>	<b>2,775</b>	<b>20,407</b>	

*Expected to be realised within 12 months*

**MACQUARIE LIFE LIMITED**  
Notes to the financial statements  
for the year ended 31 March 2009

**16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2009	2009	2009	2009	2009	2009	2009	2009	2008	2008	2008	2008	2008	2008	2008	2008	2008	2008	2008	
	Investment	Investment	Statutory	Total	Shareholders'	Total	Company	Investment	Investment	Linked	Statutory	Total	Shareholders'	Total	Statutory	Total	Shareholders'	Total	Total	
	Linked	Linked	Funds	Funds	Fund	Total	Total	Linked	Linked	Business	Funds	Funds	Fund	Fund	Funds	Funds	Fund	Fund	Company	
	Business	Business	\$'000	\$'000	\$'000	\$'000	\$'000	Business	Business	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Equity securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equities held directly	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equities held indirectly in unit trusts	114,381	306,935	114,381	306,935	-	114,381	306,935	-	-	179,718	179,718	179,718	-	-	179,718	-	-	-	179,718	-
<b>TOTAL EQUITY SECURITIES</b>	114,381	306,935	114,381	306,935	-	114,381	306,935	-	-	179,718	179,718	179,718	-	-	179,718	-	-	-	179,718	-
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Private sector	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank bills	631,491	71,669	631,491	71,669	-	631,491	71,669	-	-	577,409	577,409	577,409	-	-	577,409	-	-	-	577,409	-
Other	71,669	717,597	71,669	717,597	-	71,669	717,597	-	-	148,935	148,935	148,935	-	-	148,935	-	-	-	148,935	-
<b>TOTAL DEBT SECURITIES</b>	71,669	717,597	71,669	717,597	-	71,669	717,597	-	-	788,506	788,506	788,506	-	-	788,506	-	-	-	788,506	-
Property securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property held indirectly via unit trusts	40,921	40,921	40,921	40,921	14,283	40,921	55,204	-	-	60,483	60,483	60,483	-	-	60,483	-	-	-	60,483	-
<b>TOTAL PROPERTY SECURITIES</b>	40,921	40,921	40,921	40,921	14,283	40,921	55,204	-	-	60,483	60,483	60,483	-	-	60,483	-	-	-	60,483	-
Interest Bearing Securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest bearing securities held indirectly via unit trusts	196,668	196,668	196,668	196,668	-	196,668	196,668	-	-	447,312	447,312	447,312	-	-	447,312	-	-	-	447,312	-
<b>TOTAL INTEREST BEARING SECURITIES</b>	196,668	196,668	196,668	196,668	-	196,668	196,668	-	-	447,312	447,312	447,312	-	-	447,312	-	-	-	447,312	-
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	1,376,502	1,376,502	1,376,502	1,376,502	14,283	1,390,785	1,390,785	-	-	1,783,564	1,783,564	1,783,564	-	-	1,783,564	-	-	-	1,930,735	-
<i>Expected to be realised within 12 months</i>	-	517,353	517,353	517,353	14,283	531,636	531,636	-	-	667,056	667,056	667,056	-	-	667,056	-	-	-	814,227	-
<i>Expected to be realised in more than 12 months</i>	859,149	859,149	859,149	859,149	-	859,149	859,149	-	-	1,116,508	1,116,508	1,116,508	-	-	1,116,508	-	-	-	1,116,508	-

When apportioning trust holdings, holdings are reported in a single asset class if at least 95% of the investments of a trust are held in that class.

**Significant terms and conditions**

All financial instruments of the Company are held or issued on normal commercial terms at market rates of interest. There are no significant terms or conditions in respect of the financial instruments held or issued.

**Credit risk**

Trading investments are recorded in the accounts at fair value which represents the Company's exposure to credit risk in relation to these instruments. The carrying amounts of other financial assets included in the Company's balance sheet represent the Company's maximum exposure to credit risk in relation to these assets.

**Fair values**

The Directors consider the carrying amounts of Investment Assets approximate their fair values.

**MACQUARIE LIFE LIMITED**

Notes to the financial statements  
for the year ended 31 March 2009

**17. POLICY LIABILITIES**

(a) MOVEMENTS IN LIFE INSURANCE POLICY LIABILITIES

	2009 Total Statutory Funds \$'000	2008 Total Statutory Funds \$'000
<b>Life investment contract liabilities</b>		
Gross life investment contract liabilities at 1 April	1,836,793	2,075,991
Net decrease in life investment contract policy liabilities reflected in the income statement	(154,174)	(20,530)
Life investment contract contributions recognised in policy liabilities	608,876	1,381,621
Life investment contract withdrawals recognised in policy liabilities	(827,628)	(1,593,619)
Contributions tax component of premiums	25,725	20,771
Fees and other expenses	(21,393)	(27,441)
<b>Gross life investment contract liabilities at 31 March</b>	<b>1,468,199</b>	<b>1,836,793</b>
<b>Life insurance contract liabilities</b>		
Gross life insurance contract liabilities at 1 April	(2,932)	1,119
(Increase)/decrease in life insurance contract liabilities reflected in the income statement	(18,078)	(4,051)
<b>Gross life insurance contract liabilities at 31 March</b>	<b>(21,010)</b>	<b>(2,932)</b>
<b>Reinsurers' share of life insurance liabilities</b>		
Opening balance at 1 April	(2,442)	(2,319)
(Increase)/decrease in reinsurance assets reflected in the income statement	5,473	(123)
<b>Gross reinsurers' life insurance liabilities</b>	<b>3,031</b>	<b>(2,442)</b>
<b>NET POLICY LIABILITIES</b>	<b>1,450,220</b>	<b>1,831,419</b>
<i>Expected to be realised within 12 months</i>	<i>396,163</i>	<i>498,510</i>
<i>Expected to be realised in more than 12 months</i>	<i>1,054,057</i>	<i>1,332,909</i>

**MACQUARIE LIFE LIMITED**Notes to the financial statements  
for the year ended 31 March 2009**17. POLICY LIABILITIES (Continued)**

## (b) COMPONENTS OF NET LIFE INSURANCE POLICY LIABILITIES

	Note	2009 Statutory Funds \$'000	2008 Statutory Funds \$'000
<b>BEST ESTIMATE LIABILITY</b>	1		
For non investment-linked business			
Value of future policy benefits	2	2,431	1,034
Value of future expenses		-	-
Value of unrecouped acquisition expense		(25,293)	(8,669)
Value of unrecoverable acquisition expense		4,883	2,261
Value of future premiums		-	-
		<u>(17,979)</u>	<u>(5,374)</u>
For investment-linked business			
Value of future policy benefits	2	1,468,199	1,836,793
		<u>1,468,199</u>	<u>1,836,793</u>
<b>TOTAL BEST ESTIMATE LIABILITY</b>		<b>1,450,220</b>	<b>1,831,419</b>
<b>VALUE OF FUTURE PROFITS</b>	1		
For non investment-linked business	3	-	-
For investment-linked business	3	-	-
<b>TOTAL VALUE OF FUTURE PROFITS</b>		<b>-</b>	<b>-</b>
TOTAL VALUE OF DECLARED BONUSES	4	-	-
<b>NET POLICY LIABILITIES</b>		<b>1,450,220</b>	<b>1,831,419</b>

## EXPLANATORY NOTES:

- 1 All business regardless of method of valuation.
- 2 Future policy benefits include bonuses credited to policy owners in prior periods.  
Where business is valued by other than projection techniques, future policy benefits includes the account balance.
- 3 Future bonuses exclude current year bonuses.
- 4 Current year declared bonuses valued in accordance with the actuarial standard.

**MACQUARIE LIFE LIMITED**

Notes to the financial statements  
for the year ended 31 March 2009

**18(a). TRADE AND OTHER PAYABLES**

	2009 Investment Linked Business \$'000	2009 Non Investment Linked Business \$'000	2009 Investment Linked Business \$'000	2009 Total Statutory Funds \$'000	2009 Total Shareholders' Fund \$'000	2009 Total Company \$'000	2008 Investment Linked Business \$'000	2008 Non Investment Linked Business \$'000	2008 Investment Linked Business \$'000	2008 Total Statutory Funds \$'000	2008 Total Shareholders' Fund \$'000	2008 Total Company \$'000
Outstanding investment settlements	-	-	-	-	-	-	-	-	-	-	1,329	1,329
Payable to ultimate parent entity	1,296	-	38,570	39,866	-	39,866	49,868	5,719	55,587	137	529	55,587
Payable to other related entities	-	-	-	-	5,915	5,915	137	-	137	506	500	666
Sundry creditors	811	-	544	1,355	-	1,355	60	446	506	-	500	1,006
<b>TOTAL TRADE AND OTHER PAYABLES</b>	<b>2,107</b>	<b>2,107</b>	<b>39,114</b>	<b>41,221</b>	<b>5,915</b>	<b>47,136</b>	<b>50,065</b>	<b>6,165</b>	<b>56,230</b>	<b>506</b>	<b>2,358</b>	<b>58,588</b>
<i>Payable within 12 months</i>	2,107	2,107	39,114	41,221	5,915	47,136	50,065	6,165	56,230	506	2,358	58,588

**18(b). INTEREST BEARING LIABILITIES**

	2009 Investment Linked Business \$'000	2009 Non Investment Linked Business \$'000	2009 Investment Linked Business \$'000	2009 Total Statutory Funds \$'000	2009 Total Shareholders' Fund \$'000	2009 Total Company \$'000	2008 Investment Linked Business \$'000	2008 Non Investment Linked Business \$'000	2008 Investment Linked Business \$'000	2008 Total Statutory Funds \$'000	2008 Total Shareholders' Fund \$'000	2008 Total Company \$'000
Unsecured Notes payable	-	-	-	-	42,500	42,500	-	-	-	-	154,900	154,900
<b>TOTAL INTEREST BEARING LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,500</b>	<b>42,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>154,900</b>	<b>154,900</b>

**Notes Payable**

The notes payable balance represents an Enhanced Property Performance Note (EPPN) issued by Macquarie Life Limited to a registered scheme managed by its responsible entity, Macquarie Investment Management Limited, a related party to Macquarie Life Limited. The face value of the EPPN as at year end is \$42,500,000 (2008: \$154,900,000). The noteholder is entitled to (a) interest calculated using the Bank Bill Rate plus a margin of 80 basis points, 4.95% at year end (2008: 8.19%) payable and reset quarterly; and (b) a variation bonus linked to the performance of a reference portfolio of listed property securities. No variation bonus is payable at year end. The maturity date of the EPPN is 31 December 2009, unless redeemed earlier at the discretion of the Noteholder.

**MACQUARIE LIFE LIMITED**Notes to the financial statements  
for the year ended 31 March 2009**19. DEFERRED ACQUISITION COSTS AND DEFERRED FEE REVENUE**

	2009	2008
	Total	Total
	Company	Company
	\$'000	\$'000
<b>Life investment contract deferred acquisition costs</b>		
Deferred acquisition cost at beginning of year	1,120	1,310
Acquisition costs deferred on new investment policies	205	317
Amortisation	(460)	(507)
<b>TOTAL DEFERRED ACQUISITION COSTS</b>	<b>865</b>	<b>1,120</b>
<i>Expected to be realised within 12 months</i>	369	440
<i>Expected to be realised in more than 12 months</i>	496	680

**Life investment contract deferred fee revenue**

Deferred fee revenue at beginning of year	2,244	2,124
Deferred fee revenue on new investment policies	508	975
Amortisation	(847)	(855)
<b>TOTAL DEFERRED FEE REVENUE</b>	<b>1,905</b>	<b>2,244</b>
<i>Expected to be realised within 12 months</i>	733	797
<i>Expected to be realised in more than 12 months</i>	1,172	1,447

## MACQUARIE LIFE LIMITED

Notes to the financial statements  
for the year ended 31 March 2009

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### 20. INCOME TAX

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#### (a) Principles of income tax

The income tax expense of Macquarie Life Limited has been determined after aggregating various classes of business, each with different tax rates. The rates of taxation applicable to taxable income of significant classes of business are as follows:

Class of business	31 March 2008	31 March 2009
Complying Superannuation (VPST)	15%	15%
Ordinary Class (including accident and disability)	30%	30%
Shareholder (general) funds	30%	30%
Current pension and immediate annuity (SEAP)	Exempt	Exempt

The principal elements for the calculation of the taxable income for each class of business are as follows:

#### *Assessable income*

1. Complying superannuation business - taxable contributions transferred from superannuation funds, specified rollover amounts and investment income
2. Ordinary business - risk business premiums earned and investment income
3. Shareholder (general) business - investment income
4. SEAP (pension) business - franking credits

The gains and losses on sale of investments to the extent referable to the complying superannuation business are determined under the capital gains tax provisions of the Income Tax Assessment Act (ITAA). The exceptions are gains on fixed interest securities and foreign exchange gains or losses referable to the superannuation business which are taxed primarily under the ordinary income provisions.

The gains and losses on the sale of investments to the extent referable to other taxable classes of business are taxed primarily under the ordinary income tax provisions, with the capital gains tax provisions potentially applying depending on circumstance.

#### *Allowable deductions*

The allowable deductions for each taxable class of business in Australia include:

1. Acquisition costs (such as commissions) in relation to investment related life insurance business, superannuation business and "other business".
2. Other expenses referable to the business (such as investment expenses).
3. An allocation of the general management expenses of the Company.

These deductions are then allocated to each class of business in accordance with the basis specified in the ITAA (which may or may not reflect the allocation of the expense for accounting purposes).

Allowable deductions in respect of "other business" within the Life Funds also include risk business claims and the movement during the period in the policy liability in respect of that business (which may differ from the policy liability recognised for accounting purposes).

The Company is part of a consolidated group, of which Macquarie Group Limited is the head entity. As a consequence the consolidated entity is not subject to income tax and does not recognise a current tax liability in its own financial statements unless the head entity is in default of its obligations, or a default is probable, under the tax consolidation legislation. Under the terms and conditions of a tax contribution agreement, the consolidated entity will be charged or reimbursed for tax assets or liabilities incurred by Macquarie Group Limited in connection with the Company's activities. The effect of the tax contribution agreement is that the subsidiary records an amount as income tax expense equal to the amount that would have been calculated had the subsidiary continued to be subject to income tax.

**MACQUARIE LIFE LIMITED**

Notes to the financial statements  
for the year ended 31 March 2009

**20. INCOME TAX (continued)**

	2009	2009	2009	2008	2008	2008
	Statutory	Shareholders'	Total	Statutory	Shareholders'	Total
	Funds	Fund	Company	Funds	Fund	Company
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>(b) Income tax expense</b>						
Total current income tax expense	30,660	(2,740)	27,920	35,483	(702)	34,781
Deferred income tax liability	(2,058)	-	(2,058)	(19,371)	482	(18,889)
Future income tax benefit	(9,201)	(4,597)	(13,798)	(16)	(25,250)	(25,266)
<b>TOTAL INCOME TAX EXPENSE</b>	<b>19,401</b>	<b>(7,337)</b>	<b>12,064</b>	<b>16,096</b>	<b>(25,470)</b>	<b>(9,374)</b>

**Reconciliation between net profit before tax and tax expense**

Net Profit before tax	23,091	(23,308)	(217)	19,987	(84,724)	(64,737)
Tax at the standard rate of 30% (2008: 30%)	6,927	(6,993)	(66)	5,996	(25,417)	(19,421)
Tax expense attributable to policyholders	14,768	-	14,768	13,120	-	13,120
Timing difference relating to fair value adjustment	-	-	-	-	-	-
Permanent difference related to R&D	-	-	-	(190)	-	(190)
Permanent differences relating to management fees	(1,911)	-	(1,911)	(2,409)	-	(2,409)
Permanent differences relating to transfer of franking credits	(383)	(344)	(727)	(410)	(53)	(463)
Prior year over tax provision	-	-	-	(11)	-	(11)
<b>TAX CHARGED FOR THE YEAR</b>	<b>19,401</b>	<b>(7,337)</b>	<b>12,064</b>	<b>16,096</b>	<b>(25,470)</b>	<b>(9,374)</b>

The net profit before tax as disclosed in the income statement represents the net income which is taxable at the standard rate of 30% and which relates to profits attributable to shareholder assets.

The Company is also liable for the tax payable on the assessable income attributable to policyholders. This is recouped from policyholders through fees charged in line with the terms and conditions disclosed in policy documents. These fees are treated as a deduction from policy liabilities and are reflected in the change in net policy liabilities in the income statement.

**MACQUARIE LIFE LIMITED**

Notes to the financial statements  
for the year ended 31 March 2009

**20. INCOME TAX (Continued)**

	2009 Statutory Funds \$'000	2009 Shareholders' Funds \$'000	2009 Total Company \$'000	2008 Statutory Funds \$'000	2008 Shareholders' Funds \$'000	2008 Total Company \$'000
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**(c) Current and deferred tax assets and liabilities**

The movements in the current and deferred tax assets and liabilities during the year and the composition of the total income tax expense are as follows:

**CURRENT TAX LIABILITIES**

Opening balance	-	-	-	-	-	-
Credit charged to the income statement	(19,401)	7,337	(12,064)	(29,635)	(25,471)	(55,106)
Transfer of tax related intercompany amounts	19,401	(7,337)	12,064	29,635	25,471	55,106
<b>CLOSING BALANCE AT YEAR END</b>	-	-	-	-	-	-

**DEFERRED TAX LIABILITIES**

Opening balance	2,606	-	2,606	21,978	-	21,978
Net increase / (decrease) during current year	(2,058)	-	(2,058)	(19,372)	-	(19,372)
<b>CLOSING BALANCE AT YEAR END</b>	<b>548</b>	-	<b>548</b>	<b>2,606</b>	-	<b>2,606</b>

**DEFERRED TAX ASSETS**

Opening balance	172	12,550	12,722	156	(12,216)	(12,060)
Net increase / (decrease) during current year	9,201	4,597	13,798	16	24,766	24,782
<b>CLOSING BALANCE AT YEAR END</b>	<b>9,373</b>	<b>17,147</b>	<b>26,520</b>	<b>172</b>	<b>12,550</b>	<b>12,722</b>

**MACQUARIE LIFE LIMITED**Notes to the financial statements  
for the year ended 31 March 2009**21. CONTRIBUTED EQUITY**

Movements in ordinary share capital of the Company were as follows:

Date		\$'000	Shares
<b>31 March 2006</b>	<b>Closing Balance</b>	<b>87,900</b>	<b>36,606,666</b>
<b>31 March 2007</b>	<b>Closing Balance</b>	<b>87,900</b>	<b>36,606,666</b>
29 November 2007	Issued ordinary shares at \$4.50 per share	25,812	5,736,000
19 December 2007	Issued ordinary shares at \$4.50 per share	30,000	6,666,667
16 January 2008	Issued ordinary shares at \$4.50 per share	15,000	3,333,333
6 March 2008	Issued ordinary shares at \$4.50 per share	20,000	4,444,444
20 March 2008	Issued ordinary shares at \$4.50 per share	20,000	4,444,445
<b>31 March 2008</b>	<b>Closing Balance</b>	<b>198,712</b>	<b>61,231,555</b>
21 August 2008	Returned ordinary shares at \$4.50 per share	(35,000)	(7,777,777)
31 October 2008	Issued ordinary shares at \$4.50 per share	10,000	2,222,222
<b>31 March 2009</b>	<b>Closing Balance</b>	<b>173,712</b>	<b>55,676,000</b>

**22. CAPITAL RESERVE**

	2009 \$'000	2008 \$'000
Balance	11,000	11,000

This reserve represents amounts transferred from share premium reserve prior to the abolition of par values.

**23. DIVIDENDS**

	2009 \$'000	2008 \$'000
Final dividend paid - unfranked	-	33,812
Total dividends paid	-	33,812

Any franking credits existing upon the entry into tax consolidation were transferred to Macquarie Group Limited.

**24. NOTES TO THE CASH FLOW STATEMENT**

(a) RECONCILIATION OF CASH

For the purpose of the cash flow statement, cash includes cash on hand, at bank, deposits at call and in unit trusts.

Cash and cash equivalents at the end of the financial year is reconciled to the related items in the balance sheet as follows:

	Company 2009 \$'000	Company 2008 \$'000
Cash & cash equivalents	221,042	242,493
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>221,042</b>	<b>242,493</b>

(b) RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO OPERATING PROFIT AFTER INCOME TAX

	Company 2009 \$'000	Company 2008 \$'000
Operating Profit after Income Tax	(12,281)	(55,364)
Net unrealised/realised losses/(gains)	260,970	212,309
Life investment contract contribution receipts	608,876	1,088,727
Life investment contract withdrawal payments	(803,422)	(1,251,197)
Increase in policy liabilities	(166,779)	(24,703)
(Decrease)/Increase in other creditors	(11,452)	26,756
(Decrease)/Increase in provisions	(2,058)	(31,589)
Decrease/(Increase) in receivables	967	6,294
Decrease/(Increase) in unsettled debtors/creditors	(13,237)	(14,179)
Decrease/(Increase) in other assets	(6,456)	(12,567)
<b>NET CASH OUTFLOWS FROM OPERATING ACTIVITIES</b>	<b>(144,872)</b>	<b>(55,513)</b>

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**25. RELATED PARTY DISCLOSURES**

**(a) PARENT ENTITY**

The immediate parent entity is Macquarie Bank Limited. The ultimate parent entity is Macquarie Group Limited.

**(b) KEY MANAGEMENT PERSONNEL (KMP)**

The following persons were those having authority and responsibility for planning, directing and controlling the activities of the Company and its controlled entities:

H. Brown  
R.D. Cartwright  
J. Delaney  
P. Jowett  
M. Mulcare  
B.N. Terry

No Directors of the Company are Directors of the ultimate parent entity.

**(c) REMUNERATION OF KEY MANAGEMENT PERSONNEL**

Short term remuneration

2009	2008
\$'000	\$'000

Amounts paid to KMP's in relation to their role as KMP of the entity

155	145
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The KMP's did not receive any other benefits or consideration in connection with the management of the Company. All other benefits that were received by the KMP's (principally performance related remuneration and options for Macquarie Group Limited equity) were solely related to other services performed with respect to their employment by Macquarie Group Limited.

25. RELATED PARTY DISCLOSURES (Continued)

(d) TRANSACTIONS WITH RELATED ENTITIES

At balance date, Macquarie Life Limited held investments in related unit trusts managed by Macquarie Investment Management Limited, a wholly-owned subsidiary of Macquarie Bank Limited. All transactions with these trusts were under normal commercial terms and conditions. The investments are listed in detail in note 16.

During the financial year, the following transactions were made with the ultimate parent entity and related entities:

TRANSACTION DESCRIPTION	Statutory Fund 2009 \$'000	Shareholders' Fund 2009 \$'000	Total 2009 \$'000	Statutory Fund 2008 \$'000	Shareholders' Fund 2008 \$'000	Total 2008 \$'000
Investment income - total income received in respect of investments held in related entities	42,959	(40,098)	2,861	106,524	7,891	114,415
Macquarie Investment Management Limited (MIML) and Macquarie Equities Limited (MEL), wholly-owned subsidiaries of Macquarie Bank Limited, provide investment and administrative services to Macquarie Life Limited. Fees for these services have been charged by Macquarie Bank Limited	14,940	714	15,654	17,285	697	17,982
Commission payments made by MIML on behalf of Macquarie Life Limited	4,575	-	4,575	5,981	-	5,981
Payments under product profit sharing agreements between MIML and Macquarie Life Limited	-	13,527	13,527	-	512	512
Tax balances in the year transferred into payables	19,401	(7,337)	12,064	16,096	(25,470)	(9,374)

(e) BALANCES WITH RELATED ENTITIES AT BALANCE DATE

BALANCE TYPE

Cash and cash equivalents held at balance date included amounts held with Macquarie Bank Limited. All related transactions were under normal commercial terms and conditions.

Cash at bank and on deposit with Macquarie Bank Limited	1,210	22,434	23,644	6,330	88,975	95,305
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Amounts receivables and payable to related entities are disclosed in notes 15 and 18(a) respectively.

**MACQUARIE LIFE LIMITED**  
**Notes to the financial statements**  
**for the year ended 31 March 2009**

**25. RELATED PARTY DISCLOSURES (Continued)**

(f) INVESTMENTS IN CONTROLLED ENTITIES

In the prior year, the Company chose to adopt AASB 127 revised (Consolidated and Separate Financial Statements). Adoption of this standard removed the requirement for the Company to prepare consolidated financial statements on the basis that the ultimate parent company (Macquarie Group Limited) produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

The below entities are controlled by the Company through the swap held in the Shareholders' Fund of the Company. These entities are consolidated by Macquarie Group Limited.

NAME OF CONTROLLED ENTITIES	COUNTRY OF INCORPORATION	PERCENTAGE HELD	
		2009	2008
Macquarie True Index Australian Equities Fund	Australia	0%	0%
Macquarie True Index Australian Shares Fund	Australia	0%	0%
Macquarie True Index Plus Australian Equities Fund	Australia	0%	0%
Macquarie Index Tracking Global Bond Fund (formerly Macquarie True Index Global Bond Fund)	Australia	0%	0%
Macquarie True Index Australian Fixed Interest Fund	Australia	0%	0%
Macquarie True Index Listed Property Fund	Australia	0%	0%
Macquarie Index-linked Property Securities Fund	Australia	0%	0%
Macquarie True Index International Equities Fund	Australia	0%	0%
Macquarie True Index Cash Fund	Australia	0%	0%
Macquarie Enhanced Property Securities Fund *	Australia	0%	0%
Macquarie Enhanced Global Bond Fund *	Australia	0%	0%
Macquarie Diversified Floating Rate Fund*	Australia	0%	0%

\*these holdings are consolidated by the True Index funds. The True Index funds have an investment of at least 75% of the units on issue of these funds.

**MACQUARIE LIFE LIMITED**  
**Notes to the financial statements**  
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**26. STATUTORY FUND, SEGMENT AND DISAGGREGATED INFORMATION**

**(a) BUSINESS SEGMENTS**

Segment information is prepared in conformity with the segment reporting accounting standards, AASB 114.

The primary business segments are:

- (i) Statutory Fund No. 1, an investment linked business covering a broad range of investment pool options.
- (ii) Statutory Fund No. 3, an investment linked business focusing on short term fixed interest investment pools.
- (iii) Statutory Fund No. 4, a term life and disability insurance business.
- (iv) Shareholders Fund, which holds the capital and eligible assets of MLL as required by Section 230(A) of the Life Insurance Act.

**(b) GEOGRAPHIC SEGMENTS**

The Company operates wholly within Australia.

**(c) SEGMENT FINANCIALS**

	2009		2009		2009		2008		2008	
	Investment Linked Business	Non Investment Linked Business	Total Shareholders' Fund	Total Company	Investment Linked Business	Non Investment Linked Business	Total Shareholders' Fund	Total Company	\$'000	\$'000
Revenue	(109,605)	16,201	(17,235)	(110,639)	27,241	6,324	(68,698)	(35,133)		
Expense	114,428	(17,334)	1,264	98,358	(20,156)	(9,518)	9,443	(20,231)		
<b>SEGMENT RESULT</b>	<b>4,823</b>	<b>(1,133)</b>	<b>(15,971)</b>	<b>(12,281)</b>	<b>7,085</b>	<b>(3,194)</b>	<b>(59,255)</b>	<b>(55,364)</b>		
Segment assets	1,521,785	20,543	117,389	1,659,717	1,902,809	19,909	287,201	2,209,919		
Segment liabilities	(1,509,739)	18,875	(48,414)	(1,539,278)	(1,891,586)	(3,358)	(157,255)	(2,052,199)		
<b>NET SEGMENT ASSETS</b>	<b>12,046</b>	<b>39,418</b>	<b>68,975</b>	<b>120,439</b>	<b>11,223</b>	<b>16,551</b>	<b>129,946</b>	<b>157,720</b>		

**MACQUARIE LIFE LIMITED**  
Notes to the financial statements  
for the year ended 31 March 2009

**26. STATUTORY FUND, SEGMENT AND DISAGGREGATED INFORMATION (Continued)**

**(d) DISAGGREGATED INFORMATION - INCOME STATEMENT AT FUND AND STATUTORY LEVEL FOR THE YEAR ENDED 31 MARCH 2009**

All business written is non-participating Australian business

	Fund 1 Investment Linked	Fund 3 Investment Linked	Fund 4 Non Investment Linked	Total Statutory Funds	Shareholders' Fund	Total Company
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Life insurance premium revenue	-	-	19,803	19,803	-	19,803
Outwards reinsurance expense	-	-	(5,107)	(5,107)	-	(5,107)
Investment revenue	(190,770)	57,796	1,505	(131,469)	(17,805)	(149,274)
Other revenue	13,736	9,633	-	23,369	570	23,939
<b>TOTAL REVENUE</b>	<b>(177,034)</b>	<b>67,429</b>	<b>16,201</b>	<b>(93,404)</b>	<b>(17,235)</b>	<b>(110,639)</b>
Life insurance claims expense	-	-	1,946	1,946	-	1,946
Reinsurance recoveries revenue	-	-	(1,507)	(1,507)	-	(1,507)
Administration expenses	11,748	8,112	29,985	49,845	703	50,548
Finance costs	-	-	-	-	5,370	5,370
Change in life investment contract liabilities	(181,601)	27,427	-	(154,174)	-	(154,174)
Change in life insurance contract liabilities	-	-	(18,078)	(18,078)	-	(18,078)
Change in reinsurance share of life insurance liabilities	-	-	5,473	5,473	-	5,473
<b>TOTAL OPERATING EXPENSES</b>	<b>(169,853)</b>	<b>35,539</b>	<b>17,819</b>	<b>(116,495)</b>	<b>6,073</b>	<b>(110,422)</b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>(7,181)</b>	<b>31,890</b>	<b>(1,618)</b>	<b>23,091</b>	<b>(23,308)</b>	<b>(217)</b>
Income tax expense	(8,647)	28,533	(485)	19,401	(7,337)	12,064
<b>PROFIT AFTER INCOME TAX</b>	<b>1,466</b>	<b>3,357</b>	<b>(1,133)</b>	<b>3,690</b>	<b>(15,971)</b>	<b>(12,281)</b>
Transfer of profits between Funds	(2,000)	(2,000)	-	(4,000)	4,000	-
<b>NET PROFIT</b>	<b>(534)</b>	<b>1,357</b>	<b>(1,133)</b>	<b>(310)</b>	<b>(11,971)</b>	<b>(12,281)</b>

**MACQUARIE LIFE LIMITED**  
Notes to the financial statements  
for the year ended 31 March 2009

**26. STATUTORY FUND, SEGMENT AND DISAGGREGATED INFORMATION (Continued)**

**(e) DISAGGREGATED INFORMATION - INCOME STATEMENT AT FUND AND STATUTORY LEVEL FOR THE YEAR ENDED 31 MARCH 2008**

All business written is non-participating Australian business

	Fund 1 Investment Linked	Fund 3 Investment Linked	Fund 4 Non Investment Linked	Total Statutory Funds	Shareholders' Fund	Total Company
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Life insurance premium revenue	-	-	8,364	8,364	-	8,364
Outwards reinsurance expense	-	-	(3,018)	(3,018)	-	(3,018)
Investment revenue	(65,438)	63,248	978	(1,212)	(68,698)	(69,910)
Other revenue	18,045	11,386	-	29,431	-	29,431
<b>TOTAL REVENUE</b>	<b>(47,393)</b>	<b>74,634</b>	<b>6,324</b>	<b>33,565</b>	<b>(68,698)</b>	<b>(35,133)</b>
Life insurance claims expense	-	-	594	594	-	594
Reinsurance recoveries revenue	-	-	(479)	(479)	-	(479)
Administration expenses	14,989	7,960	15,218	38,167	699	38,866
Finance costs	-	-	-	-	15,328	15,328
Change in life investment contract liabilities	(55,117)	34,587	-	(20,530)	-	(20,530)
Change in life insurance contract liabilities	-	-	(4,051)	(4,051)	-	(4,051)
Change in reinsurance share of life insurance liabilities	-	-	(123)	(123)	-	(123)
<b>TOTAL OPERATING EXPENSES</b>	<b>(40,128)</b>	<b>42,547</b>	<b>11,159</b>	<b>13,578</b>	<b>16,027</b>	<b>29,605</b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>(7,265)</b>	<b>32,087</b>	<b>(4,835)</b>	<b>19,987</b>	<b>(84,725)</b>	<b>(64,738)</b>
Income tax expense/(benefit)	(9,887)	27,624	(1,641)	16,096	(25,470)	(9,374)
<b>PROFIT AFTER INCOME TAX</b>	<b>2,622</b>	<b>4,463</b>	<b>(3,194)</b>	<b>3,891</b>	<b>(59,255)</b>	<b>(55,364)</b>
Transfer of profits between Funds	(2,089)	(4,148)	6,053	(184)	184	-
<b>NET PROFIT</b>	<b>533</b>	<b>315</b>	<b>2,859</b>	<b>3,707</b>	<b>(59,071)</b>	<b>(55,364)</b>

MACQUARIE LIFE LIMITED  
Notes to the financial statements  
for the year ended 31 March 2009

26. STATUTORY FUND, SEGMENT AND DISAGGREGATED INFORMATION (Continued)

(f) DISAGGREGATED INFORMATION - ABBREVIATED BALANCE SHEET AT FUND AND STATUTORY LEVEL AS AT 31 MARCH 2009

	Fund 1 Investment Linked	Fund 3 Investment Linked	Fund 4 Non Investment Linked	Total Statutory Funds	Shareholders' Fund	Total Company
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash & cash equivalents	11,028	110,885	17,627	139,540	81,502	221,042
Equities	122,411	-	-	122,411	14,283	136,694
Debt securities	25,672	691,925	-	717,597	-	717,597
Unit trusts	536,494	-	-	536,494	-	536,494
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS</b>	<b>695,605</b>	<b>802,810</b>	<b>17,627</b>	<b>1,516,042</b>	<b>95,785</b>	<b>1,611,827</b>
Other assets	18,242	4,263	5,947	28,452	21,604	50,056
Deferred acquisition costs	865	-	-	865	-	865
Policy liabilities ceded under reinsurance	-	-	(3,031)	(3,031)	-	(3,031)
<b>TOTAL ASSETS</b>	<b>714,712</b>	<b>807,073</b>	<b>20,543</b>	<b>1,542,328</b>	<b>117,389</b>	<b>1,659,717</b>
Life insurance policy liabilities	-	-	(21,010)	(21,010)	-	(21,010)
Life investment policy liabilities	703,635	764,564	-	1,468,199	-	1,468,199
Deferred fee revenue	1,905	-	-	1,905	-	1,905
Other liabilities	2,993	36,642	2,135	41,770	48,414	90,184
<b>TOTAL LIABILITIES</b>	<b>708,533</b>	<b>801,206</b>	<b>(18,875)</b>	<b>1,490,864</b>	<b>48,414</b>	<b>1,539,278</b>
<b>NET ASSETS</b>	<b>6,179</b>	<b>5,867</b>	<b>39,418</b>	<b>51,464</b>	<b>68,975</b>	<b>120,439</b>
Shareholders' capital	4,089	48	17,246	21,383	163,329	184,712
Transfer of capital between Funds	-	-	24,000	24,000	(24,000)	-
Shareholders' retained profits	2,090	5,819	(1,828)	6,081	(70,354)	(64,273)
<b>TOTAL EQUITY</b>	<b>6,179</b>	<b>5,867</b>	<b>39,418</b>	<b>51,464</b>	<b>68,975</b>	<b>120,439</b>

