BUDDLE FINDLAY

28 April 2023

To
Insurance Supervision
Reserve Bank of New Zealand
2 The Terrace
Wellington 6011

From
Bineprit Singh
Benjamin Sutton

By Electronic Upload

Hallmark Life Insurance Company Limited – Financial Statements for the year ended 31 December 2022

1. We act for Hallmark Life Insurance Company Limited (company number 486643) ("**Hallmark Life**").

2. In accordance with section 81 of the Insurance (Prudential Supervision) Act 2010, we **enclose** copies of the following documents in respect of Hallmark Life for the year ended 31 December 2022:

   (a) audited financial statements for Hallmark Life, a copy of the independent auditor's report and a copy of the appointed actuary's report (as required by section 78 of the Insurance (Prudential Supervision) Act 2010) in relation to the same; and

   (b) audited financial statements for Hallmark Life's New Zealand branch, a copy of the independent auditor's report and a copy of the appointed actuary's report (as required by section 78 of the Insurance (Prudential Supervision) Act 2010) in relation to the same.

3. The financial statements listed above have been prepared in reliance on the Financial Markets Conduct (Overseas Registered Banks and Licensed Insurers) Exemption Notice 2021.

4. We have also submitted a copy of the above documents to the Registrar of Financial Service Providers.

5. Please contact the writer if you have any queries in relation to the above.

6. Please confirm receipt by email to the writer.

Yours sincerely

Benjamin Sutton
Special Counsel

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Hallmark Life Insurance Company Ltd
ABN 87 008 446 884
FINANCIAL REPORT
For the Year Ended 31 December 2022

Hallmark Life Insurance Company Ltd

ABN 87 008 446 884

Financial report for the year ended 31 December 2022

Contents

Directors' report

For the year ended 31 December 2022

The directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd (the Company) for the year ended 31 December 2022 and the auditor's report thereon.

Directors

The following persons were directors of the Company at any time during the financial year and up to the date of this report:

Jennifer Anne Boddington (Chairperson)
Shaun Patrick Feely
Christopher Paul Knoblanche
Alison Ledger
Paul Varro

Principal activities

The principal activity of the Company during the year was that of a Life insurer, operating both in Australia and New Zealand. There has been no significant change in the nature of this activity during the year.

Review of operations

Total comprehensive income of the Company was $1,119,000 (2021: $581,000).

The Company ceased selling new product in May 2022 after previously having launched a new Repayment Protection insurance product in February 2021.

Significant changes in the state of affairs

There have been no other significant changes in the state of affairs of the Company during the year.

Dividends

There were no dividends paid by the Company during the financial year 31 December 2022 (2021: $2,600,000 was paid to Latitude Insurance Holdings Pty Ltd).

Directors' report

For the year ended 31 December 2022

Likely developments and expected results of operations

On 8 August 2022, the Company's ultimate parent entity, Latitude Group Holdings Limited (the Group) announced that it has entered into an agreement to sell Latitude Insurance Holdings Pty Ltd (Hallmark), the parent entity of the Company to the St Andrew's Insurance Group (St Andrew's) for $20.3 million. Post the sale, the Company's policyholders will be managed as part of St Andrew's dedicated insurance business to meet continuing obligations to policyholders.

Completion of the transaction is subject to certain conditions, including regulatory approval from APRA and Reserve Bank of New Zealand (RBNZ). The transaction is expected to occur in the first half of the 2023 financial year.

Other than the likely sale of the Company to St Andrew's, other information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would likely result in unreasonable prejudice to the Company.

Matters subsequent to the end of the financial year

As detailed above, the Company's ultimate parent entity, the Group announced that it has entered into an agreement to sell Hallmark to the St Andrew's.

As part of the sale process, the Company is proposing to pay a pre completion dividend to the parent entity, Latitude Insurance Holdings Pty Ltd. Following the payment of the pre completion dividend, the Company's net assets the Capital adequacy multiple under APRAs LAGIC standards will decrease.

At the date of signing the accounts, completion of the sale of the Company is expected to finalise on the end of the first quarter of 2023.

Other than progress on the above, no other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect:

(a) the Company's operations
(b) the results of those operations; or
(c) the Company's state of affairs.

Indemnification and insurance of officers and auditors

(a) Insurance of officers

During the financial year and subsequent to the period end, Latitude Financial Services Australia Holdings Pty Ltd, a related entity of the Company, has paid Directors and Officers insurance and liability premiums on behalf of the Company's ultimate Parent and its subsidiaries. The insurance has a limit of liability unless specified within the policy.

The insurance policies prohibit the disclosure of limits of liability, the nature of liability indemnified and the premium payable.

(b) Indemnity of auditors

The Company has not during or since the end of the financial year, paid or agreed to pay any premiums in respect of any person who has been an auditor of the Company for the purposes of indemnifying them against any claims by third parties arising from their audit report.

Directors' report

For the year ended 31 December 2022

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Environmental regulations

The Company does not believe that its operations are subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State of Territory.

Lead Auditor's independence declaration

The lead auditor's independence declaration is required under section 307C of the *Corporations Act 2001*, forms part of the directors' report for the year ended 31 December 2022 and is set out on page 8.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 issued by Australian Securities and Investments Commission, relating to the 'rounding off of amounts in the Directors' report and the accompanying financial statements have been rounded to the nearest thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of directors.

Jennifer Anne Boddington (Chairperson)
Director
Sydney
22 February 2023

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
22 February 2023

Directors' Declaration

In the opinion of the Directors of Hallmark Life Insurance Company Ltd (the Company):

(a) the financial statements and notes set out on pages 11 to 60 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Company's financial position as at 31 December 2022 and of its performance for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1.1; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors:

Jennifer Anne Boddington (Chairperson)
Director
Sydney
22 February 2023

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
22 February 2023

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Hallmark Life Insurance Company Ltd.

I declare that, to the best of my knowledge and belief, in relation to the audit of Hallmark Life Insurance Company Ltd. for the financial year ended 31 December 2022 there have been:

i. no contraventions of the auditor independence requirements as set out in *the Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Joshua Pearse

Partner

Melbourne

22 February 2023

Independent Auditor's Report

To the shareholders of Hallmark Life Insurance Company Ltd.

Opinion

We have audited the ***Financial Report*** of Hallmark Life Insurance Company Ltd. (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2022 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position ~~Balance Sheet~~ as at 31 December 2022;
- Statement of profit or loss and other comprehensive income Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

KPMG

Other Information

Other Information is financial and non-financial information in Hallmark Life Insurance Company Ltd.'s annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf This description forms part of our Auditor's Report.

KPMG

KPMG

Joshua Pearse

Partner

Melbourne

22 February 2023

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 $'000	2021 $'000
Insurance premium revenue	2.1(a)	4,364	4,324
Outwards reinsurance premium expense		(267)	(296)
Net insurance premium revenue		4,097	4,028
Claims expenses	2.1(c)	(1,793)	(1,683)
Reinsurance and other recoveries		304	119
Net claims incurred		(1,489)	(1,564)
Net decrease in policy liabilities		1,568	2,969
Net decrease in reinsurers share of policy liabilities	3.1(f)	5	44
Net decrease in policy liabilities		1,574	3,012
Administration expenses	2.1(d)	(2,986)	(4,838)
Total claims and expenses		(2,902)	(3,390)
Total underwriting result		1,195	638
Investment income	2.1(b)	452	113
Profit for the year before income tax		1,647	751
Income tax expense	2.2(a)	(480)	(214)
Profit for the year		1,167	537
Item that may be reclassified to profit or loss			
Currency translation differences arising during the year		(48)	45
		(48)	45
Total comprehensive income for the year		1,119	581
Profit is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		1,167	537
Profit for the year		1,167	537
Owners of Hallmark Life Insurance Company Ltd		1,119	581
Other comprehensive income for the year, net of tax		1,119	581

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

Statement of Financial Position

As at 31 December 2022

	Notes	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	3.1(a)	30,571	20,006
Investments	3.1(b)	645	12,181
Current tax asset		-	66
Deferred tax asset	2.2(d)	7	16
Trade and other receivables	3.1(c)	616	465
Reinsurance and other recoveries	3.1(d)	242	152
Gross policy liability ceded under reinsurance	3.1(f)	77	72
Total assets		**32,158**	**32,958**
Liabilities			
Trade and other payables	3.1(e)	258	474
Policy claims in the process of settlement	3.1(g)	930	1,033
Gross insurance policy liabilities	3.1(f)	1,569	3,171
Deferred tax liabilities	2.2(d)	32	78
Current tax liability		49	-
Total liabilities		**2,838**	**4,756**
Net assets		**29,320**	**28,202**
Equity			
Contributed equity	4.1(a)	500	500
Reserves	4.1(b)	9,723	9,772
Retained earnings		19,097	17,930
Capital and reserves attributable to owners of Hallmark Life Insurance Company Ltd		29,320	28,202
Total equity		**29,320**	**28,202**

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

Statement of changes in equity

For the year ended 31 December 2022

		Attributable to owners of Hallmark Life Insurance Company Ltd			
	Notes	Contributed equity $'000	Reserves $'000	Retained Earnings $'000	Total Equity $'000
At 1 January 2021		500	9,658	19,993	30,151
Profit for the year		-	-	537	537
Other comprehensive income		-	45	-	45
Total comprehensive income for the year		**-**	**45**	**537**	**582**
Dividends paid or declared	2.3(a)	-	-	(2,600)	(2,600)
Tax consolidation reserve	4.1(b)	-	69	-	69
At 31 December 2021		**500**	**9,772**	**17,930**	**28,202**
At 1 January 2022		500	9,772	17,930	28,202
Profit for the year			-	1,167	1,167
Other comprehensive expense		-	(48)	-	(48)
Total comprehensive income for the year		**-**	**(48)**	**1,167**	**1,119**
Dividends paid or declared	2.3(a)	-	-	-	-
Tax consolidation reserve	4.1(b)	-	-	-	-
At 31 December 2022		**500**	**9,723**	**19,097**	**29,320**

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

Statement of cash flows

For the year ended 31 December 2022

	Notes	2022 $'000	2021 $'000
Cash flows from operating activities			
Premium received		4,183	4,333
Reinsurance and other recoveries		304	119
Outward reinsurance expense		(387)	(353)
Claims paid		(1,884)	(1,750)
Fees and commissions paid		(113)	(625)
Payments to suppliers and employees		(2,964)	(4,552)
Interest received		304	153
Income taxes paid		(321)	(233)
Net cash (outflow) from operating activities	2.1(g)	**(876)**	**(2,908)**
Purchase of investments		(93,295)	(27,056)
Maturity of investments		104,779	23,697
Net cash (outflow) from investing activities		**11,484**	**(3,359)**
Cash flows from financing activities			
Dividends paid to company's shareholders		-	(2,600)
Net cash (outflow) from financing activities		**-**	**(2,600)**
Net (decrease) in cash and cash equivalents		10,608	(8,867)
Cash and cash equivalents at beginning of financial year		20,006	28,807
Effects of exchange rate changes on cash and cash equivalents		(43)	66
Cash and cash equivalents at end of financial year	3.1(a)	**30,571**	**20,006**

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

Notes to the financial statements

For the year ended 31 December 2022

Section 1 - Basis of preparation

1.1 Basis of preparation

(a) Reporting entity

Hallmark Life Insurance Company Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 18, 130 Lonsdale Street, Melbourne, Victoria, 3000.

These are the financial statements of Hallmark Life Insurance Company Ltd, as at and for the year ended 31 December 2022. Hallmark Life Insurance Company Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue on 22 February 2023.

(b) Statement of compliance

These General Purpose Tier 1 financial statements have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(c) Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following:

- Financial instruments measured at fair value, including financial assets backing insurance policies designated at fair value through profit or loss, equity investments designated at fair value though other comprehensive income.

(d) Functional and presentation currency

These financial statements are presented in Australian Dollars, which is Hallmark Life Insurance Company Ltd's functional and presentation currency.

1.1 Basis of preparation (continued)

(e) Rounding of amounts

The company is of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

(f) Principles for life insurance business

Activities of the life insurance operations

The life insurance operations of the Company are conducted within separate statutory funds as required by the Life Insurances Act 1995 (LIA) and are reported in aggregate with the shareholders' fund in the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows of the Company. The life insurance operations of the Company comprise the selling and administration of life insurance contracts only. In addition, the business has consumer and credit disability and unemployment insurance contracts, for which APRA has granted an exemption to treat as life insurance for the purposes of the LIA.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the Company, and the financial risks are substantially borne by the Company.

Restrictions on assets

Monies held in the statutory funds are subject to the distribution and transfer restrictions and other requirements of the LIA.

As the Company does not have any participating business, all profits and losses are allocated to the shareholders.

(g) Significant estimates and judgements

The preparation of financial statements that conform to accounting standards requires Management to exercise judgement in applying the Company’s accounting policies and to make estimates and assumptions. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and that are believed to be reasonable under the circumstances.

Areas involving assumptions and estimates that are significant to the financial statements or areas requiring a higher degree of judgement, are described below.

1.1 Basis of preparation (continued)

Life insurance contract liabilities

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as margin on services (MoS).

Under MoS the excess of premium received over claims and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service), hence the term margin on services. The movement in life insurance contract liabilities recognised in the profit or loss reflects the planned release of this margin.

The projection method is usually used to determine life insurance contract liabilities. The net present value of projected cashflows is calculated using best estimate assumptions about future events. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets, otherwise, a risk-free discount rate is used.

Where the accumulation method has been used, the liability is based on an unearned premium reserve, less an explicit allowance for deferred acquisition costs (DAC) and a reserve for IBNR's. Where used, the accumulation method is considered to be a reasonable approximation of liabilities had they been determined on a projection basis. A summary of the significant actuarial methods and assumptions used is contained in note 3.2.

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised when there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured.

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the chief financial officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the Standards, including the level in the fair value hierarchy in which the valuations should be classified.

Significant valuation issues are reported to the Company's Audit Committee

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based

1.1 Basis of preparation (continued)

on the inputs used in the valuation techniques as follows.

Level 1:	quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3:	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

1.2 Other significant accounting policies

Significant accounting policies adopted in the preparation of these financial statements have been included in the relevant notes to which the policies relate. Other significant accounting policies are listed below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Foreign currency translation

Items included in the financial statements of each of the entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income on a net basis within other operating income or other expenses.

The results and financial position of the foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

1.2 Other significant accounting policies (continued)

- All resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity.

1.3 New and amended standards

(a) New and amended standards adopted

Other amended standards
Other amended Standards that became effective for the financial year ended 31 December 2022 did not have a material impact on the Company.

(b) New standards and interpretations not yet adopted

The following standards have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Company. The Company expects to adopt these on their effective dates.

AASB 9 Financial instruments (2014) became effective to the Company at 1 January 2018. AASB 9 *Financial instruments,* which addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements. The Company is predominantly connected with insurance and meets the requirements in AASB 2016-6 Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AABS 4 Insurance Contracts. It is applying the temporary exemption to continue AASB 139 Financial Instruments: Recognition and Measurement (AASB 139) rather than AASB 9 until initial application of *AASB 17 Insurance Contracts* for the Company's 31 December 2023 financial statements. The Company's new accounting policies, assumptions, judgements and estimation techniques employed will be subject to change until the Company finalises the 31 December 2023 financial statements that include the date of initial application. This standard is not expected to have a material impact on the Company's financial statements.

AASB 17 Insurance Contracts which becomes mandatory for accounting periods beginning on or after 1 January 2023 with the Company's 31 December 2023 financial statements being the first full year where AASB 17 applies. AASB 17, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The Company is in the process of preparing for the implementation of AASB 17. There will be substantial changes to presentation and disclosures in the Company's Statement of Comprehensive Income and Statement of Financial Position. AASB 17 is a complex standard and the interpretation requirements is subject to ongoing discussions between preparers, auditors, regulators and other stakeholders. As a result, the full impact of AASB 17 on the Company's financial statements is still being determined.

Notes to the financial statements

For the year ended 31 December 2022

1.3 New and amended standards (continued)

The impact of the financial risks and investment income on the Company's results will be presented separately from insurance performance. AASB 17 also adds new disclosures in the Statement of Financial Performance including insurance revenue, insurance service expense and net expenses from reinsurance contracts in:

- the insurance service result,
- insurance finance income or expense in the net financial result.

AASB 17 introduces a new 'General Model' for the recognition and measurement of insurance contracts and permits a 'Simplified Approach'.
To apply the Simplified Approach one the following two requirements must be satisfied:

1. The simplification would not produce a materially different Liability for Remaining Coverage, or
2. The coverage period of the contract is 1 year or less.

The Company has determined that the Simplified Approach will apply as the coverage period requirements of AASB 17 are satisfied. The Simplified Approach provides a broadly similar basis for accounting for insurance contracts under AASB 1037 with the following notable exceptions identified by the Company:

- Onerous Contracts: If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, an onerous contract provision will be required to be recognised. The Company has not identified any group of insurance contracts that are onerous as at 31 December 2022.
- Discount rate: Claims liabilities not expected to be settled in the 12 months must be discounted using a rate that reflects the characteristics of the liability. The Company will apply the risk-free interest rate curve and will consider if it is appropriate to make an allowance for illiquidity. It is not considered likely that an allowance for illiquidity it will be required.
- Risk adjustment: An explicit risk adjustment must be applied to claims liabilities. The impact will be determined by the Appointed Actuary as part of the annual Actuarial Valuation Report as such the exact impact is to be finalised with the concept of a risk adjustment is currently not required under *AASB 1038 Life Insurance Contracts.*
- Reinsurance: Reinsurance contracts are required to be recognized in line with AASB 17. The Company is in the process of determining the implications on reinsurance contracts.

The Company does not have any contracts with embedded derivatives or investment components that have to be separated and accounted for separately under different accounting standards.

The Company will apply the full retrospective approach on the transition to AASB 17. The Company has developed appropriate accounting policies along with the design and implementation of required changes to financial reporting and relevant systems. The Company will continue to use the existing AASB 1038 basis for the preparation of the Company's

1.3 New and amended standards (continued)

management accounts and until the Insurance regulator, Australian Regulatory Authority (APRA) reporting requirements change for the September 2023 and later returns.

The Company has adopted the following accounting policies specifically for the requirements of AASB 17:

- Insurance contracts and level of aggregation
- Coverage period and contract boundary
- Treatment of onerous contracts
- Expenses and allocation
- Treatment of reinsurance contracts held
- Insurance contracts discounting and illiquidity premium

Notes to the financial statements

For the year ended 31 December 2022

Section 2 - Results

2.1 Revenue and expenses

Accounting Policy

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Company recognises revenue from non-insurance activities when it is probable that the economic benefits will flow to the Company and the revenue amount can be reliably measured. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In addition, the following specific recognition criteria apply to revenue streams:

Premium revenue

Premium revenue comprises amounts charged to policyholders (direct premium) for insurance contracts, excluding stamp duties and taxes collected on behalf of third parties.

Premium revenue is recognised in the profit and loss when it has been earned. It is recognised as earned from the date attachment of risk (generally the date a contract is agreed to but not the earlier if persuasive evidence of an arrangement exists) over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of risks underwritten is generally matched by the passing of time but when time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

Premium for unclosed business (business written close to reporting date where attachment risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals.

The unearned portion of premium is recognised with unearned premium liability in the statement of Financial Position.

Investment Income

All investment income is recognised as revenue on an accrual basis. Interest income from assets backing life-insurance liabilities, which are designated as fair value through profit or loss, is recognised on a time proportion basis using the simple interest method. Assets are designated at fair value through profit or loss and the related net realised and unrealised gains and losses arising on financial assets designated at fair value through profit or loss are included in statement of profit or loss and other comprehensive income as investment revenue.

Claims expenses

The Company's claims liability is measured as the present value of expected future payments relating to claims incurred at the reporting date. The expected future payments include those estimates in relation to claims incurred but not yet enough reported (IBNER's) and claims incurred but not reported (INBR's) based on past experience.

Claims incurred all relate to providing services, including the bearing of risk, and are accordingly treated as expenses in the statement of profit or loss and other comprehensive income. Claims expenses represent total claim payments made during the year adjusted for the movement in the

2.1 Revenue and expenses (continued)

outstanding claims liability.

The claims liability is measured based on the advice of valuations performed by the appointed actuary whose key assumptions are outlined in note 3.2.

Other expenses

Other expenses are recognised in the statement of profit or loss and other comprehensive income on an accrual basis.

Basis of apportionment

Apportionment of expenses has been made as follows:

- all expenses have been apportioned between policy acquisition, policy maintenance and investment management in line with the principles set out in the Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA
- expenses, which are directly attributable to an individual policy or product, are allocated directly to the statutory fund within which that class of business is conducted; and
- all indirect expenses charged to the profit or loss are equitably apportioned to each class of business.

The apportionment is in accordance with Division 2 Part 6 of the LIA.

Outward reinsurance premium

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated at the reporting date as deferred reinsurance expense. Reinsurance recoveries on claims incurred are recognised as revenue.

Policy acquisition costs

The actual acquisition costs incurred are recorded in the profit or loss. The value and future recovery of these costs is assessed in determining the policy liabilities. This has the effect that acquisition costs deferred are amortised over the period that they will be recovered from premiums or policy charges.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Notes to the financial statements

For the year ended 31 December 2022

2.1 Revenue and expenses (continued)

(a) Insurance premium revenue

	2022 $'000	2021 $'000
Direct life insurance premiums - regular	4,266	4,985
Non life insurance premiums	703	906
Termination of policies	(605)	(1,567)
Total insurance premium revenue	4,364	4,324

(b) Investment income

	2022 $'000	2021 $'000
Interest income	452	113
Total investment income	452	113

(c) Claims expenses

	2022 $'000	2021 $'000
Death and disability	1,779	1,690
Unemployment	14	(7)
Total claims expenses - net	1,793	1,683

Notes to the financial statements

For the year ended 31 December 2022

2.1 Revenue and expenses (continued)

(d) Administration expenses

	2022 $'000	2021 $'000
Policy maintenance - others	1,948	3,861
Foreign exchange (gains)/losses	21	(13)
Policy acquisition cost - others	654	362
Policy acquisition cost - commission	363	628
Total administration expenses	2,986	4,838

(e) Profit before income tax

	2022 $'000	2021 $'000
Profit before income tax includes the following specific expenses:		
Employee costs		
Personnel cost	-	7
Contribution to superannuation fund	-	1
Other administrative expenses		
Marketing fees	-	1
Management fees	2,110	3,906

(f) Statement of sources of operating profit

	2022 $'000	2021 $'000
The shareholder's operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained earnings and capital	**171**	53
Emergence of shareholders' planned profits	**1,127**	1,428
Experience profit/(loss)	**(253)**	(954)
Operating profit after tax (statutory funds) *	**1,045**	527

* Refer to note 5.5

Notes to the financial statements

For the year ended 31 December 2022

2.1 Revenue and expenses (continued)

(g) Reconciliation of profit after income tax to net cash inflow from operating activities

	2022 $'000	2021 $'000
Net profit after income tax	1,167	537
Adjustments		
Effect of foreign exchange on cash and cash equivalents	79	(66)
Change in operating assets and liabilities:		
(Increase)/decrease in current tax asset	(67)	(66)
Increase/(decrease) in deferred tax asset	8	(16)
Decrease in trade and other receivables	(139)	45
(Increase)/decrease in reinsurance and other recoveries receivable	(91)	(57)
(Increase)/decrease in gross policy liabilities ceded under reinsurance	(7)	(44)
Decrease in trade and other payables	(235)	(216)
Decrease in policy claims in the process of settlement	(104)	(73)
Decrease in gross policy liabilities	(1,601)	(2,953)
Decrease in deferred tax liability	(44)	(103)
(Decrease)/increase in current tax liability	179	10
Increase in tax consolidation reserve	-	69
Increase/(decrease) in foreign currency translation reserve	(21)	45
Net cash used in operating activities	876	(2,908)

2.2 Income tax expense and deferred tax

Accounting Policy

Taxation

Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to settle the liability simultaneously. Current and deferred tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Tax consolidation legislation

The Company and some wholly-owned controlled entities have implemented the tax consolidation legislation from December 2015. On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Latitude Group Holdings Limited. The entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set-off in the consolidated financial statements. The head and controlled entities in the tax consolidated group account for their own current and deferred tax accounts. These tax amounts are measured as if each entity in the tax consolidation group was a separate taxpayer with the group. In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate the Company for any current tax payable assumed. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements. The amounts receivable or payable under the tax funding agreement are due

2.2 Income tax expense and deferred tax (continued)

upon receipt of the funding advice from the head entity. The funding amounts are recognised as intercompany receivables. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

New Zealand branch

Tax-effect accounting is applied using the liability method whereby tax is recognised as an expense and is calculated after allowing for permanent differences. To the extent that differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income (timing differences), the related future taxation benefit and deferred income tax liability are disclosed as a deferred tax asset and a deferred tax liability, respectively.

Statutory funds

Taxation bases

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

Assessable income

Shareholder funds and ordinary life insurance business - Earned premiums and investment income.

Other business - Accident and disability premiums earned and investment income.

New Zealand business - The greater of the life insurer base (investment income less expenses plus underwriting profit), and the policyholder base (net value added to policies plus underwriting profit, grossed up for tax).

The gains and losses on sale of investments are taxed primarily under the ordinary income provisions, with the capital gains tax provisions potentially applying depending on the circumstance.

Allowable deductions

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

- Acquisition costs
- Other expenses referable to the business; and
- An allocation of the general management expenses of the Company

These deductions are then allocated to each class of business in accordance with the basis specified in the Australian Income Tax Assessment Act 1997.

Allowable deductions in respect of "other business" within the Australian Life Fund also include accident and disability claims and the movement during the period in the policy liability in respect of that business. Allowable deductions for all insurance products include claims and the movement during the period in the policy liability.

Notes to the financial statements

For the year ended 31 December 2022

2.2 Income tax expense and deferred tax (continued)

(a) Income tax expense

	2022 $'000	2021 $'000
Current tax on profits for the year	514	299
Deferred tax income	(34)	(85)
Under provision in prior year	-	-
Income tax expense	480	214

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2022 $'000	2021 $'000
Profit from continuing operations before income tax expense	1,647	751
Tax at the Australian tax rate of 30%	494	225
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of differences in tax rates in foreign jurisdictions	(14)	(11)
Income tax expense	480	214

(c) Deferred tax expense represents movements in deferred tax assets/liabilities

	2022 $'000	2021 $'000
Deferred income	(44)	(102)
Others	10	17
	(34)	(85)

Notes to the financial statements

For the year ended 31 December 2022

2.2 Income tax expense and deferred tax (continued)

(d) Deferred tax assets and liabilities

	2022 $'000	2021 $'000
Deferred tax assets		
Others	7	16
	7	16
Deferred tax liabilities		
Deferred expenses & prepayments	32	78
	32	78
Net deferred tax assets/ (liabilities)	(25)	(63)
Amounts expected to be settled within 12 months	(16)	(33)
Amounts expected to be settled after more than 12 months	(9)	(29)
	(25)	(62)

2.3 Shareholder returns

Accounting Policy

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

(a) Dividends

	2022 $'000	2021 $'000
Dividends declared and paid during the financial period ended 31 December	-	2,600

Section 3 - Life Insurance Assets & Liabilities and Risk Management

3.1 Assets and liabilities

Accounting Policy

Insurance assets and liabilities

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash. Cash and cash equivalents are held for the purpose of meeting short-term commitments rather than for investment or other purposes.

Investments

Investments include term deposits and debt securities. Term deposits are held at call with financial institutions and other highly liquid investments with original maturities of three months or more that are readily convertible to known amounts of cash. Investments are carried at the face value of the amounts deposited as their carrying amounts approximate to their fair value. Debt securities are recognised at their fair value.

Trade and other receivables

All premium and other receivables are recognised at the amounts receivable as these amounts are generally due for settlement within 30 days and less, where applicable, any provision for doubtful debts. Collectability of premium and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the period in which they are identified. Investment income accrued is measured at the carrying amounts of the interest receivable measured using the effective interest rate method, net of any transaction costs.

Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNR's are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of the liability for outstanding claims and policy liabilities.

Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from the policyholder or another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with Insurance contracts are detailed further in note 3.3(d).

Asset backing policy liabilities

The Company currently maintains a significant capital surplus. The Company has established a target capital to ensure assets are available to meet insurance liabilities.

Financial assets

The Company has elected to designate all its financial assets at fair value through profit and loss consistent with the provisions of AASB 139 *Financial Instruments: Recognition and Measurement.*

3.1 Assets and liabilities (continued)

Financial assets designated at fair value through profit or loss and are initially recognised at fair value, excluding transaction costs, which are expensed in the profit or loss in the period in which they arise. Financial assets are subsequently measured at fair value at each reporting date with realised and unrealised gains and losses arising from changes in the fair value recognised in the profit or loss in the period in which they arise.

Impairment of assets

The carrying amount of the Company's non-financial assets, other than deferred tax assets, are assessed annually for indicators of impairment, if any such indicator exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Impairment losses are recognised in the profit or loss, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the profit or loss.

Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment is recognised immediately in the profit or loss.

Trade and other liabilities

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition.

Liability adequacy test

The adequacy of the insurance contract liabilities are evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. If it is determined using best estimate assumptions that a shortfall exists, it is immediately recognised in the profit or loss.

Policy liabilities

Policy liabilities for life insurance contracts in the Balance Sheet and the increase/(decrease) in policy liabilities for life insurance contracts in the profit or loss have been calculated using the Margin on Services methodology outlined in note 1.1(g).

Notes to the financial statements

For the year ended 31 December 2022

3.1 Assets and liabilities (continued)

(a) Cash and cash equivalents

	2022 $'000	2021 $'000
Current assets		
Cash and cash equivalents	6,023	13,503
Short term deposits	24,548	6,503
Total cash and cash equivalents	30,571	20,006

(b) Investments

	2022 $'000	2021 $'000
Term deposits	-	9,304
Debt securities	645	2,877
Total Investments	645	12,181
Current	-	9,304
Non-current	645	2,877
Total Investments	645	12,181

(c) Trade and other receivables

	2022 $'000	2021 $'000
Current assets		
Trade receivables	443	441
Investment income accrued and other receivables	173	24
Total trade and other receivables	616	465

The carrying value disclosed above approximates fair value at end of the reporting period.

(d) Reinsurance and other recoveries receivable

	2022 $'000	2021 $'000
Expected future reinsurance recoveries undiscounted		
Outstanding claims	242	152
Reinsurance and other recoveries receivable - current	242	152

The carrying amount disclosed above reasonably approximates fair value at reporting date.

Notes to the financial statements

For the year ended 31 December 2022

3.1 Assets and liabilities (continued)

(e) Trade and other liabilities

	2022 $'000	2021 $'000
Current		
Trade and other payables	29	99
Accrued expenses	211	121
Payables to related parties	18	254
Total trade and other liabilities	258	474

The carrying amounts of trade and other payables approximates fair value.

These balances include amounts payable to related parties (note 5.3(c)).

(f) Policy liabilities

(i) Reconciliation of movements in life insurance contract policy liabilities

	2022 $'000	2021 $'000
Gross life insurance contract liabilities		
Balance at 1 January	3,171	6,124
Foreign exchange movement	(19)	16
Decrease in life insurance contract liabilities reflected in the profit or loss	(1,583)	(2,969)
Closing balance at 31 December	1,569	3,171
Reinsurers' share of life insurance contract liabilities		
Balance at 1 January	72	28
Increase/(decrease) in reinsurance assets reflected in the profit or loss	5	44
Closing balance at 31 December	77	72
Net insurance contract liabilities	1,493	3,099
Current	1,143	2,012
Non-current	350	1,087
Total net insurance contract liabilities	1,493	3,099

Notes to the financial statements

For the year ended 31 December 2022

(f) Policy liabilities (continued)

(ii) Components of net life insurance contract liabilities

	2022 $'000	2021 $'000
Best estimate liability:		
Value of future policy benefits (Note 1 below)	1,725	3,613
Unrecouped acquisition expenses	(232)	(514)
Total best estimate liability	1,493	3,099
Net policy liabilities	1,493	3,099

(1) This item includes the unearned premium component of the liability. The accumulation method has been used to calculate liabilities, and components relating to expenses and profits are not separately calculated.

(iii) Reconciliation to Life Insurance Act 1995 operating profit and retained earnings of statutory funds

Allocation of operating profit

There are no participating policy owners, therefore all emerging profits are allocated to shareholders.

Distribution of retained earnings

Profits available for distribution are determined by the directors each year and are in accordance with Division 6 of the Life Insurance Act 1995 and the constitution of the Company.

Notes to the financial statements

For the year ended 31 December 2022

(f) Policy liabilities (continued)

	Retained Profits		Profit after Tax	
	2022 $'000	2021 $'000	**2022 $'000**	2021 $'000
Shareholders interest (overseas and non-participating businesses)	5,482	4,437	1,046	527

(g) Policy claims in the process of settlement

	2022 $'000	**2021 $'000**
Undiscounted expected future claims payment	930	1,033
Total policy claims in the process of settlement	930	1,033
Current	930	1,033
Total policy claims in the process of settlement	930	1,033

3.2 Actuarial assumptions and methods

The following section describes the process surrounding, and key factors used to estimate the policy liabilities in the actuarial report:

The effective date of the actuarial report on policy liabilities and capital requirements is 31 December 2022. The actuarial report was prepared by Mr. Thomas David Millar, FIAA, FNSZA. The actuarial report indicates that Mr. Millar is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in these financial statements and the requirements of the relevant accounting standards (which may differ from the requirements of the Life Insurance Act 1995).

Policy Liabilities for Insurance Contracts

Policy liabilities for insurance contracts have been calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA under subsection 230A(1) of the Life Insurance Act 1995. The Prudential Standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners.

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

Product group	Method (projection or other)	Profit carrier
Lump sum risk	Accumulation (2021: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2021: Accumulation)	Claims (implied)

Policy liabilities have been calculated as the provision for unearned premium, less a deferred acquisition cost item. The recognition rate of premium has been chosen to approximate the planned margin release that would be achieved through use of the projection method.

(a) Disclosure of assumptions

Assumptions are required to establish recoverability of acquisition costs. Key assumptions are listed below:

(i) Discount rates

The gross interest rates used are the gross yield to redemption of benchmark government securities. For the current valuation, these are:

	Assumption	Australia	New Zealand
2022	90 days	3.27%	4.65%
	5 years	3.70%	4.48%
2021	90 days	0.07%	0.97%
	5 years	1.34%	2.19%

3.2 Actuarial assumptions and methods (continued)

(ii) Inflation rates

Allowance for future inflation of 2.5% per annum for Australia is assumed (2021: 2.5% p.a.).

The future inflation assumption is based on the long-term target range of the Reserve Bank of Australia of 2% - 3%.

Allowance for future inflation of 2.0% per annum for New Zealand is assumed (2021: 2.0% p.a.).

The future inflation assumption is based on the medium term target range of the Reserve Bank of New Zealand of 1% - 3%.

(iii) Future expenses and indexation

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the 2023 year. Inflation adjustments are consistent with the inflation assumption.

(iv) Mortality and morbidity

Mortality rates for risk products have been based on experience over recent years. A loss ratio approach (applied to earned premium) was adopted. The loss ratios used have not varied significantly from those used in 2021.

(v) Disability and involuntary unemployment

The general approach to actuarial estimation of disability and involuntary unemployment liabilities (in the New Zealand statutory fund) is to analyse all available past experience. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of Outstanding Claims at the balance date can be estimated. The estimate of the Outstanding Claims includes an allowance for claims Incurred but Not Reported (IBNR) and the further development of reported claims, a risk margin and claims handling expense provision. Actuarial methods such as Payment Per Claim Incurred (PPCI), Payment Chain Ladder (PCL) and Bornheutter Ferguson (BF) are adopted to estimate the outstanding claims.

The key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination rate, average claim size (Disability = NZ$2,685, Unemployment = NZ$2,343 for accident year 2022), a claims handling expense rate of 7.14% of the projected gross claim payments (based on expense investigation) and a discount rate of 5% (based on the yields of 1 year and 2 year New Zealand Government bonds as at 31 December 2022). Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

3.2 Actuarial assumptions and methods (continued)

(vi) Voluntary discontinuance

Voluntary discontinuance rates vary by product and have been based on the Group's recent discontinuance experience. For the major classes of business, the assumed aggregate rates of discontinuance are:

	Assumption	Australia	New Zealand
2022	Consumer credit insurances	35%	28%
	Regular premium Term Life	16%	n/a
2021	Consumer credit insurances	30.0%	32.0%
	Regular premium Term Life	15.0%	n/a

(vii) Capital requirements

The Company is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. The methods and bases used for determining the capital requirements were in accordance with the requirements of Prudential Standard *LPS 110: Capital Adequacy* and related prudential standards issued by APRA.

(b) Impact of changes in assumptions

The policy liabilities for insurance contracts have been calculated using the accumulation method. Under this method, changes in assumptions do not have any impact on policy liabilities in the current period, unless a product enters loss recognition. As at 31 December 2022, the Consumer Credit Insurance related product group for Statutory Fund 2 remains in loss recognition. Any assumption changes have not resulted in other related product groups entering loss recognition.

The value of future profit margins is not explicitly calculated under the accumulation method and hence the impact of any change in assumptions on the value of future profit margins is not determined.

(c) Sensitivity analysis

Movements in key variables such as mortality experience, lapse rates and expenses will have an impact on the future cash flows, performance and net assets of the business.

As the accumulation method is used to determine policy liabilities for insurance contracts, changes in the assumptions around these key variables do not have any impact on the policy liability or retained profits at the current balance date, unless a product group enters loss recognition. An alternate approach to demonstrating the sensitivity to changes in variables is to consider the impact on profit and equity at the current balance date if the experience over the current financial period varied under certain scenarios. The table below considers a number of changes in variables, and shows the impact on the profit and equity if that change had been experienced during the financial reporting period.

Notes to the financial statements

For the year ended 31 December 2022

3.2 Actuarial assumptions and methods (continued)

2022 ($'000)	Change in variables	Impact on profit or loss		Impact on equity	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(64)	(54)	(64)	(54)
	Improving by 5%	64	54	64	54
Lapse rates	Worsening by 5%	1	1	1	1
	Improving by 5%	(1)	(1)	(1)	(1)
Expenses	Worsening by 5%	(106)	(106)	(106)	(106)
	Improving by 5%	106	106	106	106

2021 ($'000)	Change in variables	Impact on profit or loss		Impact on equity	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(60)	(56)	(60)	(56)
	Improving by 5%	60	56	60	56
Lapse rates	Worsening by 5%	5	5	5	5
	Improving by 5%	(5)	(5)	(5)	(5)
Expenses	Worsening by 5%	(77)	(77)	(77)	(77)
	Improving by 5%	77	77	77	77

Notes to the financial statements

For the year ended 31 December 2022

3.3 Financial risk management

Credit risk

Credit risk is the risk of financial loss due to a counterparty failing to meet their contractual obligations and principally arises from the Company's investment in financial instruments, receivables from related or other parties, and claims on reinsurance contracts.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

(a) Financial assets

The Company's investment mandate sets out the investment management guidelines approved by the Board. The guidelines establish credit approval authorities, concentrations limits, and approved investment portfolio parameters, these guidelines comply with the Investment Policy. Management conducts a regular review of the investment holdings, compliance is monitored and exposures or breaches are reported to the Board. The mandate is reviewed regularly for pertinence and for changes in the risk environment.

The Company only invests with counterparties that have a credit rating of at least A3/BBB- from Standard & Poor's (S&P). The Company further limits its exposure to credit risk by setting individual exposure limits. There is no significant concentration of credit risk and management does not expect any counterparty to fail to meet its obligations.

(b) Reinsurance assets

Reinsurance is placed with counterparties within the guidelines of the reinsurance management strategy (ReMS). Counterparties must have an S&P credit rating of at least A. The Company further sets its exposure to credit risk by setting individual exposure limits. At the end of each reporting period, management performs an assessment of creditworthiness of reinsurers and updates the ReMS.

(c) Trade and other receivables

The Company's maximum credit risk exposure at balance date is limited to the carrying amount of the financial assets as stated in the statement of Financial Position. The Company does not have a significant concentration of credit risk with any counterparty.

3.3 Financial risk management (continued)

The table below shows the Company's maximum exposure to credit risk at balance date.

2022	Investment grade $'000	Non-investment grade satisfactory* $'000	Non-investment grade unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
Financial assets						
Cash and cash equivalents	30,571	-	-	30,571	-	**30,571**
Investments	645	-	-	645	-	**645**
Trade and other receivables	-	616	-	616	-	**616**
Reinsurance and other recoveries receivable	242	-	-	242	-	**242**
Gross policy liability ceded under reinsurance	77	-	-	77	-	**77**
Total credit risk exposure	**31,535**	**616**	**-**	**32,151**	**-**	**32,151**

2021	Investment grade $'000	Non-investment grade satisfactory* $'000	Non-investment grade unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
Financial assets						
Cash and cash equivalents	20,006	-	-	20,006	-	**20,006**
Investments	12,181	-	-	12,181	-	**12,181**
Trade and other receivables	-	465	-	465	-	**465**
Reinsurance and other recoveries receivable	152	-	-	152	-	**152**
Gross policy liability ceded under reinsurance	72	-	-	72	-	**72**
Total credit risk exposure	**32,411**	**465**	**-**	**32,876**	**-**	**32,876**

*A receivable is deemed satisfactory when management is satisfied that the obligor has the capacity to meet its financial obligations.

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For the year ended 31 December 2022

3.3 Financial risk management (continued)

The table below classifies the financial assets of the Company by counterparty credit rating (S&P)

2022	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	17,878	8,193	4,500	-	-	**30,571**
Investments	645	-	-			**645**
Trade and other receivables	-	-	-	-	616	**616**
Reinsurance and other recoveries receivable	-	242	-	-	-	**242**
Gross policy liability ceded under reinsurance	-	77	-	-	-	**77**
Total credit risk exposure	**18,523**	**8,512**	**4,500**	**-**	**616**	**32,151**

2021	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	15,295	1,411	3,300	-	-	**20,006**
Investments	4,858	2,823	4,500			**12,181**
Trade and other receivables	-	-	-	-	465	**465**
Reinsurance and other recoveries receivable	-	152	-	-	-	**152**
Gross policy liability ceded under reinsurance	-	72	-	-	-	**72**
Total credit risk exposure	**20,153**	**4,458**	**7,800**	**-**	**465**	**32,876**

3.3 Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective and funding strategy seeks to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities in both stable and adverse market conditions.

The Company's liquidity is primarily monitored through the production of statement of cash flows for Board review. Periodic review of the maturity profile of the Company's financial assets and liabilities is performed to ensure sufficient liquidity is maintained.

The following is an analysis of the maturity profile of both cash and cash equivalents; investments and of undiscounted contractual cash flows associated with the Company's financial liabilities at balance date:

2022	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Cash and cash equivalents	30,571	-	-	-	**30,571**
Investments	-	-	645	-	**645**
Trade and other payables	(258)	-	-	-	**(258)**
Policy claims in the process of settlement	(932)	-	-	-	**(932)**
Gross policy liabilities	(1,219)	(210)	(140)	-	**(1,569)**
Net liquid assets	**28,162**	**(210)**	**505**	**-**	**28,457**

2021	Up to a year $'000	1-2 years $'000	2-5 years $'000	Over 5 years $'000	Total $'000
Cash and cash equivalents	20,006	-	-	-	**20,006**
Investments	9,304	-	2,000	877	**12,181**
Trade and other payables	(474)	-	-	-	**(474)**
Policy claims in the process of settlement	(1,033)	-	-	-	**(1,033)**
Gross policy liabilities	(2,083)	(591)	(446)	(51)	**(3,171)**
Net liquid assets	**25,720**	**(591)**	**1,554**	**826**	**27,509**

The Company's financial assets and liabilities are carried in the statement of Financial Position at amounts that approximate fair value.

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3.3 Financial risk management (continued)

Foreign exchange risk

Currency risk is the risk that the value of recognised assets and liabilities or the cash flows from possible future transactions, that are denominated in a currency, other than that of the functional currency, will decrease due to changes in market exchange rates.

The Company has no foreign currency exposure at balance date that is considered material.

Currency risk is the risk that the value of recognised assets and liabilities or the cash flows from possible future transactions, that are denominated in a currency, other than that of the functional currency, will decrease due to changes in market exchange rates.

The Company has a New Zealand branch whose assets and liabilities are denominated in New Zealand dollars. On translation of the New Zealand branch into the reporting currency (Australian dollars) of the Company, exchange rate variations on Balance Sheet items are recognised in the foreign currency translation reserve within the Company. The Company is exposed to currency risk on the translation of Statement of Profit or Loss and Other Comprehensive income items and the settlement of monetary balances between the Australian and New Zealand businesses.

At the balance date, the Company's exposure to foreign currency risk was as follows:

	2022 $'000 NZD	2021 $'000 NZD
Total assets denominated in New Zealand dollars:	8,795	9,463
Total liabilities denominated in New Zealand dollars:	1,041	2,270

A 10% strengthening in the value of the Australian dollar (AUD) against the New Zealand dollar (NZD) at the balance date would increase/(decrease) equity and increase/(decrease) profit by the amounts shown below:

	2022 $'000 AUD	2021 $'000 AUD
Strengthening of the AUD against the NZD will (decrease) equity by:	(723)	(678)
Strengthening of the AUD against the NZD will (decrease) profit by:	(52)	(87)

A 10% weakening in the value of the AUD against the NZD at the balance date would have had the equal but opposite effect to the amounts shown above.
The following exchange rate applied during the year:

	Average rate		Reporting date rate	
	2022	2021	2022	2021
NZD1 = AUD	0.932	0.942	0.932	0.942

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For the year ended 31 December 2022

3.3 Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate as a result of changes in market interest rates.

The following table analyses the impact of a reasonable possible movement in market interest rates on the Company's operating results.

	Carrying amount	Change in variables	Impact on profit before tax	Impact on equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
2022	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets								
Short term deposits	24,548	-0.7%	(172)	-	-	-	-	-
Investments	645	-1.2%	(8)	-	-	-	-	-
Total	**25,193**		**(180)**	**-**	**-**	**-**	**-**	**-**

	Carrying amount	Change in variables	Impact on profit before tax	Impact on equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
2021	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets								
Short term deposits	6,503	-0.1%	(7)	-	-	-	-	-
Investments	12,181	-0.1%	(12)	-	-	-	-	-
Total	**18,684**		**(19)**	**-**	**-**	**-**	**-**	**-**

The interest rate analysis performed in 2022 by referencing RBA average short-term investment.

Price risk

Price risk is the risk that the fair value of equities or financial instruments could change due to fluctuations in market prices. The Company has no equity securities as at 31 December 2022.

3.3 Financial risk management (continued)

Insurance risk

(d) Insurance contracts

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policy holder for a specified uncertain future event that will adversely affect them. Insurance risk is other than financial risk.

The significance of insurance risk under any one contract is determined by the uncertainty surrounding the probability and timing of the insured event occurring, and the magnitude of its effect. Insurance risk is assessed by the Company at a contract level on its inception and is periodically reassessed as the risk may vary during the period of insurance cover.

The majority of direct insurance contracts written are entered into on a standard form basis. There are no special term and conditions in any non-standard contracts that have a material impact on the financial statements.

The business written consists mainly of consumer credit life insurances and term life insurances. The term insurance policies cover mainly death, but in some cases terminal illness. Guaranteed benefits are paid on death or terminal illness.

(e) Insurance risk management

Insurance risk management is the assessment and quantification of the likelihood and financial impact of events that may require settlement by the insurer; and the ability of the Company to mitigate the financial impact of these events on its operating results.

In accordance with Prudential Standards CPS 220 Risk Management and LPS 230 Reinsurance Management for Life Companies issued by APRA, the Board and senior management of the Company have developed, implemented and maintained a sound and prudent risk management strategy (RMS) and a reinsurance management strategy (ReMS).

The RMS and ReMS identify the Company's policies, procedures, processes and controls that address all known material risks, financial and non-financial a rising from the business. Annually, the board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Company has systems in place to ensure compliance with legislative and prudential requirements, and that the board has satisfied itself as to the compliance with the RMS and ReMS.

Specific key components of the RMS and ReMS are detailed further below.

(i) Underwriting strategy

The Board has developed an underwriting strategy to ensure that the Company has the ability to meet the insurance needs of the policy holders and to ensure the ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood and involves the application of mathematical modelling to determine that products are appropriately priced.

3.3 Financial risk management (continued)

(ii) Reinsurance strategy

A conservative approach is taken in determining the level of risk appetite appropriate for the Company and where deemed appropriate will spread the risk associated with the insured events according to its ReMS. All reinsurance treaties are subject to analytical and statistical modelling to ensure that they offer a sufficient level of cover for the identified exposures whilst in alignment with the ReMS of the Company.

For the Company's main term life product lines in Australia the level of reinsurance cover is regularly reviewed. The Company considers this to be a relatively conservative retention level considering the level of sums insured written and the capital position of the Company. No reinsurance is in place for the Company's consumer credit insurance products.

(iii) Claims management

Strict claims management procedures ensure the timely and accurate payment of claims in accordance with policy conditions. Claim outcomes are monitored to track the actual versus expected experience of the portfolio, with feedback delivered to underwriting and product development.

(iv) Concentration of insurance risk

The Company's portfolio of products and policy holders is sufficiently diversified such that there is no material concentration of insurance risk.

3.4 Financial instruments – Fair values

(a) Recognised fair value measurements - Debt Securities

The Company uses valuation techniques and hierarchy levels to determine the value of its financial instruments measured at fair value. Three classification levels are used. There were no transfers between levels for recurring fair value measurements during the period.

Level 1: This includes instruments for which the valuation is based on quoted market prices of which the Company has no investments.

Level 2: This includes instruments that do not have quoted market prices, where observable market data is used to determine fair value.

Level 3: This category level has no observable market data inputs. Equity investments that have no active market are included in this category of which the Company no investments.

The fair value of debt securities are measured using a valuation technique by where significant inputs are based on observable market data. Corporate debt securities (RMBS's).

The table shows the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2022				
Financial assets				
Debt investments	-	645	-	645
Total financial assets	**-**	**645**	**-**	**645**
2021				
Financial assets				
Debt investments	-	2,877	-	2,877
Total financial assets	**-**	**2,877**	**-**	**2,877**

(b) Valuation technique - 'Market comparison/discounted cashflow'

The fair value is estimated considering:

(i) current or recent quoted prices or market observations managed by Bloomberg or where current or recent quoted prices or market observations are not available in Bloomberg a marketvalue taking into account pricing for similar securities in markets that are not active; and

(ii) a net present value calculated using discount rates derived from quoted yields of securities with similar maturity and credit rating that are traded in active markets, adjusted by a liquidity factor.

Hallmark Life Insurance Company Ltd limits its exposure to credit risk by investing only in AAA rated RMBS (residential mortgage backed securities) and ABS (asset backed securities) from Standard & Poor's (S&P).

Hallmark Life Insurance Company Ltd monitors changes in credit risk by tracking published external credit ratings, or where published external credit ratings are not available pricing reviews for similar securities in markets that are not active are performed.

Section 4 - Capital Management

Accounting Policy

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4.1 Capital management

The Company's capital management strategy plays a central role in managing capital risk arising from the business activities of the Company, providing an appropriate level of capital to protect policyholders' interests and satisfy regulators. The strategy seeks to ensure sufficient capital levels are maintained in both stable and adverse market conditions.

The Company has adopted a target surplus policy to assist the board and management to manage its capital position. The target surplus level has been set with reference to a range of risks and possible adverse scenarios faced by the Company.

The Company has net assets in excess of the adopted target surplus requirement, reflecting its current strong capital position.

In addition to the Company's target surplus policy, external capital requirements are set and regulated by APRA. The Company calculates its capital position according to the relevant prudential standards which ensures sufficient capital margins within the life statutory funds are maintained. An insurer's capital base is expected to be adequate for the size, business mix, complexity and risk profile of its business.

It is the Company's policy to hold a capital base in excess of those required by APRA according to its target surplus policy. The capital level is regularly monitored to minimise the risk of a regulatory breach.

For detailed information on the Company's capital position and the capital requirements of APRA, refer to note 4.1(c).

4.1 Capital management (continued)

(a) Contributed equity

(i) Share capital

	2022 Shares	2021 Shares	2022 $'000	2021 $'000
Ordinary shares - fully paid	251	251	500	500
	251	251	500	500

(ii) Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

(iii) Parent and ultimate controlling parties

Hallmark Life Insurance Company Ltd is owned by Latitude Insurance Holdings Pty Ltd with 100% majority interest, which is incorporated in Australia.

The Company's ultimate parent entity is Latitude Group Holdings Limited listed as a public company in Australia.

(b) Reserves

	2022 $'000	2021 $'000
Tax consolidation reserve		
At 1 January	8,698	8,629
Tax consolidation reserve movement	-	69
At 31 December	8,698	8,698
Foreign currency translation reserve		
At 1 January	1,074	1,029
Currency translation differences arising during the year	(48)	45
At 31 December	1,025	1,074
Total reserves	9,723	9,772

Tax consolidation reserve

The tax consolidation reserve records the impact of the funding arrangement adopted under the tax consolidation regime. Any difference between the current tax liability and the amount paid by a member of the tax group, under the tax funding agreement, is recognised as an equity contribution in the tax consolidation reserve or as a distribution within equity.

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Foreign currency translation

Exchange differences arising on translation of entities that have a non-Australian dollar functional currency are recognised in other comprehensive income and accumulated in a separate reserve within equity.

(c) Capital requirements of the life funds

The Company is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. Life and General Insurers are required to follow the Australian Prudential Regulation Authority's (APRA) Life and General Insurance Capital Standards (LAGIC).

The required level of capital for regulatory purposes (the Prescribed Capital Amount, or PCA) is intended to take account of the full range of risks to which a life insurer is exposed and a life company must ensure that the life company and each of its statutory funds has, at all times, a capital base in excess of its PCA (plus any additional amount as required by the APRA).

The excess of the Company's capital base over the PCA as at 31 December 2022 was $19.5 million (2021: $18.7 million).

The available assets of each statutory fund have also exceeded the Prudential Capital Requirement at all times during the year ending 31 December 2022.

In addition to the regulatory capital requirements, the Company maintains a target surplus providing an additional capital buffer against adverse events.

2022	**Statutory Fund 1 $'000**	**Statutory Fund 2 $'000**	**Shareholder Fund $'000**	**Total $'000**
(a) Capital base	7,882	7,374	14,213	**29,469**
(b) Prescribed capital amount	4,952	74	73	**10,000**
Capital in excess of prescribed capital amount = (a) - (b)	**2,930**	**7,300**	**14,140**	**19,469**
Capital adequacy multiple = (a)/(b)	**1.59**	**99.90**	**194.78**	**2.95**
Capital Base:				
Net assets	7,870	7,225	14,213	**29,308**
Less: Difference between adjusted policy liabilities and policy liabilities	12	149	-	**161**
Equals: Capital base	**7,882**	**7,374**	**14,213**	**29,469**
Prescribed capital amount:				
Insurance risk charge	3,340	16	-	**3,356**
Asset risk charge	74	31	51	**157**
Asset concentration risk charge	-	-	-	**-**
Operational risk charge	117	33	-	**150**
Aggregation benefit	(59)	(9)	-	**(68)**
Combined stress scenario adjustment	1,479	2	22	**1,503**
Adjustment to meet $10 million PCA minimum	-	-	-	**4,901**
Prescribed capital amount	**4,952**	**74**	**73**	**10,000**

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For the year ended 31 December 2022

2021	Statutory Fund 1 $'000	Statutory Fund 2 $'000	Shareholder Fund $'000	Total $'000
(a) Capital base	7,500	7,061	14,092	**28,653**
(b) Prescribed capital amount	538	213	69	**10,000**
Capital in excess of prescribed capital amount = (a) - (b)	**6,962**	**6,847**	**14,022**	**18,653**
Capital adequacy multiple = (a)/(b)	**13.95**	**33.11**	**202.93**	**2.87**
Capital Base:				
Net assets	7,337	6,773	14,092	**28,202**
Less: Difference between adjusted policy liabilities and policy liabilities	163	288	-	**451**
Equals: Capital base	**7,500**	**7,061**	**14,092**	**28,653**
Prescribed capital amount:				
Insurance risk charge	154	80	-	**234**
Asset risk charge	191	43	48	**282**
Operational risk charge	135	76	-	**211**
Aggregation benefit	(77)	(25)	-	**(102)**
Combined stress scenario adjustment	135	39	21	**195**
Adjustment to meet $10 million PCA minimum		-	-	**9,180**
Prescribed capital amount	**538**	**213**	**69**	**10,000**

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For the year ended 31 December 2022

Section 5 - Other Disclosures

5.1 Commitments and contingencies

Latitude Group Holdings Limited (the Group) is subject to a number of obligations which, if not discharged or considered not to be discharged, may give rise to potential claims or other costs. Where some loss from an actual or alleged non-performance of an obligation is more likely than not and can be reliably estimated, provisions have been made. The Group considers that the outcome of any specific enquiry which is underway as at 31 December 2022, and has not been provided for, is not expected to affect its financial position in any material way, either individually or in aggregate.

Regulatory and customer exposures

In recent years there has been an increase in the number of matters on which the industry engages with its regulators. The nature, scale and breadth of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally continues.

The Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, regulated lending requirements, product suitability, advertising and distribution, interest and fees and the entitlement to charge them, customer remediation and insurance distribution. On 5 October 2022, ASIC commenced civil proceedings against Latitude and Harvey Norman regarding alleged misleading advertising of Latitude GO Mastercard®. Latitude filed its concise statement in response on 20 December 2022.

There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

There is a risk that the actual cost of responding to any inquiry or penalty paid following any settlement or determination by a Court for any legal proceedings may be materially higher or lower than the provision or that any contingent liability may be larger than anticipated. There is also a risk that additional litigation or contingent liabilities may arise, all of which could adversely affect our business, prospects, reputation, financial performance or financial condition.

Taxation

The tax affairs of the Group are subject to review by both the Australian Taxation Office ('ATO') and the Inland Revenue Department ('IRD') in New Zealand, as well as the revenue offices of the various Australian states and territories from time to time. In February 2019, the ATO completed an assurance review of the Australian Tax Group and provided an assurance report which raised a number of matters that the ATO may consider further. One of these matters relates to the pre-

IPO corporate structure of the Australian Tax Group and distributions made as part of that pre-IPO structure. Should the Group be subject to a future tax obligation arising from those distributions, KVD Singapore Pte Ltd has agreed a mechanism to reduce the Group's possible exposure to that issue to an immaterial amount. In March 2022, as a follow up to that review, the ATO notified the Australian Tax Group that it would be carrying out a Next Actions Risk Review and subsequently issued a request for information ('RFI') in May 2022. The RFI centred on the transfer pricing of the transactions fees charged to the Group when it was acquired. The requested information was provided to the ATO in October 2022 and management now awaits the ATO's response. Accordingly, any potential outcomes and total costs associated with any such activities remain uncertain at this time.

The Australian Tax Group is also currently subject to a GST Risk Review by the ATO which commenced in November 2021 and a draft report was issued in May 2022 which raised a number of matters that the ATO required further clarification on. Discussions with the ATO have continued since that time and the matters currently remain open. As such any potential outcomes and total costs associated with any such activities remain uncertain at this time.

The Group considers that the residual risks stemming from the items raised in the ATO Top 1,000 Assurance report or the GST review are not likely to materially affect its financial position, either individually or in aggregate.

No commitments, contingent assets or contingent liabilities existed as at 31 December 2022 (2021: nil).

5.2 Events occurring after the reporting date

On 8 August 2022, the Company's ultimate parent entity, Latitude Group Holdings Limited (the Group) announced that it has entered into an agreement to sell Latitude Insurance Holdings Pty Ltd (Hallmark), the parent entity of the Company to the St Andrew's Insurance Group (St Andrew's) for $20.3 million. Post the sale, the Company's policyholders will be managed as part of St Andrew's dedicated insurance business to meet continuing obligations to policyholders.

Completion of the transaction is subject to certain conditions, including regulatory approval from APRA and Reserve Bank of New Zealand (RBNZ). Completion is expected to occur in the first half of the 2023 financial year.

As part of the sale process, the Company is proposing to pay a pre completion dividend to the parent entity, Latitude Insurance Holdings Pty Ltd. Following the payment of the pre completion dividend, the Company's net assets the Capital adequacy multiple under APRAs LAGIC standards will decrease.

At the date of signing the accounts, completion of the sale of the Company is expected to finalise on the end of the first half of 2023.

Other than progress on the above, no other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect:

(a) the Company's operations
(b) the results of those operations, or
(c) the Company's state of affairs.

5.3 Related party transactions

(a) Key management personnel disclosures

The following persons were key management personnel of the Company at any time during the reporting period.

(i) Directors

Jennifer Anne Boddington (Chairperson)
Shaun Patrick Feely
Christopher Paul Knoblanche
Alison Ledger
Paul Varro

(ii) Other executives

Anna Chung (resigned 5 October 2022)
Michelle Hay
Nick Lethbridge
Roger Miles (commenced 19 September 2022)
James Murphy

Key management personnel compensation

The following compensation is paid to Key Management Personnel (KMP) covering the Company and any Australian and New Zealand related party entities:

	2022 **$**	**2021** **$**
Short-term employee benefits	2,188,859	2,992,551
Long-term benefits	91,187	25,812
Post-employment benefits	147,222	170,104
Share based payments	350,959	321,086
	2,778,227	3,509,553

Compensation paid above includes share based awards that were granted to participants during their time in a KMP role during the year as follows:

	2022 **$**	**2021** $
At 1 January	3,159,604	2,973,518
Granted	348,291	186,086
at 31 December	3,507,895	3,159,604

(a) Key management personnel disclosures (continued)

At 31 December 2022 KMP had outstanding balances payable totalling $1,859 (2021: $4,369) in respect of lending products with related parties. The total available credit facility during the period was $26,000 (2021: $24,000) and the maximum drawn amount during the period was $11,024 (2021: $7,024). Interest charged on these products issued to KMP was at normal consumer rates and under normal terms and conditions.

* There were no termination benefits paid in 2022 (2021: $nil)

(b) Transactions with related parties

The following transactions occurred with related parties:

	2022 $	2021 $
Management fees paid to/(received from):		
Latitude Financial Services Australia Holdings Pty Ltd	1,221,600	2,325,697
Hallmark General Insurance Company Ltd	888,799	1,580,304
Cross charges paid to:		
Latitude Financial Services Australia Holdings Pty Ltd	(520,276)	(216,506)
Commission paid to/(received from):		
Latitude Personal Finance Pty Ltd	(20,857)	(95,755)
Latitude Finance Australia	238,395	530,473
Latitude Financial Services Ltd - NZ	85,154	113,501
RMBS Investments paid:		
Latitude Personal Finance Pty Ltd	651,199	2,000,000
Dividend paid:		
Latitude Insurance Holdings Pty Ltd	-	2,600,000

(c) Outstanding balances with related parties

	2022 $	2021 $
Receivables/(payables) outstanding at the end of the period:		
Latitude Financial Services Australia Holdings Pty Ltd	(50,878)	(6,735)
Latitude Finance Australia	159,773	155,771
Hallmark General Insurance Company Ltd	(150,115)	(391,859)
Latitude Personal Finance Pty Ltd	(14,648)	(17,377)
Latitude Financial Services Ltd	38,300	18,036

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

5.4 Remuneration of auditor

During the year the following fees were paid or payable for services provided by the auditor of the Company and its related practices:

(a) Remuneration to KPMG

	2022 $	2021 $
Audit services		
Auditors of Hallmark Life Insurance Company Ltd are KPMG		
Audit of financial statements	85,000	85,000
Assurance services		
Auditors of Hallmark Life Insurance Company Ltd are KPMG		
APRA Return Audit	20,000	20,000
AFSL Audit	5,000	5,000
Other services	25,000	25,000
Total remuneration for Audit and Regulatory assurance services	**135,000**	**135,000**

Audit fees in 2022 and in 2021 were paid by Latitude Financial Services Australia Holdings Pty Ltd.

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5.5 Disaggregated information on life insurance business by fund

	Non-investment linked Statutory Fund 1 $'000	Non-investment linked Statutory Fund 2 $'000	Non-investment linked Total $'000	Shareholder Fund $'000	Total $'000
2022					
Financial assets	9,796	8,079	**17,875**	14,271	**32,146**
Life insurance contract liabilities	(797)	(773)	**(1,570)**	-	**(1,570)**
Other liabilities	(983)	(281)	**(1,264)**	(7)	**(1,270)**
Retained earnings	730	(6,212)	**(5,482)**	(13,615)	**(19,097)**
Net premium revenue	(3,268)	(829)	**(4,097)**	-	**(4,097)**
Investment revenue	(118)	(161)	**(279)**	(173)	**(452)**
Net claims expense	1,144	345	**1,489**		**1,489**
Movement in policy liabilities	(658)	(915)	**(1,573)**		**(1,573)**
Other operating expenses	2,140	847	**2,987**		**2,987**
Operating profit before tax	(762)	(712)	**(1,474)**	(173)	**(1,647)**
Operating profit after tax	(533)	(513)	**(1,046)**	(121)	**(1,167)**
2021					
Financial assets	9,833	9,031	**18,864**	14,094	**32,958**
Life insurance contract liabilities	(1,449)	(1,722)	**(3,171)**	-	**(3,171)**
Other liabilities	(1,047)	(535)	**(1,582)**	(3)	**(1,585)**
Retained earnings	1,263	(5,700)	**(4,437)**	(13,493)	**(17,930)**
Net premium revenue	(3,459)	(568)	**(4,027)**		**(4,027)**
Investment revenue	(18)	(81)	**(99)**	(14)	**(113)**
Net claims expense	1,041	523	**1,564**		**1,564**
Movement in policy liabilities	(1,445)	(1,567)	**(3,012)**		**(3,012)**
Other operating expenses	3,713	1,124	**4,837**		**4,837**
Operating profit before tax	(168)	(569)	**(737)**	(14)	**(751)**
Operating profit after tax	(117)	(410)	**(527)**	(10)	**(537)**

Hallmark Life Insurance Company Ltd
New Zealand Branch

FINANCIAL REPORT
For the Year Ended 31 December 2022

Hallmark Life Insurance Company Ltd New Zealand Branch

Financial report for the year ended 31 December 2022

Contents

Directors' report

For the year ended 31 December 2022

The directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd (the Branch) for the year ended 31 December 2022 and the auditor's report thereon.

Signed in accordance with a resolution of directors.

Jennifer Anne Boddington (Chairperson)
Director
Sydney
22 February 2023

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
22 February 2023

Directors' Declaration

In the opinion of the Directors of Hallmark Life Insurance Company Ltd New Zealand Branch ("the Branch"):

(a) the financial statements and notes set out on pages 9 to 46 are in accordance with the *Financial Reporting Act 2013*, including:

  (i) giving a true and fair view of the Branch's financial position as at 31 December 2022 and of its performance for the financial year ended on that date; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1.1; and

(c) there are reasonable grounds to believe that the Branch will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors:

Jennifer Anne Boddington (Chairperson)
Director
Sydney
22 February 2023

Shaun Patrick Feely (Chief Executive Officer)
Director
Sydney
22 February 2023

KPMG

Independent Auditor's Report

To the shareholders of Hallmark Life Insurance Company Ltd. - New Zealand Branch

Report on the audit of the financial statements

9 to 46

Opinion

In our opinion, the financial statements of Hallmark Life Insurance Company Ltd. - New Zealand Branch (the 'Branch') on pages ~~8 to 45~~:

i. present fairly, in all material respects the Branch's financial position as at 31 December 2022 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the Statement of Financial Position as at 31 December 2022;

— the Statement of Profit or Loss and Other Comprehensive Income, the Statement of changes in equity and the Statement of cash flows for the year then ended;

— Notes, including a summary of significant accounting policies; and

— Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Branch in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $86,000 NZD determined with reference to a benchmark of Branch's assets. We chose the benchmark because, in our view, this is a key measure of the Branch's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter	How the matter was addressed in our audit
Valuation of Gross Insurance Policy Liabilities ($830,000)	
Refer to Note 3.1 (e) to the Financial Report. The valuation of the life insurance contract liabilities is a key audit matter due to the following: — Judgement is required by us to consider estimates and judgements that are used in developing assumptions that affect the reported amounts at year end. — Specific audit and actuarial expertise using senior resources is required to evaluate complex actuarial methodologies and assumptions that take into account the risks and uncertainties. — The assumptions include discount rates; inflation rates; future expenses and indexation; mortality and morbidity rates; disability and involuntary unemployment rates; and voluntary discontinuance rates.	Our audit procedures included the following: — Evaluating the key controls in the life insurance contract liabilities measurement process, including controls over the integrity of the base data used in the estimation process. — Using KPMG Actuarial specialists to challenge the appropriateness of the actuarial methods and assumptions used by the Branch. — Assessing the historical accuracy of the estimate by testing the "analysis of profit", which compares the Branch's expected profit to actual profit. This included challenging the consistency of the analysis compared with our understanding of the business and emerging claims and lapse experience. — Identify where there are indicators of possible management bias.

Other information

Other Information is the financial and non-financial information in Hallmark Life Insurance Company Ltd. – New Zealand's annual reporting which is provided in addition to the Financial Report and the Auditor's Report.

The Directors, on behalf of the Branch, are responsible for the other information included in the entity's financial statements. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Branch, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board;
- implementing necessary internal control to enable the preparation of a set of financial statements that is free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate , they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our independent auditor's report.

For and on behalf of

KPMG

KPMG

Joshua Pearse

Partner

Melbourne

22 February 2023

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 $'000	2021 $'000
Insurance premium revenue	2.1(a)	907	601
Net insurance premium revenue		907	601
Claims expenses	2.1(c)	(380)	(556)
Net decrease in policy liabilities	3.1(e)	998	1,670
Net decrease in policy liabilities		**998**	**1,670**
Administration expenses	2.1(d)	(920)	(1,190)
Total claims and expenses		**(302)**	**(76)**
Total underwriting result		**605**	**525**
Investment income	2.1(b)	177	86
Profit for the year before income tax		**782**	**611**
Income tax expense	2.2(a)	(219)	(171)
Profit for the year		**563**	**440**
Total comprehensive income for the year		**563**	**440**
Owners of Hallmark Life Insurance Company Ltd		563	440
Profit for the year		**563**	**440**
Owners of Hallmark Life Insurance Company Ltd		563	440
Other comprehensive income for the year, net of tax		**563**	**440**

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

Statement of Financial Position

As at 31 December 2022

	Notes	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	3.1(a)	8,605	4,322
Investments	3.1(b)	-	5,100
Current tax assets		-	128
Deferred tax assets	2.2(d)	8	17
Trade and other receivables	3.1(c)	60	24
Total assets		**8,673**	**9,591**
Liabilities			
Trade and other payables	3.1(d)	47	144
Policy claims in the process of settlement		254	343
Gross insurance policy liabilities	3.1(e)	830	1,828
Deferred tax liabilities	2.2(d)	35	83
Current tax liabilities		(249)	-
Total liabilities		**917**	**2,398**
Net assets		**7,756**	**7,193**
Head Office Account			
Retained earnings		7,756	7,193
Capital and reserves attributable to owners of Hallmark Life Insurance Company Ltd		7,756	7,193
Total Head Office Account		**7,756**	**7,193**

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

Statement of changes in equity

For the year ended 31 December 2022

		Attributable to owners of Hallmark Life Insurance Company Ltd	
		Retained Earnings	**Total Head Office Account**
	Notes	**$'000**	**$'000**
At 1 January 2021		6,753	6,753
Profit for the year		440	440
At 31 December 2021		**7,193**	**7,193**
At 1 January 2022		7,193	7,193
Profit for the year		563	563
Total comprehensive income for the year		**563**	**563**
At 31 December 2022		**7,756**	**7,756**

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

Statement of cash flows

For the year ended 31 December 2022

	Notes	2022 $'000	2021 $'000
Cash flows from operating activities			
Premium received		1,196	615
Claims paid		(468)	(656)
Payments to suppliers and employees		(975)	(1,223)
Interest received		140	120
Income taxes paid		(332)	(326)
Fees and commissions paid		(393)	(120)
Net cash (outflow) from operating activities	**2.1(f)**	**(832)**	**(1,590)**
Purchase of investments		(39,200)	(10,700)
Maturity of investments		44,300	10,100
Net cash inflow/(outflow) from investing activities		**5,100**	**(600)**
Net (decrease) in cash and cash equivalents		4,268	(2,190)
Cash and cash equivalents at beginning of financial year		4,322	6,512
Effects of exchange rate changes on cash and cash equivalents		15	-
Cash and cash equivalents at end of financial year	**3.1(a)**	**8,605**	**4,322**

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

Notes to the financial statements

For the year ended 31 December 2022

Section 1 - Basis of preparation

1.1 Basis of preparation

(a) Reporting entity

Hallmark Life Insurance Company Ltd (the Company) is a company limited by shares and is registered under the Insurance Act 1973. The Company's registered office and principal place of business is, Level 18, 130 Lonsdale Street Melbourne Victoria Australia. The New Zealand branch of the Company (the Branch) is registered as an 'Overseas ASIC Company' with a principal place of business in New Zealand of 8 Tangihua Street, Auckland, 1010, New Zealand.

The parent entity of the Company is Latitude Insurance Holdings Ltd. The ultimate parent entity of the Company is Latitude Group Holdings Ltd (the Group). The Company is a for-profit entity and is primarily involved in the underwriting of life insurance risks.

These are the financial statements of the Company's New Zealand Branch (the Branch) as at and for the year ended 31 December 2022. The Branch is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue on 22 February 2023.

(b) Statement of compliance

Hallmark Life Insurance Company Ltd New Zealand Branch is a company registered under the New Zealand Companies Act 1993. These General Purpose Tier 1 financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and the Companies Act 1993. The financial report complies with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as issued by the International Accounting Standards Board (IASB). The Branch is a reporting entity for the purpose of the Financial Conduct Act 2013 and its financial statements comply with the Act.

(c) Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following:

- Financial instruments measured at fair value including financial assets backing insurance policies designated at fair value through profit or loss, and/or equity investments designated at fair value through other comprehensive income.

(d) Functional and presentation currency

These financial statements are presented in New Zealand Dollars, which is Hallmark Life Insurance Company Ltd Branch's functional and presentation currency.

(e) Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

Notes to the financial statements

For the year ended 31 December 2022

1.1 Basis of preparation (continued)

(f) Principles for life insurance business

Activities of the life insurance operations

The life insurance operations of the Branch are conducted within a separate statutory fund as required by the Australian Life Insurance Act 1995 (LIA). The life insurance operations of the Branch comprise the selling and administration of life insurance contracts only. In addition, the business has consumer and credit disability and unemployment insurance contracts, for which APRA has granted an exemption to treat as life insurance for the purpose of the LIA.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the Branch, and the financial risks are substantially borne by the Branch.

Restrictions on assets

Monies held in the statutory funds are subject to the distribution and transfer restrictions and other requirements of the LIA.

As the Branch does not have any participating business, all profits and losses are allocated to the shareholders.

(g) Significant estimates and judgements

The preparation of financial statements that conform to accounting standards requires Management to exercise judgement in applying the Branch accounting policies and to make estimates and assumptions. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Branch and that are believed to be reasonable under the circumstances.

Areas involving assumptions and estimates that are significant to the financial statements or areas requiring a higher degree of judgement, are described below.

Life insurance contract liabilities

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as margin on services (MoS).

Under MoS the excess of premium received over claims and expenses (the margin) is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the service), hence the term margin on services. The movement in life insurance contract liabilities recognised in the profit or loss reflects the planned release of this margin.

The projection method is usually used to determine life insurance contract liabilities. The net present value of projected cashflows is calculated using best estimate assumptions about future events. When the benefits under the life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets, otherwise, a

1.1 Basis of preparation (continued)

risk-free discount rate is used.

Where the accumulation method has been used, the liability is based on an unearned premium reserve, less an explicit allowance for deferred acquisition costs and a reserve for IBNR's. Where used, the accumulation method is considered to be a reasonable approximation of liabilities had they been determined on a projection basis. A summary of the significant actuarial methods and assumptions used is contained in note 3.2.

Measurement of fair values

A number of the Branch's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Branch has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the chief financial officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the Standards, including the level in the fair value hierarchy in which the valuations should be classified.

Significant valuation issues are reported to the Branch's Audit Committee

When measuring the fair value of an asset or a liability, the Branch uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1:	quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3:	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Branch recognised transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

1.2 Other significant accounting policies

Significant accounting policies adopted in the preparation of these financial statements have been included in the relevant notes to which the policies relate. Other significant accounting policies are listed below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Foreign currency translation

Items included in the financial statements of each of the entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income on a net basis within other operating income or other expenses.

1.3 New and amended standards

(a) New and amended standards adopted

Other amended standards
Other amended Standards that became effective for the financial year ended 31 December 2022 did not have a material impact on the Branch.

(b) New standards and interpretations not yet adopted

The following standards have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Branch. The Branch expects to adopt these on their effective dates.

NZ IFRS 17 Insurance Contracts - which becomes mandatory for accounting periods beginning on or after 1 January 2023 with the Branch's 31 December 2023 financial statements, being the first full year where NZ IFRS 17 applies. NZ IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The Branch is in in the process of preparing for the implementation of NZ IFRS 17. There will be substantial changes to presentation and disclosures and there is expected to be an impact on the Branch's Statement of Comprehensive Income and Statement of Financial Position. NZ IFRS 17 is a complex standard and the interpretation requirements is subject to ongoing discussions between preparers, auditors, regulators and other stakeholders. As a result, the full impact of NZ IFRS 17 on the Branch's financial statements is still being determined.

The impact of the financial risks and investment income on the Branch's results will be presented separately from insurance performance. NZ IFRS 17 also adds new disclosures in the Statement of Financial Performance including insurance revenue, insurance service expense and net expenses from reinsurance contracts in:

- the insurance service result,
- insurance finance income or expense in the net financial result.

NZ IFRS 17 introduces a new 'General Model' for the recognition and measurement of insurance contracts and permits a 'Simplified Approach'. To apply the Simplified Approach one the following two requirements must be satisfied:

1. The simplification would not produce a materially different Liability for Remaining Coverage, or
2. The coverage period of the contract is 1 year or less.

The Branch has determined that the Simplified Approach will apply as the coverage period requirements of NZ IFRS 17 are satisfied. The Simplified Approach provides a broadly similar basis for accounting for insurance contracts under AASB 1037 with the following notable exceptions identified by the Branch at this time:

- Onerous Contracts: If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, an onerous contract provision will be required to be recognized. The company has not identified any group of insurance contracts that are onerous as at 31 December 2022.

- Discount rate: Claims liabilities not expected to be settled in the 12 months must be discounted using a rate that reflects the characteristics of the liability. The Branch will apply the risk-free interest rate curve and will consider if it is appropriate to make an allowance for illiquidity. It is not considered likely that an allowance for liquidity it will be required.
- Risk adjustment: An explicit risk adjustment must be applied to claims liabilities. The impact will increase the level of reserving and reduce the level of retained earning with the amount to be determined by the Appointed Actuary as part of the annual Actuarial Valuation Report but the impact is not expected to be material. The concept of a risk adjustment is currently not required under IFRS 1038 Life Insurance Contracts.

Notes to the financial statements

For the year ended 31 December 2022

1.3 New and amended standards (continued)

- Reinsurance: Reinsurance contracts are required to be recognized in line with NZ IFRS 17. The Branch is in the process of determining the implications on reinsurance contracts.

On transition to NZ IFRS 17 the Branch expects to apply the full retrospective approach. Due to the complexity of the NZ IFRS 17 some of the expectations noted following the preliminary gap analysis are subject to change as the Branch continues to assess the impact of the Standard. The Branch will develop appropriate accounting policies along with the design and implementation of required changes to financial reporting and relevant systems will be undertaken.

The Branch does not have any contracts with embedded derivatives or investment components that have to be separated and accounted for separately under different accounting standards.

The Branch will apply the full retrospective approach on the transition to NZ IFRS 17. The Branch has developed appropriate accounting policies along with the design and implementation of required changes to financial reporting and relevant systems. The Branch will continue to use the existing basis for the preparation of the Company's management accounts.

The Company has adopted the following accounting policies specifically for the requirements of NZ IFRS 17:

- Insurance contracts and level of aggregation
- Coverage period and contract boundary
- Treatment of onerous contracts
- Expenses and allocation
- Treatment of reinsurance contracts held
- Insurance contracts discounting and illiquidity premium.

Notes to the financial statements

For the year ended 31 December 2022

Section 2 - Results

2.1 Revenue and expenses

Accounting Policy

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. the Branch recognises revenue from non-insurance activities when it is probable that the economic benefits will flow to the Branch and the revenue amount can be reliably measured. The Branch bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In addition, the following specific recognition criteria apply to revenue streams:

Premium revenue

Premium revenue comprises amounts charged to policyholders (direct premium) for insurance contracts, excluding stamp duties and taxes collected on behalf of third parties.

Premium revenue is recognised in the profit and loss when it has been earned. It is recognised as earned from the date attachment of risk (generally the date a contract is agreed to but not the earlier if persuasive evidence of an arrangement exists) over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of risks underwritten is generally matched by the passing of time but when time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

Premium for unclosed business (business written close to reporting date where attachment risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals.

The unearned portion of premium is recognised with unearned premium liability in the Balance Sheet.

Investment revenue

All investment income is recognised as revenue on an accrual basis. Interest income from assets backing life-insurance liabilities, which are designated as fair value through profit or loss, is recognised on a time proportion basis using the simple interest method. Assets are designated at fair value through profit or loss and the related net realised and unrealised gains and losses arising on financial assets designated at fair value through profit or loss are included in statement of profit or loss and other comprehensive income as investment revenue.

Claims expenses

The Branch's claims liability is measured as the present value of expected future payments relating to claims incurred at the reporting date. The expected future payments include those estimates in relation to claims incurred but not yet enough reported (IBNER's) and claims incurred but not reported (INBR's) based on past experience.

Claims incurred all relate to providing services, including the bearing of risk, and are accordingly treated as expenses in the statement of profit or loss and other comprehensive income. Claims expenses represent total claim payments made during the year adjusted for the movement in the

Notes to the financial statements

For the year ended 31 December 2022

2.1 Revenue and expenses (continued)

outstanding claims liability.

The claims liability is measured based on the advice of valuations performed by the appointed actuary whose key assumptions are outlined in note 3.2.

Other expenses

Other expenses are recognised in the statement of profit or loss and other comprehensive income on an accrual basis.

Basis of apportionment

Apportionment of expenses has been made as follows:

- all expenses have been apportioned between policy acquisition, policy maintenance and investment management in line with the principles set out in the Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA;
- expenses, which are directly attributable to an individual policy or product, are allocated directly to the statutory fund within which that class of business is conducted; and
- all indirect expenses charged to the profit or loss are equitably apportioned to each class of business.

The apportionment is in accordance with Division 2 Part 6 of the LIA.

Policy acquisition costs

The actual acquisition costs incurred are recorded in the profit or loss. The value and future recovery of these costs is assessed in determining the policy liabilities. This has the effect that acquisition costs deferred are amortised over the period that they will be recovered from premiums or policy charges.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Notes to the financial statements

For the year ended 31 December 2022

2.1 Revenue and expenses (continued)

(a) Insurance premium revenue

	2022 $'000	2021 $'000
Direct life insurance premiums - regular	408	513
Non life insurance premiums	769	962
Termination of policies	(270)	(874)
Total insurance premium revenue	907	601

(b) Investment income

	2022 $'000	2021 $'000
Interest income	177	86
Total investment income	177	86

(c) Claims expenses

	2022 $'000	2021 $'000
Death and disability	365	563
Unemployment	15	(7)
Total claims expenses - net	380	556

(d) Administration expenses

	2022 $'000	2021 $'000
Policy maintenance - others	705	948
Foreign exchange (gains)/losses	22	(14)
Policy acquisition cost - others	101	136
Policy acquisition cost - commission	92	120
Total administration expenses	920	1,190

(e) Statement of sources of operating profit

	2022 $'000	2021 $'000
The shareholder's operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained earnings and capital	105	45
Emergence of shareholders' planned profits	394	615
Experience profit/(loss)	64	(220)
Operating profit after tax (statutory funds)	563	440

Notes to the financial statements

For the year ended 31 December 2022

2.1 Revenue and expenses (continued)

(f) Reconciliation of profit after income tax to net cash inflow from operating activities

	2022 $'000	2021 $'000
Profit for the year	**563**	440
Change in operating assets and liabilities:		
(Increase)/decrease in current tax asset	-	(128)
Increase in deferred tax asset	9	(17)
Decrease in trade and other receivables	(26)	33
(Decrease)/increase in trade and other payables	(120)	(27)
Decrease in policy claims in the process of settlement	(89)	(100)
Decrease in gross policy liabilities	(998)	(1,670)
Decrease in deferred tax liability	(49)	(110)
(Decrease)/increase in current tax liability	(122)	(11)
Net cash (used in)/provided by operating activities	(832)	(1,590)

Notes to the financial statements

For the year ended 31 December 2022

2.2 Income tax expense and deferred tax

Accounting Policy

Taxation

Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate, based on amounts expected to be paid to the tax authorities.

As the Branch is a non-resident general insurer in New Zealand, for tax purposes, it is taxed at 10% of its New Zealand sourced Gross Premium Income. Deductions from expenditure are not allowed. A non-resident withholding tax of 10% or approved issuer levy of 2% applies to any New Zealand sourced interest income on investments.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, that, at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to settle the liability simultaneously. Current and deferred tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Notes to the financial statements

For the year ended 31 December 2022

2.2 Income tax expense and deferred tax (continued)

(a) Income tax expense

	2022 $'000	2021 $'000
Current tax on profits for the year	257	262
Deferred tax income	(38)	(91)
Income tax expense	219	171

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2022 $'000	2021 $'000
Profit from continuing operations before income tax expense	782	611
Tax at the New Zealand tax rate of 28%	219	171
Income tax expense	219	171

(c) Deferred tax expense represents movements in deferred tax assets/liabilities

	2022 $'000	2021 $'000
Deferred income	(49)	(110)
Others	11	19
	(38)	(91)

(d) Deferred tax assets and liabilities

	2022 $'000	2021 $'000
Deferred tax assets		
Others	8	17
Deferred tax liabilities		
Deferred expenses & prepayments	(35)	(83)
	(35)	(83)
Net deferred tax liabilities	27	66
Amounts expected to be settled within 12 months	14	36
Amounts expected to be settled after more than 12 months	13	30
	27	66

Notes to the financial statements

For the year ended 31 December 2022

Section 3 - Life Insurance Assets & Liabilities and Risk Management

3.1 Assets and liabilities

Accounting Policy

Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash. Cash and cash equivalents are held for the purpose of meeting short-term commitments rather than for investment or other purposes.

Investments
Investments include term deposits held at call with financial institutions and other highly liquid investments with original maturities of three months or more that are readily convertible to known amounts of cash. Investments are carried at the face value of the amounts deposited as their carrying amounts approximate to their fair value.

Trade and other receivables
All premium and other receivables are recognised at the amounts receivable as these amounts are generally due for settlement within 30 days and less, where applicable, any provision for doubtful debts. Collectability of premium and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the period in which they are identified. Investment income accrued is measured at the carrying amounts of the interest receivable measured using the effective interest rate method, net of any transaction costs.

Classification of insurance contracts
Contracts under which the Branch accepts significant insurance risk from the policyholder or another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary, are classified as insurance contracts. The risks associated with Insurance contracts are detailed further in note 3.3.

Asset backing policy liabilities
The Branch currently maintains a significant capital surplus. The Branch has established a target capital to ensure assets are available to meet insurance liabilities.

Financial assets
The Branch has elected to designate all its financial assets at fair value through profit and loss consistent with the provisions of NZ IFRS 9 Financial Instruments: *Recognition and Measurement.*

Financial assets designated at fair value through profit or loss and are initially recognised at fair value, excluding transaction costs, which are expensed in the profit or loss in the period in which they arise. Financial assets are subsequently measured at fair value at each reporting date with realised and unrealised gains and losses arising from changes in the fair value recognised in the profit or loss in the period in which they arise.

Impairment of assets
The carrying amount of the Branch's non-financial assets, other than deferred tax assets, are

3.1 Assets and liabilities (continued)

assessed annually for indicators of impairment, if any such indicator exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Impairment losses are recognised in the profit or loss, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the profit or loss.

Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment is recognised immediately in the profit or loss.

Trade and other liabilities

These amounts represent liabilities for goods and services provided to the Branch prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 90 days of recognition.

Liability adequacy test

The adequacy of the insurance contract liabilities is evaluated each year. The insurance contract test considers current estimates of all contractual and related cash flows. If it is determined using best estimate assumptions that a shortfall exists, it is immediately recognised in the profit or loss.

Policy liabilities

Policy liabilities for life insurance contracts in the Balance Sheet and the increase/(decrease) in policy liabilities for life insurance contracts in the profit or loss have been calculated using the Margin on Services methodology outlined in note 1.1(g).

Notes to the financial statements

For the year ended 31 December 2022

3.1 Assets and liabilities (continued)

(a) Cash and cash equivalents

	2022 $'000	2021 $'000
Current assets		
Cash and cash equivalents	505	922
Short term deposits	8,100	3,400
Total cash and cash equivalents	8,605	4,322

(b) Investments

	2022 $'000	2021 $'000
Current assets		
Term deposits	-	5,100
Total investments	-	5,100

(c) Trade and other receivables

	2022 $'000	2021 $'000
Current assets		
Investment income accrued and receivables	60	24
Total trade and other receivables	60	24

The carrying value disclosed above approximates fair value at end of the reporting period.

(d) Trade and other liabilities

	2022 $'000	2021 $'000
Current		
Trade and other payables	40	35
Payables to related parties	7	109
	47	144

The carrying amounts of trade and other payables approximates fair value.

These balances include amounts payable to related parties (note 5.3(c)).

Notes to the financial statements

For the year ended 31 December 2022

3.1 Assets and liabilities (continued)

(e) Policy liabilities

(i) Reconciliation of movements in life insurance contract policy liabilities

	2022 $'000	2021 $'000
Gross life insurance contract liabilities		
Balance at 1 January	1,828	3,498
Decrease in life insurance contract liabilities reflected in the profit or loss	(998)	(1,670)
Closing balance at 31 December	830	1,828
Current	518	992
Non-current	312	836
Total net insurance contract liabilities	830	1,828

(ii) Components of net life insurance contract liabilities

	2022 $'000	2021 $'000
Best estimate liability:		
Future policy benefits (Note (1) below)	954	2,126
Unrecouped acquisition expenses	(124)	(298)
Total best estimate liability	830	1,828
Net policy liabilities	830	1,828

(1) This item includes the unearned premium component of the liability. The accumulation method has been used to calculate liabilities, and components relating to expenses and profits are not separately calculated.

Notes to the financial statements

For the year ended 31 December 2022

3.2 Actuarial assumptions and methods

The following section describes the process surrounding, and key factors used to estimate the policy liabilities in the actuarial report:

The effective date of the actuarial report on policy liabilities and capital requirements is 31 December 2022. The actuarial report was prepared by Mr. Thomas David Millar, FIAA, FNZSA. The actuarial report indicates that Mr. Millar is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in these financial statements and the requirements of the relevant accounting standards (which may differ from the requirements of the Life Insurance Act 1995).

Policy liabilities for insurance contracts have been calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA under subsection 230A(1) of the Life Insurance Act 1995. The Prudential Standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners.

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

Product group	Method (projection or other)	Profit carrier
Lump sum risk	Accumulation (2021: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2021: Accumulation)	Claims (implied)

Policy liabilities have been calculated as the provision for unearned premium, less a deferred acquisition cost item. The recognition rate of premium has been chosen to approximate the planned margin release that would be achieved through use of the projection method.

(42) Disclosure of assumptions

Assumptions are required to establish recoverability of acquisition costs. Key assumptions are listed below.

(i) Discount rates

The gross interest rates used are the gross yield to redemption of benchmark government securities. For the current valuation, these are:

90 days: New Zealand 4.65% (2021: 0.97%)

5 years: New Zealand 4.48% (2021: 2.19%)

(ii) Inflation rates

Allowance for future inflation of 2.00% per annum is assumed (2021: 2.00% per annum).

The future inflation assumption is based on the average medium term target range of 1.00% - 3.00%.

Notes to the financial statements

For the year ended 31 December 2022

3.2 Actuarial assumptions and methods (continued)

(iii) Future expenses and indexation

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the 2023 year. Inflation adjustments are consistent with the inflation assumption.

(iv) Mortality and morbidity

Mortality rates for risk products have been based on experience over recent years. A loss ratio approach (applied to earned premium) was adopted. The loss ratios used have not varied significantly from those used in 2021.

(v) Disability and involuntary unemployment

The general approach to actuarial estimation of disability and involuntary unemployment liabilities is to analyse all available past experience. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of Outstanding Claims at the balance date can be estimated. The estimate of the Outstanding Claims includes an allowance for claims Incurred but Not Reported (IBNR) and the further development of reported claims, a risk margin and claims handling expense provision. Actuarial methods such as Payment Per Claim Incurred (PPCI), Payment Chain Ladder (PCL) and Bornheutter Ferguson (BF) are adopted to estimate the outstanding claims.

The key actuarial assumptions for the determination of the outstanding claims liabilities are claim termination rate, average claim size (Disability = NZ$2,685, Unemployment = NZ$2,343 for accident year 2022), a claims handling expense rate of 7.14% of the projected gross claim payments (based on expense investigation) and a discount rate of 5% (based on the yields of 1 year and 2 year New Zealand Government bonds as at 30 December 2022). Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

(vi) Voluntary discontinuance

Voluntary discontinuance rates vary by product and have been based on the Branch's recent discontinuance experience.

For the major classes of New Zealand business, the assumed aggregate rates of discontinuance are:

Consumer credit insurances – 28% p.a. (2021: 32% p.a.)

Notes to the financial statements

For the year ended 31 December 2022

3.2 Actuarial assumptions and methods (continued)

(vii) Capital requirements

The Branch is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. The methods and bases used for determining the capital requirements were in accordance with the requirements of Prudential Standard *LPS 110: Capital Adequacy* and related prudential standards issued by APRA.

(b) Impact of changes in assumptions

The policy liabilities for insurance contracts have been calculated using the accumulation method. Under this method, changes in assumptions do not have any impact on policy liabilities in the current period, unless a product enters loss recognition. As at 31 December 2022, the Consumer Credit Insurance related product group for Statutory Fund 2 remains in loss recognition.

The value of future profit margins is not explicitly calculated under the accumulation method and hence the impact of any change in assumptions on the value of future profit margins is not determined.

(c) Sensitivity analysis

Movements in key variables such as mortality experience, lapse rates and expenses will have an impact on the future cash flows, performance and net assets of the business.

As the accumulation method is used to determine policy liabilities for insurance contracts, changes in the assumptions around these key variables do not have any impact on the policy liability or retained profits at the current balance date, unless a product group enters loss recognition. An alternate approach to demonstrating the sensitivity to changes in variables is to consider the impact on profit and equity at the current balance date if the experience over the current financial period varied under certain scenarios. The table below considers a number of changes in variables and shows the impact on the profit and equity if that change had been experienced during the financial reporting period.

2022 ($'000)	Change in variables	Impact on profit or loss		Impact on equity	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(16)	(16)	(16)	(16)
	Improving by 5%	16	16	16	16
Lapse rates	Worsening by 5%	1	1	1	1
	Improving by 5%	(1)	(1)	(1)	(1)
Expenses	Worsening by 5%	(28)	(28)	(28)	(28)
	Improving by 5%	28	28	28	28

Notes to the financial statements

For the year ended 31 December 2022

3.2 Actuarial assumptions and methods (continued)

2021 ($'000)	Change in variables	Impact on profit or loss		Impact on equity	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(23)	(23)	(23)	(23)
	Improving by 5%	23	23	23	23
Lapse rates	Worsening by 5%	4	4	4	4
	Improving by 5%	(4)	(4)	(4)	(4)
Expenses	Worsening by 5%	(42)	(42)	(42)	(42)
	Improving by 5%	42	42	42	42

Notes to the financial statements

For the year ended 31 December 2022

3.3 Financial risk management

Credit risk

Credit risk is the risk of financial loss due to a counterparty failing to meet their contractual obligations and principally arises from the Branch's investment in financial instruments, receivables from related or other parties, and claims on reinsurance contracts.

The following policies and procedures are in place to mitigate the Branch's exposure to credit risk:

Financial assets

The Branch's investment mandate sets out the investment management guidelines approved by the Board. The guidelines establish credit approval authorities, concentrations limits, and approved investment portfolio parameters, these guidelines comply with the Investment Policy. Management conducts a regular review of the investment holdings, compliance is monitored and exposures or breaches are reported to the Board. The mandate is reviewed regularly for pertinence and for changes in the risk environment.

The Branch only invests with counterparties that have a credit rating of at least A3/BBB- from Standard & Poor's (S&P). The Branch further limits its exposure to credit risk by setting individual exposure limits. There is no significant concentration of credit risk and management does not expect any counterparty to fail to meet its obligations.

Trade and other receivables

The Branch's maximum credit risk exposure at balance date is limited to the carrying amount of the financial assets as stated in the Statement of Financial Performance. The Branch does not have a significant concentration of credit risk with any counterparty.

Notes to the financial statements

For the year ended 31 December 2022

3.3 Financial risk management (continued)

The table below shows the Branch's maximum exposure to credit risk at balance date.

2022	Investment grade $'000	Non-investment grade satisfactory* $'000	Non-investment grade unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
Financial assets						
Cash and cash equivalents	8,605	-	-	8,605	-	**8,605**
Trade and other receivables	-	60	-	60	-	**60**
Total credit risk exposure	**8,605**	**60**	**-**	**8,665**	**-**	**8,665**

2021	Investment grade $'000	Non-investment grade satisfactory* $'000	Non-investment grade unsatisfactory $'000	Total neither past due nor impaired $'000	Past due or impaired $'000	Total $'000
Financial assets						
Cash and cash equivalents	4,322	-	-	4,322	-	**4,322**
Investments	5,100	-	-	5,100	-	**5,100**
Trade and other receivables	-	24	-	24	-	**24**
Total credit risk exposure	**9,422**	**24**	**-**	**9,446**	**-**	**9,446**

*A receivable is deemed satisfactory when management is satisfied that the obligor has the capacity to meet its financial obligations.

Notes to the financial statements

For the year ended 31 December 2022

3.3 Financial risk management (continued)

The table below classifies the financial assets of the Branch by counterparty credit rating (S&P)

2022	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	4,105	4,500	-	-	-	**8,605**
Trade and other receivables					60	**60**
Total credit risk exposure	**4,105**	**4,500**	**-**	**-**	**60**	**8,665**

2021	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	2,822	1,500	-	-	-	**4,322**
Investments	2,100	3,000	-	-	-	**5,100**
Trade and other receivables	-	-	-	-	24	**24**
Total credit risk exposure	**4,922**	**4,500**	**-**	**-**	**24**	**9,446**

Notes to the financial statements

For the year ended 31 December 2022

3.3 Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Branch will not be able to meet its financial obligations as they fall due. The Branch's objective and funding strategy seeks to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities in both stable and adverse market conditions.

The Branch's liquidity is primarily monitored through the production of statement of cash flows for Board review. Periodic review of the maturity profile of the Branch's financial assets and liabilities is performed to ensure sufficient liquidity is maintained.

The following is an analysis of the maturity profile of both cash and cash equivalents; investments and of undiscounted contractual cash flows associated with the Branch's financial liabilities at balance date:

2022	**Up to a year $'000**	**1-2 years $'000**	**2-5 years $'000**	**Over 5 years $'000**	**Total $'000**
Cash and cash equivalents	8,605	-	-	-	8,605
Trade and other payables	(47)	-	-	-	(47)
Policy claims in the process of settlement	(254)	-	-	-	(254)
Gross policy liabilities	(517)	(179)	(134)	-	(830)
Net liquid assets	**7,787**	**(179)**	**(134)**	**-**	**7,474**

2021	**Up to a year $'000**	**1-2 years $'000**	**2-5 years $'000**	**Over 5 years $'000**	**Total $'000**
Cash and cash equivalents	4,322	-	-	-	4,322
Investments	5,100	-	-	-	5,100
Trade and other payables	(144)	-	-	-	(144)
Policy claims in the process of settlement	(343)	-	-	-	(343)
Gross policy liabilities	(992)	(426)	(356)	(54)	(1,828)
Net liquid assets	**7,943**	**(426)**	**(356)**	**(54)**	**7,107**

The Branch's financial assets and liabilities are carried in the Balance Sheet at amounts that approximate fair value.

Foreign exchange risk

Currency risk is the risk that the value of recognised assets and liabilities or the cash flows from possible future transactions, that are denominated in a currency, other than that of the functional currency, will decrease due to changes in market exchange rates.

The Branch has no foreign currency exposure at balance date that is considered material.

Notes to the financial statements

For the year ended 31 December 2022

3.3 Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate as a result of changes in market interest rates.

The following table analyses the impact of a reasonable possible movement in market interest rates on the Branch's operating results.

	Carrying amount	Change in variables	Impact on profit before tax	Impact on equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
2022	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets								
Short term deposits	8,100	-2.77%	(224)		-	-	-	-
Investments	-	-	-		-	-	-	-
Total	**8,100**		**(224)**		-	-	-	-

	Carrying amount	Change in variables	Impact on profit before tax	Impact on equity				Total
				Up to a year	1-2 years	2-5 years	Over 5 years	
2021	**$'000**	**%**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets								
Short term deposits	3,400	-0.75%	(26)	(18)	-	-	-	(18)
Investments	5,100	-0.75%	(38)	(28)	-	-	-	(28)
Total	**8,500**		**(64)**	**(46)**	-	-	-	**(46)**

The analysis is performed on the same basis as 2021 with the variable interest rate being reduced to a minimum of 0.0% if applicable.

Price risk

Price risk is the risk that the fair value of equities or financial instruments could change due to fluctuations in market prices. The Branch has no equity securities as at 31 December 2022.

Notes to the financial statements

For the year ended 31 December 2022

3.3 Financial risk management (continued)

Insurance risk

Insurance contracts

An insurance contract is a contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policy holder for a specified uncertain future event that will adversely affect them. Insurance risk is other than financial risk.

The significance of insurance risk under any one contract is determined by the uncertainty surrounding the probability and timing of the insured event occurring, and the magnitude of its effect. Insurance risk is assessed by the Branch at a contract level on its inception and is periodically reassessed as the risk may vary during the period of insurance cover.

The majority of direct insurance contracts written are entered into on a standard form basis. There are no special term and conditions in any non-standard contracts that have a material impact on the financial statements.

The business written consists mainly of consumer credit life insurances.

Insurance risk management

Insurance risk management is the assessment and quantification of the likelihood and financial impact of events that may require settlement by the insurer; and the ability of the Branch to mitigate the financial impact of these events on its operating results.

In accordance with Prudential Standards CPS 220 Risk Management and LPS 230 Reinsurance Management for Life and General Insurers issued by APRA, the Board and senior management of the Branch have developed, implemented and maintained a sound and prudent risk management strategy (RMS) and a reinsurance management strategy (ReMS).

The RMS and ReMS identify the Branch's policies, procedures, processes and controls that address all known material risks, financial and non-financial arising from the business. Annually, the board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Branch has systems in place to ensure compliance with legislative and prudential requirements, and that the board has satisfied itself as to the compliance with the RMS and ReMS.

Specific key components of the RMS and ReMS are detailed further below.

(i) Underwriting strategy

The Board has developed an underwriting strategy to ensure that the Branch has the ability to meet the insurance needs of the policy holders and to ensure the ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood and involves the application of mathematical modeling to determine that products are appropriately priced.

Notes to the financial statements

For the year ended 31 December 2022

3.3 Financial risk management (continued)

(ii) Reinsurance strategy

A conservative approach is taken in determining the level of risk appetite appropriate for the Branch and where deemed appropriate will spread the risk associated with the insured events according to its ReMS. All reinsurance treaties are subject to analytical and statistical modeling to ensure that they offer a sufficient level of cover for the identified exposures whilst in alignment with the ReMS of the Branch.

(iii) Claims management

Strict claims management procedures ensure the timely and accurate payment of claims in accordance with policy conditions. Claim outcomes are monitored to track the actual versus expected experience of the portfolio, with feedback delivered to underwriting and product development.

(iv) Concentration of insurance risk

The Branch's portfolio of products and policy holders is sufficiently diversified such that there is no material concentration of insurance risk.

Notes to the financial statements

For the year ended 31 December 2022

Section 4 - Capital Management

Accounting Policy

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4.1 Capital management

The Branch's capital management strategy plays a central role in managing capital risk arising from the business activities of the Branch, providing an appropriate level of capital to protect policyholders' interests and satisfy regulators. The strategy seeks to ensure sufficient capital levels are maintained in both stable and adverse market conditions.

The Branch has adopted a target surplus policy to assist the board and management to manage its capital position. The target surplus level has been set with reference to a range of risks and possible adverse scenarios faced by the Branch.

The Branch has net assets in excess of the adopted target surplus requirement, reflecting its current strong capital position.

In addition to the Branch's target surplus policy, external solvency requirements are set and regulated by the APRA. The Branch calculates its solvency position according to the relevant prudential standards which ensures sufficient solvency margins within the life statutory funds are maintained. An insurer's solvency position is expected to be adequate for the size, business mix, complexity and risk profile of its business.

It is the Branch's policy to hold solvency position in excess of those required by the APRA according to its target surplus policy. The solvency level is regularly monitored to minimise the risk of a regulatory breach.

For detailed information on the Branch's capital position and the capital requirements of APRA, refer to note 4.1(a).

Notes to the financial statements

For the year ended 31 December 2022

4.1 Capital management (continued)

(a) Capital requirements of the life funds

The Branch is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. Life and General Insurers are required to follow the Australian Prudential Regulation Authority's (APRA) Life And General Insurance Capital Standards (LAGIC).

The required level of capital for regulatory purposes (the Prescribed Capital Amount, or PCA) is intended to take account of the full range of risks to which a life insurer is exposed and a life company must ensure that the life company and each of its statutory funds has, at all times, a capital base in excess of its PCA (plus any additional amount as required by the APRA).

The excess of the Branch's capital base over the PCA as at 31 December 2022 was $7.8 million (2021: $7.3 million).

The available assets of the Branch have also exceeded the Prudential Capital Requirement at all times during the year ending 31 December 2022.

In addition to the regulatory capital requirements, the Branch maintains a target surplus providing an additional capital buffer against adverse events.

	2022	2021
	Statutory Fund 2 $'000	**Statutory Fund 2 $'000**
(a) Capital base	7,914	7,495
(b) Prescribed capital amount	79	226
Capital in excess of prescribed capital amount = (a) - (b)	7,835	7,269
Capital adequacy multiple = (a)/(b)	99.90	33.11
Capital Base:		
Net assets	7,753	7,190
Less: Difference between adjusted policy liabilities and policy liabilities	160	305
Equals: Capital base	7,913	7,495
Prescribed capital amount:		
Insurance Risk Charge	17	85
Asset risk charge	34	46
Operational risk charge	36	80
Aggregation benefit	(10)	(26)
Combined stress scenario adjustment	2	41
Prescribed capital amount	79	226

Notes to the financial statements

For the year ended 31 December 2022

Section 5 - Other Disclosures

5.1 Commitments and contingencies

Latitude Group Holdings Limited (the Group) is subject to a number of obligations which, if not discharged or considered not to be discharged, may give rise to potential claims or other costs. Where some loss from an actual or alleged non-performance of an obligation is more likely than not and can be reliably estimated, provisions have been made. The Group considers that the outcome of any specific enquiry which is underway as at 31 December 2022, and has not been provided for, is not expected to affect its financial position in any material way, either individually or in aggregate.

Regulatory and customer exposures

In recent years there has been an increase in the number of matters on which the industry engages with its regulators. The nature, scale and breadth of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally continues.

The Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, regulated lending requirements, product suitability, advertising and distribution, interest and fees and the entitlement to charge them, customer remediation and insurance distribution. On 5 October 2022, ASIC commenced civil proceedings against Latitude and Harvey Norman regarding alleged misleading advertising of Latitude GO Mastercard®. Latitude filed its concise statement in response on 20 December 2022.

There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

There is a risk that the actual cost of responding to any inquiry or penalty paid following any settlement or determination by a Court for any legal proceedings may be materially higher or lower than the provision or that any contingent liability may be larger than anticipated. There is also a risk that additional litigation or contingent liabilities may arise, all of which could adversely affect our business, prospects, reputation, financial performance or financial condition.

Taxation

The tax affairs of the Group are subject to review by both the Australian Taxation Office ('ATO') and the Inland Revenue Department ('IRD') in New Zealand, as well as the revenue offices of the various Australian states and territories from time to time. In February 2019, the ATO completed an assurance review of the Australian Tax Group and provided an assurance report which raised a number of matters that the ATO may consider further. One of these matters relates to the pre-

IPO corporate structure of the Australian Tax Group and distributions made as part of that pre-IPO structure. Should the Group be subject to a future tax obligation arising from those distributions, KVD Singapore Pte Ltd has agreed a mechanism to reduce the Group's possible exposure to that issue to an immaterial amount. In March 2022, as a follow up to that review, the ATO notified the Australian Tax Group that it would be carrying out a Next Actions Risk Review and subsequently issued a request for information ('RFI') in May 2022. The RFI centred on the transfer pricing of the transactions fees charged to the Group when it was acquired. The requested information was provided to the ATO in October 2022 and management now awaits the ATO's response. Accordingly, any potential outcomes and total costs associated with any such activities remain uncertain at this time.

The Australian Tax Group is also currently subject to a GST Risk Review by the ATO which commenced in November 2021 and a draft report was issued in May 2022 which raised a number of matters that the ATO required further clarification on. Discussions with the ATO have continued since that time and the matters currently remain open. As such any potential outcomes and total costs associated with any such activities remain uncertain at this time.

The Group considers that the residual risks stemming from the items raised in the ATO Top 1,000 Assurance report or the GST review are not likely to materially affect its financial position, either individually or in aggregate.

No commitments, contingent assets or contingent liabilities existed as at 31 December 2022 (2021: nil).

5.2 Events occurring after the reporting date

On 8 August 2022, the Company's ultimate parent entity, Latitude Group Holdings Limited (the Group) announced that it has entered into an agreement to sell Latitude Insurance Holdings Pty Ltd (Hallmark), the parent entity of the Company to the St Andrew's Insurance Group (St Andrew's) for $20.3 million. Post the sale, the Company's policyholders will be managed as part of St Andrew's dedicated insurance business to meet continuing obligations to policyholders.

Completion of the transaction is subject to certain conditions, including regulatory approval from APRA and Reserve Bank of New Zealand (RBNZ). Completion is expected to occur in the first half of the 2023 financial year.

As part of the sale process, the Company is proposing to pay a pre completion dividend to the parent entity, Latitude Insurance Holdings Pty Ltd. Following the payment of the pre completion dividend, the Company's net assets the Capital adequacy multiple under APRAs LAGIC standards will decrease.

At the date of signing the accounts, completion of the sale of the Company is expected to finalise on the end of the first half of 2023.

Other than progress on the above, no other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect:

(a) the Branch's operations
(b) the results of those operations; or
(c) the Branch's state of affairs.

5.3 Related party transactions

(a) Key management personnel disclosures

Any remuneration received by directors was received in their capacity as directors of Hallmark Life Insurance Company Ltd.

(b) Transactions with related parties

The following transactions occurred with related parties:

	2022 $	2021 $
Management fees paid to/(received from):		
Hallmark Life Insurance Company Ltd	**762,897**	**1,006,023**
Host insurance depreciation and administration costs recharges:		
Commission paid to:		
Latitude Financial Services Ltd - NZ	**91,632**	**120,242**

(c) Outstanding balances with related parties

	2022 $	2021 $
Receivables/(payables) outstanding at the end of the period:		
Latitude Financial Services Ltd - NZ	**41,103**	**19,147**
Hallmark General Insurance Company Ltd	**(48,294)**	**(128,464)**

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

5.4 Remuneration of auditor

No remuneration to auditors has been recognised; this expense was incurred by the parent of the branch Hallmark Life Insurance Company Ltd (Australia).

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Building a better working world

22 February 2023

The Board of Directors
Hallmark Life Insurance Company Ltd
Level 18, 130 Lonsdale Street
Melbourne VIC 3000

**Hallmark Life Insurance Company Ltd:
Appointed Actuary signoff of financial statements and financial condition as at 31 December 2022 for New Zealand reporting purposes**

Dear Directors

Hallmark Life Insurance Company Ltd ("HLIC") is an Australian authorised insurer regulated by the Australian Prudential Regulatory Authority ("APRA") and has a licence issued by the Reserve Bank of New Zealand ("RBNZ").

On 22 May 2019, HLIC appointed me, Thomas David Millar of Ernst & Young to be HLIC's Appointed Actuary. The Appointed Actuary role is as described by the Australian Life Insurance Act 1995 and related Prudential Standards and Prudential Practice Guides current at 31 December 2022, and by the New Zealand Insurance (Prudential Supervision) Act 2010 (the Act). I have no relationship with HLIC other than being its Appointed Actuary.

It is the responsibility of the Appointed Actuary to provide advice to the Board of a life insurer on the value of its policy liabilities and the preparation of the actuarial information contained in its financial statements. The Appointed Actuary must provide written advice to the Board of the insurer on the value of policy liabilities in accordance with APRA's Prudential Standard CPS320, Actuarial and Related Matters.

As part of my responsibilities, I have produced a report on HLIC's policy liabilities and financial condition, the Financial Condition Report (FCR), as at 31 December 2022, dated 22 February 2023. The scope of the FCR is to provide the Board and management with an objective assessment of the financial condition of the Australian and New Zealand business within HLIC as at 31 December 2022. The FCR identifies and assesses the material risks facing HLIC and includes discussion of relevant risk mitigants.

I have relied upon the general completeness and accuracy of the data and information supplied by HLIC without independent verification. However, I have reviewed the information for reasonableness and consistency with my knowledge of the financial services industry.

The RBNZ has exempted HLIC from compliance with their Solvency Standard for Life Insurance Business. This exemption has been granted subject to various conditions, including obligations of the Appointed Actuary. These obligations are addressed below. Where relevant and appropriate, I have commented on total HLIC Company level results and also separately in relation to the results of the New Zealand Branch (Statutory Fund 2) of HLIC.

Financial Statements – HLIC Company

Section 77 of the Act requires a review by the Appointed Actuary of the actuarial information in the financial statements of the company and in particular:

a. The Policy Liability

b. The reinsurance and other recovery asset(s) relevant to the Policy Liability, or relevant to outstanding claims reserves or incurred but not reported claims reserves held outside of the Policy Liability

c. Any deferred or other tax asset relevant to the Policy Liability

d. Any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability

e. The unvested policyholder benefits liability

f. Any other information deemed by the Appointed Actuary to warrant actuarial review for the purpose of profit or solvency reporting

Section 78 of the Act requires that the Appointed Actuary prepare a report in respect of the review required under Section 77. I confirm that the FCR, and its appendices, meets the requirements of section 78 of the Act, as it contains my advice regarding policy liabilities, reinsured policy liabilities, and deferred acquisition costs (implicit in the policy liabilities). The FCR also includes advice on IBNR and capital requirements, which form part of the financial statements. No advice or review is required of unvested policyholder benefits liability, as HLIC does not write any participating products.

In my opinion and from an actuarial perspective:

a. The actuarial information contained in the HLIC financial statements, submitted to the Board for approval on 22 February 2023, has been appropriately included in those statements; and

b. The actuarial information has been used appropriately in the preparation of the HLIC financial statements.

I have obtained all information and explanations that I have required. I am not aware of any other information that warrants actuarial review for the purpose of profit or solvency reporting.

Financial Statements – HLIC New Zealand Branch (Statutory Fund 2)

Section 77 of the Act requires a review by the Appointed Actuary of the actuarial information in the New Zealand Branch financial statements and in particular:

a. The Policy Liability

b. The reinsurance and other recovery asset(s) relevant to the Policy Liability, or relevant to outstanding claims reserves or incurred but not reported claims reserves held outside of the Policy Liability

c. Any deferred or other tax asset relevant to the Policy Liability

d. Any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability

e. The unvested policyholder benefits liability

f. Any other information deemed by the Appointed Actuary to warrant actuarial review for the purpose of profit or solvency reporting

Section 78 of the Act requires that the Appointed Actuary prepare a report in respect of the review required under Section 77. I confirm that the FCR, and its appendices, meets the requirements of section 78 of the Act, as it contains my advice regarding policy liabilities, reinsured policy liabilities, and deferred acquisition costs (implicit in the policy liabilities). The FCR also includes advice on IBNR and capital requirements, which form part of the financial statements. Separate input has been provided regarding actuarial inputs to tax calculations in New Zealand. No advice or review is required of unvested policyholder benefits liability, as HLIC does not write any participating products.

In my opinion and from an actuarial perspective:

a. The actuarial information contained in the HLIC New Zealand Branch financial statements, submitted to the Board for approval on 22 February 2023, has been appropriately included in those statements; and

b. The actuarial information has been used appropriately in the preparation of the HLIC New Zealand Branch financial statements.

I have obtained all information and explanations that I have required. I am not aware of any other information that warrants actuarial review for the purpose of profit or solvency reporting.

Financial Condition Report

The Appointed Actuary must prepare a Financial Condition Report which must:

a. Identify and describe the material risks (of which it is reasonable to expect the appointed actuary to be aware) facing a licensed insurer that, in the appointed actuary's opinion, pose a threat to the licensed insurer's ability to meet its solvency requirements now and in the future, and where practicable quantify such risks

b. Comment on the steps taken or proposed by the licensed insurer to address the risks identified in (a)

c. Comment separately on the New Zealand business, these comments can be in line with Australian requirements for financial condition reports

d. Advise the licensed insurer on whether in the Appointed Actuary's opinion, the licensed insurer needs to consider reporting to the RBNZ under Section 24 of The Act, taking into account the licensed insurer's forward-looking assessment of the solvency standard and the appointed actuary's assessment of the licensed insurer's business plans, its enterprise risk management practices and the external environment.

The Appointed Actuary in the financial condition report must comment on:

a. The solvency position of the insurer if a catastrophe or extreme event, such as outlined in the Catastrophe Risk Capital Charge section of the Life Standard, were to occur in New Zealand.

b. Any difference in the financial condition of the New Zealand Branch in comparison with the insurer as a whole, which might have implications if the two were separated as a result of regulatory action or litigation.

The FCR identifies and assesses the material risks facing HLIC and includes discussion of relevant risk mitigants. These material risks are considered at a company level and also separately for the Australian and New Zealand business.

Throughout the FCR, key metrics and information have been separated between Statutory Fund 1 (Australia) and Statutory Fund 2 (New Zealand) so that each business can be considered separately from the company as a whole.

HLIC is in a very strong financial position as at 31 December 2022, with excess assets of A$2.9m above prudential capital requirements in Statutory Fund 1 and A$7.3m in Statutory Fund 2. Under Section 25 of APRA's Prudential Standard LPS110, the Prescribed Capital Amount (PCA) of a life company is the sum of the fund-level PCA, subject to a minimum of $10m. An entity-level PCA adjustment of $4.9m at 31 December 2022 is required to meet the $10m PCA minimum. Both statutory funds, as well as the Shareholders Fund and entity itself, have exceeded prudential capital requirements over the year to 31 December 2022.

Capital requirements are expected to be met over the coming three years, and hence no reporting under Section 24 of The Act is required. In my opinion HLIC is maintaining:

a. A solvency margin consistent with the requirements under section 21(2) (b) of the Act

b. Solvency margins for each statutory fund, both in Australian and in New Zealand, consistent with the requirements under section 21(2) (c) of the Act

This strong position means that both statutory funds, Statutory Fund 1 and 2, of HLIC would be able to withstand a catastrophe or extreme event similar to the Catastrophe Risk Capital Charge.

The New Zealand Branch (Statutory Fund 2) of HLIC is managed in conjunction with the Australian business and I am not aware of any differences in the financial condition of the New Zealand Branch in comparison with the insurer as a whole which might have implications if the two were separated.

Yours sincerely,

David Millar, FIAA, FNZSA
Appointed Actuary, Hallmark Life Insurance Company Ltd