SYNGE & NOBLE

Proposed Transfer of the Life Insurance Business of St Andrew's Life Insurance Pty Ltd to Hallmark Life Insurance Company

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
Life Insurance Business of St Andrew's Life Insurance Pty Ltd
Hallmark Life Insurance Company

Dear Mr Way,

Proposed Transfer of the Life Insurance Business of St Andrew's Life Insurance Pty Ltd to Hallmark Life Insurance Company Ltd

I am pleased to enclose my report on the Proposed Transfer of the Life Insurance Business of St Andrew's Life Insurance Pty Ltd to Hallmark Life Insurance Company Ltd.

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

Yours sincerely

David Goodsall FIAA
Director

SYNGE & NOBLE

Proposed Transfer of the Life Insurance Business of St Andrew's Life Insurance Pty Ltd to Hallmark Life Insurance Company

Contents

1. Introduction

1.1. Scope

I have been engaged by St Andrew's Life Insurance Pty Ltd **(SALI)** and Hallmark Life Insurance Company **(HLIC)** to review the Scheme prepared in accordance with Part 9 of the Life Insurance Act 1995 (Cth) (**Act**) for the proposed transfer of the life insurance business of SALI to HLIC. (Transfer), as well as considering the expected impact on the security of Policy Owner benefits of the proposed resumption of new business following the Proposed Transfer, and the proposed redemption of $8.25m of Tier 2 Notes from HLIC and issuing of similar notes to Hallmark General Insurance Company Ltd **(HGIC)**, also following the Proposed Transfer.

SALI and HLIC are currently closed to new business, however HLIC intends to apply to APRA after the Transfer Date for approval to resume issuing new business.

This report sets out the findings from my review of the proposed Scheme and resumption of new business, including my opinions in relation to:

- whether or not the interests of Policy Owners of SALI and HLIC will be materially prejudiced;
- the security of Policy Owner benefits for Policy Owners of both SALI and HLIC;
- the nature and reasonableness of any changes to contractual rights or benefits of Policy Owners of SALI or HLIC; and
- whether there will be an adverse impact on reasonable benefit expectations of Policy Owners of SALI and HLIC.

This report will be provided to APRA and the Federal Court and made available to SALI and HLIC Policy Owners.

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

All amounts shown in this report are in Australian dollars.

Note that totals in tables and commentary may not agree exactly because of rounding.

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 held several appointed actuary roles in Australia and prepared or advised on actuarial reports for several Part 9 transfers. I am the director of Synge & Noble, a consulting actuarial firm and a former member of the Life Insurance Code Compliance Committee.

I was the appointed actuary for SALI in a consulting capacity for approximately four years until 2009.

1.3. Overview of the Proposed Scheme

The Transfer is set out in the Scheme document and, by reference, the Business Transfer Agreement, which is based on the Appointed Actuaries' Report on the Transfer prepared jointly by the appointed actuaries of SALI and HLIC.

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

- all the assets and liabilities in SALI's Statutory Fund No. 1 will be transferred to HLIC's Statutory Fund No. 1 on the Transfer Date except for $10.3m of assets retained in SALI's Statutory Fund No. 1 (required to maintain capital above regulatory requirements until SALI's registration as a life insurer is cancelled);
- all the assets and liabilities of SALI's Shareholders' Fund will be transferred to HLIC's Shareholders' Fund;
- the SALI Policy Owners cease to be SALI Policy Owners and become HLIC Policy Owners;
- the rights and liabilities of the SALI Policy Owners will be the same in all respects as they would have been if:
    - the applications on which the SALI policies were based had been made to, or accepted by, HLIC instead of SALI; and
    - the SALI policies had originally been issued and administered by HLIC
- The terms and conditions of SALI and HLIC policies will not change as a result of the proposed Part 9 Transfer apart from references in SALI policies to SALI becoming references to HLIC.

SALI will apply to APRA for cancellation of its registration as a life insurer **(Deregistration)** following the Transfer Date. On Deregistration, the remaining assets in SALI will be transferred to HLIC to provide additional security for Policy Owner benefits and supporting 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 HLIC intends to resume writing new business. This is subject to APRA approval, noting that to give approval APRA will need to be satisfied that HLIC holds sufficient capital to support the issuing of new insurance policies before granting the necessary approval to HLIC 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 considered the terms of the Scheme and its impact on both SALI and HLIC Policy Owners from the perspectives of their contractual rights and benefits, the security of their policy benefits, their reasonable benefit expectations, and whether the scheme materially prejudices their interests. Although not part of the Scheme, the appointed actuaries and I have also considered the impact of the Subsequent Activities on the security of Policy Owner benefits of SALI and HLIC Policy Owners.

My review has considered the legal considerations of the Scheme 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 Transfer that may, in turn, impact Policy Owners. This includes the application of Governance Policies that will apply following the transfer.

To prepare this report and form my conclusions, my review involved considering the Appointed Actuaries' Report. To verify the statements in the report, where practical, I have also considered documents listed in Appendix B, and made enquiries of the appointed actuaries of SALI and HLIC, as well as the management of both SALI and HLIC.

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 proposed Transfer will not materially prejudice the interests of Policy Owners of SALI and HLIC;
- HLIC will remain in a sound financial position, meeting regulatory and internal capital requirements, and Policy Owners' benefit security will remain appropriate following the completion of the Proposed Transfer;
- There will not be any adverse impact on reasonable benefit expectations of Policy Owners of SALI and HLIC;
- The minor changes to contractual references contained in the Scheme are necessary to give effect to the Scheme and will not adversely affect the contractual rights or benefits of Policy Owners of SALI or HLIC.

3. The St Andrew's Group

SALI 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 Life Insurance Pty Ltd ("SALI"): a life insurer
    - St Andrew's Insurance (Australia) Pty Ltd ("SAI"): a general insurer
    - Hallmark Insurance Holdings Pty Ltd ("HHC"): a Level 2 Non-Operating Holding Company, and its subsidiaries
        - Hallmark Life Insurance Company Ltd ("HLIC"): a life insurer operating In Australia and New Zealand
        - Hallmark General Insurance Company Ltd ("HGIC"): a general 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 on 31 May 2023 with the intention of merging the business of SALI and HLIC; and of SAI and HGIC.

4. The SALI Business

4.1. Overview

SALI is a life insurer operating in Australia and is currently closed to new business which is a condition of its registration as a life insurer. The contractual rights of some policies to increase the sum insured or add new lives to the policy will continue to be met.

SALI business consists of a range of risk insurance products, many of which were issued in conjunction with SAI as they contained some benefits that can only be issued by a general Insurer. Where policies are issued jointly, the insured effectively has a policy with SALI and a policy with SAI. However, from a client's viewpoint, it is administratively treated as a single policy. Only the life insurance components of those policies are being transferred under the Proposed Transfer that is considered in this report. The general insurance components will be transferred from SAI to HGIC under a separate proposed transfer.

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

Table 4.1.1[1]: Summary of SALI's Product Portfolios

Portfolio	Issued by	Products
Consumer Credit Insurance (CCI)	SALI and SAI	Mortgage Protection Loan Protection Credit Card Protection
Wholesale	SALI	Let's Insure Funeral Cover, Term Life and Accident Cover FlexiSure Life Cover Real Life Insurance Australian Seniors Insurance CUA Loan Repayment Insurance
Legacy	SALI and SAI	Autocredit Protection
	SALI	Term Life Classic Life Accidental Death Accidental Death & Disability Protector Plus Premier Life Once Life – Life Cover

The table below summarises the number of policies, sum insured, gross annual premium and net policy liability for SALI's products in SF1 as of 31 August 2023.

[1] Source Appointed Actuaries' Report Section 3.4

Table 4.1.2[1]: Summary of SALI's inforce business in Statutory Fund 1 at 31 August 2023

	Number of Policies	Gross Sum Insured ($m)	Gross Annual Premium ($'000)	Net Policy Liability ($'000)
Consumer Credit	18,062	642	7,435	(929)
Direct Life	25,756	4,589	29,167	2,431
Real/ASIA	5,520	960	9,015	1,343
Grand Total	**49,338**	**6,191**	**45,617**	**2,846**

SALI doesn't have any participating or investment products.

Under the Act, a life insurance company holds its assets and liabilities in a shareholder fund and one or more statutory funds from which its life insurance business is carried out. Each life insurance policy must be referable to a single statutory fund. SALI has one active statutory fund which contains the business to be transferred, two dormant funds with no policies, and a Shareholders' Fund as shown in the table below.

Table 4.1.3[2]*: SALI Product Summary by Statutory Fund*

Statutory Fund	Class of Business	Products
SF1	Ordinary	CCI, Term Life, Funeral Cover, Term Life Insurance Funeral Insurance, and accidental Death And Disability.
SF2	N/A	Dormant – No Policies
SF3	N/A	Dormant – No Policies
SHF	Holds capital which is available to support the life insurance business.	

The dormant funds are not considered further in this report as they are not affected by the Proposed Transfer. For further detail on SALI please refer to Section 3 of the Appointed Actuaries' Report.

4.2. Operations and Administration

SAAS manages the claims and underwriting functions of SALI using the StACS policy administration system as well as outsourcing administration and claims management for the wholesale products. SALI is responsible for the outsourced arrangements and conducts regular monitoring and review of these operations.

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.

4.3. Investments

SALI's investment policy is set by the Group's Asset and Liability and Investment Policy and assets supporting policy liabilities and shareholder capital are invested in a range of cash and cash equivalents as well as corporate loans and mortgage-backed securities. The group is currently executing a multi-year change in its investment strategy to reduce its exposure to unrated assets and increase the exposure to rated corporate loans/bonds and mortgage-backed securities. This is

[2] Source Appointed Actuaries' Report Table 4

occurring independently of the Proposed Transfer. Further detail is available in Section 3.8 of the Appointed Actuaries' Report.

4.4. Tax Status and Basis

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

4.5. Reinsurance

Reinsurance is managed per the Group Reinsurance Management Statement that applies to all four insurance subsidiaries to limit exposures to any one life to specified limits. Swiss Re is the primary reinsurer with several other arrangements in place with other reinsurers. The reinsurance treaties will be novated to HLIC to ensure continuity of reinsurance.

4.6. Risk Management and Capital 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 Internal Capital Adequacy Assessment Process (**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.

SALI meets the minimum capital requirements and capital management requirements of the APRA standards and holds target capital in addition to the PCR per the Target Capital requirements of the ICAAP.

The RMF and ICAAP have been harmonised between SALI and HLIC to ensure a consistent approach.

4.7. Financial Position

Measurement of Financial Position

The financial strength of a life insurance company is generally measured through its capital position. The APRA standards specify a life 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 a life company is required to hold to meet liabilities in a range of adverse circumstances and is determined per Life 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 the 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 Life 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.

SALI Financial Position

Section 3.10 of the Appointed Actuaries' Report 'outlines the SALI capital reserving and management strategy.

Table 4.6 shows SALI's profit and calculation of the capital position on 31 August 2023.

Table 4.6[34]: Summary of SALI's Profit and Capital Position on 31 August 2023 ($m)

	Statutory Fund 1 Australia	Shareholders' Fund	Total SALI
Profitability			
Net profit after tax for the 12 months to 31 August 2023	1.6	0.0	1.6
Financial position at 31 August 2023			
Net Assets	20.2	0.2	20.4
Regulatory adjustments to net assets	(0.6)	**-**	(0.6)
Tier 2 Capital	11.5	-	11.5
Capital Base	**31.1**	**0.2**	**31.3**
PCA	6.5	0.0	10.0*
Free Capital above PCA	24.6	0.2	21.3
Capital adequacy multiple	4.8	117.4	3.1

* There is a minimum capital requirement of $10m at an entity level which in practice means it is funded from the PCA of $6.5m plus $3.5m funded from the combined free capital of the statutory fund and Shareholders' fund of $24.8m, leaving a net capital in excess of the PCA of $21.3m at the entity level. If the $3.5m top-up to the entity-level minimum PCA were notionally allocated to Statutory Fund 1, then the free capital within Statutory Fund 1 would reduce by the same amount, and the capital adequacy multiple would reduce to 3.1.

Table 4.6. shows that the business is profitable and SF1 is well capitalised. With excess capital being held in SF1 rather than the Shareholders' Fund.

Target Capital in SF1 is also funded from the capital above PCA.

The capital base includes $11.5m of Tier 2 Capital (or unsecured borrowings) as permitted in accordance with LPS 600 Statutory Funds.

4.8. Remediation Programs

At the date of this report, there is one open remediation with the remediation analysis being verified and an expected cost of $102k.

There are no other known outstanding remediation programs or significant litigations.

[3] A new insurance accounting standard (AASB 17) applies To SALI from 1 September 2023 and HLIC from 1 January 2023. For consistency, all financial results in this report are based on the existing standard (AASB 1038). The results are not materially different between the two standards.
[4] Source Appointed Actuaries' Report Table 7

4.9. 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.

5. The HLIC Business

5.1. Overview

SAAS acquired HHC, the parent of HLIC, on 31 May 2023 from Latitude Financial Services. Following the acquisition, HLIC changed its year-end from 31 December to 31 August to align with the Group.

HLIC is a life insurer operating in Australia and New Zealand and is currently closed to new business which is a condition of its registration as a life insurer. HLIC still accepts renewals of existing monthly credit card regular premium business. HLIC's business consists of a range of risk insurance products.

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

Table 5.1.1[5]: Summary of HLIC's Product Portfolios

Portfolio	Statutory Fund	Products	Status
Consumer Credit Insurance (CCI)	SF1	Store Card Revolving Credit	Closed*
		GE Personal Loans	Closed
		Regular Premium Loan Protection	
Term Life	SF1	GE Branch Term Life Single Premium	Closed
		GE Branch Term Life Monthly Premium	
		Housekeeper Loan Protection Level Premium Life	
		Living Benefits Term Life	
		Bounce Back Income Protection	
		Myer (Ex-Heritage) Death & Crisis	
		Accidental Death (Ex-Heritage)	
		JC Penney Accidental Death (direct)	
		JC Penney Term Life (direct)	
		AEGON	
Consumer Credit Insurance (CCI)	SF2	Store Cards	Closed*
		GE Personal Loans (GE Money Direct & KiwiBank)	Closed

** 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 overleaf summarises the number of policies, sum insured, gross annual premium and net policy liability for HLIC's products as of 31 August 2023.

[5] Source Appointed Actuaries' Report Table 9

Table 5.1.2[6]: Summary of HLIC's inforce business at 31 August 2023

	Number of Policies	Gross Sum Insured ($m)	Gross Annual Premium ($'000)	Net Policy Liability ($'000)
Australia (SF 1)				
Consumer Credit	70,089	173	2,095	242
Term Life	1,053	197	1,205	267
Grand Total Australia	**71,142**	**370**	**3,300**	**509**
New Zealand (SF 2)				
Consumer Credit Insurance	18,968	123	939	427
Grand Total New Zealand	**18,968**	**123**	**39**	**427**

HLIC doesn't have any participating or investment products.

HLIC has two statutory funds, SF1 which contains the Australian Business, SF2 which contains the New Zealand Business issued through its New Zealand branch, and a Shareholders' Fund as shown below.

Table 5.1.3*:* HLIC Product Summary by Statutory Fund

Statutory Fund	Class of Business	Products
► SF1	Australian Ordinary Business	Consumer Credit Insurance Term Life Individual Disability Income Insurance
► SF2	New Zealand business	Consumer Credit Insurance
► **SHF**		Holds capital which is available to support the life insurance business.

For further detail on HLIC please refer to Section 4 of the Appointed Actuaries' Report.

5.2. Operations and Administration

When SAAS acquired HLIC a transitional service agreement was put in place with Latitude Financial Services 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. HLIC is responsible for the outsourced arrangements and conducts regular monitoring and review of these operations.

The business's expenses are apportioned amongst the SAAS companies based on a functional expense allocation process where expenses can't be allocated directly.

5.3. Investments

HLIC's investment policy is set by the Group's Asset and Liability and Investment Policy and assets supporting policy liabilities and shareholder capital are invested in a range of cash and cash

[6] Source Appointed Actuaries' Report Table 10

equivalents as well as corporate loans and mortgage-backed securities. The group is currently executing a multi-year change in its investment strategy to reduce its exposure to unrated assets and increase the exposure to rated corporate loans/bonds and mortgage-backed securities. This is occurring independently of the Proposed Transfer. Further detail is available in Section 4.8 of the Appointed Actuaries' Report.

5.4. Tax Status and Basis

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

5.5. Reinsurance

Reinsurance is managed in accordance with the Group Reinsurance Management Strategy that applies to all four insurance subsidiaries to limit exposures to any one life to specified limits. The reinsurance exposure of HLIC is very small. Swiss Re is the primary reinsurer with several other arrangements in place with other reinsurers.

5.6. Risk Management and Capital Management

SAAS has a Group 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.

HLIC meets the minimum capital requirements and capital management requirements of the APRA standards and holds target capital in addition to the PCR per the Target Capital requirements of the ICAAP.

The RMF and ICAAP have been harmonised between HLIC and SALI to ensure a consistent approach.

5.7. HLIC Financial Position

Section 4.10 of the Appointed Actuaries' Report Appointed Actuaries' Report outlines the HLIC capital reserving and management strategy.

Table 5.6 overleaf shows HLIC's profit and calculation of the capital position on 31 August 2023.

Table 5.6[7] [8]: Summary of HLIC's Profit and Capital Position on 31 August 2023 ($m)

	Statutory Fund 1 Australia	Statutory Fund 2 New Zealand	Shareholders' Fund	Total HLIC
Profitability				
Net profit after tax for the 8 months to 31 August 2023	0.3	0.2	0.1	0.7
Financial position at 31 August 2023				
Net Assets	10.3	1.1	1.1	12.5
Regulatory adjustments to net assets	(0.1)	0.1	-	0.0
Tier 2 Capital	5.0	-	-	5.0
Capital Base	**15.2**	**1.2**	**1.1**	**17.5**
PCA	1.1	0.3	0.0	10.0*
Free Capital above PCA	14.1	0.9	1.1	7.5*
Capital adequacy multiple	14.4	4.4	488.2	1.8

* There is a minimum capital requirement of $10m at an entity level which in practice means it is comprised of the combined PCA in SF1 and SF2 of $1.3m plus $8.7m funded from the combined free capital of the statutory funds and Shareholders' fund of $16.1m, leaving a net capital in excess of PCA of $7.5m at the entity level. If the $8.7m top-up to the entity-level minimum PCA of $10m were notionally allocated to Statutory Fund 1, then the free capital above PCA within Statutory Fund 1 would reduce to $5.5m, and the capital adequacy multiple would reduce to 1.6.

Table 5.6 shows that the business is profitable, and SF1 is well capitalised. Most excess capital is held in SF1 and SF2.

Target Capital in SF1 and SF 2 is funded from the capital above PCA.

The capital base includes $5m of Tier 2 Capital (or unsecured borrowings) as permitted per LPS 600 Statutory Funds.

5.8. Remediation Programs

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

5.9. 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.

[7] A new insurance accounting standard (AASB 17) applies To SALI from 1 September 2023 and HLIC from 1 January 2023. For consistency, all financial results in this report are based on the existing standard (AASB 1038). The results are not materially different between the two standards.
[8] Source Appointed Actuaries' Report Table 13

6. The Proposed Transfer

6.1. Overview of the Proposed Transfer

The purpose of the Proposed Transfer is to combine the life insurance business of SALI and HLIC to simplify the business and reduce costs, operational risk, and capital needs as well as provide a single and improved customer experience. This builds on the existing harmonisation that has already occurred in aligning SALI and HLIC to both use the Group's Risk Management Framework, ICAAP, Reinsurance Management Strategy and Asset, Liability and Investment Policy,

HLIC 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, after an initial shorter-term reduction in capital resources, will contribute to the benefit security of existing transferring SALI Policy Owners of SALI and HLIC Policy Owners.

The transfer is conducted in accordance with a Court-approved scheme under Part 9 of the Life Insurance Act. The main components of the Scheme are that on the Transfer Date:

- all the assets and liabilities of SALI SF1, including all life insurance policies and any liabilities in relation to previous SALI policies in SALI SF1 will transfer to HLIC SF1, excluding $10.3m of capital assets, which will remain in SALI to ensure it meets APRA minimum prudential capital requirements until it is deregistered, at which time the remaining assets will be transferred to HLIC;
- all the assets and liabilities of SALI SHF will transfer to HLIC SHF;
- the SALI Policy Owners cease to be SALI Policy Owners and become HLIC Policy Owners;
- the rights and liabilities of the SALI Policy Owners will be the same in all respects as they would have been if:
  - the applications on which the SALI policies were based had been made to, or accepted by, HLIC instead of SALI; and
  - the SALI policies had originally been issued by HLIC instead of SALI;
- HLIC assumes all liabilities and obligations of SALI under, or in respect of, the SALI policies. SALI is released and discharged from all liabilities and obligations under, or in respect of, the SALI policies;
- HLIC is entitled to all rights and benefits of SALI under, or in respect of, the SALI policies, including but not limited to:
  - The right to receive premiums payable under, or in respect of, the SALI policies; and
  - The right to enforce all rights and remedies available under the SALI policies in respect of any non-payment of such premiums or fees;
- all reinsurance arrangements associated with the SALI policies will be novated to HLIC;
- in the event that Hallmark Life writes new business after the Transfer Date, new policyholders will not be affected by the Scheme;
- all additional costs in carrying out the Scheme will be met by the shareholders of SALI and HLIC from the shareholder funds and will not be passed onto Policy Owners;
- the terms and conditions of current HLIC policies in HLIC SF1 and SF2 will not change as a result of the proposed Part 9 Transfer. The references to SALI in SALI policies will become references to HLIC.

After the Transfer Date SALI will have no life insurance liabilities and will be eligible to be deregistered. The Scheme references the Business Transfer Agreement, which specifies that as soon as practical after the Transfer Date SALI will apply to APRA for Deregistration. Once approved, SALI will have no capital obligations and all SALI's remaining assets will then be transferred to HLIC to support the Policy Owner benefit security of the combined business and new business plans.

As noted in Section 1.4 the Subsequent Expected Activities include a reduction of Tier 2 notes of $8.25m in HLIC. As the Tier 2 notes count as capital for statutory purposes this would reduce the capital in HLIC. The Appointed Actuaries' Report includes results assuming that the Tier 2 Note Transactions occur at the time that SALI is deregistered for the purpose of considering the Policy Owner benefit security.

The tables below illustrate the assets and liabilities of SALI and HLIC

- Table 6.1 - Before the Proposed Transfer
- Table 6.2 - After the Proposed Transfer had it occurred on 31 August 2023, and before the Deregistration of SALI
- Table 6.3 - After the Proposed Transfer had it occurred on 31 August 2023, assuming SALI is Deregistered
- Table 6.4 - After the Proposed Transfer had it occurred on 31 August 2023, assuming SALI is Deregistered and the $8.25m Tier 2 Note Transactions

Note: The figures presented in these tables are prepared on a AASB 1038 Accounting Standard basis and vary from SALI and HLIC's financial statements as of 31 August 2023 because of differing presentations of ceded claims provisions and because HLIC reported on the new IFRS 17 Accounting Standard basis as at 31 August 2023.

Table 6.1[9]: Assets and Liabilities before the Proposed Transfer ($m)

Entity	Fund	Assets	Gross Policy Liabilities (including claims reserves)	Other Liabilities	Tier 2 Subordinated Notes	Total Liabilities	Receiving or Transferring Statutory Fund
SALI	**SF1**	48.5	11.7	5.2	11.5	28.3	Transferring to HLIC SF1
	SHF	0.2	-	0.0	-	0.0	Transferring to HLIC SHF
	Sub-Total	**48.7**	**11.7**	**5.2**	**11.5**	**28.3**	
HLIC	**SF1**	17.5	1.4	0.8	5.0	7.2	Receiving from SALI SF1
	SF2	1.8	0.6	0.1	-	0.7	N/A
	SHF	1.1	-	0.0	-	0.0	Receiving from SALI SHF
	Sub-Total	**20.4**	**2.0**	**1.0**	**5.0**	**8.0**	
	Total	**69.1**	**13.7**	**6.2**	**16.5**	**36.3**	

[9] Appointed Actuaries' Report Table 15 and Table 18

Table 6.2[10]: Proforma Assets and liabilities post the Proposed Transfer and before Deregistration of SALI ($m)

Entity	Fund	Assets	Gross Policy Liabilities (including claims reserves)	Other Liabilities	Tier 2 Subordinated Notes	Total Liabilities	Receiving or Transferring Statutory Fund
SALI	**SF1**	**10.3**	-	-	-	-	Transferring to HLIC SF1
	SHF	**-**	-	-	-	-	Transferring to HLIC SHF
	Sub-Total	**10.3**	-	-	**-**	-	
HLIC	**SF1**	55.7	13.1	6.0	16.5	35.5	Receiving from SALI SF1
	SF2	1.8	0.6	0.1	-	0.7	N/A
	SHF	1.3	-	0.0	-	0.0	Receiving from SALI SHF
	Sub-Total	**58.8**	**13.7**	**6.2**	**16.5**	**36.3**	
	Total	**69.1**	**13.7**	**6.2**	**16.5**	**36.3**	

Table 6.3[11]: Proforma Assets and liabilities post the Proposed Transfer and after Deregistration of SALI ($m)

Entity	Fund	Assets	Gross Policy Liabilities (including claims reserves)	Other Liabilities	Tier 2 Subordinated Notes	Total Liabilities	Receiving or Transferring Statutory Fund
SALI	**SF1**		-	-	-	-	Transferring to HLIC SF1
	SHF		-	-	-	-	Transferring to HLIC SHF
	Sub-Total		-	-	**-**	-	
HLIC	**SF1**	66.0	13.1	6.0	16.5	35.5	Receiving from SALI SF1
	SF2	1.8	0.6	0.1	-	0.7	N/A
	SHF	1.3	-	0.0	-	0.0	Receiving from SALI SHF
	Sub-Total	**69.1**	**13.7**	**6.2**	**16.5**	**36.3**	
	Total	**69.1**	**13.7**	**6.2**	**16.5**	**36.3**	

[10] Appointed Actuaries' Report Table 16 and Table 19
[11] Appointed Actuaries' Report Table 16 and Table 20

Table 6.4[12]: Proforma Assets and liabilities after the Proposed Transfer, after Deregistration of SALI and $8.25m Tier 2 Note Transactions ($m)

Entity	Fund	Assets	Gross Policy Liabilities (including claims reserves)	Other Liabilities	Tier 2 Subordinated Notes	Total Liabilities	Receiving or Transferring Statutory Fund
SALI	**SF1**	-	-	-	-	-	Transferring to HLIC SF1
	SHF	-	-	-	-	-	Transferring to HLIC SHF
	Sub-Total	-	-	-	-	-	
HLIC	**SF1**	57.8	**13.1**	**6.0**	**8.25**	**27.4**	Receiving from SALI SF1
	SF2	1.8	**0.6**	**0.1**	-	**0.7**	N/A
	SHF	1.3	-	**0.0**	-	**0.0**	Receiving from SALI SHF
	Sub-Total	**60.9**	**13.7**	**6.2**	**8.25**	**28.1**	
	Total	**60.9**	**13.7**	**6.2**	**8.25**	**28.1**	

Further details of the Proposed Transfer can be found in Section 5 of the Appointed Actuaries' Report.

[12] Appointed Actuaries' Report Table 17 and Table 21

7. Implications of the Proposed Transfer

7.1. Considerations

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

In the Appointed Actuaries' Report the Appointed Actuaries consider the implications of the Proposed Transfer from the perspective of both SALI and HLIC Policy Owners. The Appointed Actuaries' Report also provides details of the respective businesses and proposed management of the business following the Transfer which I have not repeated in this report.

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

- Policy Owner contractual benefits and rights;
- The security of Policy Owner benefits;
- Policy Owner reasonable benefit expectations; and
- Any other matter arising during my review that may prejudice Policy Owners' interests.

The Scheme sets out the legal processes to give effect to the Proposed Transfer and there are no changes to the contractual rights of SALI and HLIC Policy Owners.

I note that some policy documents typically confer discretions on the insurer while the policy is in force which include primarily the right to change premium rates. 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 SALI and HLIC 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.

7.2. Policy Owner Reasonable Benefit Expectations

Policy Owners expect that the benefits under their policies will be paid according to the terms and conditions of their policies.

The policy benefits such as the sum insured payable in the event of a claim and the terms on which claims are payable are fixed and Policy Owners expect that the fixed amount will not change. In addition, where premiums are not guaranteed and are subject to change, they expect any future changes in premiums to be made in a consistent way over time.

In assessing Policy Owner benefit expectations, I have had regard to the matters covered below, in particular, product and pricing strategy, claims management, administration and systems, and investment management.

Having considered the impact of the Proposed Transfer I consider that there is no material adverse impact on Policy Owner reasonable benefit expectations as a result of the Scheme.

7.3. Benefit Security

Policy Owner benefit security relates to the insurer's ability to pay policy benefits when due. In reviewing benefit security I have considered the impact of the Transfer on;

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

Considering these aspects below, I consider that there is no material adverse impact on Policy Owner benefit security due to the Scheme and Subsequent Expected Activities. However, as the SALI's Deregistration will occur after the Transfer Date, the maintenance of minimum regulatory capital in SALI in the interim will result in a reduction of assets transferred from SALI to HLIC of $10.3m and, until the cancellation is approved, will result in lower benefit security of the combined SALI and HLIC Policy Owners than would otherwise exist. Although HLIC will still be well capitalised post the Proposed Transfer pending the Deregistration, the expeditious Deregistration would be beneficial to the benefit security of Policy Owners.

7.4. The Regulation of Life Insurance in Australia

The life insurance industry is highly regulated by the Act which sets out extensive provisions for the undertaking of life insurance business and sets out the mechanisms for protecting the interests of Policy Owners. The Act requires each life insurer to have a suitably qualified appointed actuary to provide impartial advice and reporting to the insurer on a range of matters.

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

7.5. Statutory Funds and Policy Owner Equity

Both HLIC and SALI maintain Statutory Funds in accordance with the Act. Each Statutory Fund has distinct assets to be used for the benefit of the policies within the Statutory Fund.

All policies of both SALI and HLIC SF1 have fixed benefits and are non-participating (i.e. do not share in the profits of the business). Consequently, the shareholders are entitled to receive all profits and bear any losses arising from the business and there is no consideration of equity between Policy Owners and Shareholders.

HLIC SF 2 is unaffected by the Proposed Transfer as it relates to New Zealand business only and there is no SALI New Zealand business.

SALI SF 1 will be transferred into HLIC SF1. SALI and HLIC Policy Owners in this Statutory Fund will be in the larger combined HLIC SF1.

SALI and HLIC Shareholder's retained earnings and capital will be combined in the HLIC Shareholders' Fund.

7.6. Contractual Rights and Benefits

The terms 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 SALI and HLIC as a result of the Proposed Transfer.

7.7. Investment Strategy and Asset Allocation

The income from investment accrues to the benefit of the shareholders which is retained in the company to provide additional capital to support the business.

Both SALI and HLIC manage assets in a similar way with ongoing implementation of the Group's Asset and Liability and Investment Policy. On the Transfer Date the investment assets of SALI, excluding those retained to meet the $10.3m provision for statutory capital requirements pending the Deregistration of SALI, will transfer to HLIC. This will result in a small 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. The investments in the combined entity will continue to be managed in the same way with adjustments to the investment portfolio over time to reflect the increased size of combined HLIC SF1 and SHF.

7.8. Product and Pricing Strategy

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

SALI and HLIC each have product and pricing policies, with many SALI products subject to repricing provided that the premium rates are changed for all policies in a defined risk group. Although HLIC's premium rates were set by the prior owner, however, the principles used by them are similar to the pricing principles used by SALI. Consequently, there is no expectation of a change in premium pricing as a result of the Proposed Transfer.

Information about the current product and pricing strategies of SALI and HLIC can be found in Section 7.3.1 of the Appointed Actuaries' Report.

7.9. Claims Management

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

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

7.10. Policy Administration and Customer Service

The IT systems used to administer SALI policies will continue to be used and the transition of HLIC and Latitude Financial Services systems that is currently underway will continue with the aim of a single administration platform for in-house administered business. There are some differences between SALI and HLIC 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 SALI and HLIC include consistent consideration of customer outcomes for both SALI and HLIC 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.

7.11. Expenses

7.11.1. Scheme Expenses

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

7.11.2. Expense Allocation

All expenses of the group are ultimately borne by shareholders. The impact of expenses in SALI and HLIC relates to the valuation of policy liabilities and 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 SALI being passed on to HLIC.

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

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

7.12. Capital Management and Financial Strength

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

APRA standards specify the minimum Prudential Capital Amount (PCA) to be held in each statutory fund and the shareholders' fund. This amount is targeted to meet a 99.5% probability that each fund will be able to meet the Policy Liabilities and other liabilities over the next year. APRA can impose additional prudential regulatory requirements.

Insurers also hold further capital, referred to as Target Surplus, to minimise the probability of not meeting the regulatory capital requirements.

SALI and HLIC both have comprehensive capital management frameworks in place which are outlined in the Appointed Actuaries' Report in Sections 3.11.2 and 4.11.2.

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

The combination of SALI and HLIC policies in HLIC SF1 provides increased diversification compared to the funds in each company, which will be considered in the calculation of the Prescribed Capital Amount, which will reduce accordingly, as shown in Table 7.13.3 below.

I have considered both the results contained in the Appointed Actuaries' Report, set out below and additional reports containing the PCR and target surplus that includes any Pillar 2 capital adjustments. SALI and HLIC each meet or exceed the APRA regulatory requirements and the Combined Entity will also meet or exceed the APRA regulatory requirements and HLIC's Target Surplus requirements in each fund following the Proposed Transfer.

Ideally, the impact of the 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 Transfer had occurred on 31 August 2023, the date at which the most recent audited accounts are available.

Analysis performed by the appointed actuaries at 31 January 2024 reflects a materially consistent financial outcome to the 31 August 2023 results which does not alter my conclusions and opinions.

In order to show the impact on the capital position of SALI and HLIC of the timing of SALI's Deregistration and intended Tier 2 Note Transactions, the tables overleaf show the financial position of SALI and HLIC on four bases:

- Table 7.12.1 - Before the Transfer on 31 August 2023
- Table 7.12.2 - After the Transfer on 31 August 2023 and before SALI's Deregistration
- Table 7.12.3 - After the Transfer on 31 August 2023 after SALI has been Deregistered
- Table 7.12.4 - After the Transfer on 31 August 2023, after SALI has been Deregistered and completion of the $8.25m Tier 2 Note Transactions

Table 7.12.1[13]: HLIC and SALI net asset and capital position pre-transfer at 31 August 2023 ($m)

	SALI SF1	SALI SHF	**Total SALI**	HLIC SF1	HLIC SF2	HLIC SHF	**Total HLIC**	**Total SALI + HLIC**
Net assets	20.2	0.2	**20.4**	10.3	1.1	1.1	**12.5**	**32.9**
Regulatory adjustments	(0.6)	-	**(0.6)**	(0.1)	0.1	-	**0.0**	**(0.6)**
Tier 2 capital	11.5	-	**11.5**	5.0	-	-	**5.0**	**16.5**
Capital base	31.1	0.2	**31.3**	15.2	**1.2**	1.1	**17.5**	**48.8**
Fund PCA	6.5	0.0	**6.5**	1.1	0.3	0.0	**1.4**	**7.9**
Entity PCA			**10.0**				**10.0**	**20.0**
Capital in excess of PCA	24.6	0.2	**21.3**	14.1	0.9	1.1	**7.5**	**28.8**
Capital adequacy multiple	4.8	117.4	**3.1**	14.4	4.4	488.2	**1.8**	

If the top-ups to the entity-level minimum PCA of $10m were notionally allocated to SALI's and HLIC's Statutory Fund 1, then the capital in excess of PCA shown above would reduce to $21.1m and $5.5m respectively, and the capital adequacy multiples would reduce to 3.1 and 1.6 respectively.

Table 7.12.2[14]: HLIC and SALI net asset and capital position on 31 August 2023 post the Proposed Transfer and before Deregistration of SALI ($m)

	SALI SF1	SALI SHF	**Total SALI**	HLIC SF1	HLIC SF2	HLIC SHF	**Total HLIC**	**Total SALI + HLIC**
Net assets	10.3	-	10.3	20.2	1.1	1.3	22.6	**32.9**
Regulatory adjustments	-	-	-	(0.7)	0.1	-	(0.6)	**(0.6)**
Tier 2 capital	-	-	-	16.5	-	-	16.5	**16.5**
Capital base	10.3	-	10.3	36.0	1.2	1.3	38.5	**48.8**
PCA	0.6	-	**0.6**	6.6	0.3	0.0	**6.9**	**7.5**
Entity PCA			**10.0**				**10.0**	**20.0**
Capital in excess of PCA	9.7	-	0.3	29.4	0.9	1.3	28.5	**28.8**
Capital adequacy multiple	17.4	-	1.0	5.4	4.4	346.7	3.8	

If any top-ups to the entity-level minimum PCA of $10m were notionally allocated to SALI's and HLIC's Statutory Fund 1, then the capital in excess of PCA shown above would reduce to $0.3m and $26.3m respectively, and the capital adequacy multiples would reduce to 1.0 and 3.7 respectively.

[13] Source Appointed Actuaries' Report Section 6.2.1 Table 22
[14] Source Appointed Actuaries' Report Section 6.2.1 Table 23

Table 7.12.3[15]: HLIC and SALI net asset and capital position on 31 August 2023 post the Proposed Transfer, after Deregistration of SALI ($m)

	SALI SF1	SALI SHF	**Total SALI**	HLIC SF1	HLIC SF2	HLIC SHF	**Total HLIC**
Net assets	-	-	-	30.5	1.1	1.3	32.9
Regulatory adjustments	-	-	-	(0.7)	0.1	-	(0.6)
Tier 2 capital	-	-	-	16.5	-	-	16.5
Capital base	-	-	-	46.3	1.2	1.3	48.8
PCA	-	-	-	7.0	0.3	0.0	**7.3**
Entity PCA			-				**10.0**
Capital in excess of PCA	-	-	-	39.3	0.9	1.3	38.8
Capital adequacy multiple	-	-	-	6.6	4.4	346.7	4.9

If any top-up to the entity-level minimum PCA of $10m were notionally allocated to HLIC's Statutory Fund 1, then the capital in excess of PCA shown above would reduce to $36.6m and the capital adequacy multiple would reduce to 4.8

Table 7.12.4[16]: HLIC and SALI net asset and capital position on 31 August 2023 post the Proposed Transfer, after Deregistration of SALI and $8.25m Tier 2 Note Transactions ($m)

	SALI SF1	SALI SHF	**Total SALI**	HLIC SF1	HLIC SF2	HLIC SHF	**Total HLIC**
Net assets	-	-	-	30.5	1.1	1.3	32.9
Regulatory adjustments	-	-	-	(0.7)	0.1	-	(0.6)
Tier 2 capital	-	-	-	8.3	-	-	8.3
Capital base	-	-	-	38.0	1.2	1.3	40.5
PCA	-	-	-	7.0	0.3	0.0	**7.3**
Entity PCA			-				**10.0**
Capital in excess of PCA	-	-	-	31.0	0.9	1.3	30.5
Capital adequacy multiple	-	-	-	5.4	4.4	346.7	4.1

If any top-up to the entity-level minimum PCA of $10m were notionally allocated to HLIC's Statutory Fund 1, then the capital in excess of PCA shown above would reduce to $28.3m and the capital adequacy multiple would reduce to 3.9

---

[15] Source Appointed Actuaries' Report Section 6.2.1 Table 24
[16] Source Appointed Actuaries' Report Section 6.2.1 Table 25

The tables show that after the Proposed Transfer, SALI's Deregistration and the $8.25m Tier 2 Note Transactions;

- In the interval between the Proposed Transfer and Deregistration of SALI, HLIC is still well capitalised with excess assets on SF1 of $29.4m and a capital adequacy multiple of 5.4. The low capital adequacy multiple of 1 for SALI is of no consequence as SALI will have no policies or insurance liabilities
- The total capital base reduces from $48.8m to $40.5m, including $8.25m Tier 2 capital (reduced from $16.5m);
- The total Fund Prescribed Capital Amount reduces from $7.9m to $7.3m because of diversification benefits from the combined business;
- The entity minimum PCA reduces from $20m for the two companies to $10m as SALI will no longer be subject to the minimum PCA once it is deregistered. This has the benefit of increasing Capital above the entity Minimum PCA from $28.8m to $30.5m following the Tier 2 Note Transactions;
- Before the Proposed Transfer the Capital Adequacy Multiple is 4.8 for SALI SF1 and 14.4 for HLIC SF1. After the Proposed Transfer the Combined HLIC SF1 Capital Adequacy Multiple is 5.4. The large reduction in capital adequacy multiple reflects the very high capitalisation of HLIC pre-transfer of $15.2m compared to a very small PCA of $1.1m, being replaced post-transfer by a 150% increase in capital to $38m with the PCA increasing by over 500% to $7m;
- The Tier 2 Note Transactions reduce the capital adequacy multiple in HLIC from 4.9 to 4.1, but the total capital in excess of the PCA of the combined business still increases from $28.8m pre-transfer to $30.5m post-transfer and Deregistration of SALI. While there is a reduction in Policy Owners' security, the capital position remains strong indicating the Tier 2 Note Transactions do not materially impact the benefit security of Policy Owners;
- HLIC SF2 is unaffected by the Proposed Transfer.

The Capital Adequacy Multiple is generally considered to be the primary indicator of financial strength. A decrease for either the transferring or receiving fund Policy Owners is a usual outcome following a Part 9 transfer because the result for a combined fund will necessarily be different to the multiples for the individual funds. Consequently, it is not the change in capital adequacy multiple that is important in assessing financial strength, but the resulting multiple. A capital adequacy multiple of more than 2 would generally be considered strong. The excess assets following the Proposed Transfer result in continued well-capitalised statutory funds despite allowing for the possible Tier 2 Note Transactions.

As well as considering the current position it is important to consider the outlook for the future. The appointed actuaries have prepared five year projections on a range of scenarios of the Excess Assets above PCR and target surplus for the statutory funds and shareholders' funds 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 results show that HLIC remains profitable and there is sufficient capital to fund the proposed growth and maintain assets in excess of the PCR and target surplus over that period. Resuming new business will result in increased capital requirements which will reduce the excess assets and capital adequacy ratios over time, but 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 SALI and HLIC businesses increases the capital resources available to support any resumption of new business in HLIC.

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

Impact on Regulatory Capital

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

Table 7.13.1[17]: Impact of Proposed Transfer on PCA ($m)

	SALI Pre-Transfer	HLIC Pre-Transfer	Total SALI + HLIC Pre-Transfer	HLIC Post-Transfer* and Deregistration of SALI
Asset risk charge	2.8	0.1	**2.9**	**3.0**
Insurance risk charge	3.8	0.8	**4.6**	**4.0**
Asset concentration risk charge	-	-	**-**	**-**
Operational risk charge	1.3	0.1	**1.4**	**1.4**
Less: aggregation benefit	(1.5)	(0.1)	**(1.6)**	**(1.5)**
Combined stress scenario	-	0.4	**0.4**	**0.4**
Adjustment to meet APRA's $10m PCA minimum	3.5	8.7	**12.2**	**2.7**
Prescribed Capital Amount (PCA)	**10.0**	**10.0**	**20**	**10.0**

* Note: The figures in the table reflect HLIC's PCA post-Deregistration of SALI. Before Deregistration, the Asset Risk Charge of HLIC post-transfer will be slightly lower than the figure presented in this table, offset by a slightly lower aggregation benefit. The total entity-level PCA will remain at APRA's prescribed minimum requirement of $10m.

The Table shows that:

- the PCA HLIC post-transfer will remain at the minimum level of $10m, $2.7m above the PCA before applying the minimum PCA;
- The Proposed Transfer and Deregistration of SALI result in the minimum PCA in SALI of $10m being released;
- The Transfer has minimal impact on the components of the PCA for the combined business except for the insurance risk charge, which decreases by $0.6m as a result of the larger business's increased insurance diversification benefits post-transfer.

7.13. Risk Management

Prudential standards issued under the Act require life insurers to have a comprehensive enterprise risk management framework. Following the Transfer, SALI's policies will be subject to the HLIC Risk Management Framework and key policies including the Risk Appetite Statement, Risk Management Strategy and ICAAP. These have already been harmonised with those of SALI to maintain or improve the risk management of the combined businesses.

[17] Source Appointed Actuaries' Report Section 6.2.2 Table 26

7.14. Reinsurance

SALI and HLIC have similar reinsurance retention levels and resources for managing reinsurance programs. The existing reinsurance programs in place at the Transfer Date covering SALI business will be novated to HLIC.

8. Reliances and Limitations

This report has been written to provide an independent actuarial report on the Scheme and prepared in accordance with my engagement letter with SALI and HLIC 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 SALI and HLIC
- APRA
- The Federal Court of Australia

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

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 SALI and HLIC both written and oral.

I have used the information without independent verification but have reviewed it for general reasonableness and consistency. Nothing has come to my attention to indicate it is not suitable for forming my opinion. I make no representation of the information's accuracy or completeness. 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
Appointed Actuaries' Report	Proposed Transfer of St Andrew’s Life Insurance Pty Ltd to Hallmark Life Insurance Company - Joint Appointed Actuaries’ Report Dated 26 April 2023
Act	Life Insurance Act 1995
APRA	Australian Prudential Regulation Authority
Combined Entity	HLIC following the Proposed Transfer of SALI’s life insurance
CCI	Consumer Credit Insurance
Deregister/Deregistration	The cancellation of SALI’s registration as a life insurer under the Act
HGIC	Hallmark General Insurance Company Ltd
HLIC	Hallmark Life Insurance Company Ltd
ICAAP	Internal Capital Adequacy Assessment Process
PCA	Prescribed Capital Amount
PCR	Prudential Capital Requirement
Policy Owner	The owner of a life insurance policy of SALI or HLIC
Proposed Transfer	The proposed transfer of business to be implemented via a scheme of transfer under Part IX of the Life Insurance Act 1995
RAS	Risk Appetite Statement
ReMS	Reinsurance Management Strategy
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
SF(x)	Statutory Fund No. (x)
SHF	Shareholders’ Fund
Swiss Re	Swiss Re Life and Health Australia Ltd
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 LPS 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 or the external appointed actuary of HLIC.

- Proposed Transfer of St Andrew's Life Insurance Pty Ltd to Hallmark Life Insurance Company Joint Appointed Actuaries' Report Dated 26 April 2024
- Scheme for the Transfer of The Insurance Business of St Andrew's Life Insurance Pty Ltd to Hallmark Life Insurance Company Ltd dated 16 April 2024
- Business Transfer Agreement St Andrew's Life Insurance Pty Ltd Hallmark Life Insurance Company Ltd dated 26 March 2024
- SALI and HLIC's Financial Condition Reports for the year ending 31 August 2023
- SALI's financial accounts as at 31 August 2023
- HLIC's financial accounts as at 31 August 2023
- The 2024-26 stand-alone and combined business plans for SALI and HLIC
- Information on the investment portfolio of HLIC and SALI as at 31 August 2023
- Information on reinsurance treaties for SALI and HLIC
- Group Asset, Liability and Investment Policy Version 17.0
- 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)
- HLIC Actuarial Valuation Report 31 August 2023
- Actuarial Valuation Report St Andrew's Life Insurance Pty Ltd 31 August 2023
- Capital Projections Tables (2023 ICAAP Update March 2024)
- Discussions and correspondence with St Andrew's staff and the external appointed actuary of HLIC