SYNGE & NOBLE

Proposed Transfer of the General Insurance Business of St Andrew's Insurance (Australia) Pty Ltd to Hallmark General Insurance Company Ltd

26 April 2024

SYNGE & NOBLE

Synge & Noble Pty Ltd
ABN 68 139 559 096
PO Box R1048
Royal Exchange NSW 1225
Phone: +61 413 873 200

26 April 2024

Mr Matthew Way
Chief Executive Officer
St Andrew's Insurance (Australia) Pty Ltd
Hallmark General Insurance Company Ltd

Dear Matthew,

Proposed Transfer of the General Insurance Business of St Andrew's Insurance (Australia) Pty Ltd to Hallmark General Insurance Company Ltd

Attached is my report on the Proposed Transfer of the General Insurance Business of St Andrew's Insurance (Australia) Pty Ltd to Hallmark General Insurance Company Ltd.

Please do not hesitate to contact me if you have any questions.

Yours sincerely

David Goodsall
Fellow of the Institute of Actuaries of Australia

Director

SYNGE & NOBLE

Proposed Transfer of the General Insurance Business of St Andrew's Insurance (Australia) Pty Ltd to Hallmark General Insurance Company Ltd

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1. Introduction

1.1. Scope

I have been engaged by St Andrew's Insurance Pty Ltd **(SAI)** and Hallmark General Insurance Company Ltd **(HGIC),** which are subsidiaries of St Andrew's Australia Services Pty Ltd, to prepare a report on the Proposed Transfer of the general insurance business of SAI to HGIC through a Scheme under Division 3A of Part III of the Insurance Act (Proposed Transfer). Under the Proposed Transfer, all SAI's liabilities and assets will be transferred to HGIC, including, in particular, the insurance liabilities. This report will be used as the basis of the Scheme and sets out my opinions concerning whether the interests of Policy Owners of SAI and HGIC would be materially adversely affected by the Proposed Transfer.

SAI and HGIC are currently closed to new business, however HGIC intends to apply to APRA for approval to resume issuing new business, with any approval occurring after the Transfer Date.

This report sets out the findings from that review including my opinions in relation to:

- whether or not the Proposed Transfer will materially prejudice the interests of Policy Owners of SAI and HGIC;
- the security of benefits of Policy Owners of both SAI and HGIC;
- the nature and reasonableness of any changes to contractual rights or benefits of Policy Owners of SAI or HGIC.

This report will be provided to APRA and the Federal Court, and I understand it will also be made available to SAI Policy Owners and HGIC Policy Owners.

A glossary of terms used in this report is included in Appendix A.

1.2. Qualifications and Experience

I am a consulting actuary, Fellow of the Institute of Actuaries of Australia, and a Chartered Enterprise Risk Actuary. Since qualifying in 1984, I have mainly worked as a consulting actuary in the life insurance industry, having led the Actuarial Practice at Ernst & Young for many years. I have advised general insurance companies and was the appointed actuary of an overseas general insurer for 13 years until March 2024, and am a director of a general insurer in New Zealand. I have prepared independent actuary reports on several recent Part 9 transfers of life insurance business and advised on Division 3A transfers. I am the Director of Synge & Noble, a consulting actuarial firm, a former President of the Institute of Actuaries of Australia, and a former member of the Life Insurance Code Compliance Committee.

I was the appointed actuary for St Andrew's Life Insurance Pty Ltd (SALI) in a consulting capacity for approximately four years ending in 2009.

1.3. Overview of the Proposed Transfer

The main components of the Proposed Transfer are that on the Transfer Date:

- all SAI's business will be transferred to HGIC through the transfer of all its liabilities and assets, except for $5.15m of assets retained in SAI to maintain capital in excess of regulatory requirements until SAI's authorisation as a general insurer is revoked;
- the SAI Policy Owners cease to be SAI Policy Owners and become HGIC Policy Owners;
- the rights and liabilities of the SAI Policy Owners will be the same in all respects as they would have been if the SAI policies had originally been issued and administered by HGIC;
- the terms and conditions of SAI and HGIC policies will not change as a result of the Proposed Transfer apart from all references in SAI policies being changed to references to HGIC;
- all costs and expenses in connection with the transfer will be met by HGIC and SAI out of shareholder funds.

SAI will apply to APRA for revocation of its authorisation as a general insurer following the Transfer Date. On revocation of its authorisation, the remaining assets of SAI will be transferred to HGIC to provide additional financial security for Policy Owners' benefits and support new business plans.

The Transfer Date is expected to be 30 June 2024.

1.4. Subsequent Expected Activities

Subsequent to the Proposed Transfer, in connection with the intention to resume writing new business, it is expected that HLIC will reduce its Tier 2 notes on issue by $8.25m and HGIC will issue additional Tier 2 Notes in the same amount to optimise the use of Tier 2 capital (the Tier 2 Note Transactions). The net asset position of HLIC and HGIC will remain unchanged as a result of the Tier 2 capital restructure.

Following the Tier 2 Note Transactions HGIC intends to resume writing new business. This is subject to APRA approval, noting that to give approval APRA will need to be satisfied that HGIC holds sufficient capital to support the issuing of new insurance policies before granting the necessary approval to HGIC to permit it to commence writing new business.

The Tier 2 Note Transactions and resumption of new business are collectively referred to in this report as Subsequent Expected Activities.

1.5. Approach

In conducting the review I have been provided with the details of the Proposed Transfer by SAI and HGIC in the form of the Scheme prepared for that purpose. I have considered the terms of the Proposed Transfer and the impact on both SAI and HGIC Policy Owners from the perspective of their contractual rights and benefits; the security of their policy benefits; and whether their interests are materially prejudiced by the Scheme. Although not part of the Scheme, I have also considered the impact of the Subsequent Expected Activities on the security of Policy Owners' benefits of existing SAI and HGIC Policy Owners.

My review has considered the legal implications of the Proposed Transfer and the potential impact from the Subsequent Expected Activities and changes in the management of the business that may be made as a consequence of the Proposed Transfer that may, in turn, impact Policy Owners including the application of Governance Policies that will apply following the transfer.

To prepare this report and form my conclusions, my review has involved a consideration of the August 2023 HGIC Financial Condition Report **(FCR)**, the SAI and HGIC Actuarial Valuation Report, the St Andrew's Group Internal Capital Adequacy Assessment Process **(ICAAP)**, and the

St Andrew's New Business Plan, together with other actuarial and financial reports and results prepared for the purpose of this report in relation to the financial position of HGIC following the Proposed Transfer, as well as other documents listed in Appendix B. I have also made enquiries of the appointed actuary of HGIC and the St Andrew's Chief Actuary, as well as the management of both SAI and HGIC.

2. Opinion

Based on my review of the Proposed Transfer and the Subsequent Expected Activities as set out in this report, in my opinion;

- The financial strength of HGIC will be sound and meet regulatory and internal minimum requirements following the completion of the Proposed Transfer.
- The Proposed Transfer will not materially prejudice the interests of Policy Owners of SAI or HGIC once the authorisation of SAI is revoked and the remaining assets are transferred to HGIC;
- There will be no changes to the contractual rights or benefits of Policy Owners of SAI or HGIC.

3. The St Andrew's Group

SAI is a wholly owned subsidiary of St Andrew's Australia Services Pty Ltd ("SAAS") within the St Andrew's Insurance Group ("the Group") of companies which consists of:

- St Andrew's Australia Services Pty Ltd ("SAAS") - the holding company, and its wholly owned subsidiaries
  - St Andrew's Insurance (Australia) Pty Ltd ("SAI"): a general insurer
  - St Andrew's Life Insurance Pty Ltd ("SALI"): a life insurer
  - Hallmark Insurance Holdings Pty Ltd ("HHC"): a Level 2 Non-Operating Holding Company, and its subsidiaries
    - Hallmark General Insurance Company Ltd ("HGIC"): a general insurer operating In Australia and New Zealand
    - Hallmark Life Insurance Company Ltd ("HLIC"): a life insurer operating In Australia and New Zealand

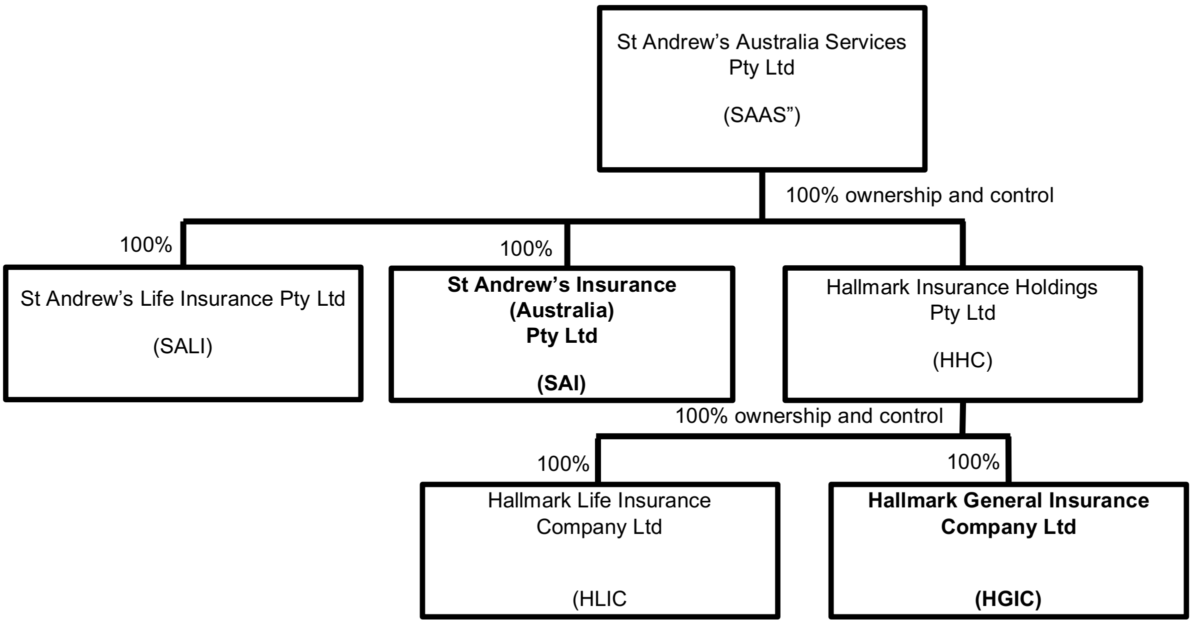
SAAS is owned by a shareholder consortium led by Farmcove Investment Holdings.

SAAS acquired HHC and its subsidiaries HLIC and HGIC from the previous owner Latitude Financial Services (LFS) on 31 May 2023 with the intention of merging the business of SAI and HGIC; and also of SALI and HLIC.

HGIC is an authorised general insurer under the Insurance Act regulated by APRA and licensed to carry on general insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010 regulated by the Reserve Bank of New Zealand.

SAI is a general insurance company registered under the Insurance Act and is prudentially regulated by APRA. SAI is a wholly owned subsidiary of SAAS.

The following diagram illustrates the current corporate structure of SAI and HGIC.



4. The SAI Business[1]

4.1. Overview

SAI is a general insurer operating in Australia and is currently closed to new business, which is a condition of its authorisation as a general insurer.

SAI's business largely consists of involuntary unemployment with a small volume of accident & sickness, and motor vehicle guaranteed asset protection insurance issued in Australia.

Involuntary unemployment cover was issued in conjunction with SALI as part of St Andrew's core Consumer Credit Insurance (CCI) product offering, and in conjunction with TAL Life Insurance Services Limited (TAL) as a rider to TAL's income protection product. Accident & sickness cover on CCI policies was issued by SAI where the underlying loan agreement was 3 years or less. Where policies are issued jointly by SAI and SALI, the insured effectively has a policy with SAI and a policy with SALI although for administrative purposes it is one policy from the client's perspective. Only the general insurance components of those policies are being transferred under the Proposed Transfer that is considered in this report. The life insurance components will be transferred from SALI to HLIC under a separate proposed transfer in accordance with Part 9 of the Life Insurance Act.

SAI's products are grouped into three main portfolios as shown below.

Table 4.1.1: Summary of SAI's Product Portfolios

Portfolio	Issued by	Products
Consumer Credit Insurance (CCI)	SAI and SALI	Mortgage Protection Loan Protection Credit Card Protection
Wholesale	SAI	TAL Involuntary Unemployment rider
Other	SAI	Autosure Protection

The following table summarises the number of policies, sum insured, gross annual premium and insurance liability for SAI's products on 31 August 2023.

Table 4.1.2: Summary of SAI's inforce business on 31 August 2023

Portfolio	Number of Policies	Sum Insured ($'000)	Annual Premium ($'000)	Insurance Liability[2] ($'000)
Consumer Credit Insurance (CCI)	14,023	7,174	1,604	258
Wholesale	2,153	7,274	1,113	122
Other	314	8,406	146	1
Grand Total	**16,490**	**22,855**	**2,862**	**381**

[1] Source document complied by the St Andrew's Chief Actuary.

[2] Net Premium Liability (at 75% Probability of Sufficiency) *plus* Outstanding Claims Liability (at 90% Probability of Sufficiency)

4.2. Operations and Administration

SAAS manages the policy administration, claims and underwriting functions of SAI using the StACS policy administration system as well as outsourcing policy administration and claims management for the wholesale products and policy administration of Credit Card Protection which are outsourced. SAI is responsible for the outsourced arrangements and conducts regular monitoring and review of these operations.

4.3. Expenses and Allocation Basis

The expenses of operating the business are apportioned amongst the SAAS companies based on a functional expense allocation process where expenses can't be allocated directly. Expenses are apportioned between the legal entities of the Group based upon a functional expense allocation process maintained by the Group's Chief Financial Officer ("CFO").

The total expenses of SAI are apportioned to the products. Expenses that clearly relate to individual products are directly allocated. Other expenses that relate to the overall management of SAI and where no other method of apportionment is obvious have been apportioned using an activity-based costing exercise undertaken by management.

4.4. Tax Status and Basis

Income tax on shareholder profits is levied on SAI at the corporate rate of 30% for Australian business.

4.5. Investments

SAI's investment strategy and the applicable governance framework are set by the Group's Asset and Liability and Investment Policy and apply to all entities within the Group. The assets supporting insurance liabilities and shareholder capital are invested in a range of cash and cash equivalents (Category A assets) as well as higher-yielding rated and unrated corporate loans and bonds (Category B assets).

At 31 August 2023 SAI had $12.2m of investments of which $2.8m (23%) were Category A assets and $9.4m (77%) were Category B assets.

In early FY24, the Group's investment strategy was revised to reduce its exposure to unrated assets and increase its exposure to rated corporate loans and bonds, with the reduction in investment income over time expected to correspond with an uplift in future underwriting margins delivered from new policy sales. The revised investment strategy is being implemented over a multi-year transition period and is occurring independently of the Proposed Transfer.

At 31 March 2024 SAI's investments were 34% Category A assets and 66% Category B assets.

4.6. Reinsurance

Reinsurance is managed per the Group Reinsurance Management Strategy that applies to all four insurance subsidiaries to limit exposures to any one insured to specified limits. SAI's reinsurance strategy is to not seek reinsurance for the major benefit types it insures because the small benefit size, short average benefit durations, and pricing margins mean the risk can be managed within the capital capacity of the company. Consistent with this strategy, SAI does not have any reinsurance arrangements in place.

4.7. Risk Management

SAAS has a Group Risk Management Framework **(RMF)** which has been developed per APRA Prudential Standard CPS 220 Risk Management. A key part of the framework is the ICAAP which sets out the policies, procedures, systems, and controls in place to identify, measure, monitor and control the risks associated with the company's activities, and to monitor the adequacy of the capital held against them.

During 2023 the Group's RMF was comprehensively reviewed. So that all the Group's subsidiaries could operate under a single framework, the review included the harmonisation of governance structures and risk and policy frameworks between SAI and HGIC as well as implementing a new risk management tool.

SAI meets the minimum capital requirements and capital management requirements of the APRA standards and holds target capital in addition to the minimum regulatory requirements, described in Section 7.10, in accordance with the Target Capital requirements of the ICAAP.

The RMF and ICAAP have been harmonised between SAI and HGIC to ensure a consistent approach to capital management and determination of Target Capital.

4.8. Financial Position and Capital Management

Measurement of the Financial Position of an Insurer

The financial strength of a general insurance company is generally measured through its capital position. The APRA standards specify an insurer must hold a minimum amount of capital to meet the Prudential Capital Requirement (PCR). This consists of:

- the Prescribed Capital Amount (PCA) (Pillar 1) which applies to all insurers. It is the minimum capital an insurer is required to hold to meet liabilities in a range of adverse circumstances and is determined per Insurance Prudential Standards issued by APRA, plus
- a discretionary supervisory capital adjustment (Pillar 2) which APRA may impose on individual insurers.

Supervisory adjustments, if any, may not be disclosed publicly. So, while the PCR is used for internal and regulatory purposes, only the PCA is disclosed.

The capital position is measured as the excess of the Capital Base over the PCA. This is referred to as the capital in excess of PCA and is indicated by the Capital Adequacy Multiple which is the ratio of the Capital Base to the PCA.

The Capital Base is the net assets of the company less regulatory adjustments as set out in Insurance Prudential Standards issued by APRA.

In addition, companies hold additional capital, referred to as Target Capital, in excess of the PCR to protect against unanticipated adverse events to enable the company to continue to meet minimum regulatory capital. Like the PCR, Target Capital is not publicly disclosed and is funded from excess capital above the PCA.

SAI Financial Position

Under the Group's current dividend policy, capital distributions in the form of dividends are suspended. This policy will remain unchanged for the foreseeable future and no dividends will be paid by the Group until further notice, with free capital allowed to accumulate within the insurance entity as the portfolio continues to run-off.

SAI's financial position on 31 August 2023 is shown in the following table.

Table 4.6[3]: Summary of SAI's Profit and Capital Position on 31 August 2023

	$Am
Profitability	
Net profit after tax for the 12 months to 31 August 2023	0.3
Financial position on 31 August 2023	
Net Assets	8.0
Regulatory adjustments to net assets	(0.0)
Tier 2 Capital	3.0
Capital Base	**11.0**
PCA	5.0*
Free Capital above PCA	6.0
Capital adequacy multiple	2.2

*There is a minimum PCA of $5m at an entity level which in practice means it is made up of the PCA relating to the policies of $1.7m plus $3.3m top up to the $5m minimum level, leaving net capital in excess of PCA of $6.0m at the entity level.

Table 4.6. shows that the business is profitable and well capitalised, noting that the capital base includes $3.0m of Tier 2 Capital (or unsecured borrowings), and Target Capital is funded from the capital above PCA.

4.9. Remediation Programs

At the date of this report, there are no known outstanding remediation programs or significant litigations.

4.10. Significant Events After 31 August 2023

Apart from the normal outworking of the operations of the business, the company has not identified any significant events that would impact the financial results presented above.

[3] A new insurance accounting standard (AASB 17) applies to SAI from 1 September 2023 and HGIC from 1 January 2023. For consistency all financial results in this report are based on the existing standard (AASB 1023). The results are not materially different between the two standards.

5. The HGIC Business[4]

5.1. Overview

SAAS acquired HIC the parent of HGIC on 31 May 2023 from LFS. Following the acquisition, HGIC changed its year-end from 31 December to 31 August to align with the Group.

HGIC is a general insurer operating in Australia and New Zealand and is currently closed to new business, which is a condition of its authorisation as a general insurer.

HGIC's business is almost entirely of Consumer Credit Insurance (CCI) products.

HGIC's products are grouped into three main portfolios as shown below.

Table 5.1.1: Summary of HGIC's Product Portfolios

Portfolio	Products	Status
Consumer Credit Insurance (CCI)	Store Card Revolving Credit	Closed*
	GE Personal Loans	Closed
	Regular Premium Loan Protection	

** These products remain open to existing customers 'renewing' their monthly premiums, but have otherwise been closed to new business since 24 September 2019*

The table below summarises the number of policies, sum insured, gross annual premium and net policy liability for HGIC's products on 31 August 2023.

Table 5.1.2: Summary of HGIC's inforce business on 31 August 2023

Product	Description	Policy Count	Sum Insured ($'000)	Annual Premium (A$'000)	Insurance Liability (A$'000)
Loan Protection – Australia	Disability and Involuntary Unemployment cover	3,573	2,328	2,360	3,899
Credit Card Protection - Australia	Disability, Involuntary Unemployment and Price, Merchandise and Stolen Card cover	85,618	45,405	8,305	1,822
Standalone Unemployment – Australia	Standalone Involuntary Unemployment cover not related to financing. originating in Australia.	0	0	0	202
Loan Protection – New Zealand	Disability and Involuntary Unemployment cover	2,992	1,437	1,730	2,484
Credit Card Protection – New Zealand	Disability, Involuntary Unemployment and Price, Merchandise and Stolen Card cover	21,680	32,046	2,708	254
Grand Total		**113,863**	**81,216**	**15,103**	**8,661**

[4] Source document complied by HGIC appointed actuary.

5.2. Operations and Administration

When SAAS acquired HGIC a transitional service agreement was put in place with LFS to provide administration services until the administration can be moved to SAAS which will occur progressively. Some parts of the business are outsourced to other organisations including certain policy administration services that will continue to be provided by LFS. HGIC is responsible for the outsourced arrangements and conducts regular monitoring and review of these operations.

On 1 June 2023 the HGIC business transferred from LFS to the Group. As part of the Transition Services Agreement between LFS and the Group, LFS is obligated to maintain and support existing technology systems until they are no longer required and HGIC transitions to new systems. Policy administration of Consumer Credit Insurance policies co-issued with HLIC will continue to be managed on LFS systems under an Ongoing Services Agreement between HGIC and LFS.

It has been decided that the management of claims on Consumer Credit Insurance policies co-issued with HLIC, will be migrated onto the St Andrew’s core insurance platform (StACS) except for claims for the Shoppers Protection policy benefit which will be migrated to a new application.

The migration of HGIC policies, which is independent of the Proposed Transfer, will occur in two phases scheduled to be completed by 30 April 2024, prior to the Proposed Transfer being effected.

5.3. Expenses and Allocation Basis

The expenses of operating the business are apportioned amongst the SAAS companies based on a functional expense allocation process where expenses can’t be allocated directly. Expenses are apportioned between the legal entities of the Group based upon a functional expense allocation process.

The total expenses of HGIC are apportioned to the products. Expenses that clearly relate to individual products are directly allocated. Other expenses that relate to the overall management of HGIC and where no other method of apportionment is obvious have been apportioned using an activity-based costing exercise undertaken by management.

5.4. Tax Status and Basis

Income tax on shareholder profits is levied on HGIC at the corporate rate of 30% for Australian business and 28% for New Zealand business.

5.5. Investments

HGIC’s investment strategy and the applicable governance framework is set by the Group’s Asset and Liability and Investment Policy and applies to all entities within the Group. The assets supporting insurance liabilities and shareholder capital are invested in a range of cash and cash equivalents (Category A assets) as well as higher-yielding rated and unrated corporate loans and bonds (Category B assets).

At 31 August 2023 HGIC had $30.6m of investments of which $29.7m (97%) were Category A assets and $0.9m (3%) were Category B assets.

In early FY24, the Group's investment strategy was revised to reduce its exposure to unrated assets and increase its exposure to rated corporate loans and bonds. The revised investment strategy is being implemented over a multi-year transition period and is occurring independently of the Proposed Transfer.

The revised strategy will increase HGIC’s exposure to rated bonds, with an expected increase in investment income over time compared with current cash and short-term deposit assets currently held by HGIC.

At 31 March2024 HGIC's investments were 48% Category A assets and 52% Category B assets, reflecting the progress in aligning to the Group's Asset and Liability and Investment Policy.

5.6. Reinsurance

Reinsurance is managed in accordance with the Group Reinsurance Management Strategy that applies to all four insurance subsidiaries to limit exposures to any insured to specified limits. However, HGIC has an immaterial amount of reinsurance because of the low individual exposures.

5.7. Risk Management and Capital Management

The Group RMF has been developed in compliance with APRA Prudential Standard CPS 220 Risk Management. A key part of the framework is the ICAAP which sets out the policies, procedures, systems, and controls in place to identify, measure, monitor and control the risks associated with the company's activities, and to monitor the adequacy of the capital held against them.

During 2023 the Group's RMF was comprehensively reviewed. So that all the Group's subsidiaries could operate under a single framework, the review included the harmonisation of governance structures and risk and policy frameworks between SAI and HGIC as well as implementing a new risk management tool.

HGIC meets the minimum capital and capital management requirements of the APRA standards and holds target capital in addition to the regulatory requirements in accordance with the requirements of the Group's ICAAP.

5.8. HGIC Financial Position and Capital Management

Under the Group's current dividend policy, capital distributions in the form of dividends are suspended. This policy will remain unchanged and means that no dividends will be paid by the Group until further notice, with free capital allowed to accumulate within the HGIC.

HGIC's financial position on 31 August 2023 is shown in the following table.

Table 5.6[5]: Summary of HGIC's Profit and Capital Position on 31 August 2023

	Total $Am
Profitability	
Net profit after tax for the 8 months to 31 August 2023	2.6
Financial position as on 31 August 2023	
Net Assets	12.7
Regulatory adjustments to net assets	(0.2)
Tier 2 Capital	7.5
Capital Base	**20.0**
PCA	7.2
Free Capital above PCA	12.8
Capital adequacy multiple	2.8

[5] A new insurance accounting standard (AASB 17) applies to SAI from 1 September 2023 and HGIC from 1 January 2023. For consistency, all financial results in this report are based on the existing standard (AASB 1023). Consequently, the results in this report for HGIC are different to the published accounts at 31 August 2023. The results are not materially different between the two standards.

Table 5.6. shows that the business is profitable and well capitalised. Excess assets of $12.8m above the PCA $7.2m with a capital adequacy multiple of 2.8. The capital base of $20m includes $7.5m of Tier 2 capital (unsecured borrowings).

Target Capital is funded from the capital above PCA.

HGIC is well capitalised, with excess assets exceeding regulatory requirements and internal targets set in the ICAAP, which provides good financial security for Policy Owners.

5.9. Remediation Programs

At the date of this report, there are no known outstanding remediation programs or significant litigations.

5.10. Significant Events After 31 August 2023

Apart from the normal outworking of the operations of the business, the company has not identified any significant events that would impact the financial results presented above.

6. The Proposed Transfer

6.1. Background

The main aspects of the governance of SAI and HGIC were aligned in May 2023, through both adopting the Group's current RMF, ICAAP Reinsurance Management Strategy and Asset, Liability and Investment Policy. The purpose of the Proposed Transfer is to build on this alignment and now combine the general insurance businesses of SAI and HGIC to simplify the business and reduce costs, operational risk, and capital needs as well as provide a single and improved customer experience.

HGIC intends to apply for approval to issue new business following the Transfer Date which is expected to bring benefits to the business and Policy Owners by increasing net revenue and diversifying risks to contribute to the future financial health and stability of the business which in turn, will contribute to the financial strength that provides security of the benefits of existing transferring Policy Owners of SAI and HGIC Policy Owners.

Although not part of the Proposed Transfer, the Subsequent Expected Activities, as noted in Section 1.4, include an increase in Tier 2 notes of $8.25m in HGIC. As the Tier 2 notes count as capital for statutory purposes this would increase the capital in HGIC. I have included financial results assuming that the Tier 2 note transactions occur at the time that SAI's authorisation is revoked for the purpose of considering the financial strength that provides security of Policy Owners' benefits.

6.2. Overview of the Proposed Transfer

The transfer is conducted in accordance with a Court-approved scheme under Division 3A of Part III of the Insurance Act.

The Proposed Transfer involves:

- transferring all the liabilities of SAI and the assets to HGIC on the Transfer Date, excluding $5.15m of capital assets, which will remain in SAI to ensure it meets APRA minimum prudential capital requirements until its authorisation is revoked, at which time the remaining assets of SAI will be transferred to HGIC;
- HGIC becoming responsible for all the general insurance business of SAI;
- following the revocation of SAI's authorisation to operate as a general insurer all of SAI's remaining assets will be transferred to HGIC.

After the Proposed Transfer SAI will have no insurance liabilities and is entitled to apply to APRA to have its authorisation to operate as a general insurer revoked. The Scheme references the Business Transfer Agreement, which specifies that as soon as practical after the Transfer Date SAI will apply to APRA for revocation of its authorisation. Once approved, SAI will have no capital obligations and all of SAI's remaining assets will then be transferred to HGIC to support the Policy Owners' benefit security of the combined business and new business plans. Until the revocation is approved, SAI will remain an authorised general insurer and is subject to a minimum capital requirement.

Further details of the Proposed Transfer are provided in following sections.

6.3. SAI Policies Being Transferred

It is proposed that all SAI policies in force on the Transfer Date will be transferred to HGIC. SAI will have no insurance liabilities immediately following the Proposed Transfer.

The following table shows a summary of the major SAI product portfolios that will be transferred into HGIC.

Table 6.1: Summary of SAI's Product Portfolios

Portfolio	Issued by	Products
Consumer Credit Insurance (CCI)	SAI and SALI	Mortgage Protection Loan Protection Credit Card Protection
Wholesale	SAI	TAL Involuntary Unemployment rider
Other	SAI	Autosure Protection

6.4. Transfer of Liabilities

All of the liabilities of SAI, which include the insurance policies will be transferred to HGIC so that:

- The SAI Policy Owners cease to be SAI Policy Owners and become HGIC Policy Owners.
- The rights and liabilities of the SAI Policy Owners shall be the same in all respects as they would have been if:
    - The applications on which the SAI policies were based had been made to, or accepted by, HGIC instead of SAI; and,
    - SAI policies had originally been issued by HGIC instead of SAI;
- HGIC assumes all liabilities and obligations of SAI under, or in respect of, the SAI policies. SAI is released and discharged from all liabilities and obligations under, or in respect of, the SAI policies;
- HGIC is entitled to all rights and benefits of SAI under, or in respect of, the SAI policies, including but not limited to:
    - The right to receive premiums payable under, or in respect of, the SAI policies; and
    - The right to enforce all rights and remedies available under the SAI policies in respect of any non-payment of such premiums or fees;
- Subject to the transfer of the Retained Assets to HGIC, the assets within SAI supporting insurance liabilities and regulatory capital levels will form part of HGIC's assets and sufficiently cover the respective insurance liabilities and regulatory capital requirements for HGIC.

There will be no change to the policy terms and conditions of SAI policies apart from references to SAI becoming references to HGIC.

There will be no change to the policy terms and conditions of existing HGIC policies.

6.5. Transfer of Assets

SAI will transfer assets to HGIC in excess of an amount of $5.15m which will be retained to maintain assets in excess of statutory minimum capital until the revocation is approved at which time all the remaining assets in SAI will be transferred to HGIC.

Tables 6.2 and 6.3 illustrate the assets and liabilities of SAI and HGIC before and after the Proposed Transfer had it occurred on 31 August 2023, assuming SAI's general insurance authorisation is not revoked at that date. Table 6.4 illustrates the assets and liabilities of SAI and HGIC after the Proposed Transfer had it occurred on 31 August 2023, assuming SAI's general insurance authorisation is revoked, the Retained Assets are Transferred to HGIC, and the $8.25m Tier 2 Note Transactions.

Table 6.2[6]: Assets and Liabilities Pre-Transfer ($A000)[7]

Entity	Country	Assets	Claims Liabilities	Unearned Premium Reserve	Other Liabilities	Total Liabilities
SAI	**Australia**	**12,298**	**357**	**24**	**3,920**	**4,301**
HGIC	Australia	23,417	4,165	2,082	12,171	18,418
	New Zealand	11,560	1,322	1,770	812	3,904
	Total HGIC	**34,977**	**5,487**	**3,852**	**12,983**	**22,322**
SAI + HGIC	**Australia and New Zealand**	**47,275**	**5,844**	**3,876**	**16,903**	**26,623**

Table 6.3[6]: Proforma Assets and Liabilities Post-Transfer ($A000) and Before Revocation of SAI Authorisation

Entity	Country	Assets	Claims Liabilities	Unearned Premium Reserve	Other Liabilities	Total Liabilities
SAI	**Australia**	**5,150**	**-**	**-**	**-**	**-**
HGIC	Australia	30,565	4,522	2,106	16,091	22,719
	New Zealand	11,560	1,322	1,770	812	3,904
	Total HGIC	**42,125**	**5,844**	**3,876**	**16,903**	**26,623**
SAI + HGIC	**Australia and New Zealand**	**47,275**	**5,844**	**3,876**	**16,903**	**26,623**

[6] A new insurance accounting standard (AASB 17) applies to SAI from 1 September 2023 and HGIC from 1 January 2023. For consistency all financial results in this report are based on the previous standard (AASB 1023). Consequently the results in this report for HGIC are different to the published accounts at 31 August 2023.The results are not materially different between the two standards.

[7] Source HGIC Actuarial Valuation Report 31 August 2023

Table 6.4[8]: Proforma Assets and Liabilities Post-Transfer ($A000) and After Revocation of SAI Authorisation and $8.25m Tier 2 Note Transactions

Entity	Country	Assets	Claims Liabilities	Unearned Premium Reserve	Other Liabilities	Total Liabilities
SAI	Australia					
HGIC	Australia	43,965	4,522	2,106	24,341	30,969
	New Zealand	11,560	1,322	1,770	812	3,904
	Total HGIC	55,525	5,844	3,876	25,153	34,873

6.6. Policy Administration and Claims Management

The administration of both SAI and HGIC policies, including claims management, will be unchanged at the Transfer Date as SAAS provides administration services to both SAI and HGIC. HGIC arrangements with LFS will also continue unchanged. The orderly harmonisation of the administration of SAI and HGIC business to reduce costs and improve customer service will continue regardless of the Proposed Transfer.

6.7. Investments

The investment assets of SAI and HGIC will be combined and continue to be managed in accordance with the Group's Asset and Liability and Investment Policy as a single asset pool. As SAI has a higher proportion of Category B assets than HGIC, the Proposed Transfer will have the effect of furthering the implementation of the investment strategy, and will result in the proportion of Category A assets in HGIC reducing with an increase in Category B assets with a consequent increase in expected investment returns.

This will result in a moderate increase in the asset risk profile of HGIC. which in turn requires some increased capital to be held as an Asset Risk Charge to protect against a fall in asset values.

6.8. Capital and Risk Management

The capital and risk management frameworks and policies of SAI and HGIC have already been aligned under the Group RMF and ICAAP. This alignment includes:

- management of capital, board-specified capital levels, and recovery and exit plans in times of financial stress
- Target Capital Policy; and
- Risk management policies and strategies.

[8] A new insurance accounting standard (AASB 17) applies to SAI from 1 September 2023 and HGIC from 1 January 2023. For consistency all financial results in this report are based on the existing standard (AASB 1023). Consequently the results in this report for HGIC are different to the published accounts at 31 August 2023.The results are not materially different between the two standards.

7. Implications of the Proposed Transfer

7.1. Considerations

In this section I have set out my conclusions on the implications of the Proposed Transfer and Subsequent Expected Activities to the SAI and HGIC Policy Owners who will be affected by the Proposed Transfer.

In forming my opinions, I have considered the implications on the Policy Owners of SAI and HGIC Policy Owners arising from the Proposed Transfer and the subsequent proposed resumption of new business from the perspectives of:

- Policy Owner contractual benefits and rights;
- The financial strength as measured by excess capital that provides security of Policy Owners' benefits; and
- Any other matter arising during my review that may prejudice Policy Owners' interests.

I note that some policy products have limited provisions for a change in premium rates on renewal. The insurer also has discretions regarding the way the policies are administered.

Hence, to assess the implications of the Proposed Transfer on Policy Owners it is necessary to consider whether these discretions will be exercised consistently after the transfer.

As these discretions exist with SAI and HGIC whether the Proposed Transfer proceeds or not, I have considered changes arising directly from the Proposed Transfer rather than other future changes that may arise in the normal course of business through contractual rights or administrative rules which may be changed from time to time.

As the business of SAI is only in respect of Australian policies, the Proposed Transfer doesn't require approval from the Reserve Bank of New Zealand, although they have been notified of the proposed Transfer. In performing my review I have specifically considered the impacts of the Proposed Transfer on HGIC's New Zealand Policy Owners and formed my opinions in Section 2 accordingly.

7.2. Policy Owners' Contractual Benefits and Rights

The policy conditions of both SAI and HGIC policies will be unchanged as a result of the Proposed Transfer, and hence, there is no adverse impact on the contractual benefits and rights of Policy Owners of SAI and HGIC of the Proposed Transfer.

7.3. Financial Security

Policy Owners' benefit security relates to the financial security of the insurer to be able to pay claims when due. In reviewing financial security I have considered the impact of the Proposed Transfer on:

- the financial position of the Company, the amount of capital compared to statutory obligations, the way capital is managed, and projections of capital including resumption of issuing new business;
- the investment strategy;
- the RMF and its operation; and
- reinsurance.

Having considered these aspects below, I consider that there is no material adverse impact on Policy Owners' benefit security as a result of the Proposed Transfer and Subsequent Expected Activities. However, the maintenance of assets to meet minimum regulatory capital in SAI pending the revocation of its authorisation results in a reduction of assets transferred from SAI to HGIC of

$5.15m and will result in a lower financial strength of HGIC than would otherwise exist until the revocation is approved and the assets transferred to HGIC. The expeditious revocation of SAI's authorisation to operate as a general insurer will be beneficial to the security of Policy Owners' benefits.

7.4. The Regulation of General Insurance in Australia

The general insurance industry is highly regulated by the Insurance Act which sets out extensive provisions for the undertaking of general insurance business and sets out the mechanisms for protecting the interests of Policy Owners. The Insurance Act requires each general insurer to have a suitably qualified appointed actuary to provide impartial advice and reporting to the insurer on a range of matters. SAI currently has a small insurer exemption from having an appointed actuary.

The Insurance Act and the general insurance industry is regulated by APRA which also issues prudential standards relating to many aspects of the management of general insurance companies which are legally enforceable. In New Zealand, the Reserve Bank of New Zealand fills a similar role in regulating general insurers under the Insurance Prudential Supervision Act.

The highly regulated nature of the industry provides significant protection for Policy Owners by imposing stringent capital and governance requirements on insurers which are met by both SAI and HGIC and which will be met by HGIC after the Proposed Transfer.

7.5. Investment Strategy and Asset Allocation

On the Transfer Date the investment assets of SAI, excluding those included in the Retained Assets, will transfer to HGIC. The investments in the Combined Entity will continue to be managed in accordance with the Group's Asset and Liability and Investment Policy, although there will be a change in the mix between low-yielding cash and cash equivalents and high-yielding corporate loans/bonds/ and mortgage-backed securities which will bring the investment of the Combined Entity more in line with the investment strategy. This will also have an impact on capital held in respect of asset risks that has been allowed for in the proforma results in Section 7.10.

All investment income accrues to shareholders, and Policy Owners will not be materially affected by the transfer of the assets from SAI to HGIC.

7.6. Product and Pricing Strategy

There will be no changes to premium rates for SAI or HGIC policies as a result of the Proposed Transfer.

SAI and HGIC each have product and pricing policies with some regular premium products of SAI and HGIC subject to potential repricing at renewal. The profitability targets by product and, in total, are set through the Group Risk Appetite Statement, which currently applies to both SAI and HGIC. As the products and current premiums are not changing as part of the Proposed Transfer, the profitability targets and actions available to manage them will remain the same. Consequently, there is no expectation of a change in premium pricing as a result of the Proposed Transfer. Consequently there is no adverse impact on the premiums of Policy Owners of SAI or HGIC as a result of the Proposed Transfer.

7.7. Claims Management

Policy Owners claim benefits and the conditions to be fulfilled to make a claim are not changed as a result of the Proposed Transfer.

The SAI and HGIC claims philosophies have been updated and are now the same. Claims management is undertaken by SAAS for both SAI and HGIC and this will be unaffected by the Proposed Transfer.

7.8. Policy Administration and Customer Service

The IT systems used to administer SAI policies will continue to be used and the transition of HGIC and LFS systems that is currently underway will continue with the aim of a harmonised administration platform for in-house administered business regardless of the Proposed Transfer. There are some differences between SAI and HGIC system functionality that will change the way staff operate but there will be no noticeable change to the customer experience. Other outsourced administration services will continue without changes.

The product pricing and claims management policies of SAI and HGIC include consistent consideration of customer outcomes for both SAI and HGIC Policy Owners.

Consequently, the service levels and customer experience are not expected to be impacted by the Proposed Transfer.

The planned resumption of issuing new business following the Proposed Transfer would be expected to have a positive impact on customer service due to the increased volumes of business to support the costs of ongoing improvement.

7.9. Expenses

7.9.1. Scheme Expenses

All costs in carrying out the Scheme will be met by HGIC and SAI out of shareholder funds and will not be passed on to Policy Owners.

7.9.2. Expense Allocation

All expenses of the group are ultimately borne by shareholders. The impact of expenses on SAI and HGIC relates to the determination of capital requirements.

SAAS uses the Group's functional costing methodology to allocate expenses to the group entities and statutory funds within the life companies. This will continue to be applied with expenses currently going to SAI being passed on to HGIC.

There are expected to be net cost savings resulting from the Proposed Transfer over time.

In summary, there should be no adverse expense impact affecting SAI and HGIC Policy Owners as a result of the Proposed Transfer.

7.10. Capital Management and Financial Strength

Holding capital at a level to provide security of Policy Owners' benefits in the event of a range of adverse circumstances is a fundamental part of ensuring a general insurer can meet its commitments to Policy Owners. The capital management of general insurers is regulated by APRA under the Insurance Act and a series of prudential standards setting out required frameworks and minimum levels of capital to be held by insurers, commonly referred to as the Internal Capital Adequacy Assessment Process, or ICAAP. An insurer's compliance with ICAAP is reported to, and monitored by, APRA.

APRA standards specify the minimum PCA to be held by the insurer. This amount is targeted to meet a 99.5% probability that the insurer will be able to meet the insurance liabilities and other liabilities over the next year. APRA can impose additional prudential regulatory requirements. The total of the PCA and any regulatory adjustment is the PCR.

Insurers also hold further capital, referred to as Target Capital, to minimise the probability of not meeting the regulatory capital requirements in adverse circumstances. The Target Capital amount allows for key risks, covering insurance risk, investment risk, expense risk, insurance concentration risk, operational risk and having capital offsets against distributable profit.

These internal requirements are set out in the ICAAP which also sets out the monitoring and management of capital.

Target Capital is effectively the level of working capital an insurer considers is appropriate for the management of the business and capital in excess of this is available for distribution or to provide capital for other parts of the business. The Group dividend policy is that dividends will not be paid in the foreseeable future and any excess capital will be retained in the business.

SAI and HGIC both have comprehensive capital management frameworks in place.

The capital management frameworks of SAI and HGIC are determined in accordance with the Group ICAAP which will continue to apply to HGIC following the Proposed Transfer. The capital requirements of HGIC will change to reflect the inclusion of the SAI policies, however, the methodology will not be affected.

The combination of SAI and HGIC policies in HGIC provides some increased diversification compared to each company separately, which will be considered in the calculation of the Prescribed Capital Amount.

I have considered both the results set out below sourced from actuarial reports of SAI and HGIC and additional reports containing the PCR and Target Capital that includes any Pillar 2 capital adjustments. These results show that SAI and HGIC each meet or exceed the APRA regulatory requirements and the Combined Entity will also meet or exceed the APRA regulatory requirements and HGIC's Target Capital requirements following the Proposed Transfer.

Ideally, the impact of the Proposed Transfer on the financial position of the companies would be measured at the Transfer Date. However, the financial position at the Transfer Date is not certain as it can be affected by changes in business volumes, investment markets, claims experience, regulatory changes, and other factors in the period leading up to the Transfer Date. Instead, it is reasonable and usual to consider the impact of the Proposed Transfer on the financial security by comparing the actual financial position of each company with a pro forma of the Combined Entity as if the Proposed Transfer had occurred on 31 August 2023, the date at which the most recent audited accounts are available.

Analysis performed by the St Andrew's Chief Actuary and the appointed actuary of HGIC at 31 January 2024 reflects a materially consistent financial outcome to the 31 August 2023 results which does not alter my conclusions.

In order to show the impact on the capital position of SAI and HGIC of the timing of the revocation of SAI's authorisation and the intended Tier 2 Note Transactions, the tables overleaf show the financial position of SAI and HGIC on three bases:

- before and after the Transfer on 31 August 2023 assuming SAI's authorisation has not been revoked,
- before and after the Transfer on 31 August 2023 assuming SAI's authorisation is revoked, and
- before and after the Transfer on 31 August 2023 assuming SAI's authorisation is revoked and completion of the $8.25m Tier 2 Note Transactions.

Note that totals and commentary may not balance exactly because of rounding.

Table 7.10.1: HGIC & SAI Net Asset and Capital Position Pre-Transfer and Post-Transfer and Before Revocation of SAI Authorisation on 31 August 2023 ($Am)[8]

	Pre-Transfer			**Post Transfer and Before Revocation of SAI Authorisation**	
	SAI	HGIC	**Total SAI + HGIC Pre- Transfer**	SAI	**HGIC**
Net assets	8.0	12.7	**20.7**	**5.2**	**15.5**
Regulatory adjustments	0.0	(0.2)	**(0.2)**	-	**(0.2)**
Tier 2 capital	3.0	7.5	**10.5**	-	**10.5**
Capital base	11.0	20.0	**31.0**	**5.2**	**25.8**
PCA before Statutory Minimum	1.7	7.2	**8.8**	**0.4**	**8.6**
Statutory Minimum PCA	**5.0**	**7.2**	**12.2**	**5.0**	**8.6**
Capital in excess of PCA	6.0	12.8	**18.8**	0.2	**17.2**
Capital adequacy multiple	2.2	2.8	**n/a**	1.0	**3.0**

Table 7.10.2: HGIC & SAI Net Asset and Capital Position Pre-Transfer and Post-Transfer and Revocation of SAI Authorisation on 31 August 2023 ($Am)[9]

	Pre-Transfer			**Post Transfer and Revocation of SAI Authorisation**	
	SAI	HGIC	**Total SAI + HGIC Pre- Transfer**	SAI	**HGIC**
Net assets	8.0	12.7	**20.7**	-	**20.7**
Regulatory adjustments	0.0	(0.2)	**(0.2)**	-	**(0.2)**
Tier 2 capital	3.0	7.5	**10.5**	-	**10.5**
Capital base	11.0	20.0	**31.0**	-	**31.0**
PCA before Statutory Minimum	1.7	7.2	**8.8**	-	**8.8**
Statutory Minimum PCA	**5.0**	**7.2**	**12.2**	**-**	**8.8**
Capital in excess of PCA	6.0	12.8	**18.8**	-	**22.2**
Capital adequacy multiple	2.2	2.8	**n/a**	-	**3.5**

[9] Source SAI Actuarial Valuation Reports and HGIC Financial Condition Report at 31 August 2023, St Andrew's Group ICAAP and supplementary information provided by SAI and HGIC.

Table 7.10.3: HGIC & SAI Net Asset and Capital Position Pre-Transfer and Post -Transfer and After Revocation of SAI Authorisation and $8.25m Tier 2 Note Transactions on 31 August 2023 ($Am)[8]

	Pre-Transfer			**Post Transfer and After Revocation of SAI Authorisation and Tier 2 Note Transactions**	
	SAI	HGIC	**Total SAI + HGIC Pre- Transfer**	SAI	**HGIC**
Net assets	8.0	12.7	20.7	-	20.7
Regulatory adjustments	0.0	(0.2)	(0.2)	-	(0.2)
Tier 2 capital	3.0	7.5	10.5	-	18.8
Capital base	11.0	20.0	31.0	-	39.2
PCA before Statutory Minimum	1.7	7.2	8.8	-	9.0
Statutory Minimum PCA	5.0	7.2	12.2	-	9.0
Capital in excess of PCA	6.0	12.8	18.8	-	30.2
Capital adequacy multiple	2.2	2.8	n/a	-	4.4

The following tables summarise the regulatory capital position pre and post-transfer based on the financial position of HGIC and SAI on 31 August 2023.

Table 7.10.4: Detail of PCA Pre-Transfer and Post-Transfer and Before Revocation of SAI Authorisation on 31 August 2023 ($Am) [10]

	Pre-Transfer			**Post Transfer and Before Revocation of SAI Authorisation**	
Capital Charge	SAI	HGIC	**Total SAI + HGIC Pre- Transfer**	SAI	**HGIC**
Insurance Risk	0.0	1.0	**1.1**	-	**1.1**
Insurance Concentration Risk	1.1	5.2	**6.4**	-	**6.4**
Asset Risk	0.9	1.7	**2.6**	**0.4**	**2.3**
Asset Concentration Risk	0.0	0.0	**0.0**	-	**0**
Operational Risk	0.1	0.4	**0.4**	-	**0.4**
Aggregation Benefit	(0.4)	(1.2)	**(1.6)**	-	**-1.5**
PCA before Statutory Minimum	1.7	7.2	8.8	0.4	8.6
Increase in PCA to Statutory Minimum	3.3		**3.3**	4.6	**-**
Statutory Minimum PCA	5.0	7.2	12.2	5.0	8.6

Table 7.10.5: Detail of PCA Pre-Transfer and Post -Transfer and Revocation of SAI Authorisation on 31 August 2023 ($Am) [10]

	Pre-Transfer			Post Transfer and Revocation of SAI Authorisation	
Capital Charge	SAI	HGIC	**Total SAI + HGIC Pre- Transfer**	SAI	**HGIC**
Insurance Risk	0.0	1.0	**1.1**	-	**1.1**
Insurance Concentration Risk	1.1	5.2	**6.4**	-	**6.4**
Asset Risk	0.9	1.7	**2.6**	-	**2.6**
Asset Concentration Risk	0.0	0.0	**0.0**	-	**0.0**
Operational Risk	0.1	0.4	**0.4**	-	**0.4**
Aggregation Benefit	(0.4)	(1.2)	**(1.6)**	-	**(1.7)**
PCA before Statutory Minimum	1.7	7.2	8.8	-	8.8
Increase in PCA to Statutory Minimum	3.3		**3.3**	-	**-**
Statutory Minimum PCA	5.0	7.2	12.2	-	8.8

Tables 7.10.1 and 7.10.4 show that after the Proposed Transfer, but before revocation of SAI's authorisation, SAI has no insurance liabilities but has an asset risk charge of $0.4m in relation to shareholder capital but will hold $5.15m of capital to exceed the minimum PCA of $5m. In HGIC, there is a consequent reduction in assets and capital of $5.15m, with the PCA reducing by only $0.2m. However, HGIC remains well capitalised with $17.2m of capital in excess of the PCA and a capital adequacy multiple of 3.0 pending the revocation of the SAI authorisation and transfer of SAI's $5.15m of assets.

Tables 7.10.2 and 7.10.5 show that after the Proposed Transfer and revocation of SAI's authorisation:

- the total capital base remains the same at $31m, including $10.5m Tier 2 capital;
- the entity minimum PCA reduces from $12.2m for the two companies to $8.8m as SAI will no longer be subject to the minimum PCA of $5m once its authorisation is revoked. This has the benefit of increasing Capital above the Minimum PCA from $18.8m to $22.2m;
- the Capital Adequacy Multiple for HGIC is 3.5 which is higher than the multiple for both SAI and HGIC before the Proposed Transfer because of the reduction in the Minimum PCA.

Although the total assets and liabilities don't fundamentally change as a result of the Proposed Transfer, the reduction in the statutory requirements frees capital to be used to fund the planned resumption of issuing new business, or to be utilised elsewhere in the group.

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[10] Source SAI Actuarial Valuation Reports and HGIC Financial Condition Report at 31 August 2023, St Andrew's Group ICAAP and supplementary information provided by SAI and HGIC.

Tables 7.10.2 and 7.10.3 show the benefit to HGIC of the Tier 2 Note Transactions that increase its capital from \$22.2m to \$30.2m and increase the capital adequacy multiple from 3.5 to 4.4. Although the Capital has increased, the net assets of HGIC do not change as a result of the transfer of the notes because HGIC has an obligation to repay the Tier 2 notes which is recorded as a liability on its balance sheet, however the notes are counted as capital for regulatory purposes until they are repaid.

As well as considering the current position it is important to consider the outlook for the future. I have been provided with five-year projections on a range of adverse scenarios of the Excess Assets above PCR and Target Capital for the Combined Entity allowing for the Subsequent Expected Activities, including the proposed resumption of new business. I have considered the results and bases on which they were produced in order to form my opinions.

The projection results show that HGIC in all scenarios remains profitable and there is sufficient capital to fund the proposed growth and maintain assets in excess of the PCR and Target Capital over that period. Resuming new business will result in an increase in capital requirements, which will reduce the excess assets and capital adequacy ratios while still providing strong capital support to the business. I note that the proposed resumption of new business is not a consequence of the Proposed Transfer, however the combination of the SAI and HGIC businesses increases the capital resources available to support any resumption of new business.

The resumption of new business is subject to APRA approval, noting that to give approval APRA will need to be satisfied that HGIC holds sufficient capital to support the issuing of new insurance policies before granting the necessary approval.

HGIC’s planned resumption of issuing new business would be expected to bring longer-term benefits to existing Policy Owners by slowing or reversing the reduction in revenue from the currently closed book of business and contribute to the financial strength and stability of the Company.

7.11. Risk Management

Prudential standards issued under the Insurance Act require insurers to have a comprehensive enterprise RMF. The RMFs of SAI and HGIC have been aligned to maintain or improve the risk management of the combined businesses. Following the Proposed Transfer, HGIC will continue to operate in accordance with the Group’s RMF and key policies, including the Risk Appetite Statement, Risk Management Strategy and ICAAP.

7.12. Reinsurance

Although both SAI and HGIC are both subject to the Group Reinsurance Management Strategy, because of the nature of the businesses, SAI has no reinsurance and HGIC has an immaterial amount of reinsurance. The existing reinsurance arrangements for HGIC will continue unchanged after the Proposed Transfer.

8. Reliances and Limitations

This report has been written to provide an independent actuarial report on the Proposed Transfer and prepared per my engagement letter with SAI and HGIC dated 31 October 2023.

This report may not be used for any other purpose or provided to any other person than as stated in this report.

Third parties who use this report are not a party to the engagement letter and may not rely on the report for any purpose whatsoever. I and Synge & Noble do not accept any duty to any third party and will not be liable for any losses or damages incurred by a third party as a result of them acting or relying upon any information or opinion contained in this report.

I understand that this report will be provided to

- The legal advisors of SAI and HGIC,
- APRA, and
- The Federal Court of Australia

I also understand that the report will be made available to Policy Owners of SAI and HGIC.

In preparing this report and forming the opinions it contains I have relied on the accuracy and completeness of the information provided to me by SAI and HGIC both written and oral.

I have used the information without independent verification but have reviewed it for general reasonableness and consistency and nothing has come to my attention to indicate it is not suitable for the purpose of forming my opinion. I make no representation as to the accuracy or completeness of the information provided. If any of the information provided is inaccurate or incomplete this report may need to be revised and amended.

9. Compliance with Expert Evidence Practice Note

I have read, understood, and prepared this report in accordance with the Expert Evidence Practice Note to which I agree to be bound. The opinions expressed in this report are based wholly or substantially on specialised knowledge arising from my training, study, and experience.

I declare that I have made all the inquiries which I believe are desirable and appropriate, and that no matters of significance which I regard as relevant have, to my knowledge, been withheld from the Court.

Appendix A – Glossary of Terms

Term	Description
APRA	Australian Prudential Regulation Authority
Combined Entity	HGIC following the Proposed Transfer of SAI's general insurance business
CCI	Consumer Credit Insurance
HGIC	Hallmark General Insurance Company Ltd
HLIC	Hallmark Life Insurance Company Ltd
ICAAP	Internal Capital Adequacy Assessment Process
LFS	Latitude Financial Services
Insurance Act	Insurance Act 1973
PCA	Prescribed Capital Amount
PCR	Prudential Capital Requirement
Policy Owner	The owner of an insurance policy
Proposed Transfer	The proposed transfer of business to be implemented via a scheme of transfer under Division 3A of Part III of the Insurance Act
RAS	Risk Appetite Statement
RBNZ	Reserve Bank of New Zealand
Retained Assets	An amount of $5.15m retained in SAI after the Transfer Date to maintain capital above regulatory requirements
RMF	Risk Management Framework
SAAS	St Andrew's Australia Services Pty Ltd
SAI	St Andrew's Insurance (Australia) Pty Ltd
SALI	St Andrew's Life Insurance Pty Ltd
TAL	TAL Life Insurance Services Limited
Target Capital	Additional capital in excess of regulatory requirements to provide protection against breaching the regulatory capital requirements as a result of unanticipated adverse events
Tier 2 Capital	Unsecured borrowings in accordance with GPS 112 Capital Adequacy: Measurement of Capital that can be included in the capital base
Tier 2 Note Transactions	Expected $8.25m reduction of Tier 2 notes in HLIC and issue of Tier 2 notes in the same amount in HGIC
Transfer Date	30 June 2024

Appendix B – Information Relied On

In forming my opinions I have relied on the completeness and accuracy of information provided to me, both written and verbal, and, in particular, the information listed below. All documents relied on were provided by St Andrew's staff and the external appointed actuary of HGIC.

- Scheme for The Transfer of the Insurance Business of St Andrew's Insurance (Australia) Pty Ltd To Hallmark General Insurance Company Ltd dated 16 April 2024
- Business Transfer Agreement St Andrew's Insurance (Australia)Pty Ltd Hallmark General Insurance Company Ltd dated 26 April 2024
- HGIC's Financial Condition Reports for the year ending 31 August 2023
- St Andrew's Insurance (Australia) Pty Ltd ABN 89 075 044 656 Annual report for the year ended 31 August 2023
- Hallmark General Insurance Company Ltd ABN 82 008 477 647 Annual Report for the Period Ended 31 August 2023
- The 2024-26 stand-alone and combined business plans for SAI and HGIC
- Group Asset, Liability and Investment Policy
- St Andrew's Group Internal Capital Adequacy Assessment (ICAAP) Summary Statement Version 2023.1
- Group Reinsurance Management Statement
- Document entitled Pro Forma Capital Position
- St Andrew's Group – New Business Plan (Updated March 2024)
- HGIC Actuarial Valuation Report 31 August 2023
- Actuarial Valuation Report St Andrew's Insurance (Australia) Pty Ltd 31 August 2023
- Capital Projections Tables (2023 ICAAP Update March 2024)
- St Andrew's Insurance Group Investment Portfolio Update - February 2024
- Discussions and correspondence with St Andrew's staff and the external appointed actuary of HLIC