PROPOSED TRANSFER OF ST ANDREW'S LIFE INSURANCE PTY LTD TO HALLMARK LIFE INSURANCE COMPANY

Joint Appointed Actuaries' Report

26 April 2024

1. Executive Summary

1.1 Background of Proposed Transfer

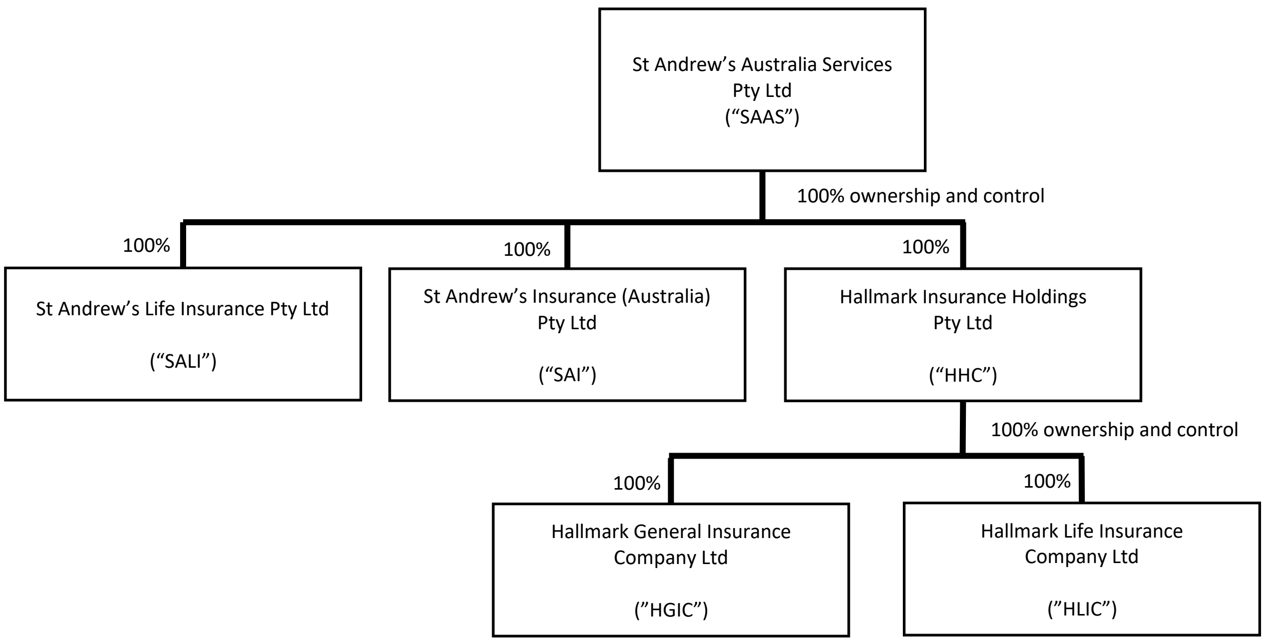
Hallmark Life Insurance Company (ABN 87 008 446 884) (“HLIC”) is a life insurance company registered under the Life Insurance Act 1995 (“Life Act”). HLIC conducts business in Australia and New Zealand and is prudentially regulated by the Australian Prudential Regulation Authority (“APRA”) and the Reserve Bank of New Zealand (“RBNZ”). HLIC is a wholly owned subsidiary of Hallmark Insurance Holdings Pty Ltd (ACN 619 174 926) (“HHC”).

On 1 June 2023, HHC transferred ownership from Latitude Financial Services (ABN 54 008 443 810) (“LFS”) to St Andrew’s Australia Services Pty Ltd (ABN 75 097 464 616) (“SAAS”). HHC includes HLIC and Hallmark General Insurance Company Ltd (ABN 82 008 477 647) (“HGIC”).

St Andrew’s Life Insurance Pty Ltd (ABN 98 105 176 243) (“SALI”) is a life insurance company registered under the Life Act and is prudentially regulated by APRA. SALI is a wholly owned subsidiary of SAAS.

The following diagram illustrates the current corporate structure of SALI and HLIC.

Diagram – Company structure



SAAS is proposing to transfer assets and liabilities of SALI into HLIC on 30 June 2024 by means of a Scheme of Transfer under Part 9 of the Life Insurance Act 1995 (“Part 9” or “Proposed Transfer”).

1.2 Purpose and scope of report

This actuarial report provides an overview of the SALI and HLIC business and the Proposed Transfer arrangement, examines the financial impact of the Proposed Transfer and focuses on the basis and terms of the Proposed Transfer, the transferring and existing policy owner benefits and rights and security of these benefits.

This report has been prepared by David Millar and Stephen Jones, in our capacity as the Appointed Actuaries of HLIC and SALI respectively and as Fellows of the Institute of Actuaries of Australia (“FIAA”), with David Millar also a Fellow of the New Zealand Society of Actuaries (“FNZSA”).

The key focus of the report is on the actuarial aspects of the Proposed Transfer for the SALI and HLIC policy owners.

In addressing this scope, the focus has been on the changes that arise as a result of the Proposed Transfer, rather than changes that might arise in the ordinary course of business irrespective of the occurrence of the Proposed Transfer.

It is noted SAAS is also proposing to transfer the assets and liabilities of St Andrew's Insurance (Australia) Pty Ltd (ABN 89 075 044 656) ("SAI") into HGIC. The proposed transfer of SAI into HGIC is covered in a separate report by an independent actuary.

1.3 Key aspects of the Proposed Transfer

The proposed effective date of the Proposed Transfer is 30 June 2024 ("Transfer Date").

It is proposed that all of the life policies referable to SALI's Statutory Fund No. 1 that are in force (including policies which may have expired but under which benefits remain payable) will be transferred to HLIC's Statutory Fund No. 1.

The Proposed Transfer will involve:

- At the Transfer Date, the transfer of all assets and liabilities in SALI's Statutory Fund No. 1 to HLIC's Statutory Fund 1 (including the policy liabilities and all Tier 2 capital), except for $10.3m of assets retained in SALI's Statutory Fund No. 1 (required to maintain capital above regulatory requirements until SALI's life insurance registration is cancelled).
- Immediately following the cancellation of SALI's life insurance registration, the remaining $10.3m of assets in SALI will be transferred to HLIC to both provide additional security for policy owner benefits and support new business plans.
- The transfer of all assets and liabilities of SALI's Shareholders' Fund to HLIC's Shareholders' Fund.

Subsequently to the Proposed Transfer, the following activities are expected to occur in conjunction with one another ("Subsequent Expected Activities"). The expected impacts on the security of policy owner benefits are addressed within our report.

- 'Tier 2 note transaction' – In connection with HLIC's 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 of the same amount, with a view to optimising the use of Tier 2 capital. The net asset position of HLIC and HGIC will remain unchanged as a result of the Tier 2 capital restructure, though the expected capital position of HLIC will reduce by the value of the relevant Tier 2 notes. The timing of this transfer is expected to be aligned with HLIC's resumption of new business sales.
- 'Resumption of new business' – It is management's intention to resume writing new business out of HLIC, subject to APRA's approval, with the expectation of increasing net revenue and diversifying overall risk, in turn contributing to the future financial health and stability of the business.

This report examines the impact on the transferring policy owners of SALI and the financial and risk management impacts of the Proposed Transfer, and the Subsequent Expected Activities following the Proposed Transfer on their prospective benefit security.

1.4 Overall conclusion on Proposed Transfer

The Proposed Transfer will not result in any unfairness to the policy owners referable to any of the funds involved in the Proposed Transfer. Immediately after the Proposed Transfer, the transferring fund, SALI, and the receiving fund, HLIC, will satisfy regulatory capital requirements and remain in a sound financial position.

The principal conclusions of this report on the Proposed Transfer are summarised below.

Specifically, regarding SALI's transferring policy owners:

- The Proposed Transfer does not adversely impact the contractual benefits and rights of the transferring policy owners;
- There is no impact to the reasonable benefit expectations of the existing policy owners of SALI as a result of the Proposed Transfer;
- There are no material disadvantages for the existing policy owners of SALI as a result of the Proposed Transfer; and,
- HLIC will remain in a sound financial position and the transferring policy owners' benefit security will remain adequate after the Proposed Transfer and the Subsequent Expected Activities.

Specifically, regarding HLIC's existing policy owners:

- There is no impact to the contractual benefit and rights of the existing policy owners of HLIC as a result of the Proposed Transfer;
- There is no impact to the reasonable benefit expectations of the existing policy owners of HLIC as a result of the Proposed Transfer;
- At both the individual fund level and the entity level, HLIC will continue to satisfy regulatory capital requirements and will remain in a sound financial position, and the existing policy owners' benefit security will remain appropriate after the Proposed Transfer; and,
- There are no material disadvantages for the existing policy owners of HLIC as a result of the Proposed Transfer and the Subsequent Expected Activities.

The combination of the Proposed Transfer and the Subsequent Expected Activities is expected to strengthen policy owners' ongoing benefit security. We note that, when compared with all assets transferring to HLIC at the Transfer Date, the updated ICAAP stress and scenario testing shows there is an increased residual risk to the security of policy owner benefits between the Transfer Date and the transfer of the remaining capital in SALI after the cancellation of SALI's registration under the Life Act ("Deregistration").

SALI intends to seek Deregistration, with an expectation of the approval being given after the Transfer Date. Once the relevant legislative and prudential requirements in relation to Deregistration have been satisfied, the expeditious cancellation of SALI's life insurance registration will be beneficial to the security of policy owner benefits.

HLIC's plans to resume writing new business are expected to bring longer-term benefits to current policy owners, with shorter-term reductions in capital resources experienced. Specifically, writing new business is expected to increase net revenue and diversify overall risk, contributing to the future financial health and stability of the business which, in turn, will positively contribute towards the both the transferring SALI and HLIC existing policy owners' benefit security.

Figures provided in our report reflect the position at 31 August 2023. Analysis performed at 31 January 2024 reflects a materially consistent financial outcome, with no impacts on our overall conclusion on the Proposed Transfer.

1.5 Limitations of Executive Summary

This executive summary is intended only as a brief overview of the report and does not cover or mention all the issues addressed in the report.

Our report is intended to be read in its entirety. To fully understand the details of the Proposed Transfer and its analysis, as well as the basis of the comments, opinions and conclusions above, an examination of the report in full is required.

2. Introduction

2.1 Purpose of report

This report outlines the actuarial aspects of the Proposed Transfer of the assets and liabilities of SALI's Statutory Fund 1 and Shareholders' Fund into HLIC's Statutory Fund 1 and Shareholders' Fund respectively and provides commentary on the proposed arrangements as part of the transfer. The report addresses the impacts of the Proposed Transfer on SALI and HLIC policy owners.

All amounts shown in this report are in Australian dollars, unless otherwise indicated.

2.2 Scope of report

The three key focus areas of this report are:

- The basis and terms of the Proposed Transfer.
- The effect of the Proposed Transfer on the contractual benefits and rights of both existing and transferring policy owners, as well as the security of these benefits and reasonable benefit expectations of both existing and transferring policy owners.
- Whether both the transferring and receiving funds will satisfy the regulatory capital requirements immediately after the transfer.

This report has been prepared in accordance with the following professional requirements of the Institute of the Actuaries of Australia:

- Code of Professional Conduct
- Professional Standard 201: Actuarial Advice to a Life Insurance Company or Friendly Society

Opinions provided in this report are focused on the changes that arise as a result of the Proposed Transfer, rather than changes that might arise in the ordinary course of business irrespective of the Proposed Transfer.

The authors of this report have read, understood and complied with the Federal Court of Australia's Harmonised Expert Witness Code of Conduct and agree to be bound by it.

For the purpose of Section 191(2)(a) of the Life Act, this report is an actuarial report upon which the proposed scheme, to be the subject of an application to the Federal Court of Australia for confirmation, is based.

2.3 Authors of report and disclosures

This report has been prepared by David Millar and Stephen Jones, in our capacity as the Appointed Actuaries of HLIC and SALI respectively and as Fellows of the Institute of Actuaries of Australia ("FIAA"), with David Millar also a Fellow of the New Zealand Society of Actuaries ("FNZSA").

We are bound by the Institute of Actuaries Australia Code of Conduct and standards and required by the Federal Court of Australia's Expert Evidence Practice Note ("GPN-EXPT") (Expert Evidence Practice Note) to provide independent and impartial advice.

In accordance with the Expert Evidence Practice Note, we have each made all the inquiries which we each believe are desirable and appropriate, and there are no matters of significance that either of us regard as relevant to our opinions that have, to our knowledge, been withheld from the Court.

2.4 Structure of report

Sections 3 and 4 of this report provide an overview of the SALI and HLIC businesses respectively.

Section 5 provides an overview of the Proposed Transfer structure.

Section 6 examines the financial impact of the Proposed Transfer on SALI and Hallmark as entities and on the policy owners of each entity.

Section 7 addresses the consequences of the Proposed Transfer on the contractual benefits and rights of policy owners, reasonableness benefit expectations and benefit security of the various group of policy owners.

Section 8 provides an overall conclusion of the report.

2.5 Glossary

Table 1: Glossary of terms

Term	Description
APRA	Australian Prudential Regulation Authority
AASB 9	Accounting Standard AASB 9 "Financial Instruments", issued by the Australian Accounting Standards Board
AASB 17	The version of the IFRS 17 standard adopted locally in Australia, issued by the Australian Accounting Standards Board
AASB 1038	Accounting Standard AASB 1038 "Life Insurance Contracts", issued by the Australian Accounting Standards Board
CCI	Consumer Credit Insurance
CET1	Common Equity Tier 1
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CPS 220	APRA Prudential Standard CPS 220 Risk Management
EMC	Executive Management Committee
ERMC	Executive Risk Management Committee
Farmcove	Farmcove Investment Holdings
Financial Reporting Date	31 August 2023
General Cologne Life Re	General Cologne Life Re Australia Ltd
Gen Re	General Reinsurance Life Australia Ltd
Hannover Re	Hannover Life Re of Australasia Ltd
HHC	Hallmark Insurance Holdings Pty Ltd
HGIC	Hallmark General Insurance Company Ltd
HLIC	Hallmark Life Insurance Company Ltd

Table 1: Glossary of terms	
Term	**Description**
ICAAP	Internal Capital Adequacy Assessment Process
IFRS 17	International Financial Reporting Standard ("IFRS") 17 "Insurance Contracts", issued by the International Accounting Standards Board and implemented for annual reporting periods beginning on or after 1 January 2023
LFS	Latitude Financial Services
Life Act	Life Insurance Act 1995
Lloyd's of London	Lloyd's of London (Syndicates 1200 and 4000)
LPS 110	APRA Prudential Standard LPS 110 Capital Adequacy
LPS 600	APRA Prudential Standard LPS 600 Statutory Funds
Monumental	Monumental Life Insurance Company
Munich Re	Munich Reinsurance Company of Australasia Ltd
NZ IFRS 17	The version of the IFRS 17 standard adopted locally in New Zealand, issued by the New Zealand Accounting Standards Board
PCA	Prescribed Capital Amount
PCR	Prudential Capital Requirement
PDS	Product Disclosure Statement
Proposed Transfer	The proposed transfer of business to be implemented via a scheme of transfer under Part 9 of the Life Insurance Act 1995
RAS	Risk Appetite Statement
ReMS	Reinsurance Management Strategy
RBNZ	Reserve Bank of New Zealand
RMF	Risk Management Framework
RMS	Risk Management Strategy
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
Transamerica Premier Life	Transamerica Premier Life Insurance Company
Transfer Date	30 June 2024
TSA	Transition Services Agreement

2.6 Reliances and limitations

This report has relied upon certain data and information provided by SALI and HLIC. The key information relied upon includes, but is not limited to:

- SALI and HLIC's Financial Condition Reports for the year ending 31 August 2023
- Final trial balances for SALI and HLIC as at 31 August 2023
- SALI's financial accounts as at 31 August 2023, submitted to the Board for approval and finalisation on 9 November 2023

- HLIC's financial accounts as at 31 August 2023, submitted to the Board for approval and finalisation on 22 November 2023
- The 2024-26 stand-alone and combined business plans for SALI and HLIC
- Policy data extracts of inforce business at 31 August 2023, including detailed policy level data for the main term life and credit life portfolios for SALI and HLIC
- Information on the investment portfolio of HLIC and SALI as at 31 August 2023
- Details of assets held as at 31 August 2023 for SALI and HLIC
- Information on reinsurance treaties for SALI and HLIC
- Group Asset, Liability and Investment Policy for SALI and HLIC
- Group ICAAP Summary Statement for SALI and HLIC
- Group Reinsurance Management Statement

The conclusions in this report have been formed on the basis of the information provided in the reports as at the date of the report.

This report is prepared for use by the management and Board of the Group, as well as by the Federal Court of Australia and APRA, and this report will be made available to affected policy owners. Except as required by law, this report is not to be used for any other purpose, including being issued to any third parties, without our prior written approval.

We, and Mr Millar's employer, Ernst & Young, disclaim all liability to any other party for all costs, loss, damage and liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of this report, the provision of the report to the other party or the reliance upon this report by the other party without my prior written consent.

Although we have carried out a substantive assessment of the data, information, systems and checking processes underlying the results, this assessment was not exhaustive. Therefore, in relation to the aspects not covered by our assessment, we have relied upon the effectiveness of the procedures used to prepare the results.

The report is designed to be read in its entirety. We are available to explain any matter presented in this report and we assume the users of the report will seek our explanation for any matter in question, especially given parts of the report contain technical life insurance concepts and details that may not be familiar and readily understood by all users.

Mr Millar is a partner of Ernst & Young (ABN 75 288 172 749), which is a member firm of Ernst & Young Global Limited. Liability limited by a scheme approved under Professional Standards Legislation.

3. Overview of St Andrew's Life Insurance Pty Ltd ("SALI")

3.1 St Andrew's Life Insurance Pty Ltd ("SALI")

St Andrew's Life Insurance Pty Ltd ("SALI") is a life insurance company registered under the Life Insurance Act 1995 ("Life Act") and is prudentially regulated by APRA.

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. The Group is comprised of the following six entities:

- St Andrew's Australia Services Pty Ltd ("SAAS"): a holding company, owned by a shareholder consortium led by Farmcove Investment Holdings ("Farmcove").
- St Andrew's Life Insurance Pty Ltd ("SALI"): a life insurer, wholly owned and controlled by SAAS.
- St Andrew's Insurance (Australia) Pty Ltd ("SAI"): a general insurer, wholly owned and controlled by SAAS.
- Hallmark Insurance Holdings Pty Ltd ("HHC"): a Level 2 Non-Operating Holding Company, wholly owned and controlled by SAAS.
- Hallmark Life Insurance Company Ltd ("HLIC"): a life insurer, wholly owned and controlled by HHC, and whose ultimate parent is SAAS.
- Hallmark General Insurance Company Ltd ("HGIC"): a general insurer, wholly owned and controlled by HHC, and whose ultimate parent is SAAS.

SALI is currently closed to new business for all product lines, and SALI is in a run-off position. Prior to closure, SALI wrote a range of life insurance products, including Consumer Credit Insurance ("CCI"), individual risk insurance and wholesale risk insurance. SALI does not have any investment linked policies nor any policies with participating features.

3.2 SALI brand, culture, values and philosophy

As a part of the St Andrew's group of companies, SALI brand mirrors that of each of the insurers in the group. Specifically, the Group's brand, including HLIC's, revolves around delivering specialist, innovative and streamlined insurance solutions to provide policy owners with the highest quality insurance products and exceptional customer service.

The Group is an independent Australian owned insurance company, with a philosophy of combining the strength of their history with the agility of the future.

3.3 Statutory Funds and Shareholders' Fund

As at 31 August 2023, SALI was comprised of one operative and two dormant statutory funds, as well as a Shareholders' Fund ("SHF") as summarised in the table below.

Table 2: SALI's Statutory Funds and Shareholders' Fund

Fund	Purpose	Main insurance products
SF1	Risk	CCI, Term Life, Funeral Cover
SF2	Dormant	N/A
SF3	Dormant	N/A
SHF	Support	N/A

All of SALI's current life insurance business has been written out of Statutory Fund No. 1 ("SF1"). The SHF maintains a pool of assets that serve as additional capital that can be deployed to the Statutory

Funds if a need for capital support should arise. The SHF is maintained separately from the statutory funds. The SHF conducts no business other than the investment management of its assets.

SALI's Statutory Fund No. 2 ("SF2") and Statutory Fund No. 3 ("SF3") are empty funds which historically held policies, assets and liabilities that were transferred to The Colonial Mutual Life Assurance Society Limited ("CMLA") under a Part 9 transfer on 30 June 2010.

3.4 Nature of business and major products

All SALI's insurance business constitutes as a life policy under Section 9 of the Life Act. Furthermore, all policies are classified as ordinary business as per Section 12(1) of the Life Act.

SALI's products were historically marketed and sold in conjunction with SAI products, which can be summarised into three main portfolios as outlined in the following table.

Table 3: Major product portfolios

Related Product Group	Statutory Fund	Products	Status
Consumer Credit	SF1	Mortgage Protection	Closed
		Loan Protection	
		Credit Card Protection	
		CUA Loan Repayment Insurance	
		Autocredit Protection	
Direct Life	SF1	Let's Insure Funeral Cover, Term Life and Accident Cover	Closed
		FlexiSure Life Cover	
		Term Life	
		Classic Life	
		Accidental Death	
		Accidental Death & Disability	
		Protector Plus	
		Premier Life	
		Once Life – Life Cover	
Real/ASIA	SF1	Real Life Insurance	Closed
		Australian Seniors Insurance	

For the avoidance of any doubt, the Proposed Transfer in this report relates to all policies that were solely issued by SALI and the life insurance components of the products above that were jointly issued by SALI and SAI.

SALI has been closed to new business since October 2019.

SALI does not have any investment linked policies nor any policies with participating features. All policies are non-participating as per Section 15 of the Life Act and are not entitled to share in the profits or performance of SALI.

SALI's portfolio includes the following guarantees:

- Guaranteed renewability of policies.
- Cover upgrade options on CCI products.

- Cashback guarantee involving the return of 10% of premiums every third policy anniversary for Real Life Insurance products.
- Sum insured increases without further underwriting on the occurrence of specified lifestyle changes (e.g. marriage, childbirth) for Let's Insure Life Cover.

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

Table 4: Summary of SALI's inforce business in Statutory Fund 1 as at 31 August 2023

	Number of Policies	Gross Sum Insured ($'000)	Gross Annual Premium ($'000)	Net Policy Liability ($'000)
Consumer Credit	18,062	641,814	7,435	(929)
Direct Life	25,756	4,588,921	29,167	2,431
Real/ASIA	5,520	959,823	9,015	1,343
Grand Total	**49,338**	**6,190,557**	**45,617**	**2,846**

3.5 Operations and administration

The Group has been an independent Australian owned insurance company since 2021.

The Claims Management function performs both the claims and underwriting operational functions for all material portfolios aside from the Real Life Insurance products. The claims team uses the StACS policy administration system as a key workflow tool. StACS is a low-risk core insurance platform with a 25+ year history of stable and reliable operation with St Andrew's owning the source code, and supported by global IT provider Mphasis Limited, who have had more than 15 years of management and maintenance of the StACS platform.

SALI has a reliance on corporate partners to perform the majority of the administration and claims management practices for the Wholesale portfolio. Outsourcing risks are managed with regular monitoring and supervision visits, post implementation reviews and claims audits conducted by Risk and Compliance, Claims teams, Internal Audit or External Audit.

SALI's wholesale corporate partners include Greenstone (Real Insurance product) and CUA.

Reinsurance premium administration is performed by the Group's Actuarial Team using the policy and premium data contained within StACS.

The following key business areas provide infrastructure and support services to the business.

Table 5: SALI's key business units

Business unit	Purpose
Finance & Actuarial	Finance including tax, procurement, strategic planning, accounting, reinsurance, investment management and actuarial services.
Office of the CRO	Risk Management and compliance functions.
Office of the CEO	CEO Office.
Service Delivery	Core life insurance customer service, delivery and business integration for the life insurance business.
Claims	Claims management.
Product and distribution	Product management and distribution functions.

3.6 Expense allocation basis

The expense allocation process is reviewed and updated annually. 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"). As there are no participating policies, issues of equity between policy owners and shareholders do not arise.

The underlying aim of the expense allocation model is:

- To identify expenses that relate only to one fund or company within the Group and remove them from the allocation
- To allocate the remaining expenses using a driver relevant to the function of the expense
- To allocate the residual overhead expenses as directly as possible

A functional allocation model is used to apportion cost centre level expenses between maintenance and claims handling expenses. For valuation purposes, maintenance expense assumptions are modelled as a proportion of earned premium.

SALI complies with the Life Act and APRA Prudential Standard LPS 340 "Valuation of Policy Liabilities" requirements regarding expense allocation.

3.7 Tax status and basis

Under the tax rules applicable, income tax on shareholder profits is levied on SALI at the corporate rate of 30% for Australian business.

3.8 Investment strategy

SALI's investment strategy and the applicable governance framework is currently described by the Group's Asset and Liability and Investment Policy ("Investment Policy") which applies to all entities within the Group. The current investment strategy aims to deliver attractive and sustainable returns on capital. During FY23, SALI completed transitioning the majority of its investment assets to unrated private corporate bonds and mortgage-backed securities (which are expected to represent diversified portfolio of BB equivalent risk).

For reporting purposes, SALI's investment assets are grouped into two categories:

- **Category A**: Cash and cash equivalents, representing 27% of SALI's overall investment portfolio.
- **Category B**: Corporate loans / bonds and mortgage-backed securities, representing 73% of SALI's overall investment portfolio.

  Corporate loans / bonds consist of a mix of investment grade and non-investment grade exposures, including public and private investments with terms of typically 2 to 10 years.

  Mortgage loans consist of commercial and residential mortgage securities, including direct and indirect/pooled exposures with terms of typically 2 to 7 years.

A summary of SALI's assets as at 31 August 2023 is provided in the table on the following page. As at 31 March 2024, we note that the allocation between Category A and Category B assets remains materially unchanged. The allocation between fixed and floating Category B assets has shifted towards floating rate assets and is currently c.30% and 70% respectively.

Table 6: SALI's Assets as at 31 August 2023 (A $m)				
	Statutory Fund 1		**Shareholders' Fund**	
	Amount	**% of Investment Assets**	**Amount**	**% of Investment Assets**
Category A Assets	10.8	27%	0.2	100%
Category B Assets	29.7	73%	0	0.0%
- *Fixed Rate*	*11.6*	*28%*	*0*	*0.0%*
- *Floating Rate*	*18.2*	*45%*	*0*	*0.0%*
Non-Investment Assets	8.0	-	0	-
Total Assets	**48.5**	-	0.2	-

The average return of SALI's Category A and B assets over FY23 was 3.2% and 8.4% respectively. The overall average investment return was 6.4% per annum, gross of investment management fees and tax. The average duration of Category B assets was 1.6 years.

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/bonds and mortgage-backed securities, 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.

3.9 Reinsurance strategy

The Group maintains a Group Reinsurance Management Strategy ("ReMS"), which is a consolidated document covering the SALI, SAI, HLIC and HGIC ReMS. The ReMS documents the reinsurance strategy, basis of the strategy, the reinsurance governance framework and the reinsurers selected. The ReMS undergoes administrative, strategic and independent reviews to ensure the reinsurance strategy is appropriate.

SALI's core reinsurance strategy is to retain no more than $350k exposure to any one life through surplus reinsurance cover, which aggregates exposures per life rather than per policy. This is supplemented by catastrophe reinsurance cover.

All Life covers under the CCI, CUA and Term Life portfolios are reinsured under a treaty with Swiss Re (except for the Credit Card Protection portfolio, which is not reinsured given the size of the typical death benefits. Other reinsurance arrangements in place vary from this core strategy for historical or tactical reasons.

There is no reinsurance of the Accident & Sickness benefits.

3.10 Capital and risk management

3.10.1 Risks and risk management

The elements of the Group's Risk Management Framework ("RMF") are in accordance with Prudential Standard CPS 220 "Risk Management" ("CPS 220"). Risks arising from SALI's business operations are managed through a structured RMF, which is made up of several key policies as documents in the Group's Risk Management Strategy ("RMS").

The Group's Executive Risk Management Committee ("ERMC") supports the Chief Executive Officer ("CEO") in managing key risk areas relevant to SALI's business. The risk taxonomy outlined in the

Group's RMS are used across the Group for managing risk. The risk taxonomy covers the following material risk categories and specific risks within each risk category:

- Insurance risk: product design risk, product pricing risk, underwriting risk and claims management risk.
- Financial risk: credit risk, liquidity risk, market risk, capital management risk, statutory reporting and tax risk, modelling risk, external fraud risk
- Strategic risk: strategy planning and design risk, strategy execution risk, reputational and brand risk, corporate governance risk, environmental risk and transitional risk
- Operational risk: IT systems risk, information security and cyber risk, execution, delivery and process management risk, physical security and safety risk, legal and compliance risk and business disruption risk
- People risk: internal fraud risk, conduct & culture risk, safety and wellbeing risk, attraction and retention risk, performance management risk

The Group's Risk Appetite Statement ("RAS") aligns to the risk taxonomy outlined in the RMS.

A "three lines of defence" model has been adopted by the Group. The model ensures risk and control issues are identified, monitored, challenged and reported by independent functions within and outside of core business areas, assurance resources are optimally allocated and there is an appropriate degree of independence and coordination between each line of defence.

Separate Board Audit and Board Risk Committees are operational for regular and structured risk reporting. Independent assurance reporting is provided directly to the Board Audit Committee by the appointed external auditor.

In the second half of 2023, management undertook a comprehensive refresh of the Group's RMF, including the harmonisation between SALI and HLIC of governance structures, risk and policy frameworks, and the implementation of a new risk management tool, such that a single Group RMF could operate effectively.

3.10.2 Regulatory capital requirements

The regulatory capital requirement is based on the Prudential Capital Requirement ("PCR"), which is the sum of the Prescribed Capital Amount ("PCA") calculated in accordance with APRA's Prudential Standard LPS 110 "Capital Adequacy" ("LPS 110"), plus any supervisory adjustment that APRA may impose.

The PCA is stated to be consistent with at least a 99.5% probability of sufficiency over 12 months (i.e. that the Company will have assets sufficient to meet its liabilities in a 1 in 200 year event).

SALI operates an Internal Capital Adequacy Assessment Process ("ICAAP") in accordance with LPS 110 to monitor and manage capital. SALI's PCR, capital base and target capital are measured monthly by the Actuarial Team. Capital reporting occurs in:

- CFO reports to the Board
- Monthly financial reporting to shareholders and the Group's Executive Management Committee ("EMC")
- RAS Dashboard reporting in the Quarterly Risk Update to the Board and EMC

SALI is expected to remain well capitalised in the short to medium term, maintaining capital well in excess of prudential capital requirements.

3.10.3 Target Capital

LPS 110 requires life insurers to set a Target Capital level that ensures an adequate level of capital is maintained over time, which is set in the context of the company's risk profile, risk appetite and regulatory capital requirements. As a result, life insurers will hold a Target Capital to provide added protection against breaching the regulatory capital requirements under LPS 110 as a result of unanticipated adverse events.

The setting of SALI's capital targets follows on directly from the Board's risk appetite as outlined in the RAS. SALI's Target Capital is documented in the ICAAP Summary Statement as approved by the Board. The Target Capital amount allows for key risks to SALI, covering insurance risk, investment risk, expense risk, insurance concentration risk, operational risk and allowing for a distributable profits offset.

At 31 August 2023, HLIC was integrated into the Group's ICAAP Summary Statement such that the Target Capital bases for SALI and HLIC were aligned.

3.10.4 Net assets above capital requirements

In considering net assets above Target Capital, it is noted that:

- The Target Capital represents the total capital that the life insurer believes is appropriate for the prudent and practical management of the company. Any excess above this level represents resources that are available for alternate productive use.
- Under the Group's current dividend policy, capital distribution in the form of dividends is 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 insurance entity as the portfolio continues to run-off.

3.11 Current financial performance and position

3.11.1 Key Financial Measures

The following table summarises SALI's key financial statistics as at 31 August 2023.

Table 7: Summary of Capital Position as at 31 August 2023 ($Am)			
	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 as 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

Were the $3.5m 'top up' to the entity-level minimum PCA of $10m 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 from 4.8 to 3.1.

3.11.2 Comments on financial results and position

Overall profitability

Total net profits for the year ended 31 August 2023 was $1.6m, which represents an increase of $0.8m compared to 31 August 2022. The key driver of profits for SALI was materially higher net invest income on shareholder's capital and retained profits following the business' transition to a revised investment strategy from December 2021.

Regulatory capital requirements

The Capital Base is calculated as SALI's accounting net assets less regulatory adjustments. The regulatory adjustments consist primarily of replacing the net policy liabilities with the adjusted policy liabilities. For SALI, this amounts to changing the policy liabilities to the total termination value for all policies as at 31 August 2023.

As at 31 August 2023, SALI's capital included $11.5m of Tier 2 capital. At all times during the year to 31 August 2023, SALI has met the relevant Prudential Standard LPS 600 "Statutory Funds" requirements related to Tier 2 capital that applied to SALI.

SALI's PCA has remained at APRA's $10m minimum requirement at the entity-level.

At all times during the year to 31 August 2023, SALI held assets above regulatory capital requirements. As at 31 August 2023, SALI was in a sound financial position with assets in excess of PCA of $21.3m.

Excess assets and Target Capital

At all times during the year to 31 August 2023, the capital position for all statutory funds and the Shareholders' Fund of SALI, as well as the capital position for the total SALI entity, remained above management's limits set out in the ICAAP.

Overall capital position

SALI continues to be well capitalised with capital exceeding regulatory capital requirements and internal targets. This provides sound security to SALI's policy owners, with a rigorous Target Capital framework and ICAAP in place that includes frequent monitoring of the capital position against established benchmarks.

3.12 Remediation programs, undertakings and class actions

There is one open remediation incident relating to the Let's Insure and FlexiSure products where 500 policy owners are over-insured and are paying premiums for coverage they would not receive if they filed a claim. This is due to an issue with the policy administration system, BluePrint, not consolidating coverage amounts across multiple applications for these policy owners. The total remediation amount for these 500 policies is estimated to be $102k, after allowing for compensatory interest. As at the date of this report, the remediation analysis is being verified.

The open remediation is not material to the capital position of SALI (pre-transfer) or HLIC (post-transfer) and, therefore, not material to policy owners security.

As at the date of this report, there are no other open remediation incidents for SALI.

3.13 Significant events subsequent to the Financial Reporting Date

As at the date of this report, we are not aware of any significant events subsequent to the financial reporting date which would have a significant impact on the figures and opinions presented in this report.

4. Overview of Hallmark Life Insurance Company ("HLIC")

4.1 Hallmark Life Insurance Company ("HLIC")

HLIC is a life insurance company registered under the Life Act. HLIC conducts business in Australia and New Zealand and is prudentially regulated by APRA and the Reserve Bank of New Zealand ("RBNZ") respectively. HLIC is a wholly owned subsidiary of HHC.

On 1 June 2023, HHC transferred ownership from Latitude Financial Services ("LFS") to SAAS. HHC includes HLIC and HGIC. As such, HLIC's ultimate parent is SAAS.

HLIC's products are currently closed to new business or closed to new customers for the credit card regular premium business. Prior to closure, HLIC wrote CCI products in Australia and New Zealand. HLIC also has a legacy portfolio of term insurance and individual disability income insurance products in Australia. HLIC does not have any investment linked policies nor any policies with participating features.

4.2 HLIC brand, culture, values and philosophy

As a part of the St Andrew's group of companies, HLIC's current brand mirrors that of SALI.

Specifically, the Group's brand, including HLIC's, revolves around delivering specialist, innovative and streamlined insurance solutions to provide policy owners with the highest quality insurance products and exceptional customer service.

The Group is an independent Australian owned insurance company, with a philosophy of combining the strength of their history with the agility of the future.

4.3 Statutory Funds and Shareholders' Fund

As at 31 August 2023, HLIC is comprised of two statutory funds and the Shareholder's Fund (SHF) as summarised in the table below.

Table 8: HLIC's Statutory Funds and Shareholders' Fund

Fund	Purpose	Main insurance products
SF1	Australian business	Consumer Credit Insurance Term Life Individual Disability Income Insurance
SF2	New Zealand business	Consumer Credit Insurance
SHF	Support	N/A

All of HLIC's life insurance business has been written out of SF1 and SF2. SF1 contains HLIC's Australian life insurance policies and SF2 contains HLIC's life insurance policies written out of the New Zealand Branch.

The SHF maintains a pool of assets that serve as additional capital that can be deployed to the Statutory Funds if a need for capital support should arise. The SHF is maintained separately from the statutory funds. The SHF conducts no business other than the investment management of its assets.

4.4 Nature of business and major products

HLIC's products are closed to new business and are in run-off. However, the Australian and New Zealand regular premium consumer credit life insurance products remain 'open' insofar as they receive monthly premiums from existing customers (i.e. customers with insurance can continue to 'renew' their existing monthly arrangements).

Table 9: Major product portfolios

Related Product Group	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, however, have otherwise been closed to new business since 24 September 2019.*

HLIC does not have any investment linked policies nor any policies with participating features. All policies are non-participating as per Section 15 of the Life Act and are not entitled to share in the profits or performance of HLIC. HLIC's portfolio includes guarantees relating to the guaranteed renewability of policies.

The table below summaries the policy liabilities, new business and in force volumes in SF1 and SF2 as at 31 August 2023.

Table 10: Summary of HLIC's in force business as at 31 August 2023

	Number of Policies	Gross Sum Insured ($'000)	Gross Annual Premium ($'000)	Net Policy Liability ($'000)
Australia (Statutory Fund 1)				
Consumer Credit	70,089	173,416	2,095	242
Term Life	1,053	196,797	1,205	267
Grand Total Australia	**71,142**	**370,213**	**3,300**	**509**
New Zealand (Statutory Fund 2)				
Consumer Credit Insurance	18,968	123,180	939	427
Grand Total New Zealand	**18,968**	**123,180**	**939**	**427**

4.5 Operations and administration

On 1 June 2023 the HLIC business transferred from LFS to the Group. As part of the TSA between LFS and the Group, LFS is obligated to maintain and support existing technology systems as at 31 May 2023 until they are no longer required and HLIC transitions to new systems. Some systems will be ongoing under the Ongoing Services Agreement (OSA). The target state solution for all HLIC products has been determined, independently of the Proposed Transfer, and will be progressively implemented through the 2024 financial year. The single premium personal loans product transitioned from ICBS to a new administration system, the Loan Management Platform (LMP), also referred to as the 'Q2' system. Transition to the new system occurred in May 2023 for the Australian policies and in June 2023 for the New Zealand policies.

The legacy Coles credit card business, which NAB acquired from Citigroup's Australian consumer business (including the Coles MasterCard credit card portfolio) continues to fall under the Transitional Services Agreement (TSA) between NAB and Citigroup, which is expected to end in 2024 with a number of the insurance services being managed by Citi during this time.

The independently sourced lines (such as AEGON) are administered either on spreadsheets or databases, with regular policy data updates provided by the external client.

Policy claims for most products are managed within the TIA administration system.

All policies of the regular premium personal loans product ceased in April 2023. The claims process for any residual claims that arise in relation to these policies (before their cessation) will continue to be managed via a spreadsheet by the operations teams.

The following key business areas provide infrastructure and support services to the business. These are currently consistent with SALI.

Table 11: HLIC's key business units	
Business unit	**Purpose**
Finance & Actuarial	Finance including tax, procurement, strategic planning, accounting, reinsurance, investment management and actuarial services.
Office of the CRO	Risk Management and compliance functions.
Office of the CEO	CEO Office.
Service Delivery	Core life insurance customer service, delivery and business integration for the life insurance business.
Claims	Claims management.
Product and distribution	Product management and distribution functions

4.6 Expense level and allocation basis

Similar to the process described for SALI in section 3.6, the expense allocation process is reviewed and updated annually. 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"). As there are no participating policies, issues of equity between policy owners and shareholders do not arise.

The total expenses of HLIC need to be apportioned between Statutory Fund 1 (Australian Ordinary), Statutory Fund 2 (New Zealand Ordinary) and the Shareholders' Fund. Expenses that clearly relate to one of the three funds above were directly allocated to that fund. Other expenses that related to the overall management of HLIC and where no other method of apportionment is obvious have been apportioned using an activity based costing ("ABC") exercise undertaken by management.

For valuation purposes, maintenance expense assumptions are determined as a proportion of earned premium.

HLIC complies with the Life Act and APRA Prudential Standard LPS 340 "Valuation of Policy Liabilities" requirements regarding expense allocation.

4.7 Tax status and basis

Under the tax rules applicable, income tax on shareholder profits is levied on HLIC at the corporate rate of 30% for Australian business and 28% for New Zealand business.

4.8 Investment strategy

HLIC's investment strategy and the applicable governance framework is currently described by the Group's Asset and Liability and Investment Policy which applies to all entities within the Group. Hence, this is consistent with SALI's Investment Policy described in Section 3.8.

The implementation of this strategy has been planned across a multi-year transition period and is currently in its infancy. This implementation plan is independent of the Proposed Transfer, with the target state being aligned with SALI's target state.

Specifically, the revised strategy will increase HLIC's exposure to both rated and unrated corporate loans, bonds and mortgage-backed securities, with an expected increase in investment income over time compared with current cash and short-term deposit assets which HLIC currently holds.

The following table summarises the assets of HLIC as at 31 August 2023.

Table 12: Investments of HLIC as at 31 August 2023

	Statutory Fund 1 Australia		Statutory Fund 2 New Zealand		Shareholders' Fund	
	$A'000	**%**	**$A'000**	**%**	**$A'000**	**%**
Category A Assets	15,311	93.4%	1,725	100.0%	1,145	100.0%
Category B Assets	1,080	6.6%	0	0.0%	0	0.0%
- *Fixed Rate*	*0*	*0.0%*	*0*	*0.0%*	*0*	*0.0%*
- *Floating Rate*	*1,080*	*6.6%*	*0*	*0.0%*	*0*	*0.0%*
Non-Investment Assets	1,068		113		0	
Total Assets	17,459		1,838		1,145	

The rate of return earned on the total assets of each statutory fund, gross of taxation, ranged between 2.3% to 2.5% for each fund for the eight months to 31 August 2023. The investment returns for each fund are broadly consistent with the central bank's cash rates.

While the implementation of HLIC's investment strategy remains ongoing, the allocation between Category A and Category B assets will continue to change, with the allocation to Category A assets at 31 March 2024 now 31% and 86% in Statutory Fund 1 and Statutory Fund 2 respectively. The allocation between fixed and floating Category B assets is similar to SALI, at 27.5% and 72.5% respectively.

4.9 Reinsurance strategy

HLIC's reinsurance strategy is currently described by the Group's ReMS, which is a consolidated document covering SALI and SAI and, since 1 June 2023, HLIC and HGIC. The ReMS documents the reinsurance strategy, basis of the strategy, the reinsurance governance framework and the reinsurers selected. The ReMS undergoes administrative, strategic and independent reviews to ensure the reinsurance strategy is appropriate.

The reinsurance exposure of HLIC is small, with ceded policy liabilities of around $74,000 as at 31 August 2023. All reinsured portfolios are in Statutory Fund 1 and closed to new business, relating to legacy portfolios.

HLIC's reinsurance arrangements are predominately surplus with some quota-share treaty arrangements. These reinsurance arrangements are aimed to protect HLIC from large claims. HLIC does not have any catastrophe cover in place.

HLIC's largest open reinsurance exposure is to Swiss Re, by total policies in force and sum insured. Other reinsurers include Monumental, Hannover Re, Gen Re and Munich Re.

The strong credit ratings of HLIC's reinsurers, in conjunction with HLIC's small amount of reinsurance exposure, results in minimal risk to HLIC from credit default.

4.10 Capital and risk management

4.10.1 Risks and risk management

As noted in Section 3.10.1, in the second half of 2023 management undertook a comprehensive refresh of the Group's RMF, including the harmonisation between SALI and HLIC of governance structures, risk and policy frameworks, and the implementation of a new risk management tool, such that a single Group RMF could operate effectively.

As such, the elements of the Group's RMF discussed in Section 3.10.1, including the risk taxonomy described for SALI, are consistent for HLIC.

4.10.2 Regulatory capital requirements

In August 2023 management integrated HLIC into the Group's ICAAP. As such, the Group's capital management framework discussed in Section 3.10.2 for SALI is consistent for HLIC.

HLIC is expected to remain well capitalised in the short to medium term, maintaining capital well in excess of prudential capital requirements.

4.10.3 Target Capital

As noted in section 3.10.3, in August 2023 management integrated HLIC into the Group's ICAAP. As such, the Group's target capital approach discussed in Section 3.10.3 for SALI is consistent for HLIC.

4.10.4 Net assets above capital requirements

In considering net assets above Target Capital, it is noted that:

- The Target Capital represents the total capital that the life insurer believes is appropriate for the prudent and practical management of the company. Any excess above this level represents resources that are available for alternate productive use (e.g. distribution to the shareholders).
- Under the Group's current dividend policy, capital distribution in the form of dividends is 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 insurance entities as the portfolio continues to run-off.

4.11 Current financial performance and position

4.11.1 Key Financial Measures

The following table summarises HLIC's key financial statistics as at 31 August 2023.

Table 13: Summary of Capital Position as at 31 August 2023 ($Am)				
	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 as 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

Were the $8.7m 'top up' to the entity-level minimum PCA of $10m 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 from 14.4 to 1.6.

4.11.2 Comments on financial results and position

Overall profitability

Total net profits for the eight months to 31 August 2023 was $0.66m. This was at comparable levels to 2022 (over eight months). The key driver of profits for HLIC was lower than expected maintenance expenses in the statutory funds and an increase in investment yields compared to 2022.

Regulatory capital requirements

The Capital Base is calculated as HLIC's accounting net assets less regulatory adjustments. The regulatory adjustments consist primarily of replacing the net policy liabilities with the adjusted policy liabilities. For HLIC, this amounts to changing the policy liabilities to the total termination value for all policies as at 31 August 2023.

As at 31 August 2023, HLIC's capital comprised of $5.0m of Tier 2 capital. At all times during the eight months to 31 August 2023, HLIC has met the relevant LPS 600 requirements related to Tier 2 capital that applied to HLIC.

HLIC's PCA has remained at APRA's $10m minimum requirement at the entity-level.

At all times during the eight months to 31 August 2023, HLIC held assets above regulatory capital requirements. As at 31 August 2023, HLIC was in a sound financial position with assets in excess of PCA of $7.5m.

Excess assets and Target Capital

At all times during the eight months to 31 August 2023, the capital position for all statutory funds and the Shareholders' Fund of HLIC, as well as the capital position for the total HLIC entity, remained above management's limits set out in the ICAAP.

Overall capital position

HLIC continues to be well capitalised with capital exceeding regulatory capital requirements and internal targets. This provides sound security to HLIC's policy owners, with a rigorous Target Capital framework and ICAAP in place that includes frequent monitoring of the capital position against established benchmarks.

4.12 Remediation programs, undertakings and class actions

Until recently, there was one open remediation incident involving 18 level premium Housekeeper policies, which were incorrectly charged stepped premiums. All remediation payments have been made and the premium structures for the three remaining inforce policies have been resolved following the migration of the policies onto the StACs administration system in early 2024.

This remediation was not material to the capital position of HLIC (pre- or post-transfer) and, therefore, not material to the security of policy owner benefits.

As at the date of this report, there are no other open remediation incidents for HLIC.

4.13 Significant events subsequent to the Financial Reporting Date

As at the date of this report, we are not aware of any significant events subsequent to the financial reporting date which would have a significant impact on the figures and opinions presented in this report.

5. Overview of Proposed Transfer

5.1 Background and reasons to the Proposed Transfer

As both HLIC and SALI are managed by the Group, a Part 9 transfer of SALI into HLIC will simplify the business which is expected to reduce costs, operational risk and aggregate capital amounts, and ultimately improve customer experience.

There are existing harmonisations between HLIC and SALI, such as in the Group's Risk Management Framework, ICAAP, ReMS and Asset, Liability and Investment Policy, which have been aligned between SALI and HLIC subsequent to 31 May 2023.

Both HLIC and SALI are currently each holding APRA's minimum PCA of $10m at the entity level and the Group's minimum entity level target surplus amount. With the Proposed Transfer of assets and liabilities of SALI into HLIC, HLIC's free capital above PCA is expected to increase. Following the cancellation of SALI's life insurance registration by APRA, the remaining $10.3m of assets in SALI will be transferred to HLIC to both provide additional security for policy owner benefits and support new business plans.

Since the investment strategy between HLIC and SALI has already been aligned by the Group, there will be no material changes to the investment strategy of the assets backing the policy liabilities as part of the Proposed Transfer. While in the early stages of the multi-year implementation plan, HLIC's transition to SALI's investment strategy is occurring independently to the Proposed Transfer. Combining the assets across HLIC and SALI will provide access to further scale, which is expected to result in advantages such as having lower relative investment management fees.

The proposed effective date of the transfer is 30 June 2024 ("Transfer Date").

5.2 SALI policies being transferred

5.2.1 Overview

It is proposed that all SALI policies will be transferred to HLIC on the Transfer Date. The policies are currently contained within SALI's SF1 and will all transfer to HLIC's SF1. The following table shows a summary of the major SALI product portfolios that will be transferred into HLIC.

Table 14: Summary of liabilities before the transfer ($m)

Related Product Group	Products
Consumer Credit	Mortgage Protection
	Loan Protection
	Credit Card Protection
	CUA Loan Repayment Insurance
	Autocredit Protection
Direct Life	Let's Insure Funeral Cover, Term Life and Accident Cover
	FlexiSure Life Cover
	Term Life
	Classic Life
	Accidental Death
	Accidental Death & Disability
	Protector Plus
	Premier Life
	Once Life – Life Cover
Real/ASIA	Real Life Insurance
	Australian Seniors Insurance

Under the Proposed Transfer, there will be no life policies retained within the SALI entity.

5.2.2 Transfer of liabilities

The policy liabilities being transferred will be determined in accordance with SALI's accounting policies which reflect applicable Australian Accounting Standards and APRA financial reporting standards. These determinations reflect best estimate assumptions as to future policy liability expected cashflows, and discounting to present values at discount rates consistent with current market conditions.

In addition to the policy liabilities, provisions and liabilities related to the SALI transferring policies will also transfer.

Other liabilities held within SALI will also transfer at the Transfer Date, including the liability related to $11.5m of Tier 2 capital.

The first two tables below outline the policy and other liabilities before and after the Proposed Transfer, as if the transfer had occurred as at 31 August 2023. The total value of liabilities within the statutory funds as at the Transfer Date will not change as a result of the Proposed Transfer. The Proposed Transfer will consist of the following:

- All liabilities, including the Tier 2 capital, from SALI's SF1 will be transferred into HLIC's SF1.
- All liabilities within SALI's SHF will either be settled prior to the Proposed Transfer or transferred to HLIC's SHF.

We note that the summary of the liabilities is unchanged between the Transfer Date and the point at which the SALI life insurance registration is cancelled and the Proposed Transfer is completed.

The final table shows the expected position after the Subsequent Expected Activities, as if the Proposed Transfer and these activities occurred simultaneously, as at 31 August 2023.

Table 15: Summary of liabilities before the Proposed Transfer[1] ($m)

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

[1] Note: The liabilities presented in this table vary from SALI and HLIC's financial statements as at 31 August 2023 due to differing presentations of ceded claims provisions and differing reporting standards (HLIC's financial statements as at 31 August 2023 are on the IFRS 17 basis).

Table 16: Summary of liabilities after the Proposed Transfer is completed ($m)

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

Table 17: Summary of liabilities after the Proposed Transfer is completed and the $8.25m Tier 2 note transaction ($m)						
Entity	**Fund**	**Gross Policy Liabilities (including claims reserves)**	**Other Liabilities**	**Tier 2 Subordinated Notes**	**Total**	**Receiving or Transferring Statutory Fund**
SALI	**SF1**	-	-	-	-	N/A
	SHF	-	-	-	-	N/A
	Sub-Total	-	-	**-**	-	
HLIC	**SF1**	13.1	6.0	8.25	27.4	N/A
	SF2	0.6	0.1	-	0.7	N/A
	SHF	-	0.0	-	0.0	N/A
	Sub-Total	**13.7**	**6.2**	**8.25**	**28.1**	
	Total	**13.7**	**6.2**	**8.25**	**28.1**	

5.2.3 Transfer of assets

The majority of the transferring assets comprise financial investment assets backing the transferring SALI policy liabilities, including:

- Cash deposits, including any accrued interest.
- Corporate loans / bonds and mortgage-backed securities.

Other assets being transferred include accruals and assets relating to the transferring SALI policies, including outstanding premiums receivable and reinsurance claims receivables.

The tables below outline the assets prior to and after the Proposed Transfer, as if the transfer had occurred as at 31 August 2023. The total value of assets within the statutory funds as at the date of transfer will not change as a result of the transfer, however $10.3m of assets will be retained in SALI's SF1 to maintain capital above APRA's minimum PCA requirements of $10m until SALI's life insurance registration is cancelled by APRA. Following the cancellation of SALI's life insurance registration, the remaining $10.3m of assets will be transferred into HLIC.

As described in Section 1, the Proposed Transfer will consist of the following:

- At the Transfer Date, all assets in excess of $10.3m in SALI's SF1 will be transferred into HLIC's SF1.
- Immediately following the cancellation of SALI's life insurance registration, the remaining $10.3m of assets in SALI will be transferred to HLIC, providing additional security for policy owner benefits and support new business plans.
- All assets from SALI's SHF will be transferred into HLIC's SHF.

In connection with HLIC's intention to resume writing new business, and with APRA's consent, it is expected that HLIC will reduce its Tier 2 notes on issue by $8.25m by buying back previously issued notes from SAAS and HGIC will issue additional Tier 2 notes to SAAS of the same amount, with a view to optimising the use of Tier 2 capital. The asset consideration received by SAAS from the buyback of HLIC's Tier 2 notes is expected to be applied to pay the consideration owed to HGIC for the new issuance of the Tier 2 notes.

The net asset position of HLIC and HGIC will remain unchanged as a result of the Tier 2 capital restructure. The Tier 2 note transaction is expected to involve the divestment and investment of equivalent cash and non-cash investment assets by HLIC and HGIC respectively to support the ultimate repayment of the Tier 2 capital instruments. The timing of this transfer is expected to be aligned with HLIC's resumption of new business sales.

The first three tables below show the assets (valued at 31 August 2023) prior to the Proposed Transfer, at the Transfer Date and at the completion of the Proposed Transfer. The final table shows the position after the Tier 2 note transaction.

Table 18: Assets before the Proposed Transfer[1] ($m)			
Entity	**Fund**	**Assets**	**Receiving or Transferring Statutory Fund**
SALI	**SF1**	48.5	Transferring to HLIC SF1
	SHF	0.2	Transferring to HLIC SHF
	Sub-Total	**48.7**	
HLIC	**SF1**	17.5	Receiving from SALI SF1
	SF2	1.8	N/A
	SHF	1.1	Receiving from SALI SHF
	Sub-Total	**20.4**	
	Total	**69.1**	

[1] Note the assets presented in this table vary from SALI and HLIC's financial statements as at 31 August 2023 due to differing presentations of ceded claims provisions and differing reporting standards (HLIC's financial statements as at 31 August 2023 are on the IFRS 17 basis).

Table 19: Assets immediately following the Transfer Date, before SALI Deregistration ($m)			
Entity	**Fund**	**Assets**	**Receiving or Transferring Statutory Fund**
SALI	**SF1**	**10.3**	Transferring to HLIC SF1
	SHF	-	N/A
	Sub-Total	**10.3**	
HLIC	**SF1**	55.7	N/A
	SF2	1.8	N/A
	SHF	1.3	N/A
	Sub-Total	**58.8**	
	Total	**69.1**	

Table 20: Assets after the Proposed Transfer is completed ($m)			
Entity	**Fund**	**Assets**	**Receiving or Transferring Statutory Fund**
SALI	**SF1**	-	Transferring to HLIC SF1
	SHF	-	N/A
	Sub-Total	-	
HLIC	**SF1**	66.0	N/A
	SF2	1.8	N/A
	SHF	1.3	N/A
	Sub-Total	**69.1**	
	Total	**69.1**	

Table 21: Assets after the Proposed Transfer is completed and the $8.25m Tier 2 note transaction ($m)			
Entity	**Fund**	**Assets**	**Receiving or Transferring Statutory Fund**
SALI	**SF1**	-	N/A
	SHF	-	N/A
	Sub-Total	-	
HLIC	**SF1**	57.8	N/A
	SF2	1.8	N/A
	SHF	1.3	N/A
	Sub-Total	**60.9**	
	Total	**60.9**	

5.3 Transfer process

5.3.1 Transferring of policy liabilities

The Proposed Transfers is to be undertaken by way of a scheme transfer under Part 9 of the Life Act. If the scheme is confirmed by the Federal Court of Australia, on and from the Transfer Date, all of the life policies and liabilities within SALI's SF1 will be transferred to HLIC's SF1, along will all assets except for $10.3m from SALI's SF1. Then, immediately following the cancellation of SALI's life insurance registration, these remaining assets will be transferred to HLIC from SALI.

In this respect:

- HLIC becomes the issuer of SALI policies and SALI ceases to be the issuer of SALI policies.
- The SALI policy owners cease to be SALI policy owners and become HLIC policy owners.
- The rights and liabilities of the SALI policy owners shall 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,
    - 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 transferred to HLIC.
- The transferring assets within SALI supporting policy liabilities and regulatory capital levels will form part of HLIC's assets and sufficiently cover the respective policy liabilities and regulatory capital requirements for HLIC's funds.

SALI's life company registration is expected to be cancelled shortly after the Transfer Date. At that date, all net assets remaining in SALI will be transferred to HLIC.

5.3.2 Policy "cut-off" rules and contractual policy terms

SALI is currently closed to new business for all product lines and, as a result, there will be no new applications made to and received by SALI for a policy prior to the Transfer Date that has not been accepted by that time.

Any policy alterations requested by existing SALI policy owners prior to the Transfer Date that have not been actioned by that time will be passed to HLIC and treated as a request to HLIC.

Any policy benefits or premiums that are due or payable by SALI prior to the Transfer Date, which remain unpaid at the Transfer Date, will become an asset or liability of HLIC. In general terms these include, but are not limited to:

- Any historic claims in course of payment, outstanding claim payments or claims payable prior to the Transfer Date, that are unpaid as at the Transfer Date. Claims payable after the Transfer Date, where the policy was "in-force" on the Transfer Date, will be transferred to HLIC, regardless of whether the actual date of claim of the life insured occurred prior to the Transfer Date.
- Any other policy payment liabilities will follow consistent rules. The key determinant will be whether:
    - The policy is inforce or on claim as at the Transfer Date, in which case it will be transferred with an amount contributing to the Policy Liabilities.
    - The policy is out-of-force, in which case it will not transfer and will not contribute to the Policy Liabilities. However, in the event of a reinstatement of an out-of-force policy, HLIC will assume the liability.

Any liability to a policy owner that becomes payable after the Transfer Date as a result of any action, error or omission of SALI (or any related body corporate of SALI), for example a previous policy administration error, will be assumed by HLIC.

5.3.3 Contractual policy terms

All contractual benefits and rights under the existing SALI policies will remain unchanged as a consequence of the Proposed Transfer. The Scheme does not propose to modify contractual policy terms.

5.3.4 Policy administration and claims management systems

SALI's policy administration and claims management systems are managed within the Group.

LFS, the previous owner of HLIC, has been providing a number of system services on a transitionary basis under a Transitional Services Agreement ("TSA") until the services are no longer required and HLIC transitions to new systems. Some systems will be ongoing under the Ongoing Services Agreement ("OSA"). As such, HLIC administration and claims management systems currently vary from SALI's, although, as described below, rationalisation is currently taking place, independent of the Proposed Transfer.

Specifically, the administration of HLIC's risk policies and management of all HLIC claims will be migrated onto StACS across four phases, scheduled to be completed by 30 April 2024, with the first phase of the migration successfully completed in December 2023. The administration of CCI policies is expected to continue to be managed on existing LFS systems under the OSA.

5.3.5 Investment strategy

Since the investment strategy between HLIC and SALI has already been aligned by the Group, and the investment strategy for both entities is currently described by the Group's Asset and Liability and

Investment Policy, there will be no material changes to the investment strategy of the assets backing the policy liabilities as part of the Proposed Transfer.

SALI cash assets supporting the liabilities and capital of SALI statutory funds will be combined into the current pool of HLIC cash assets. There will be no change to the fund assets initially as the assets will be transferred in specie to reduce the impact of transaction costs on the transfer.

As outlined in Sections 3.8 and 4.8, the Group's investment strategy was revised in early FY24 to reduce its exposure to unrated assets and increase its exposure to rated corporate loans/bonds and mortgage-backed securities, with the reduction in investment income over time expected to correspond with an uplift in future underwriting margins delivered from new policy sales. Given the current stage of the multi-year implementation of HLIC's investment strategy, this translates to a change in asset mix with increased exposure to rated bonds and reduced holdings in cash and short-term deposits. However, there is not expected to be any impact to HLIC policy owner security as a result of the Proposed Transfer, as the implementation of the Group's investment strategy is independent of the Proposed Transfer.

5.3.6 Reinsurance

SALI has agreed with its reinsurers that all existing reinsurance treaties will novate to HLIC under the scheme. There will be no changes to existing SALI and HLIC reinsurance terms or arrangements as a result of the Proposed Transfer.

5.3.7 Costs and expenses

All costs and expenses incurred by SALI and HLIC in connection with the Proposed Transfer will be met out of shareholder funds and not by the policy owners of either SALI or HLIC. No expenses related to the transfer will be directly or indirectly allocated to the policies of SALI or HLIC.

5.3.8 Tax implications

The transferring funds (SALI's SF1 and SHF) and the receiving funds (HLIC's SF1 and SHF) are subject to the same corporate tax rate of 30%, therefore tax implications are not expected from the Proposed Transfer.

5.3.9 Capital and risk management implications

SALI and HLIC currently operate under the combined Group RMF and ICAAP. Specifically:

- Strategies for managing material risks are aligned between SALI and HLIC.
- The Board's capital management metrics set out in the ICAAP are consistent between SALI and HLIC.
- The Group's Target Surplus policy within the ICAAP has already been aligned for SALI and HLIC.
- From January 2024, a Group Recovery and Exit plan will be in place to ensure that, in times of stress, the insurance entities in the Group can rebuild their financial resilience or exit regulated activity before they become non-viable.

6. Financial impact of transfer

6.1 Overview

This section of the report examines the financial impact of the Proposed Transfer on SALI and HLIC.

Both HLIC and SALI are currently each holding APRA's minimum PCA of $10m at the entity level, and the Group's minimum entity level target surplus amount. At the time of transfer of SALI into HLIC, it is expected that HLIC's PCA will remain at $10m at the entity level. Following cancellation of SALI's life insurance registration, APRA's minimum PCA requirement of $10m will cease to apply and the assets remaining in SALI will be transferred to HLIC. This will further increase HLIC's free capital above PCA, providing additional security for policy owner benefits and allowing the Group to consider redeploying capital elsewhere, such as in the pursuit of future new business consistent with its business plan.

Each of HLIC's funds, as well as the entity as a whole, are expected to hold capital in excess of Target Capital at the time of transfer.

Since HLIC's SF1 is receiving all assets in excess of $10.3m from SALI's SF1 and the SHF is receiving all of the assets from SALI's SHF, the Proposed Transfer is fully funded and does not diminish the capital position of HLIC.

The capital calculations remain in line with the requirements of LPS 110. The calculation of Target Surplus for HLIC remains consistent with the Group's Target Surplus policy and continues at the same probability of sufficiency.

All figures in this section are based on the 31 August 2023 position, which is SALI and HLIC's most recent reporting date. As at the date of this report, we are not aware of any significant market events since 31 August 2023 which would have caused a significant change to the figures.

6.2 Impact of the Proposed Transfer

6.2.1 Net assets and regulatory capital position of HLIC

The following tables set out HLIC and SALI's financial position prior to the Proposed Transfer, at the Transfer Date and at the completion of the Proposed Transfer, on a pro-forma basis using their financial positions as at 31 August 2023.The final table shows the position after the Tier 2 note transaction.

Table 22: HLIC and SALI net asset and capital position before the Proposed Transfer[1] ($Am)

	SALI SF1	SALI SHF	Total SALI	HLIC SF1	HLIC SF2	HLIC SHF	Total HLIC
Net assets [1]	20.2	0.2	20.4	10.3	1.1	1.1	12.5
Regulatory adjustments to net assets	(0.6)	-	(0.6)	(0.1)	0.1	-	0.0
Tier 2 capital	11.5	-	11.5	5.0	-	-	5.0
Capital base	31.1	0.2	31.3	15.2	1.2	1.1	17.5
Prescribed Capital Amount	6.5	0.0	10.0	1.1	0.3	0.0	10.0
Capital in excess of PCA	24.6	0.2	21.3	14.1	0.9	1.1	7.5
Capital adequacy multiple	4.8	117.4	3.1	14.4	4.4	488.2	1.8

[1] Note: Net assets for HLIC reconcile with Tables 15 and 18, noting small rounding differences are apparent.

Consistent with Tables 7 and 15, were any 'top ups' to entity-level minimums PCA of $10m notionally allocated to SALI's and HLIC's Statutory Fund 1, then the capital in excess of PCA shown in Table 22 would reduce to 21.1 and 5.5 respectively and the capital adequacy multiples would reduce to 3.1 and 1.6 respectively.

Table 23: HLIC and SALI net asset and capital position at the Transfer Date ($Am)

	SALI SF1	SALI SHF	Total SALI	HLIC SF1	HLIC SF2	HLIC SHF	Total HLIC
Net assets	10.3	-	10.3	20.2	1.1	1.3	22.6
Regulatory adjustments to net assets	-	-	-	(0.7)	0.1	-	(0.6)
Tier 2 capital	-	-	-	16.5	-	-	16.5
Capital base	10.3	-	10.3	36.0	1.2	1.3	38.5
Prescribed Capital Amount	0.6	-	10.0	6.6	0.3	0.0	10.0
Capital in excess of PCA	9.7	-	0.3	29.4	0.9	1.3	28.5
Capital adequacy multiple	17.4	-	1.0	5.4	4.4	346.7	3.8

In the same manner as described above, were any 'top ups' to entity-level minimums PCA of $10m notionally allocated to SALI's and HLIC's Statutory Fund 1, then the capital in excess of PCA shown in Table 23 would reduce to $0.3m and $26.3m respectively and the capital adequacy multiples would reduce to 1.0 and 3.7 respectively.

Table 24: HLIC and SALI net asset and capital position after the Proposed Transfer is completed ($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 to net assets	-	-	-	(0.7)	0.1	-	(0.6)
Tier 2 capital	-	-	-	16.5	-	-	16.5
Capital base	-	-	-	46.3	1.2	1.3	48.8
Prescribed Capital Amount	-	-	-	7.0	0.3	0.0	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

Were any 'top ups' to entity-level minimums PCA of $10m notionally allocated to HLIC's Statutory Fund 1, then the capital in excess of PCA shown in Table 24 would reduce to $36.6m and the capital adequacy multiple would reduce to 4.8.

Table 25: HLIC and SALI net asset and capital position after the Proposed Transfer is completed and the $8.25m Tier 2 note transaction ($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 to net assets	-	-	-	(0.7)	0.1	-	(0.6)
Tier 2 capital	-	-	-	8.3	-	-	8.3
Capital base	-	-	-	38.0	1.2	1.3	40.5
Prescribed Capital Amount	-	-	-	7.0	0.3	0.0	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

Were any 'top ups' to entity-level minimums PCA of $10m notionally allocated to HLIC's Statutory Fund 1, then the capital in excess of PCA shown in Table 25 would reduce to $28.3m and the capital adequacy multiple would reduce to 3.9.

These positions demonstrate that, at an entity level, HLIC's PCA would remain at APRA's $10m minimum requirement at 31 August 2023, with the sum of the individual SF1, SF2 and SHF PCA's totalling $6.9m for the HLIC combined entity at the Transfer Date and $7.3m after the Subsequent Expected Activities. We note that the small increase in the PCA of SF1 after the Subsequent Expected Activities reflects the additional capital requirements associated with the additional $10.3m being transferred across from SALI after its Deregistration.

Given the changes in APRA's prudential standards in conjunction with the introduction of IFRS 17, there is not expected to be a material difference in the capital base or prescribed capital amount under the new accounting standard.

As APRA has indicated that SALI's life company registration will be cancelled only after the Transfer Date, there will be capital requirements for the SALI entity following the Transfer Date and before it is wound up. Specifically, SALI will be required to meet APRA's prescribed minimum PCA requirement of $10m at the entity level. SALI will retain $10.3m of capital at the time of the Proposed Transfer to maintain capital above regulatory requirements until its Deregistration.

SALI intends to seek Deregistration, with an expectation of the approval being given after the Transfer Date. Once the relevant legislative and prudential requirements in relation to Deregistration have been satisfied, the expeditious cancellation of SALI's life insurance registration will be beneficial to the security of policy owner benefits.

The 31 August 2023 ICAAP scenarios have been refreshed to reflect capital retention of $10.3m within SALI, between the Transfer Date and the point at which SALI's life company registration is cancelled by APRA (and the capital is transferred to HLIC's SF1 in accordance with the Proposed Transfer), along with the Tier 2 note transaction.

The combination of the Proposed Transfer and the Subsequent Expected Activities is expected to strengthen policy owners' ongoing benefit security. We note that, when compared with all assets transferring to HLIC at the Transfer Date, the updated ICAAP stress and scenario testing shows there is an increased residual risk to the security of policy owner benefits between the Transfer Date and the transfer of the remaining capital in SALI after its Deregistration.

As at 31 August 2023, the capital for the combined HLIC entity post transfer will include $16.5m of Tier 2 capital. The combined HLIC entity will meet all relevant LPS 600 requirements, from the Transfer Date and will continue to do so after the expected transaction involving $8.25m of HLIC's Tier 2 notes to optimise the use of the Tier 2 capital.

In the scenario where the Tier 2 note transaction occurs before SALI's licence cancellation (and the $10.3m capital remains within SALI at that point), HLIC's capital adequacy multiple will be 3.0, compared with a lower multiple of 1.8 prior to the Proposed Transfer.

Figures provided in our report reflect the position at 31 August 2023. Analysis performed at 31 January 2024 reflects a materially consistent financial outcome, with no impacts on our overall conclusion on the Proposed Transfer.

6.2.2 Impact on regulatory capital

The following table summarises the regulatory capital position pre and post transfer based on the financial position of HLIC and SALI as at 31 August 2023.

Table 26: Impact of Proposed Transfer on PCA ($Am)

	Total SALI (pre-transfer)	Total HLIC (pre-transfer)	Total HLIC (post-transfer)[1]
Asset Risk Charge	2.8	0.1	3.0
Insurance Risk Charge	3.8	0.8	4.0
Asset Concentration Risk Charge	-	-	-
Operational Risk Charge	1.3	0.1	1.4
Less: Aggregation Benefit	(1.5)	(0.1)	(1.5)
Combined Stress Scenario	-	0.4	0.4
Adjustment to meet APRA's $10m PCA minimum	3.5	8.7	2.7
Prescribed Capital Amount (PCA)	**10.0**	**10.0**	**10.0**

[1] Note: The figures in the table reflect the completion of the Proposed Transfer (i.e. HLIC's PCA post SALI's Deregistration). Prior to the cancellation of SALI's life insurance registration, 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.

Using the 31 August 2023 position, the following points are noted:

- At an entity level, HLIC's PCA will remain at APRA's $10m minimum requirement, with the sum of the individual SF1, SF2 and SHF PCA's totalling $7.3m for the HLIC combined entity post-transfer.
- There is an expected reduction of the combined Insurance Risk Charge by $0.6m driven by increased insurance diversification benefits arising from a larger SF1 post-transfer.
- There is a slight increase to the Aggregation Benefit due to improved diversification between the stresses.
- As SALI's life insurance registration will be cancelled after the Transfer Date, $10.3m of assets will be retained in SALI's SF1 to maintain capital above APRA's prescribed minimum PCA requirements of $10m. After the cancellation of SALI's life insurance registration, the remaining $10.3m of assets will be transferred to HLIC's SF1.

6.2.3 Risk profile considerations

The following risk profile considerations are made relating to the Proposed Transfer:

- Combining different levels of insurance risks within HLIC's SF1 post-transfer will result in an increased level of diversification of risks. This increased diversification is generally considered to improve policy owner security in that fund, since the profitability of one set of products can provide some support to another in the case of adverse experience, while the risk that a loss in one product exceeds the capital resources of the combined fund is highly improbable. In addition, a wider range of products spreads risk.
- The Group ICAAP Report includes projections of the combined HLIC entity post-transfer, including HLIC's individual funds, which show an entity that continues to be profitable in future years. This positively contributes towards the transferring SALI and HLIC existing policy owners' benefit security.
- The Proposed Transfer will result in capital efficiencies. The net assets above the regulatory capital requirements for HLIC's SF1 and SHF will increase after the Proposed Transfer and will continue to meet the regulatory prudential capital requirements.
- While operational risks may be heightened for a period of time as the portfolios are integrated, SALI and HLIC have been integrating the business since the Group's acquisition of HLIC was completed in May 2023. The additional risk from the Proposed Transfer is small as the transferring business that is undergoing system changes is a small proportion of the overall combined statutory funds.

6.2.4 Insurance liabilities

SALI and HLIC currently adopt different economic and non-economic assumptions for the respective businesses.

Following the Proposed Transfer, separate non-economic assumptions will continue to be applied for SALI and HLIC businesses, as there is no reason to believe that future operating experience will materially change as a result of the Proposed Transfer. The Appointed Actuary will continue to monitor the experience and recommend assumptions as appropriate. Insurance liabilities will continue to be compliant with the requirements of APRA's Prudential Standard LPS 340 "Valuation of Policy Liabilities".

Following the Proposed Transfer, the Appointed Actuary will consider whether aligned economic assumptions make sense for the SALI and HLIC businesses. Given SALI and HLIC's policies are largely short term, any impacts from changes to economic assumptions are expected to be small.

The insurance liabilities presented in this report are based on the AASB 1038 accounting standards. Under the new International Financial Reporting Standard ("IFRS") 17 "Insurance Contracts", SALI and HLIC's insurance liabilities will increase due to the addition of a Risk Adjustment and certain payables and receivables that are reclassified into the insurance liabilities on the balance sheet.

Under APRA's revised Prudential Standards effective 1 July 2023, released in response to IFRS 17, the Liability Adjustments calculation within the determination of capital base has been changed in order to maintain capital neutrality where possible and appropriate for the capital base calculation.

HLIC was required to report under IFRS 17 at 31 August 2023, with the application of APRA's revised Prudential Standards resulting in no variation to the capital base for the individual funds and at the entity level (compared to the capital base under the AASB 1038 basis presented in this report).

Similarly, there is not expected to be material changes to the capital base for SALI from the adoption of IFRS 17. Any changes are not expected to reduce SALI's capital base, or the position of HLIC after the Proposed Transfer.

6.2.5 Observations and conclusions

On the basis of the above discussion and analysis, it is concluded, subject to Court approval of the Proposed Transfer, that:

- Following the transfer, HLIC's individual funds and HLIC as a whole will remain in a sound financial position, and SALI and HLIC policy owners' benefit security will remain adequate after the Proposed Transfer.
- Immediately after the Proposed Transfer, the statutory funds of HLIC and SALI will continue to satisfy the requirements of the applicable prudential capital standards.
- HLIC is projected to be profitable on an ongoing basis with relatively stable capital coverage.
- The risk profile considerations and expected profitability of the HLIC statutory funds and HLIC as a whole will maintain the security of policy owners benefits.

7. Policy owner considerations

7.1 Overview

In this section, policy owner considerations relevant to the transferring SALI policy owners are reviewed, including the impact of the transfer on:

- Policy owners' contractual benefits and rights
- Policy owners' reasonable benefit expectations
- Policy owners' benefit security

7.2 Contractual benefits and rights

As set out in Section 5, all SALI policies will be transferred with the same policy terms and conditions as applied prior to the transfer. There are no impacts as a result of this Part 9 transfer that are expected to hinder the servicing of the business with unchanged policy terms and conditions.

There are no proposed changes to the policy terms and conditions for existing HLIC policy owners after the transfer. Therefore, there are no reductions to the transferring or existing policy owners' contractual benefits and rights.

7.3 Reasonable benefit expectations

All policy terms of the transferring SALI policies, and the current HLIC policies, will continue unchanged, with their premium rates and all policy fees and charges remaining unchanged at the Transfer Date.

The overall reasonable benefit expectations of the transferring policy owners will continue to be met after the Proposed Transfer.

Nonetheless, there are a number of areas identified that involve some discretion being exercised by SALI historically and HLIC in the future. These have the potential to impact policy owners' reasonable benefit expectations.

These discretions are discussed further below and relate to:

- Premium rate changes (Section 7.3.1)
- Claims handling philosophy (Section 7.3.2)
- Policy administration capabilities (Section 7.3.3)
- Other potential considerations (Section 7.3.4)

7.3.1 Premium rate changes

SALI's approach to setting premium rates

While SALI and HLIC are entities that are each now owned by the St Andrew's Group, the detailed approaches to setting previous premium rates were understandably different. There will be no changes to SALI's approach to setting premium rates as a result of the Proposed Transfer, with HLIC's approach being harmonised with the Group.

Management has advised that the premium rates currently adopted by SALI were set after considering a number of factors, including claims experience, relative competitor positioning and the expected return on capital for the portfolio.

SALI has the ability to review and adjust the premium rates charged on most business written from Statutory Fund 1, provided that the premium rates are changed for all policies in a defined risk group. This right will transfer to HLIC. The products not included in this are the single premium Consumer Credit Insurance products, such as Mortgage Protection and Loan Protection.

There is not expected to be a change to the SALI premium rates as a result of the Proposed Transfer as profitability of the SALI policies is expected to remain at or above pre-transfer levels. This reflects:

- No changes to the reinsurance terms and commission terms applying to transferring policies will be made as a result of the transfer.
- As noted in Section 6.2.3, the transferring SALI Policies will benefit from capital efficiencies within HLIC which can be expected to mitigate some future pressure on premium rates.

It is noted that the above considerations do not rule out future increases in premium rates for SALI policies, which could be expected in future due to commercial considerations of the Group.

HLIC's approach to setting premium rates

HLIC's current premium rates were set by LFS, the prior owner. LFS' pricing philosophy is simple due to the nature of products sold by HLIC and the current level of profitability. Importantly, the factors considered by the current St Andrew's Group management are consistent with those historically considered when adopting premium rates in HLIC, and going forward, given that HLIC is part of the Group, HLIC's philosophy to future premium rate changes will be aligned with the approach applied to SALI.

Conclusion

Given the above observations, it is concluded that:

- A reasonable expectation of both SALI and HLIC policy owners is likely to be that the Proposed Transfer would not lead to an increased likelihood of premium rate changes as compared to if the transfer did not occur.
- HLIC's intended approach to reviewing future premium rates would be similar to the approach currently applied within SALI.

Therefore, the policy owners' reasonable benefit expectations are expected to be met with regards to premium rate changes.

7.3.2 Claims handling philosophy

SALI's approach to claims handling philosophy

As SALI and HLIC are both entities within the Group, the approaches to claims handling follow a consistent philosophy. It is noted that SALI's claims management function will not be affected by the Proposed Transfer as SAAS staff assess and manage claims for both SALI and HLIC.

SALI's Product Disclosure Statements ("PDS") outline the obligations of customers in the event of a claim (e.g. to provide various medical and financial evidence and information). However, the Group's Claims Management Policy outlines SALI's approach and philosophy for assessing claims.

The Claims Management Policy states that the actions of the Claims department in the treatment of their customers (policy owners, life insured and/or claimants) and the management of claims is as follows:

- To pay valid claims promptly and for as long as they remain valid;
- To settle claims early where the customer has a terminal illness;
- To identify suspicious claims early and pursue them appropriately until resolved;
- To take the right action at the right time;
- To treat the customer fairly and deal with complaints in a timely manner;
- To treat all customers with compassion and respect, and in an empathetic manner;
- To promote good claims management principles;
- To promote good risk management principles within the Claims department;
- To recruit high quality staff;
- To retain those staff with appropriate training and system support; and
- To ensure there is no financial benefit for the Group's Claims colleagues based on decisions to decline or close claims.

SALI follows the industry prescribed complaints handling process which includes both an internal and external complaints process. Specifically, SAAS' website states that if a customer has a complaint regarding their claim they should contact:

- SAAS initially via their customer service or internal dispute resolution (IDR) team;
- The Australian Financial Complaints Authority (AFCA) or New Zealand Insurance and Financial Services Ombudsman (NZIFSO) if the complaint is not resolved to the customer's satisfaction.

HLIC's approach to claims handling philosophy

As noted above, HLIC adopts a consistent philosophy in the approach to claims handling. There will be no changes for HLIC as a result of the Proposed Transfer.

Furthermore, all SALI claim services will be available and provided by the same staff for the transferring policy owners after the Proposed Transfer.

Conclusion

Given the observations above, it is concluded:

- The transferring SALI policy owners will have an expectation that claims will be assessed fairly and in utmost good faith;
- The current HLIC policy owners will have an expectation that claims will be assessed fairly and in utmost good faith;
- HLIC's current approach to assessing claims is consistent with SALI's which satisfies the above expectations; and,
- The transferring SALI and current HLIC policy owners will continue to have the right to refer complaints to AFCA or NZIFSO.

7.3.3 Policy administration capabilities

Transition

SALI policies are managed through a range of policy administration systems. There are no proposed changes to policy administration systems or processes for SALI policies as part of or following the Proposed Transfer. Nor are there any proposed changes to SALI's existing policy administration practices or capabilities as part of the Proposed Transfer.

Conclusion

Given the above observations, it is concluded that SALI policy owners will not be adversely affected with regards to the continuation of the existing policy administration systems at the point of the Proposed Transfer. Therefore, the policy owners' reasonable benefit expectations are expected to be met for transferring SALI policy owners with regards to policy administration.

There will be no functional changes to the systems that administer the HLIC products as a result of the Proposed Transfer. Therefore, the policy owners' reasonable benefit expectations are expected to be met for current HLIC policy owners with regards to policy administration.

7.3.4 Other potential considerations

Underwriting

As SALI is closed to new business, underwriting will be limited to benefit changes for existing policies. SALI policy owners who currently have the option to increase their sum insured will continue to have that option and will be assessed against SALI's current underwriting standards.

Specifically, for SALI funeral policies, where the current terms allow the addition of new lives to existing policies, these terms will remain in place and new lives will be assessed against SALI's current underwriting standards.

HLIC's existing policy terms will remain, whereby increases to sum insured (outside of indexation) are not allowed and additional lives cannot be added to existing policies.

Conclusion

Given the above observations, it is concluded that the policy owners' reasonable benefit expectations are expected to be met with regards to any underwriting of any benefit changes (including sum insured increases).

7.3.5 Overall conclusion on benefit expectations

It is concluded that SALI and HLIC's intended basis of determining and implementing the non-contractually specified and/or discretionary aspects of the transferring policies will continue to meet the overall reasonable benefit expectations of the transferring SALI policy owners and current HLIC policy owners.

7.4 Benefit security

7.4.1 Pre-transfer position

SALI's pre-transfer position

The transferring SALI policy owners currently enjoy a sound level of benefit securities in terms of:

- The PCA, Target Capital and the excess assets above these reserves held directly within SALI's SF1 and SHF;
- The existing investments of SALI's SF1 that back the policy liabilities are being maintained in cash, corporate loans / bonds and mortgage-backed securities;

- SALI's business and management of risks, and the existing administration and management systems which are fit for purpose; and,
- The sound capital position and profitability of the overall SALI entity that is capable of providing further support to the obligations of SALI's statutory funds.

HLIC's pre-transfer position

The current HLIC policy owners currently enjoy a sound level of benefit securities in terms of:

- The PCA, Target Capital and the excess assets above these reserves held directly within HLIC's SF1, SF2 and SHF;
- The existing investments of HLIC's SF1 and SF2 that back the policy liabilities are being predominantly maintained in cash;
- HLIC's business and management of risks, and the existing administration and management systems which are fit for purpose; and,
- The sound capital position and profitability of the overall HLIC entity that is capable of providing further support to the obligations of HLIC's statutory funds.

7.4.2 Post-transfer position

Under the Life Act, after the transfer, the policy liabilities of the SALI policies must continue to be maintained within a statutory fund of HLIC, which is required to continue to satisfy the same regulatory capital requirements, as well as other regulatory risk management standards and requirements, as those that apply to SALI.

Management has an existing understanding of SALI's business and its risks and HLIC currently utilises existing administration and management systems that are designed to accommodate such business.

The following sub-sections discuss the benefit security of the transferring SALI policy owners and the existing HLIC policy owners after the Proposed Transfer.

It is noted that the policy owners in HLIC's Statutory Fund 2 (representing the New Zealand business) will not be directly impacted by the Proposed Transfer, given Statutory Fund 2 remains distinct from the transfer and HLIC as an entity will remain in a sound financial position after the Proposed Transfer.

Capital reserving levels

The Capital Adequacy Multiple is often considered as the primary indicator of financial strength and a measure of policy owner benefit security. Compared with the pre-Part 9 positions, it is usual for this measure to be lower for the policy owners of either the transferring or receiving fund, because the result for a combined fund will necessarily be different to the multiples for the individual funds. The following observations are made in relation to the capital reserving levels impacting SALI and HLIC policy owners, noting that a capital adequacy multiple greater than 2 (two) would generally be considered strong:

- As set out in Section 6.2.1, SALI policy owners are currently insured with an entity which has $21.3m of capital in excess of the PCA. Existing HLIC policy owners are currently insured with an entity which has $7.5m of capital in excess of PCA.
- Under the Group's current dividend policy, no dividends will be paid by the Group until further notice. Free capital will accumulate within the insurance entities as the portfolio continues to run-off.

- Following the Proposed Transfer, and before the cancelation of SALI's life insurance registration, SALI and HLIC policy owners in HLIC will be part of an entity with capital in excess of PCA of $28.5m as set out in Section 6.2.1. At an entity level, HLIC's PCA is expected to remain at APRA's $10m minimum requirement immediately after the Proposed Transfer.
- The current capital adequacy levels (measured as capital base divided by PCA) for SALI's SF1 and SHF and HLIC's SF1 and SHF are each greater than 1.

  As per Section 6.2.1, the indicative capital adequacy multiple following the Transfer Date, and before the cancelation of SALI's life insurance registration, for HLIC's SF1 and SHF each remain far greater than 1, at 5.4 and 346.7 respectively. These ratios remain sufficiently high to provide adequate security, exceed the minimum prudential capital requirements and do not adversely impact the level of prudential protection for the transferring SALI policy owners or existing HLIC policy owners.

  We note that, in isolation, the capital adequacy multiple in HLIC's SF1 reduces as a result of the Proposed Transfer, from 14.4 to 5.4. This is driven by the increase in the PCA for SF1 and should also be considered in conjunction with the $15m of additional excess capital that is expected to be in SF1 at the Transfer Date. Consistent with the accompanying explanations to Tables 22 - 23, were the 'top ups' to be allocated to SF1, the capital adequacy multiple actually increases from 1.6 to 3.7, which is consistent with the changes at the entity level.

  Between the Transfer Date and before the cancelation of SALI's life insurance registration, the indicative capital adequacy multiple in SF1 is 17.4, or would be 1.0 were the 'top-ups' to be allocated to SF1. While the latter is below a position that would generally be considered strong, there will be no policy owners, nor policy liabilities, within SF1 during this time.
- After the completion of the Proposed Transfer, the SALI and HLIC policy owners' benefit security in HLIC is expected to increase further. As set out in Section 6.2.1, HLIC's capital in excess of PCA is expected to increase to $38.8m and the capital adequacy multiple for HLIC's SF1 will increase to 6.6 (with a small increase in the PCA of HLIC's SF1 following the $10.3m transfer offset by the $10.3m of capital itself).

  We note that, consistent with the accompanying explanation to Table 24, were the 'top up' to be allocated to SF1, the capital adequacy multiple increases to 4.8, which is reflective of the incremental increase in capital following the $10.3m transfer.
- After the completion of the Tier 2 note transaction, policy owners' benefit security in HLIC is expected to reduce. As set out in Section 6.2.1, HLIC's capital in excess of PCA is expected to reduce by the value of the relevant Tier 2 notes ($8.25m) to $30.5m and the capital adequacy multiple for HLIC's SF1 will reduce to 5.4. These positions are broadly consistent with those at the Transfer Date and those of well capitalised statutory funds and entities.

  We note that, consistent with the accompanying explanation to Table 25, were the 'top up' to be allocated to SF1, the capital adequacy multiple reduces to 3.9, which is broadly consistent with the equivalent measure at the Transfer Date.

Given the above, it can be concluded that the post-transfer capital reserving levels of HLIC's SF1 and SHF will not adversely impact the transferring SALI and HLIC existing policy owners' benefit security.

Quality of capital

SALI and HLIC policy owners are currently insured with an entity where the liabilities are predominantly supported by Common Equity Tier 1 ("CET1") capital. The SALI SF1 and SHF policies will transfer into HLIC SF1 and SHF respectively, and the receiving HLIC statutory fund's liabilities will be predominantly supported by CET1 capital post-transfer.

Risk profile considerations

The Proposed Transfer is not considered as a whole to adversely impact the risk profile and benefit security of both the transferring SALI policy owners and existing HLIC policy owners as:

- HLIC manages the various life insurance risk products independently of each other. This reduces the risk that unexpected profits and losses can emerge on a product line that can materially impact the benefit security of other product lines.
- As HLIC will be receiving SALI, and SALI is the larger entity, the HLIC policies will benefit from diversification of risks with the addition of SALI's SF1. This enhances HLIC policy owner benefit security, since the profitability of one set of products can provide some support in terms of meeting contractual obligations to another in cases of adverse experience.
- There are practical benefit security advantages to maintaining a larger single statutory fund compared to maintaining multiple smaller funds including additional diversification benefits.
- The assets being transferred from SALI are being provided in the form of cash, rated and unrated corporate bonds and mortgage-backed securities, which remain suitable investments with respect to the liabilities being transferred. Any subsequent changes will be consistent with the Group's RAS.

  Tables 6 & 12 show the relative positions of Category A and Category B assets for SALI and HLIC at 31 August 2023. We have noted that, consistent with the ongoing implementation of the investment strategy, this difference in asset allocation each Statutory Fund 1 has materially reduced as at 31 March 2024. The Proposed Transfer may be considered as effectively furthering the implementation of the investment strategy, with the capital positions displayed in Section 6 indicating that any change in asset risk for HLIC policy owners is expected to have minimal impact given the adequate levels of capitalisation.
- The net assets above the regulatory capital requirements for HLIC's SF1 and SHF will increase after the Proposed Transfer and will continue to meet the regulatory prudential capital requirements.

Given the above, the post-transfer risk profile of HLIC's SF1 and SHF will positively contribute towards the transferring SALI and HLIC existing policy owners' benefit security.

Cashflow and profitability

In addition to the capital reserves held, the financial stability and strength of an insurer, is also a function of its profitability and the strength of its cashflows.

SALI's SF1 has been profitable in recent years, with profits after tax of $1.6m in the 31 August 2023 financial year. HLIC's SF1 and SF2 have also been profitable in recent years, with profits after tax of $0.3m, and $0.2m for the eight months to 31 August 2023. The combined HLIC entity post-transfer, including HLIC's SF1 and SHF, are projected in the Group's ICAAP Report to continue to be profitable in future years.

Given the above, the post-transfer cashflow and expected profitability of HLIC's SF1 and SHF will positively contribute towards the transferring SALI and HLIC existing policy owners' benefit security.

Total capital above PCA

HLIC will have significant excess capital above PCA after the Proposed Transfer, with $28.5m in excess assets before the cancelation of SALI's life insurance registration. After the completion of the Proposed Transfer and the Subsequent Expected Activities, HLIC's excess capital above PCA is expected to be $30.5m.

This increase in the overall level of capital above PCA will positively contribute towards the transferring SALI and HLIC existing policy owners' benefit security.

7.4.3 New business planning

While both SALI and HLIC are currently closed to new business, the Group's latest business plan indicates the intent to resume writing to new business, subject to APRA's approval. The scenarios contemplated in the Group's ICAAP, including the latest refreshed scenario modelling, includes these plans for the pursuit of new business in the future.

While there is an associated capital strain with writing new business, reducing the respective statutory fund's capital adequacy multiple in the short-term, the new business itself is expected to bring longer-term benefits that offset the initial strain on the current capital resources.

Specifically, writing new business is expected to increase net revenue and diversify overall risk, contributing to the future financial health and stability of the business. This, in turn, will positively contribute towards the benefit security of both the transferring SALI and existing HLIC policy owners'.

While the new business plans are not necessarily predicated on having a combined entity, the ongoing security of policy owner benefits will be greater after the Proposed Transfer, with the increased capital above PCA in HLIC able to be deployed to support the new business plans, than compared with writing new business from one of the current entities.

7.4.4 Conclusion on benefit security

On the basis of the above discussion and analysis, it is concluded that:

- The transferring SALI policy owners' benefit security will remain adequate after the Proposed Transfer;
- Each of the statutory funds of HLIC, and HLIC as a whole, will remain in a sound financial position and the existing policy owners' benefit security will remain appropriate after the Proposed Transfer; and
- There are no material disadvantages to the existing policy owners of HLIC in having the SALI policies transferred to HLIC. The existing HLIC policy owners will benefit from the improved capital position following the Proposed Transfer as well as having a more diversified risk profile.

8. Overall conclusion

We, David Millar and Stephen Jones, in our capacity as the Appointed Actuaries of HLIC and SALI respectively and as Fellows of the Institute of Actuaries of Australia ("FIAA") and David Millar as a Fellow of the New Zealand Society of Actuaries ("FNZSA"), are each of the opinion that the Proposed Transfer will not result in any unfairness to the owners of the policies referable to any of the statutory funds involved in the Proposed Transfer.

All the liabilities and all assets above $10.3m of SALI's Statutory Fund 1 and Shareholders' Fund will transfer into HLIC's Statutory Fund 1 and Shareholders' Fund respectively. Immediately after the Transfer Date, the receiving fund, HLIC, will satisfy the prudential capital requirements and remain in a sound financial position. Following the cancellation of SALI's life insurance registration, the remaining $10.3m of assets in SALI will be transferred to HLIC as part of the completion of the Proposed Transfer. Furthermore, it is expected that HLIC will reduce its Tier 2 notes on issue by $8.25m and HGIC will issue additional Tier 2 Notes of the same amount, with a view to optimising the use of Tier 2 capital in connection to the resumption of writing new business (the Subsequent Expected Activities).

Specifically, regarding SALI's transferring policy owners:

- The Proposed Transfer does not adversely impact the contractual benefits and rights of the transferring policy owners;
- There is no impact to the reasonable benefit expectations of the existing policy owners of SALI as a result of the Proposed Transfer;
- There are no material disadvantages for the existing policy owners of SALI as a result of the Proposed Transfer; and,
- HLIC will remain in a sound financial position and the transferring policy owners' benefit security will remain adequate after the Proposed Transfer and the Subsequent Expected Activities.

Specifically, regarding HLIC's existing policy owners:

- There is no impact to the contractual benefit and rights of the existing policy owners of HLIC as a result of the Proposed Transfer;
- There is no impact to the reasonable benefit expectations of the existing policy owners of HLIC as a result of the Proposed Transfer;
- At both the individual fund level and the entity level, HLIC will continue to satisfy regulatory capital requirements and will remain in a sound financial position, and the existing policy owners' benefit security will remain appropriate after the Proposed Transfer; and,
- There are no material disadvantages for the existing policy owners of HLIC as a result of the Proposed Transfer and the Subsequent Expected Activities.

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

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

David Millar, FIAA, FNZSA	Stephen Jones, FIAA
Appointed Actuary	Appointed Actuary
Hallmark Life Insurance Company Ltd	St Andrew's Life Insurance Pty Ltd