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

1. We act for Hallmark General Insurance Company Limited (company number 3346111) ("**Hallmark General**").

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

   (a) audited financial statements for Hallmark General, 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 General'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 General Insurance Company Ltd
ABN 82 008 477 647
FINANCIAL REPORT
For the Year Ended 31 December 2022

Hallmark General Insurance Company Ltd

ABN 82 008 477 647

Financial report for the year ended 31 December 2022

Contents

Notes to the Financial Statements

Directors' report

For the year ended 31 December 2022

The directors present their report together with the financial statements of Hallmark General 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 General insurer, operating both in Australia and New Zealand. There has been no significant change in the Company during the year.

The company is regulated by Australian Prudential Regulation Authority (APRA) in accordance with Section 122 of the Insurance Act. The Company issues consumer credit insurance products.

Review of operations

Total comprehensive income of the Company was $2,834,000 (2021: $4,611,000) with a decrease in both premium revenue and increase in claims expense.

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

Premium revenue decreased by $9,021,000 across all channels in Australia and New Zealand, net claims incurred increased $1,553,000 and underwriting expenses decreased by $7,587,000.

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 in respect of the financial year 31 December 2022 (2021: Nil) to Latitude Insurance Holding Pty Limited.

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 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.

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 General Insurance Company Ltd (the Company):

(a) the financial statements and notes set out on pages 11 to 62 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

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

To the Directors of Hallmark General Insurance Company Ltd.

I declare that, to the best of my knowledge and belief, in relation to the audit of Hallmark General 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

KPMG

Independent Auditor's Report

To the shareholders of Hallmark General Insurance Company Ltd.

Opinion

We have audited the ***Financial Report*** of Hallmark General 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
- 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.

Other Information

Other Information is financial and non-financial information in Hallmark General 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
- 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		18,543	27,564
Net insurance premium revenue	2.1(a)	18,543	27,564
Claims expenses		(4,847)	(3,294)
Net claims incurred	2.1(c)	(4,847)	(3,294)
Acquisition costs		(2,574)	(4,631)
Administration expenses		(9,466)	(14,996)
Underwriting Expenses		(12,040)	(19,627)
Underwriting result		1,656	4,643
Investment income	2.1(b)	1,527	538
Other income/(expense)		(54)	45
Profit/(Loss) before income tax		3,129	5,226
Income tax (expense)/benefit	2.2(a)	(227)	(688)
Profit/(Loss) for the year		2,902	4,537
Item that may be reclassified to profit or loss			
Currency translation differences arising during the year		(68)	74
Other comprehensive income/(loss) for the year, net of tax		(68)	74
Total comprehensive income for the year from continuing operations		2,834	4,611
Profit is attributable to:			
Owners of Hallmark General Insurance Company Ltd		2,902	4,537
Profit/(Loss) for the year		2,902	4,537
Total comprehensive income for the year is attributable to:			
Owners of Hallmark General Insurance Company Ltd		2,834	4,611
Other comprehensive income for the year, net of tax		2,834	4,611

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)	77,793	30,832
Investments	3.1(b)	20,832	78,444
Trade and other receivables	3.1(c)	727	511
Deferred tax assets	2.2(d)	554	1,092
Deferred acquisition costs	3.1(d)	1,161	2,638
Total assets		**101,067**	**113,517**
Liabilities			
Trade and other liabilities	3.1(e)	994	2,482
Current tax liabilities		149	471
Employee benefits and other provisions	3.1(f)	1,209	1,951
Outstanding claims liability	3.1(g)	6,961	10,894
Unearned premium liability	3.1(h)	6,858	15,657
Total liabilities		**16,171**	**31,455**
Net assets		**84,896**	**82,062**
Equity			
Contributed equity	4.1(a)	2,000	2,000
Reserves	4.1(b)	64,582	64,650
Retained earnings		18,314	15,412
Total equity		**84,896**	**82,062**

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 General Insurance Company Ltd			
	Notes	**Contributed equity $'000**	**Reserves $'000**	**Retained Earnings $'000**	**Total Equity $'000**
At 1 January 2021		2,000	64,576	10,875	77,451
Profit for the year		-	-	4,537	4,537
Other comprehensive income	4.1(b)	-	74	-	74
Total comprehensive income for the year		**-**	**74**	**4537**	**4611**
At 31 December 2021		**2,000**	**64,650**	**15,412**	**82,063**
At 1 January 2022		2,000	64,650	15,412	82,063
Profit for the year			-	2,902	2,902
Other comprehensive expense	4.1(b)		(68)	-	(68)
Total comprehensive income for the year			**(68)**	**2,902**	**2,834**
At 31 December 2022		**2,000**	**64,582**	**18,314**	**84,896**

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 - net		10,161	10,034
Claims paid		(8,715)	(13,775)
Payments to suppliers and employees		(12,535)	(14,654)
Interest received		1,096	711
Income taxes paid		(227)	(777)
Net cash (outflow) from operating activities	2.1(e)	**(10,220)**	**(18,461)**
Purchase of investments		(449,975)	(149,644)
Maturity of investments		507,398	94,109
Net cash inflow/(outflow) from investing activities		**57,423**	**(55,535)**
Cash flows from financing activities			
Net increase/(decrease) in cash and cash equivalents		47,204	(73,996)
Cash and cash equivalents at beginning of financial year		30,832	104,639
Effects of exchange rate changes on cash and cash equivalents		(243)	189
Cash and cash equivalents at end of financial year	3.1(a)	**77,793**	**30,832**

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 General Insurance Company Ltd (the "Company") is a company limited by shares, incorporated and domiciled in Australia. The Company is registered under the Insurance Act 1973. Its registered office and principal place of business is, Level 18, 130 Lonsdale Street, Melbourne, Victoria, 3000.

These are the financial statements of Hallmark General Insurance Company Ltd, as at and for the year ended 31 December 2022. Hallmark General 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 the Company's functional and presentation currency. Hallmark General Insurance New Zealand Branch numbers have been converted to Australian Dollars.

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) 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.

Key sources of estimation uncertainty

The key area of estimation uncertainty for the Company is in its estimation of outstanding claims and reinsurance recoveries. The outstanding liability provision is disclosed in note 3.1(g).

The ultimate liability arising from claims made under insurance contracts

Provision is made at the year end for the estimated cost of claims incurred but not settled at the end of the reporting period, including the cost of claims incurred but not reported (lBNR) to the Company.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics, or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

Notes to the financial statements

For the year ended 31 December 2022

1.1 Basis of preparation (continued)

- changes in the economic environment
- changes in the mix of business
- medical and technological developments
- change in unemployment factor for policy holders
- changes in benefit structures
- changes in claims management practice.

The methods used to analyse past claims experience and to project future claims experience are largely determined by the available data and the nature and maturity of the portfolio.

The determination of an appropriate outstanding claims liability and the specific assumptions used are detailed in note 3.2.

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 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.

1.1 Basis of preparation (continued)

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Methodologies and assumptions applied remained unchanged from those applied in the financial statements for the year ended 31 December 2021.

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 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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position
- 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
- All resulting exchange differences are recognised in other comprehensive income.

Notes to the financial statements

For the year ended 31 December 2022

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 2022 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.

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,
- interest revenue calculated using the effective interest method,
- the net impairment loss on financial assets; and
- the insurance finance income or expense in the net financial result.

AASB 17 introduces a new 'General Model' for the recognition and measurement of insurance

Notes to the financial statements

For the year ended 31 December 2022

contracts and permits a 'Simplified Approach' that is similar to the current treatment of general insurance contracts under the AASB 1023 General Insurance Contracts.
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 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 when the 2023 valuation is prepared. There will be a change to the risk margin currently applied under AASB 1023 but the impact is not expected to be material.

The Company has not identified any group of insurance contracts that are onerous as at 31 December 2022.

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 1023 basis for the preparation of the Company's 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, including goods and services tax in Australia.

Premium revenue is recognised in the statement of 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 Company recognises premium revenue in accordance with the requirements of AASB 1023.

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 accruals basis. 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 yet reported (IBNR's) based on past experience.

Claims incurred all relate to providing services, including the bearing of risk, and are accordingly

Notes to the financial statements

For the year ended 31 December 2022

2.1 Revenue and expenses (continued)

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 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 accruals basis.

Outward reinsurance premium expense

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.

Deferred acquisition costs

Costs, which vary with and are primarily related to the production of new business, have been deferred to the extent such costs are deemed recoverable from future profits. Such costs primarily include commissions. These costs are amortised in proportion to premiums over the estimated lives of the policies. A write down to recoverable amount is recognised where the present value of expected future claims (including settlement costs) in relation to business written to the end of the reporting period exceeds related unearned premiums less the deferred acquisition costs.

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 statement of financial position. 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
Gross written premium	9,876	9,879
Movement in unearned premium liability	8,667	17,685
Net premium revenue	18,543	27,564

(b) Investment income

	2022 $'000	2021 $'000
Interest income	1,527	538
Total investment income	1,527	538

(c) Net claims incurred

	2022			2021		
	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Gross claims incurred and related expenses - undiscounted	(7,461)	2,446	(5,015)	(10,979)	7,613	(3,366)
Discount and discount movement - gross claims incurred	114	54	168	49	23	72
	(7,347)	2,500	(4,847)	(10,930)	7,636	(3,294)
Net claims incurred	**(7,347)**	**2,500**	**(4,847)**	**(10,930)**	**7,636**	**(3,294)**

Current period claims relate to risk borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial years.

Notes to the financial statements

For the year ended 31 December 2022

2.1 Revenue and expenses (continued)

(d) Profit before income tax

	2022 $'000	2021 $'000
Profit/(Loss) before income tax includes the following specific expenses:		
Employee costs		
Personnel cost	(4,212)	(4,800)
Contribution to superannuation fund	(412)	(441)
Change in annual and long service leave provision	(303)	(420)
Other administrative expenses		
Marketing fees	(56)	(217)
Management fees - Related party	(2,689)	(6,881)

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

	2022 $'000	2021 $'000
Net profit after income tax	2,902	4,537
Adjustments		
Effect of foreign exchange on cash and cash equivalents	54	(189)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(216)	250
Decrease/ in net deferred tax assets	538	210
Decrease in deferred acquisition costs	1,459	2,978
(Decrease)/increase in trade and other payables	(1,404)	1,779
(Decrease)in current tax liability	(317)	(261)
(Decrease)/Increase in provisions	(743)	189
(Decrease) in outstanding claim liability	(3,894)	(10,425)
(Decrease) in unearned premium liability	(8,705)	(17,601)
Increase in foreign currency translation reserve	106	74
Net cash used in operating activities	(10,220)	(18,460)

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. 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 generates 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 (Australian Parent and Group only)

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.

Taxation basis
For tax purposes the Branch is a non-resident general insurer in New Zealand and is taxed on 10% of its New Zealand sourced gross premium income. Deductions for 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.

2.2 Income tax expense and deferred tax (continued)

(a) Income tax expense

	2022 $'000	2021 $'000
Current tax on profit/loss for the year	162	480
Deferred tax (income)/expense	447	202
Over provision in prior year	(382)	6
Income tax expense	227	688

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

	2022 $'000	2021 $'000
Profit from continuing operations before income tax expense	3,129	5,226
Tax at the Australian tax rate of 30%	939	1,568
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Permanent differences (^)	(298)	(810)
Effect of differences in tax rates in foreign jurisdictions	(32)	(74)
Adjustments of prior periods	(382)	4
Income tax expense	227	688

(^) Amortisation of acquisition costs and other items.

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

	2022 $'000	2021 $'000
Provisions and other liabilities	229	(160)
Others	218	362
	447	202

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		
Provisions and other liabilities	316	646
Others	238	446
	554	1,092
Net deferred tax assets	554	1,092
Amounts expected to be settled within 12 months	486	915
Amounts expected to be settled after more than 12 months	68	177
	554	1,092

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	-	-

Notes to the financial statements

For the year ended 31 December 2022

Section 3 - General 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 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 insurance 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.

Outstanding claims liability

The liability for outstanding claims covers the expected future payments for claims including IBNR and IBNER claims and the anticipated direct and indirect costs of settling these claims.

The liability for outstanding claims is subject to yearly actuarial review. The general approach to the actuarial estimation of outstanding claims is to analyse all available past experience. Based on this, the expected future payments are determined and discounted to present value using a risk free rate.

The provision for the outstanding claims liability also contains a risk margin to reflect the inherent uncertainty in the central estimate. The risk margin increases the probability that the net liability is adequately provided for to a 90% (2021: 90%) confidence level.

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.

Notes to the financial statements

For the year ended 31 December 2022

3.1 Assets and liabilities (continued)

Unexpired risk liability

Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the end of the reporting period exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risk is calculated separately by reference to separate classes of business, which are managed together, after taking into account the relevant investment return.

Unexpired risk liability, if any, remaining after writing off deferred acquisition costs is recognised immediately in the profit or loss. Refer to note 3.1(g)(v)).

Employee benefits

(i) Short term employee benefits

The provisions for employee entitlements to wages, salaries and annual leave expected to be settled wholly within 12 months of year end represents the amount which the Company has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at undiscounted amounts based on wage and salary rates that the Company expects to pay including related on-costs.

(ii) Other long-term employee benefit obligations

The liability for employees entitled to long service leave represents the present value of the estimated future cash outflows to be made by the Company resulting from employees' services provided up to the balance date.

Liabilities for employee entitlements, which are not expected to be wholly settled within 12 months, are discounted using the rates attaching to Australian Commonwealth Government securities at balance date, which most closely match the terms of maturity of the related liabilities. In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the Company's experience with staff tenure. Related on-costs have also been included in the liability.

(iii) Defined contribution plans

For defined contribution plans, the Company has no further payment obligations once the contributions have been paid. The contributions are recognised as other staff expenses when they are due.

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	7,847	19,528
Short term deposits	69,946	11,304
Total cash and cash equivalents	77,793	30,832

(b) Investments

	2022 $'000	2021 $'000
Term deposits	7,000	60,730
Debt securities	13,832	17,714
Total investments	20,832	78,444
Current	5,000	55,730
Non-current	15,832	22,714
Total investments	20,832	78,444

(c) Trade and other receivables

	2022 $'000	2021 $'000
Current assets		
Other receivables	172	384
Interest receivables	555	126
Total trade and other receivables	727	511

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

(d) Deferred acquisition costs

	2022 $'000	2021 $'000
Current	695	1,424*
Non-current	466	1,213
Total deferred acquisition costs	1,161	2,638
Reconciliation of changes in deferred acquisition costs:		
Opening balance at 1 January	2,638	5,616
Deferred acquisition costs incurred during the year	(26)	7
Deferred acquisition costs written off during the year	-	-
Amortisation charged to statement of profit or loss	(1,451)*	(2,985)
Closing balance at 31 December	1,161	2,638

Deferred acquisition costs incurred during the year and amortisation charged to statement of profit or loss relate to the Personal Loans portfolios as there were no deferred acquisition costs for Credit Card portfolios.

* Note 3.1(d) – currency translation effect.

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	285	132
Accrued expenses	527	718
Payables to related parties	182	1,632
	994	2,482

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

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

(f) Employee benefits and other provisions

			2022			2021
	Current $'000	Non-Current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Leave obligations	580	70	650	832	50	882
Other employee benefit obligations	366	-	366	875	-	875
Total employee benefit obligations	946	70	1,016	1,708	50	1,758
Other provisions	193	-	193	193	-	193
Total employee benefit obligations and other provisions	1,139	70	1,209	1,901	50	1,951

Total number of employees as at 31 December 2022: 37 (2021: 55)

Notes to the financial statements

For the year ended 31 December 2022

3.1 Assets and liabilities (continued)

(g) Outstanding claims liability

	2022 $'000	2021 $'000
Central estimate	4,989	7,659
Risk margin	1,730	2,257
Claims handling expense	509	1,077
	7,228	10,993
Discount to present value	(267)	(99)
Gross outstanding claims liability	**6,961**	**10,894**
Current	4,438	6,758
Non-current	2,523	4,136
Total outstanding claims liability	6,961	10,894

(i) The following ranges of discount rates were used in the measurement of outstanding claims and reinsurance recoveries.

Australia

The current year discount rate is 3.32% (2021: 0.03%).
The subsequent years discount rate is 3.30% - 5.00% (2021: 0.30% - 3.40%).
The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 1.26 years (2021: 1.29 years).

New Zealand Branch

The current year discount rate is 5.00% (2021: 1.74%)
The subsequent years discount rate is 5.00% (2021: 1.74%)
The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 0.83 years (2021: 0.85 years)

(ii) Risk margin

Process for determining risk margin

The risk margin is an additional allowance for uncertainty in the ultimate cost of claims. The overall margin adopted is determined by the Board after considering the uncertainty in the portfolio, industry trends and the Company's risk appetite.

To determine the margin adopted the Appointed Actuary has reviewed the factors impacting the portfolio to establish a recommended margin at the level required by the Board. Factors considered include:

- variability of claims experience of the portfolio
- quality of historical data
- diversification between different classes within the portfolio
- increase in uncertainty due to future economic environment and legislative changes.

Notes to the financial statements

For the year ended 31 December 2022

(g) Outstanding claims liability (continued)

The level of uncertainty varies between classes of business, as such the adopted risk margin varies between business classes. The risk margin is applied to the gross central estimate.

The aggregate risk margin, after diversification allowance, is intended to achieve a 90% (2021: 90%) probability of sufficiency.

The risk margins applied to the major segments of the portfolio for 90% (2021: 90%) level of adequacy are:

	2022 %	2021 %
Australia		
Consumer credit insurance - disability	24.1	22.8
Consumer credit insurance - unemployment	65.0	46.5
New Zealand		
Consumer credit insurance - disability	35.4	30.3
Consumer credit insurance - unemployment	55.8	35.7

(iii) Reconciliation of movement in discounted net outstanding claims liability

	2022		2021	
	Gross $'000	Total $'000	Gross $'000	Total $'000
Balance at 1 January	10,894	10,894	21,319	21,319
Current year claims incurred	7,346	7,346	10,930	10,930
Change in previous year claims	(2,500)	(2,500)	(7,597)	(7,597)
Current year claims paid / reinsurance recovered	(4,133)	(4,133)	(5,530)	(5,530)
Previous year claims paid / reinsurance recovered	(4,646)	(4,646)	(8,228)	(8,228)
Closing balance at 31 December	6,961	6,961	10,894	10,894

Notes to the financial statements

For the year ended 31 December 2022

(g) Outstanding claims liability (continued)

(iv) Claims development tables

Claims development tables are disclosed in order to put the claims estimates included in the financial statements into context, allowing comparison of those claims estimates with the claims results seen in previous years. In effect, the table highlights the Company's ability to provide a reliable estimate of the total value of claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accidents year-ends. The lower part of the table provides a reconciliation of the total reserve included in the statement of financial position and the estimates of cumulative claims.

Gross

Reporting Year					**Accident Year**					
	Prior*	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Estimate of gross ultimate claims cost										
At end of reporting year		12,190	12,204	13,861	13,900	14,199	22,908	10,026	6,959	
One year later		10,993	12,144	13,212	12,577	15,118	16,784	8,688		
Two years later		11,563	12,240	12,788	13,076	14,411	16,628			
Three years later		11,720	12,369	12,948	13,192	14,354				
Four years later		11,738	12,368	13,026	13,015					
Five years later		11,858	12,377	12,956						
Six years later		11,840	12,384							
Seven years later		11,833								
Current estimate of cumulative claims	177,576	11,833	12,384	12,956	13,015	14,354	16,628	8,688	6,959	274,393
Cumulative payments to date	(177,575)	(11,825)	(12,360)	(12,871)	(12,827)	(13,780)	(15,381)	(7,168)	(3,889)	(267,676)
Undiscounted claims handling expenses	-	-	1	5	11	35	75	96	285	508
Gross outstanding claims - undiscounted	1	9	25	90	200	609	1,322	1,616	3,356	7,228
Discount impact	-	-	(1)	(3)	(7)	(22)	(52)	(68)	(114)	(266)
Gross outstanding claims - discounted	**1**	**9**	**24**	**87**	**193**	**587**	**1,270**	**1,548**	**3,242**	**6,961**

Notes to the financial statements

For the year ended 31 December 2022

(g) Outstanding claims liability (continued)

Net

Reporting Year	Accident Year									
	Prior*	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Estimate of net ultimate claims cost										
At end of reporting year		12,190	12,204	13,861	13,900	14,199	22,908	10,026	6,959	
One year later		10,993	12,144	13,212	12,577	15,118	16,784	8,688		
Two years later		11,563	12,240	12,788	13,076	14,411	16,628			
Three years later		11,720	12,369	12,948	13,192	14,354				
Four years later		11,738	12,368	13,026	13,015					
Five years later		11,858	12,377	12,956						
Six years later		11,840	12,384							
Seven years later		11,833								
Current estimate of cumulative claims	177,576	11,833	12,384	12,956	13,015	14,354	16,628	8,688	6,959	274,393
Cumulative payments to date	(177,575)	(11,825)	(12,360)	(12,871)	(12,827)	(13,780)	(15,381)	(7,168)	(3,889)	(267,676)
Undiscounted claims handling expenses	-	-	1	5	11	35	75	96	285	508
Net outstanding claims - undiscounted	1	9	25	90	200	609	1,322	1,616	3,356	7,228
Discount impact	-	-	(1)	(3)	(7)	(22)	(52)	(68)	(114)	(266)
Nets outstanding claims - discounted	**1**	**9**	**24**	**87**	**193**	**587**	**1,270**	**1,548**	**3,242**	**6,961**

(v) Liability adequacy test

The liability adequacy test (LAT) is an assessment of the carrying amount of unearned premium liabilities and is conducted at the end of each reporting period. The test is calculated separately for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

The probability of sufficiency adopted for LAT differs from the 90% (2021: 90%) probability of sufficiency adopted in determining the outstanding claims liabilities (refer to note 3.1). The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net unearned premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liabilities.

For the purposes of the liability adequacy test, the net premium liabilities at a 75% probability of sufficiency as at 31 December 2022 is 3,219,673 (2021: $7,557,937), therefore the liability adequacy test at reporting date resulted in a surplus for the Company.

3.1 Assets and liabilities (continued)

(h) Unearned premium liability

	2022 $'000	2021 $'000
Balance as at 1 January	15,657	33,258
Premiums written during the year	(139)	83
Premiums earned during the year	(8,660)	(17,685)
Closing balance as at 31 December	6,858	15,657
Current	4,108	8,455
Non-current	2,750	7,202
Total unearned premium liability	**6,858**	**15,657**

Premiums written and earned during the year relate to the Personal Loans portfolios as there were no unearned premium liabilities as at 31 December 2022 and 31 December 2021 for the Credit Card portfolios.

3.2 Actuarial assumptions and methods

(a) Process used to determine outstanding claims liabilities (actuarial methods)

The Company writes consumer credit insurances. The risks covered in this group include:

- Involuntary Unemployment
- Disability
- Merchandise Protection, Price Protection
- Stolen Cards
- Repayment Protection

The general approach to actuarial estimation of insurance liabilities is to analyse all available past experience, including the number of reported and finalised claims, timing and amounts of claim payments. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance date can be estimated.

The determination of the outstanding claims liabilities involves two steps:

1. The determination of the central estimate of outstanding claims at the balance date.

   The central estimate of outstanding claims includes an allowance for claims incurred but not reported (IBNR) and the further development of reported claims, also known as incurred but not enough reported (IBNER). The central estimate has no deliberate bias towards either over or under estimation. This means that the central estimate is assessed to have approximately 50% chance of adequacy.

2. The determination of a risk margin and claims handling expense provision to be added to the central estimates of outstanding claims. The risk margin is intended to achieve a 90% probability of adequacy at an aggregate level.

The estimation of the outstanding claims liabilities involves the use of the following standard aggregate projection methods: Payment Chain Ladder ("PCL"); Payment Per Claim Incurred (“PPCI”); Payment Per Claim Finalised (“PPCF”); Payment Per Claim Handled (“PPCH”); Bornheutter Ferguson (“BF”) and Loss Ratio x Earned Premium. A blend of the projection methods is adopted based on the nature of the claims within each portfolio to estimate the appropriate outstanding claims.

Notes to the financial statements

For the year ended 31 December 2022

3.2 Actuarial assumptions and methods (continued)

(b) Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims liabilities of the consumer credit insurance portfolios are as follows:

2022	Unemployment (Personal Loans)	Disability (Personal Loans)	Unemployment (Credit Cards)	Disability (Credit Cards)	Merchandise Protection, Price Protection and Stolen Cards (Credit Cards)
Australia:					
Number of future finalisations	67	296	267	303	1,036
Discounted loss ratio*	19%	40%	12%	14%	71%
Expense rate	7.1%	7.1%	7%	7%	67%
Discount rate	3.3%p.a. – 5.0%p.a.	3.3%p.a. – 5.0%p.a.	3.3%p.a. – 5.0%p.a.	3.3%p.a. – 5.0%p.a.	3.3%p.a. – 5.0%p.a.

2022	Unemployment (Personal Loans)	Disability (Personal Loans)	Unemployment (Credit Cards)	Disability (Credit Cards)	Merchandise Protection, Price Protection and Stolen Cards (Credit Cards)
New Zealand:					
Number of future finalisations	47	189	39	64	49
Discounted loss ratio*	7%	40%	11%	13%	25%
Expense rate	7%	7%	7%	7%	67%
Discount rate	5%	5%	n/a	n/a	n/a

2021	Unemployment (Personal Loans)	Disability (Personal Loans)	Unemployment (Credit Cards)	Disability (Credit Cards)	Merchandise Protection, Price Protection and Stolen Cards (Credit Cards)
Australia:					
Number of future finalisations	183	415	492	466	1,155
Discounted loss ratio*	30%	40%	22%	20%	68%
Expense rate	12%	12%	12%	12%	48%
Discount rate	0.3%p.a. – 3.4%p.a.	0.3%p.a. – 3.4%p.a.	0.3%p.a. – 3.4%p.a.	0.3%p.a. – 3.4%p.a.	0.3%p.a. – 3.4%p.a.

Notes to the financial statements

For the year ended 31 December 2022

3.2 Actuarial assumptions and methods (continued)

(b) Actuarial assumptions (continued)

2021	Unemployment (Personal Loans)	Disability (Personal Loans)	Unemployment (Credit Cards)	Disability (Credit Cards)	Merchandise Protection, Price Protection and Stolen Cards (Credit Cards)
New Zealand:					
Number of future finalisations	95	252	92	104	62
Discounted loss ratio*	13%	38%	27%	22%	19%
Expense rate	12%	12%	12%	12%	48%
Discount rate	1.74%	1.74%	1.74%	1.74%	1.74%

*As at December

Other assumptions

The outstanding claims provision for Disability (Personal Loans) includes an additional 1.3% for medical expenses, with a prudential margin calculated at a 90% probability of adequacy.

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

1. **Number of future finalisations:** The number of future finalisations has been based on an analysis of historical claim reports and finalisation rates. This then enables the future numbers of reports, handled claims and finalisations to be projected. Any potential impacts which are yet to emerge in the historical experience (for example changes in underlying risks, operating environment and economic environment), are also implicitly captured within the assumptions.
2. **Average claim size:** The adopted average claim size has been based on historical ratios of claim payments to factors such number of claim reported, claim finalised or handled. Any potential impacts which are yet to emerge in the historical experience (for example changes in underlying risks, operating environment and economic environment), are also implicitly captured within the assumptions.
3. **Expense rate:** The adopted claims handling expense rate of 9.8% (2021: 12.8%) of the projected gross claim payments have been determined based on the results of an expense allocation performed for the 2022 valuation.
4. **Discount rate:** The central estimate of the Outstanding Claims Liabilities has been discounted to allow for future investment income attributable to the liabilities during the run-off period. The future investment earnings assumptions are estimates of the future annual risk-free rates of return. They have been derived from the yield curve on Australian Government Bonds as at 31 December 2022 as published by the Reserve Bank of Australia.

Notes to the financial statements

For the year ended 31 December 2022

3.2 Actuarial assumptions and methods (continued)

(c) Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the profit or loss and equity of the Company. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities. The outstanding claims liabilities are discounted and include claim handling expenses and a risk margin at the 90% probability of adequacy.

Key actuarial assumptions 2022	Changes	Impact on net outstanding claims liabilities ($'000's)	Impact on total outstanding claims liabilities (%)
Australia:			
Reported claims chain ladder factor	Increase the chain ladder factor by 10%	+123	+2.4
Discount rate	Decrease discount rate by 1%	+54	+1.0
Claims handling expense rate	Increase claims handling expense rate by 4%	+205	+3.9
New Zealand*:			
Chain ladder factor	Increase the chain ladder factor by 10%	+22	+1.15
Discount rate	Decrease discount rate by 1%	+15	+0.79
Claims handling expense rate	Increase claims handling expense rate by 4%	+78	+4.18

Key actuarial assumptions 2021	Changes	Impact on net outstanding claims liabilities ($'000's)	Impact on total outstanding claims liabilities (%)
Australia:			
Reported claims chain ladder factor	Increase the chain ladder factor by 10%	+228	+2.7
Discount rate	Decrease discount rate by 1%	+95	+1.1
Claims handling expense rate	Increase from claims handling expense rate by 4%	+321	+3.9
New Zealand*:			
Chain ladder factor	Increase the chain ladder factor by 10%	+38	+1.42
Discount rate	Decrease discount rate by 1%	+23	+0.84
Claims handling expense rate	Increase from claims handling expense rate by 4%	+109	+4.03

*Branch credit insurances only

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, other than related parties (See note 5.3(b)).

Notes to the financial statements

For the year ended 31 December 2022

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	77,793	-	-	**77,793**	-	**77,793**
Investments	20,832	-	-	**20,832**	-	**20,832**
Trade and other receivables	-	727	-	**727**	-	**727**
Trade and other liabilities	-	994	-	**994**	-	**994**
Total credit risk exposure	**98,625**	**1,721**	-	**100,346**	-	**100,346**

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	30,832	-	-	**30,832**	-	**30,832**
Investments	78,444	-	-	**78,444**	-	**78,444**
Trade and other receivables	-	511	-	**511**	-	**511**
Trade and other liabilities	-	2,482	-	**2,482**	-	**2,482**
Total credit risk exposure	**109,276**	**2,993**	-	**112,269**	-	**112,269**

*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 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	23,218	32,225	22,350	-	-	**77,793**
Investments	20,832	-	-	-	-	**20,832**
Trade and other receivables	-	-	-	-	727	**727**
Trade and other liabilities	-	-	-	-	994	**994**
Total credit risk exposure	**44,150**	**32,125**	**22,350**		**1,721**	**100,346**

2021	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	26,673	659	3,500	-	-	**30,832**
Investments	40,779	24,315	13,350	-	-	**78,444**
Trade and other receivables	-	-	-	-	511	**511**
Trade and other liabilities	-	-	-	-	2,482	**2,482**
Total credit risk exposure	**67,452**	**24,974**	**16,850**	**-**	**2,993**	**112,269**

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 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	77,793	-	-	-	**77,793**
Investments	5,000	2,000	13,832	-	**20,832**
Trade and other liabilities	(994)	-	-	-	**(994)**
Outstanding claims liability	(4,438)	(1,513)	(961)	(49)	**(6,961)**
Net liquid assets	**77,361**	**487**	**12,871**	**(49)**	**90,670**

2021	**Up to a year $'000**	**1-2 years $'000**	**2-5 years $'000**	**Over 5 years $'000**	**Total $'000**
Cash and cash equivalents	30,832	-	-	-	**30,832**
Investments	55,730	5,000	17,714	-	**78,444**
Trade and other liabilities	(2,482)	-	-	-	**(2,482)**
Outstanding claims liability	(6,758)	(2,360)	(1,665)	(111)	**(10,894)**
Net liquid assets	**77,322**	**2,640**	**16,049**	**(111)**	**95,900**

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

Notes to the financial statements

For the year ended 31 December 2022

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.

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 Statement of Financial Position 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:	**21,704**	**25,227**
Total liabilities denominated in New Zealand dollars:	**5,432**	**10,568**

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:	**(1,516)**	**(1,381)**
Strengthening of the AUD against the NZD will increase/(decrease) profit by:	**(150)**	**(351)**

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 rates applied during the year:

	Average rate		Reporting date rate	
	2022	2021	2022	2021
NZD1 = AUD	**0.932**	**0.943**	**0.932**	**0.942**

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 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	69,946	-0.70%	(490)	(147)	-	-	-	**(147)**
Investments	7,000	-1.21%	(85)	(26)	-	-	-	**(26)**
Debt securities	13,832	-1.21%	(167)	(50)	-	-	-	**(50)**
Total	**90,778**		**(742)**	**(223)**	**-**	**-**	**-**	**(223)**

	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	11,304	-0.1%	(11)	(3)	-	-	-	**(3)**
Investments	60,730	-0.1%	(61)	(18)	-	-	-	**(18)**
Debt securities	17,714	-0.1%	(18)	(5)	-	-	-	**(5)**
Total	**89,748**		**(72)**	**(27)**	**-**	**-**	**-**	**(27)**

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 Company has no equity securities as at 31 December 2022 and had no equity securities at 31 December 2021.

Notes to the financial statements

For the year ended 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 insurances.

(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 GPS 230 Reinsurance Management for General Insurers 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 arising 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.

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 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.

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.

Notes to the financial statements

For the year ended 31 December 2022

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	-	13,832	-	13,832
Total financial assets	-	13,832	-	13,832
2021				
Financial assets				
Debt investments	-	17,714	-	17,714
Total financial assets	-	17,714	-	17,714

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For the year ended 31 December 2022

(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 market value 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 General 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 General 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.

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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 to meet policyholders obligations 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.

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For the year ended 31 December 2022

4.1 Capital management (continued)

(a) Contributed equity

(i) Share capital

	2022 Shares	2021 Shares	2022 $'000	2021 $'000
Ordinary shares - fully paid	10,001	10,001	2,000	2,000
	10,001	10,001	2,000	2,000

(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 General 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 (the Group) as a public company in Australia.

(b) Reserves

	2022 $'000	2021 $'000
Tax consolidation reserve		
At 1 January	63,783	63,783
At 31 December	63,783	63,783
Foreign currency translation reserve		
At 1 January	867	793
Currency translation differences arising during the year	(68)	74
At 31 December	799	867
Total reserves	64,582	64,650

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.

Foreign currency translation

Notes to the financial statements

For the year ended 31 December 2022

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.

Capital adequacy

The Company is required to hold prudential reserves, over and above the general insurance contract liabilities, as a buffer against adverse future experience and poor investment returns. The amendments to the risk-based prudential capital standards, Life And General Insurance Capital (LAGIC) standards, for Australian life and general insurance companies were introduced effective 1 July 2019. 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 general insurer is exposed and a general company must ensure that the general company has, at all times, a capital base in excess of its PCA (plus any additional amount as required by APRA).

The excess of the Company's capital base *over* the PCA as at 31 December 2022 was $75.0 million (2021: $66.6 million).

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

	2022 $'000	**2021 $'000**
(a) Capital base	85,995	81,815
(b) Prescribed capital amount	10,010	15,215
Capital in excess of prescribed capital amount = (a) - (b)	74,985	66,600
Capital adequacy multiple = (a)/(b)	8.49	538%
Capital Base:		
Net assets	84,896	82,062
Regulatory adjustment applied in the calculation of tier 1 capital	100	(247)
Common equity Tier 1 Capital	84,995	81,815
Prescribed capital amount:		
Insurance risk charge	1,596	3,208
Insurance concentration risk charge	6,671	10,095
Asset risk charge	3,520	3,484
Operational risk charge	399	805
Aggregation benefit	(2,176)	(2,377)
Prescribed capital amount	10,010	15,215

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 APRA's 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.

Notes to the financial statements

For the year ended 31 December 2022

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

Notes to the financial statements

For the year ended 31 December 2022

(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	3,578,400	8,461,393
Hallmark Life Insurance Company Ltd	888,799	(1,580,304)
Cross charges paid to:		
Latitude Financial Services Australia Holdings Pty Ltd	3,899,452	2,411,913
Commission paid to/(received from):		
Latitude Finance Australia	739,707	1,776,620
Latitude Personal Finance Pty Ltd	(225,548)	(764,974)
Latitude Financial Services Ltd - NZ	209,604	121,354
RMBS investments with:		
Latitude Personal Finance Pty Ltd	(1,627,996)	(5,000,000)

Notes to the financial statements

For the year ended 31 December 2022

5.3 Related party transactions (continued)

(c) Outstanding balances with related parties

	2022 $	2021 $
Receivables/(payables) outstanding at the end of the period:		
Latitude Financial Services Australia Holdings Pty Ltd	(715,251)	(2,193,521)
Latitude Finance Australia	456,548	646,751
Hallmark Life Insurance Company Ltd	150,117	391,878
Latitude Personal Finance Pty Ltd	(193,079)	(416,295)
Latitude Financial Services Ltd - NZ	81,362	(60,840)
Latitude Insurance Holdings Pty Ltd	(1,243)	(411)

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.

Notes to the financial statements

For the year ended 31 December 2022

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		
Audit of financial statements	105,000	105,000
Assurance services		
Auditors of Hallmark General 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	**155,000**	**155,000**

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

Hallmark General Insurance Company Ltd
New Zealand Branch

FINANCIAL REPORT
For the Year Ended 31 December 2022

Hallmark General 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 General Insurance Company Ltd New Zealand Branch (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 General Insurance Company Ltd New Zealand Branch ("the Branch"):

(a) the financial statements and notes set out on pages 9 to 49 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 General Insurance Company Ltd. - New Zealand Branch

Report on the audit of the financial statements

9 to 49

Opinion

In our opinion, the financial statements of Hallmark General Insurance Company Ltd. - New Zealand Branch (the 'Branch') on pages ~~10 to 50~~

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;

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 $217,000 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.

KPMG

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 Outstanding Claim Liabilities ($1,873,000)	
Refer to Note 3.1 (f) to the Financial Report. The valuation of the Outstanding Claim 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 number of future finalisations based on an analysis of historical claim reports and finalisation rates; discounted loss ratio; discount rates based on related yield curves; claim handling expense; and medical expenses.	Our audit procedures included the following: — Evaluating the key controls in the general 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 overall level of reserving is appropriate given the consideration of historical and current claims expense, the entity overall methodology, and historical evidence of the adequacy or otherwise of the previous period's reserve level. — Identify where there are indicators of possible management bias.

Other information

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.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

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;

— 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-4/

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		6,071	8,965
Net insurance premium revenue	2.1(a)	6,071	8,965
Claims recovered/(expenses)		(1,181)	205
Net claims recovered/(expenses)	2.1(c)	(1,181)	205
Acquisition costs		(995)	(1,794)
Administration expenses		(2,482)	(3,687)
Underwriting Expenses		(3,477)	(5,481)
Underwriting result		**1,413**	**3,689**
Investment income	2.1(b)	439	242
Other income/(expense)		(70)	46
Profit/(loss) before income tax		1,782	3,977
Income tax expense	2.2(a)	(170)	(251)
Profit/(loss) for the year		**1,612**	**3,726**
Currency translation differences arising during the year		-	-
		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year from continuing operations		**1,612**	**3,726**
Profit is attributable to:			
Owners of Hallmark General Insurance Company Ltd New Zealand Branch		1,612	3,726
Profit/(loss) for the year		**1,612**	**3,726**
Total comprehensive income for the year is attributable to:			
Owners of Hallmark General Insurance Company Ltd New Zealand Branch		1,612	3,726
Other comprehensive income for the year, net of tax		**1,612**	**3,726**

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)	20,908	5,300
Investments	3.1(b)	-	18,450
Trade and other receivables	3.1(c)	140	52
Deferred acquisition costs	3.1(d)	656	1,425
Total assets		**21,704**	**25,227**
Liabilities			
Trade and other liabilities	3.1(e)	108	480
Current tax liabilities		170	251
Outstanding claims liability	3.1(f)	1,873	2,710
Unearned premium liability	3.1(g)	3,281	7,126
Total liabilities		**5,432**	**10,567**
Net assets		**16,272**	**14,660**
Head Office Account			
Retained earnings		16,272	14,660
Total Head Office Account		**16,272**	**14,660**

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 General Insurance Company Ltd	
		Retained Earnings	**Total Head Office Account**
	Notes	**$'000**	**$'000**
At 1 January 2021		**10,934**	**10,934**
Profit for the year		3,726	3,726
Total		**14,660**	**14,660**
At 31 December 2021		**14,660**	**14,660**
At 1 January 2022		**14,660**	**14,660**
Profit for the year		1,612	1,612
Total		**16,272**	**16,272**
At 31 December 2022		**16,272**	**16,272**

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 - net		2,153	666
Claims paid		(2,019)	(3,439)
Payments to suppliers and employees		(3,076)	(4,022)
Interest received		351	370
Income taxes paid		(251)	(790)
Net cash outflow from operating activities	2.1(d)	**(2,842)**	**(7,215)**
Purchase of investments		(44,900)	(44,900)
Maturity of investments		63,350	42,500
Net cash inflow/(outflow) from investing activities		**18,450**	**(2,400)**
Cash flows from financing activities			
Net increase/(decrease) in cash and cash equivalents		15,608	(9,615)
Cash and cash equivalents at beginning of financial year		5,300	14,915
Cash and cash equivalents at end of financial year	3.1(a)	**20,908**	**5,300**

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 General Insurance Company Ltd (the Company) is a company limited by shares, incorporated and domiciled in Australia 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). These are the financial statements of the Branch as at and for the year ended 31 December 2022. The Branch is a for-profit entity and is primarily involved in the underwriting of general insurance risks.

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

(b) Statement of compliance

Hallmark General 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 Markets Conduct 2013 and its financial statements comply with that 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, equity investments designated at fair value though other comprehensive income.

(d) Functional and presentation currency

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

Notes to the financial statements

For the year ended 31 December 2022

1.1 Basis of preparation (continued)

(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.

(f) Significant estimates and judgements

The preparation of financial statements that conform to accounting standards requires Management to exercise judgement in applying the Branch'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 Branch and that are believed to be reasonable under the circumstances.

The ultimate liability arising from claims made under insurance contracts

Provision is made at the year end for the estimated cost of claims incurred but not settled at the end of the reporting period, including the cost of claims incurred but not reported (lBNR) to the Branch.

The Branch takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Branch, where more information about the claim event is generally available. In calculating the estimated cost of unpaid claims the Branch uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics, or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in the economic environment
- changes in the mix of business
- medical and technological developments
- change in unemployment factor for policy holders
- changes in benefit structures
- changes in claims management practice

The methods used to analyse past claims experience and to project future claims experience are largely determined by the available data and the nature and maturity of the portfolio.

The determination of an appropriate outstanding claims liability and the specific assumptions used are detailed in note 3.2.

Notes to the financial statements

For the year ended 31 December 2022

1.1 Basis of preparation (continued)

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

Measurement of Outstanding Claims Liabilities

While the methodologies and assumptions applied remained unchanged from those applied in the financial statements for the year ended 31 December 2021, the Branch has incorporated estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic into the measurement calculations as described in Note 3.2.

Notes to the financial statements

For the year ended 31 December 2022

1.1 Basis of preparation (continued)

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 – NZ IFRS 17 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 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,
- Interest revenue calculated using the effective interest method,
- net impairment loss on financial assets and;
- 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' that is similar to the current treatment of general insurance contracts under the NZ IFRS 4 Insurance Contracts.

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 and 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 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 be determined by the Appointed Actuary as part of the annual Actuarial Valuation Report as such the exact impact is to be finalized when the 2023 valuation is prepared. There will be a change to the risk margin currently applied under NZ IFRS 4 but the impact is not expected to be material.

1.3 New and amended standards (to be continued)

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 Statement of Financial Position.

Investment income

All investment income is recognised as revenue on an accrual basis. 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 outstanding claims liability.

Notes to the financial statements

For the year ended 31 December 2022

2.1 Revenue and expenses (continued)

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 accruals basis.

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.

Deferred acquisition costs

Costs, which vary with and are primarily related to the production of new business, have been deferred to the extent such costs are deemed recoverable from future profits. Such costs primarily include commissions. These costs are amortised in proportion to premiums over the estimated lives of the policies. A write down to recoverable amount is recognised where the present value of expected future claims (including settlement costs) in relation to business written to the end of the reporting period exceeds related unearned premiums less the deferred acquisition costs.

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) Net insurance premium revenue

	2022 $'000	2021 $'000
Gross written premium	2,226	637
Movement in Unearned Premium	3,845	8,328
Rebates	-	-
Net premium revenue	6,071	8,965

(b) Investment income

	2022 $'000	2021 $'000
Interest income	439	242
Total investment income	439	242

(c) Net claims incurred

			2022			2021
	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Gross claims incurred and related expenses - undiscounted	1,540	(322)	1,218	3,006	(3,182)	(176)
Discount and discount movement - gross claims incurred	(41)	4	(37)	(24)	(5)	(29)
	1,499	(318)	1,181	2,982	(3,187)	(205)
Net claims (recovered) /incurred	1,499	(318)	1,181	2,982	(3,187)	(205)

Current period claims relate to risk borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial years.

Notes to the financial statements

For the year ended 31 December 2022

2.1 Revenue and expenses (continued)

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

	2022 $'000	2021 $'000
Net profit after income tax	1,612	3,726
Adjustments		
Change in operating assets and liabilities:		
(Increase) in trade and other payables	(372)	(233)
(Increase)/Decrease in trade and other receivables	(88)	128
Decrease in deferred acquisition costs	769	1,667
(Decrease) in outstanding claim liability	(837)	(3,636)
(Increase) in unearned premium liability	(3,845)	(8,328)
(Decrease) in current tax liability	(81)	(539)
Net cash used in provided by operating activities	(2,842)	(7,215)

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 form 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	170	251
Income tax expense	170	251

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

	2022 $'000	2021 $'000
Profit from continuing operations before income tax expense	1,782	3,977
Tax at the New Zealand tax rate of 28%	499	1,114
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Permanent differences	(329)	(863)
Income tax expense	170	251

Notes to the financial statements

For the year ended 31 December 2022

Section 3 - General 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.

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 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(d).

Asset backing general insurance liabilities

Hallmark General Insurance Company Ltd 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

3.1 Assets and liabilities (continued)

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 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.

Outstanding claims liability

The liability for outstanding claims covers the expected future payments for claims including IBNR and IBNER claims and the anticipated direct and indirect costs of settling these claims.

The liability for outstanding claims is subject to yearly actuarial review. The general approach to the actuarial estimation of outstanding claims is to analyse all available past experience. Based on this, the expected future payments are determined and discounted to present value using a risk free rate.

The provision for the outstanding claims liability also contains a risk margin to reflect the inherent uncertainty in the central estimate. The risk margin increases the probability that the net liability is adequately provided for to a 90% (2021: 90%) confidence level.

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.

Notes to the financial statements

For the year ended 31 December 2022

3.1 Assets and liabilities (continued)

Unexpired risk liability

Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies ln force at the end of the reporting period exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risk is calculated separately by reference to separate classes of business, which are managed together, after taking into account the relevant investment return.

Unexpired risk liability, if any, remaining after writing off deferred acquisition costs is recognised immediately in the profit or loss. Refer to note 3.1(f)(v).

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	950	200
Short term deposits	19,958	5,100
Total cash and cash equivalents	20,908	5,300

(b) Investments

	2022 $'000	2021 $'000
Current assets		
Term deposits	-	18,450
Total investments	-	18,450

(c) Trade and other receivables

	2022 $'000	2021 $'000
Current assets		
Other receivables	140	52
Total trade and other receivables	140	52

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

(d) Deferred acquisition costs

	2022 $'000	2021 $'000
Current	385	767*
Non-current	271	658
Total deferred acquisition costs	656	1,425
Reconciliation of changes in acquisition costs:		
Opening balance at 1 January	1,425	3,092
Amortisation charged to income	(769)*	(1,667)
Closing balance at 31 December	656	1,425

Acquisition costs incurred during the year and amortisation charged to income relate to the Personal Loans portfolios as there were no deferred acquisition costs as at 31 December 2022 and 31 December 2021 for the Credit Card portfolios.

* Note to 3.1 (d) - Currency translation effect

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	107	475
Accrued expenses	1	5
	108	480

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

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

(f) Outstanding claims liability

	2022 $'000	2021 $'000
Central estimate	1,308	1,841
Risk margin	530	652
Claims handling expense	113	257
	1,951	2,750
Discount to present value	(78)	(40)
Gross outstanding claims liability	1,873	2,710
Current	1,290	1,851
Non-current	583	859
Total outstanding claims liability	1,873	2,710

(i) The following ranges of discount rates were used in the measurement of outstanding claims and reinsurance recoveries.

The current year discount rate is 5.00% (2021: 1.74%)
The subsequent years discount rate is 5.00% (2021: 1.74%)
The weighted average expected term to settlement of the outstanding claims from the end of the reporting period is estimated to be 0.83 years (2021: 0.85 years)

(f) Outstanding claims liability (continued)

(ii) Risk margin

Process for determining risk margin

The risk margin is an additional allowance for uncertainty in the ultimate cost of claims. The overall margin adopted is determined by the Board after considering the uncertainty in the portfolio, industry trends and the Branch's risk appetite.

To determine the margin adopted the Appointed Actuary has reviewed the factors impacting the portfolio to establish a recommended margin at the level required by the Board. Factors considered include:

- variability of claims experience of the portfolio
- quality of historical data
- diversification between different classes within the portfolio
- increase in uncertainty due to future economic environment and legislative changes.

The level of uncertainty varies between classes of business, as such the adopted risk margin varies between business classes. The risk margin is applied to the gross central estimate.

The aggregate risk margin, after diversification allowance, is intended to achieve a 90% (2021: 90%) probability of sufficiency.

The risk margins applied to the major segments of the portfolio for 90% (2021: 90%) level of adequacy are:

	2022 %	**2021 %**
Consumer credit insurance - disability	35.4	30.3
Consumer credit insurance - unemployment	55.8	35.7

(iii) Reconciliation of movement in discounted outstanding claims liability

	2022		**2021**	
	Gross $'000	**Total $'000**	**Gross $'000**	**Total $'000**
Balance at 1 January	2,710	**2,710**	6,346	**6,346**
Current year claims incurred	1,498	**1,498**	2,982	**2,982**
Change in previous year claims	(317)	**(317)**	(3,179)	**(3,179)**
Current year claims paid / reinsurance recovered	(562)	**(562)**	(1,342)	**(1,342)**
Previous year claims paid / reinsurance recovered	(1,456)	**(1,456)**	(2,097)	**(2,097)**
Closing balance at 31 December	1,873	**1,873**	2,710	**2,710**

Notes to the financial statements

For the year ended 31 December 2022

(f) Outstanding claims liability (continued)

(iv) Claims development tables

Claims development tables are disclosed in order to put the claims estimates included in the financial statements into context, allowing comparison of those claims estimates with the claims results seen in previous years. In effect, the table highlights the Branch's ability to provide a reliable estimate of the total value of claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accidents year-ends. The lower part of the table provides a reconciliation of the total reserve included in the statement of financial position and the estimates of cumulative claims.

Gross

Reporting Year	Accident Year									
	Prior* $'000	2015* $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	2022 $'000	Total $'000
Estimate of gross ultimate claims cost										
At end of reporting year		3,132	2,881	3,046	3,255	3,485	8,067	2,907	1,486	
One year later		2,295	2,629	2,963	3,078	3,656	5,486	2,570		
Two years later		2,351	2,651	2,903	3,212	3,484	5,660			
Three years later		2,353	2,638	2,929	3,320	3,483				
Four years later		2,364	2,619	2,964	3,365					
Five years later		2,359	2,633	2,987						
Six years later		2,360	2,637							
Seven years later		2,360								
Current estimate of cumulative claims	8,943	2,360	2,637	2,987	3,365	3,483	5,660	2,570	1,486	33,491
Cumulative payments to date	8,943	2,360	2,637	2,987	3,363	3,417	5,302	2,078	567	31,654
Undiscounted claims handling expenses	-	-	-	-	-	4	21	29	59	113
Gross outstanding claims - undiscounted	-	-	-	1	2	69	379	521	978	1,950
Discount impact	-	-	-	-	-	-2	-12	-22	-41	-77
Gross outstanding claims - discounted	-	-	-	**1**	**2**	**67**	**367**	**499**	**937**	**1,873**

Notes to the financial statements

For the year ended 31 December 2022

(f) Outstanding claims liability (continued)

Net

Reporting Year	Accident Year									
	Prior*	**2015***	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Estimate of net ultimate claims cost										
At end of reporting year		3,132	2,881	3,046	3,255	3,485	8,067	2,907	1,486	
One year later		2,295	2,629	2,963	3,078	3,656	5,486	2,570		
Two years later		2,351	2,651	2,903	3,212	3,484	5,660			
Three years later		2,353	2,638	2,929	3,320	3,483				
Four years later		2,364	2,619	2,964	3,365					
Five years later		2,359	2,633	2,987						
Six years later		2,360	2,637							
Seven years later		2,360								
Current estimate of cumulative claims	8,943	2,360	2,637	2,987	3,365	3,483	5,660	2,570	1,486	33,491
Cumulative payments to date	8,943	2,360	2,637	2,987	3,363	3,417	5,302	2,078	567	31,654
Undiscounted claims handling expenses	-	-	-	-	-	4	21	29	59	113
Net outstanding claims - undiscounted	-	-	-	1	2	69	379	521	978	1,950
Discount impact	-	-	-	-	-	-2	-12	-22	-41	-77
Net outstanding claims - discounted	-	-	-	**1**	**2**	**67**	**367**	**499**	**937**	**1,873**

(v) Liability adequacy test

The liability adequacy test (LAT) is an assessment of the carrying amount of unearned premium liabilities and is conducted at the end of each reporting period. The test is calculated separately for each portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

The probability of sufficiency adopted for LAT differs from the 90% (2021: 90%) probability of sufficiency adopted in determining the outstanding claims liabilities (refer to note 3.1). The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liabilities.

For the purposes of the liability adequacy test, the net premium liabilities at a 75% probability of sufficiency as at 31 December 2022 is 2,533,623 (2021: 5,131,079), therefore the liability adequacy test at reporting date resulted in a surplus for the Branch.

Notes to the financial statements

For the year ended 31 December 2022

(g) Unearned premium liability

	2022 $'000	2021 $'000
Balance as at 1 January	7,126	15,454
Premiums earned during the year	(3,845)	(8,328)
Closing balance as at 31 December	3,281	7,126
Current	1,928	3,838
Non-current	1,353	3,288
Total unearned premium liability	3,281	7,126

Premiums written and earned during the year relate to the Personal Loans portfolios as there were no unearned premium liabilities as at 31 December 2022 and 31 December 2021 for the Credit Card portfolios.

3.2 Actuarial assumptions and methods

(a) Process used to determine outstanding claims liabilities (actuarial methods)

The Company writes consumer credit insurances. The risks covered in this group include:

- Involuntary Unemployment
- Disability
- Merchandise Protection, Price Protection
- Stolen Cards

The general approach to estimating Insurance Liabilities is to analyse all available past experience, including numbers of reported and finalised claims, amounts of claim payments, changes in case estimates and incurred loss ratios. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of Outstanding Claims and Premium Liabilities at the balance date can be estimated.

The determination of the outstanding claims liabilities involves two steps:

1. The determination of the central estimate of outstanding claims at the balance date.

   The central estimate of outstanding claims includes an allowance for claims incurred but not reported (IBNR) and the further development of reported claims, also known as incurred but not enough reported (IBNER). The central estimate has no deliberate bias towards either over or under estimation. This means that the central estimate is assessed to have approximately 50% chance of adequacy.

2. The determination of a risk margin and claims handling expense provision to be added to the central estimates of outstanding claims. The risk margin is intended to achieve a 90% probability of adequacy at an aggregate level.

The estimation of the outstanding claims liabilities involves the use of the following standard aggregate projection methods: Payment Chain Ladder ("PCL"); Payment Per Claim Incurred (“PPCI”); Payment Per Claim Finalised (“PPCF”); Payment Per Claim Handled (“PPCH”); and Bornheutter Ferguson (“BF”). A blend of the projection methods is adopted based on the nature of the claims within each portfolio to estimate the appropriate outstanding claims.

Notes to the financial statements

For the year ended 31 December 2022

3.2 Actuarial assumptions and methods (continued)

(b) Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims are as follows:

2022	Unemployment (Personal Loans)	Disability (Personal Loans)	Unemployment (Credit Cards)	Disability (Credit Cards)	Merchandise Protection, Price Protection and Stolen Cards (Credit Cards)
New Zealand:					
Number of future finalisations	47	189	39	64	49
Discounted loss ratio*	7%	40%	11%	13%	25%
Expense rate	7%	7%	7%	7%	67%
Discount rate	5%	5%	n/a	n/a	n/a

2021	Unemployment (Personal Loans)	Disability (Personal Loans)	Unemployment (Credit Cards)	Disability (Credit Cards)	Merchandise Protection, Price Protection and Stolen Cards (Credit Cards)
New Zealand:					
Number of future finalisations	95	252	92	104	62
Discounted loss ratio*	13%	38%	27%	22%	19%
Expense rate	12%	12%	12%	12%	48%
Discount rate	1.74%	1.74%	n/a	n/a	n/a

*As at December

Other assumptions

The outstanding claims provision for Disability (Personal Loans) includes an additional 1.3% for medical expenses, with a prudential margin calculated at a 90% probability of adequacy.

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

Notes to the financial statements
For the year ended 31 December 2022

3.2 Actuarial assumptions and methods (continued)

1. **Number of future finalisations:** The number of future finalisations has been based on an analysis of historical claim reports and finalisation rates. This then enables the future numbers of reports, handled claims and finalisations to be projected. Any potential impacts which are yet to emerge in the historical experience (for example changes in underlying risks, operating environment and economic environment), are also implicitly captured within the assumptions.
2. **Average claim size:** The adopted average claim size has been based on historical ratios of claim payments to factors such number of claim reported, claim finalised or handled. Any potential impacts which are yet to emerge in the historical experience (for example changes in underlying risks, operating environment and economic environment), are also implicitly captured within the assumptions.
3. **Expense rate:** The adopted claims handling expense rate of 7.5% (2021: 12.2%) of the projected gross claim payments has been determined based on the results of an expense allocation exercise performed for the 2022 valuation.
4. **Discount rate:** The central estimate of the Outstanding Claims Liabilities has been discounted to allow for future investment income attributable to the liabilities during the run off period. The future investment earnings assumptions are estimates of the future annual risk-free rates of return. The discount factor has been based on the annual risk-free rates of return from the yield curve on New Zealand Government Bonds.

(c) Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and equity of the Branch. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities. The outstanding claims liabilities are on a discounted basis and include claim handling expenses and a risk margin at the 90% probability of adequacy.

Notes to the financial statements

For the year ended 31 December 2022

3.2 Actuarial assumptions and methods (continued)

(c) Sensitivity analysis (continued)

Key actuarial assumptions 2022	Changes	Impact on net outstanding claims liabilities ($'000's)	Impact on total outstanding claims liabilities (%)
New Zealand:			
Chain ladder factor	Increase the chain ladder factor by 10%	+22	+1.15
Discount rate	Decrease discount rate by 1%	+15	+0.79
Claims handling expense rate	Increase claims handling expense rate by 4%	+78	+4.18

Key actuarial assumptions 2021	Changes	Impact on net outstanding claims liabilities ($'000's)	Impact on total outstanding claims liabilities (%)
New Zealand:			
Chain ladder factor	Increase the chain ladder factor by 10%	+38	+1.42
Discount rate	Decrease discount rate by 1%	+23	+0.84
Claims handling expense rate	Increase from claims handling expense rate by 4%	+109	+4.03

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, arising principally arises from through the Branch's investment in financial instruments, receivables from related or other parties, and claims on reinsurance contracts.

Risk management

The Branch has strategies in place to minimise future losses including the assessment of acceptable concentration risk. New strategies are implemented to take appropriate action if adverse trends occur.

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

(a) 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.

(b) 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 position. The Branch does not have a significant concentration of credit risk with any counterparty, other than related parties (See note 5.3(b)).

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	20,908	-	-	20,908	-	**20,908**
Trade and other receivables	-	140	-	140	-	**140**
Trade and other liabilities	-	108	-	108	-	**108**
Total credit risk exposure	**20,908**	**248**	-	**21,156**	-	**21,156**

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	5,300	-	-	5,300	-	**5,300**
Investments	18,450			18,450		**18,450**
Trade and other receivables	-	52	-	52	-	**52**
Trade and other liabilities	-	480	-	480	-	**480**
Total credit risk exposure	**23,750**	**532**	-	**24,282**	-	**24,282**

*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	11,008	9,900	-	-		**20,908**
Trade and other receivables	-	-	-	-	140	**140**
Trade and other liabilities	-	-	-	-	108	**108**
Total credit risk exposure	**11,008**	**9,900**	**-**	**-**	**248**	**21,156**

2021	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	Total $'000
Financial assets						
Cash and cash equivalents	4,600	700	-	-	-	**5,300**
Investments	8,550	9,900	-	-	-	**18,450**
Trade and other receivables	-	-	-	-	52	**52**
Trade and other liabilities	-	-	-	-	480	**480**
Total credit risk exposure	**13,150**	**10,600**	**-**	**-**	**532**	**24,282**

The receivables and investment in controlled entity are largely with related parties, refer to note 5.3(b). No receivables are past due or impaired at balance date (2021: nil).

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	20,908	-	-	-	**20,908**
Trade and other liabilities	(108)	-	-	-	**(108)**
Outstanding claims liability	(1,290)	(418)	(165)	(1)	**(1,873)**
Net liquid assets	**19,510**	**(418)**	**(165)**	**(1)**	**18,926**

2021	**Up to a year $'000**	**1-2 years $'000**	**2-5 years $'000**	**Over 5 years $'000**	**Total $'000**
Cash and cash equivalents	5,300	-	-	-	**5,300**
Investments	18,450	-	-	-	**18,450**
Trade and other liabilities	(480)	-	-	-	**(480)**
Outstanding claims liability	(1,851)	(573)	(285)	(1)	**(2,710)**
Net liquid assets	**21,419**	**(573)**	**(285)**	**(1)**	**20,560**

The Branch's financial assets and liabilities are carried in the Statement of Financial Position 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	19,957	-2.77%	(553)	(398)	-	-	-	(398)
Investments	-	-	-	-	-	-	-	-
Total	**19,957**		**(553)**	**(398)**	**-**	**-**	**-**	**(398)**

	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	5,100	-0.75%	(38)	(28)	-	-	-	(28)
Investments	18,450	-0.75%	(138)	(100)	-	-	-	(100)
Total	**23,550**		**(176)**	**(128)**	**-**	**-**	**-**	**(128)**

The analysis is performed on the same basis as 2020, 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

(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 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 general insurance.

(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 Branch to mitigate the financial impact of these events on its operating results.

In accordance with Prudential Standards CPS 220 Risk Management and GPS 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 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 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.

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

As the Branch is not a separate legal entity with equity, its capital requirements are equivalent to those of the Company (Hallmark General Insurance Ltd).

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 capital requirements are set and regulated by APRA. The Branch 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 Branch'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.

As the Branch is regulated by the Australian Prudential Regulation Authority (APRA) for solvency purposes, the Reserve Bank of New Zealand (RBNZ) exempts the Branch from complying with the solvency standard for non-life insurance business in New Zealand.

Capital adequacy

The Branch is required to hold prudential reserves, over and above the general insurance contract liabilities, as a buffer against adverse future experience and poor investment returns. The amendments to the risk-based prudential capital standards, Life And General Insurance Capital (LAGIC) standards, for Australian life and general insurance companies were introduced effective 1 July 2019. 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 general insurer is exposed and a general company must ensure that the general company has, at all times, a capital base in excess of its PCA (plus any additional amount as required by APRA).

The excess of the Branch's capital base over the PCA as at 31 December 2022 was $80.4 million (2021: $70.7 million).

4.1 Capital management

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

	2022 $'000	2021 $'000
(a) Capital base	91,154	86,852
(b) Prescribed capital amount	10,740	16,152
Capital in excess of prescribed capital amount = (a) - (b)	80,414	70,700
Capital adequacy multiple = (a)/(b)	8.49	5.38
Capital Base:		
Net assets	91,047	87,115
Regulatory adjustment applied in the calculation of tier 1 capital	107	(263)
Common equity Tier 1 Capital	91,154	86,852
Prescribed capital amount:		
Insurance risk charge	1,713	3,406
Insurance concentration risk charge	7,157	10,716
Asset risk charge	3,777	3,698
Operational risk charge	428	854
Aggregation benefit	(2,335)	(2,522)
Prescribed capital amount	10,740	16,152

Excess technical provisions

The liability required by GPS 110 for prudential reporting purposes differs from accounting purposes. As described in 3.1(f) the Branch applies risk margins to the central estimate of net outstanding claims to achieve a 90% confidence level. GPS 110 requires a prudential margin with a sufficiency of 75%.

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 General Insurance Company Ltd.

(b) Transactions with related parties

The following transactions occurred with related parties:

	2022 $	2021 $
Management fees paid to/(received from):		
Hallmark General Insurance Company Ltd	**2,437,269**	**3,630,790**
Commission paid to:		
Latitude Financial Services Ltd - NZ	**225,597**	**127,430**
Dividend paid/(received):		

(c) Outstanding balances with related parties

	2022 $	2021 $
Receivables/(payables) outstanding at the end of the period:		
Hallmark General Insurance Company Ltd	**(162,913)**	**(467,576)**
Latitude Financial Services Ltd - NZ	**(87,317)**	**(64,585)**

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 received to auditors has been recognised; this expense was incurred by the head office of the branch.

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

22 February 2023

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

On 23 May 2018, HGIC appointed me, Melissa Yan of Ernst & Young to be HGIC's Appointed Actuary. The Appointed Actuary role is as described by the Insurance Act 1973, 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 HGIC other than being its Appointed Actuary.

It is the responsibility of the Appointed Actuary to provide advice to the Board of a general insurer on the value of its insurance 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 insurance liabilities in accordance with APRA's Prudential Standard CPS320, Actuarial and Related Matters.

As part of my responsibilities, I have produced a report on HGIC's insurance 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 HGIC as at 31 December 2022. The FCR identifies and assesses the material risks facing HGIC and includes discussion of relevant risk mitigants.

I have relied upon the general completeness and accuracy of this data and information supplied by HGIC 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 HGIC from compliance with their Solvency Standard for Non-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 HGIC Company level results and separately in relation to the results of the New Zealand Branch of HGIC.

Financial Statements – HGIC 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. Unearned premium liability and liability adequacy test

b. Net outstanding claims liability

c. Reinsurance and any other recovery assets

d. Deferred acquisition cost or deferred fee revenue

e. 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 this FCR and my Actuarial Valuation Report[1] ("AVR") meets the requirements of section 78 of The Act, and contains my advice regarding the net premium liabilities, liability adequacy test, net outstanding claims liabilities, reinsurance and any other recovery assets, and deferred acquisition costs. The FCR also includes advice on capital requirements, which form part of the financial statements.

I have previously reviewed the earning patterns adopted by HGIC and consider them to be appropriate. For the current AVR, I have also checked the unearned premium calculation performed by HGIC for certain product types and the calculations appear to be reasonable.

In my opinion and from an actuarial perspective:

a. The actuarial information contained in the HGIC 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 HGIC financial statements.

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

Financial Statements – HGIC New Zealand Branch

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. Unearned premium liability and liability adequacy test

b. Net outstanding claims liability

c. Reinsurance and any other recovery assets

d. Deferred acquisition cost or deferred fee revenue

e. 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 this FCR and my AVR meet the requirements of section 78 of The Act and contain my advice regarding the net premium liabilities, liability adequacy test, net outstanding claims liabilities, reinsurance and any other recovery assets, and deferred acquisition costs. The FCR also includes advice on capital requirements, which form part of the financial statements.

I have previously reviewed the earning patterns adopted by HGIC and consider them to be appropriate. For the current AVR, I have also checked the unearned premium calculation performed by HGIC for certain product types, and the calculations appear to be reasonable.

[1] "Hallmark General Insurance Company Pty Limited – Actuarial Valuation Report as at 31 December 2022", dated 9 February 2023, prepared by Melissa Yan.

In my opinion and from an actuarial perspective:

a. The actuarial information contained in the HGIC 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 HGIC New Zealand Branch financial statements.

I have obtained all information and explanations that I 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 Non-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 HGIC and includes mitigating factors addressing those risks and therefore meets the requirements of Section 56(d) of the Act. The capital within HGIC is equally accessible by both the Australian and New Zealand operations.

HGIC is in a very strong financial position as at 31 December 2022, with available capital exceeding the target surplus. Capital requirements are expected to be met over the year and also in subsequent years, and hence no reporting under Section 24 of the Act is required. In my opinion, HGIC is maintaining a solvency margin consistent with the requirements under section 21(2) (b) of the Act. HGIC does not underwrite any life insurance products. As such, no opinion under Section 78(h) of the Act is required.

This strong position means that HGIC would be able to withstand a catastrophe or extreme event similar to the Catastrophe Risk Capital Charge.

The Australian and New Zealand operations of HGIC are managed in conjunction, 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,

Melissa Yan

Melissa Yan, FIAA, FNZSA
Appointed Actuary, Hallmark General Insurance Company Ltd