Hallmark Life Insurance Company Ltd
ABN 87 008 446 884
ANNUAL REPORT
For the Period Ended 31 August 2023

Directors' report

For the period ended 31 August 2023

Hallmark Life Insurance Company Ltd

ABN 87 008 446 884

Financial report for the period ended 31 August 2023

Contents

Directors' report

For the period ended 31 August 2023

The Directors present their report together with the financial statements of Hallmark Life Insurance Company Ltd (the Company) for the period 1 January to 31 August 2023 and the auditor's report thereon. This report is for a period of eight months from 1 January to 31 August 2023 to align with the parent entity of the Company, St Andrew's Australia Services Pty Ltd year end; the prior period was for a 12-month period from 1 January to 31 December 2022.

Directors

The following persons were Directors of Hallmark Life Insurance Company Ltd during the period from 31 May 2023 to the date of this report:

Allan Griffiths
David Willis
Jeffrey Dowling
Matthew Lancaster
Matthew Way

The following persons were Directors of Hallmark Life Insurance Company Ltd during the period from 1 January 2023 to 31 May 2023:

Jennifer Anne Boddington
Shaun Patrick Feely
Christopher Paul Knoblanche
Alison Ledger
Paul Varro.

Company Secretary

The secretary of the Company at any time during the period:

Rebecca Blair (from 1 January 2023 to 31 May 2023)

Darragh Shine (appointed 31 May 2023).

Principal activities

The principal activity of the Company during the period was that of a life insurer, operating both in Australia and New Zealand. The company is closed to new business. The Company ceased selling new products in May 2022.

Effective 31 May 2023 the company was acquired by St Andrew's Australia Services Pty Ltd (SAAS). There has been no other significant change in the Company during the period.

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.

Dividends

On 30 May 2023, the Company paid a dividend of $12,490,000 to the Company's parent entity, Latitude Insurance Holding Pty Ltd. The payment of this dividend was part of the share sale agreements with St Andrew's Australia Services Pty Ltd (SAAS). Effective 31 May 2023 the company was acquired by SAAS.

Directors' report

For the period ended 31 August 2023

On 26 June 2023, the Company paid a dividend of $5,000,000 to the Company's parent entity Hallmark Insurance Holding Pty Ltd. This dividend was part of the share sale agreement to facilitate the issuing of the Tier 2 notes.

Both dividend payments were under the 21 April 2023 approval by APRA of the reduction in capital of the Company in conjunction with the acquisition of the Company by the St Andrew's Group. There has been no other significant change in the Company during the period.

There were no dividends paid by the Company in respect of the financial year 31 December 2022.

Review of operations

The profit after income tax amounted to $688,000 (2022 restated: $1,086,000).

Significant changes in the state of affairs

Effective 31 May 2023 the company was acquired by St Andrew's Australia Services Pty Ltd.

There has been no other significant change in the Company during the period.

Events since the end of the financial period

Since the end of the financial year, a capital reduction in the amount of $293,000 was made by way of a distribution of retained earnings to Hallmark Insurance Holdings Pty Ltd.

This capital reduction was made to in accordance with the approval provided by APRA to reduce the capital base to the approved capital coverage specified in the Share Sale Agreement based on the draft Completion Statement provided by the seller, Latitude Personal Finance Pty Ltd, in August 2023. The Completion Statement remains in draft as under the Share Sale Agreement the buyer and seller have yet to finalise all matters.

No other matters or circumstances have arisen since 31 August 2023, and up until the date of this report, that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Likely developments and expected results of operations

The Directors expect that the Company will continue to carry out its principal activities as detailed above. In order to realise operational efficiencies associated with the acquisition by the St Andrew's completed on 31 May 2023, subject to regulatory and Federal Court approval, it is expected that the insurance policies and the assets, liabilities and capital of the Company will be merged with St Andrew's Life Insurance Pty Ltd through a transfer under Part IX transfer of the Life Insurance Act 1995 in 2024.

There are no other known or likely developments which the Directors foresee.

Environmental regulation

The Company is not affected by any significant environmental regulation in respect of its operations.

Directors' report

For the period ended 31 August 2023

Insurance of officers and indemnities

(a) Insurance of officers

During the financial period, the parent entity of the St Andrew's Group paid a premium in respect of a contract to insure the directors and secretaries of the Group and its Australian-based controlled entities, and the general managers of each of the divisions of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

(b) Indemnity of auditor

The Company has not, during or since the end of the financial period, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial period, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

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.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

Directors' report

For the period ended 31 August 2023

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

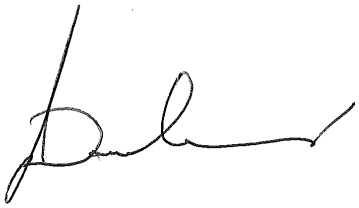
This report is made in accordance with a resolution of the Directors.

Allan Griffiths

Director

Perth

22 November 2023



Jeffrey Dowling
Director

Perth
22 November 2023

Directors' Declaration

In the Directors' opinion:

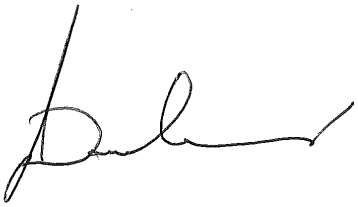
a) the financial statements and notes set out on pages 11 to 58 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
b) giving a true and fair view of the entity's financial position as at 31 August 2023 and of its performance for the financial period 1 January to 31 August 2023, and
a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Allan Griffiths
Director

Perth

22 November 2023



Jeffrey Dowling
Director

Perth
22 November 2023

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

To the Directors of Hallmark Life Insurance Company Ltd.

I declare that, to the best of my knowledge and belief, in relation to the audit of Hallmark Life Insurance Company Ltd. for the financial period 1 January 2023 to 31 August 2023 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 November 2023

KPMG

Independent Auditor's Report

To the shareholder of Hallmark Life Insurance Company Ltd.

Opinion

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

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

- giving a true and fair view of the Company's financial position as at 31 August 2023 and of its financial performance for the period 1 January 2023 to 31 August 2023; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 31 August 2023;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the period 1 January 2023 to 31 August 2023;
- Notes, compromising material accounting policy information and other explanatory information; and
- Directors' Declaration.

Basis for opinion

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

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

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

Other Information

Other Information is financial and non-financial information in Hallmark Life Insurance Company Ltd.'s reporting for the period 1 January 2023 to 31 August 2023 which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

KPMG

Joshua Pearse

Partner

Melbourne

22 November 2023

Statement of Profit or Loss and Other Comprehensive Income

For the period 1 January to 31 August 2023

	Notes	1 January to 31 August 2023 $'000	Restated 1 January to 31 December 2022 $'000
Insurance revenue	2.1	3,021	6,182
Insurance service expense	2.1	(2,625)	(5,127)
Reinsurance revenue	2.2	72	355
Reinsurance expense	2.2	(121)	(262)
Insurance service result		**347**	**1,148**
Investment income	4.1(d)	634	452
Insurance finance (expense)/income		-	-
Reinsurance finance (expense)/income		-	-
Net financial result		634	452
Tier 2 Eligible Subordinated Notes interest expense	4.1(g)	(61)	-
Profit for the period before income tax		**920**	**1,600**
Income tax expense	3(a)	(239)	(466)
Profit for the period		**681**	**1,134**
Item that may be reclassified to profit or loss			
Currency translation differences arising during the period		7	(48)
Total comprehensive income for the period		**688**	**1,086**
Profit is attributable to:			
Owners of Hallmark Life Insurance Company Ltd		681	1,134
Profit for the period		**681**	**1,134**
Owners of Hallmark Life Insurance Company Ltd		688	1,086
Other comprehensive income for the period, net of tax		**688**	**1,086**

The above statement should be read in conjunction with the accompanying notes.
The current period is for 1 January to 31 August 2023 to align with parent entity's year end.
The comparative period is for 1 January to 31 December 2022.
Section 1.2 for details about restatements for changes in accounting policy.

Statement of Financial Position

As at 31 August 2023

	Notes	31 August 2023 $'000	Restated 31 December 2022 $'000	Restated 1 January 2022 $'000
Assets				
Cash and cash equivalents	4.1(a)	18,176	30,571	20,006
Investments	4.1(c)	1,080	645	12,181
Current tax asset		23	-	66
Deferred tax asset	3(d)	125	113	108
Reinsurance contracts assets	2.2	201	395	282
Other receivables	4.1(e)	793	616	465
Total assets		**20,398**	**32,340**	**33,108**
Liabilities				
Insurance contracts liabilities	2.1	2,161	2,706	4,353
Tier 2 Eligible Subordinated Notes	4.1(g)	5,000	-	-
Other payables	4.1(f)	964	483	692
Deferred tax liabilities	3(d)	17	32	78
Current tax liability		-	49	-
Total liabilities		**8,142**	**3,270**	**5,123**
Net assets		**12,256**	**29,070**	**27,985**
Equity				
Contributed equity	6.1(a)	500	500	500
Reserves	6.1(c)	1,019	9,723	9,772
Retained earnings		10,737	18,847	17,713
Capital and reserves attributable to owners of Hallmark Life Insurance Company Ltd		12,256	29,070	27,985
Total equity		**12,256**	**29,070**	**27,985**

The above statement should be read in conjunction with the accompanying notes.
The current period is as at 31 August 2023 to align with parent entity's year end.
The comparative period is as at 31 December 2022.
Section 1.2 for details about restatements for changes in accounting policy.

Statement of changes in Equity

For the period 1 January to 31 August 2023

		Attributable to owners of Hallmark Life Insurance Company Ltd			
		Contributed equity	**Reserves**	**Retained Earnings**	**Total Equity**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**
At 31 December 2021, as previously reported		**500**	**9,772**	**17,930**	**28,202**
Adjustment on initial application of AASB17		-	-	(310)	(310)
Tax effect of adjustment on initial application of AASB17		-	-	93	93
Adjustment on initial application of AASB 9, net of tax		-	-	-	-
Restated balance at 1 January 2022		**500**	**9,772**	**17,713**	**27,985**
Profit for the year		-	-	1,134	1,134
Other comprehensive expense for the year		-	(48)	-	(48)
Total comprehensive income for the year (restated)		**-**	**(48)**	**1,134**	**1,086**
Restated balance at 31 December 2022		**500**	**9,723**	**18,847**	**29,070**
Profit for the period to 31 August 2023		-	-	681	681
Other comprehensive expense for the period to 31 August 2023			7	-	7
Total comprehensive income for the period to 31 August 2023		**-**	**7**	**681**	**688**
Transactions with owner of the Company:					
Dividends paid or declared to shareholder pre-sale	6.1(b)	-	-	(12,490)	(12,490)
Dividends paid or declared to shareholder	6.1(b)	-	-	(5,000)	(5,000)
Tax consolidation reserve	6.1(c)	-	(8,698)	8,698	-
Adjustment to 2021 carried forward prior year foreign currency translation reserves		-	(13)	-	(13)
			(8,711)	**(8,792)**	**(17,503)**
At 31 August 2023		**500**	**1,019**	**10,737**	**12,256**

The above statement should be read in conjunction with the accompanying notes.
The current period is for 1 January to 31 August 2023 to align with parent entity's year end.
The comparative period is for 1 January to 31 December 2022.
See section 1.2 for details about restatements for changes in accounting policy.

Statement of cash flows

For the period 1 January to 31 August 2023

	Notes	1 January to 31 August 2023 $'000	Restated 1 1January to 31 December 2022 $'000
Cash flows from operating activities			
Premium received		2,459	4,351
Claims and other expenses paid		(1,690)	(4,252)
Insurance acquisition cash flows		(10)	(635)
Reinsurance premium paid		118	267
Reinsurance amounts received		(263)	(247)
Payments to non-insurance suppliers		(339)	(343)
Interest received		619	304
Income taxes paid		(289)	(321)
Net cash inflow/ (outflow) from operating activities	4.1(b)	**605**	**(876)**
Purchase of investments		(1,080)	(93,295)
Maturity of investments		645	104,779
Net cash (outflow)/ inflow from investing activities		**(435)**	**11,484**
Cash flows from financing activities			
Dividends paid to company's shareholders		(12,490)	-
Tier 2 Note issuance – non cash		5,000	-
Dividends paid to Company's shareholders – non cash		(5,000)	-
Net cash (outflow) from financing activities		**(12,490)**	**-**
Net (decrease)/ increase in cash and cash equivalents		(12,320)	10,608
Cash and cash equivalents at beginning of financial period		30,571	20,006
Effects of exchange rate changes on cash and cash equivalents		(75)	(43)
Cash and cash equivalents at end of financial period	4.1(a)	**18,176**	**30,571**

The above statement should be read in conjunction with the accompanying notes.
The current period is for 1 January to 31 August 2023 to align with parent entity's year end.
The comparative period is for 1 January to 31 December 2022.
See section 1.2 for details about restatements for changes in accounting policy.

Notes to the financial statements

For the period ended 31 August 2023

Section 1 – Basis of preparation

1.1 Basis of preparation

(a) Reporting entity

Hallmark Life Insurance Company Ltd ('the Company') is a company limited by shares, incorporated and domiciled in Australia. Its registered office is Level 8, 210 George Street Sydney and the principal place of business is Level 5, 66 St George's Terrace Perth WA 6000.

These are the financial statements of Hallmark Life Insurance Company Ltd, as at 31 August 2023 and for the period 1 January to 31 August 2023. Hallmark Life Insurance Company Ltd is a for-profit entity for the purpose of preparing the financial statements.

This report is for a period of eight months from 1 January to 31 August 2023 to align with the St Andrew's Australia Services Pty Ltd year end, the prior period was for a 12 month period from 1 January to 31 December 2022.

These financial statements were authorised for issue on 21 November 2023. The directors have the power to amend and reissue the financial statements.

(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 Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Company also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(c) Comparatives

Comparatives are adjusted from time to time for changes in accounting policies or for disclosures to improve the comparability of information. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous financial year.

AASB 17 *Insurance Contracts* (AASB 17) is mandatory for accounting periods beginning on or after 1 January 2023. The Company's financial statements are for the period 1 January to 31 August 2023 and this is the first period to which AASB 17 applies. The Company has restated comparative information for 1 January to 31 December 2022 applying the full retrospective application outlined in Section 1.2(a).

The Company previously elected to defer the application of AASB 9 *Financial instruments* (AASB 9) to align its date of initial application to that of AASB 17. AASB 9 therefore came into effect from 1 January 2023 and was adopted by applying the relevant transitional provisions which do not require restatement of comparative periods.

This financial report is the first on a 31 August balance date and is for a period of eight months. In contrast, the comparatives are for a 12-month period ended 31 December 2022 and therefore not directly comparable with the current period.

(d) Basis of measurement

This financial report is prepared in accordance with the fair value basis of accounting with certain exceptions as described in the accounting policies below. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(e) Functional and presentation currency

These financial statements are presented in Australian Dollars, which the Company's functional and presentation currency. The Company's New Zealand Branch numbers have been converted to Australian Dollars.

(f) 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.

(g) Principles for life insurance business

Activities of the life insurance operations

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

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

Restrictions on assets

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

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

1.2 New and amended standards

(a) New and amended standards adopted

The Company has applied AASB 17 and AASB 9 *Financial Instruments* (AASB 9) including any consequential amendments to other standards for the first time from 1 January 2023. These standards have brought significant changes to the accounting for insurance and financial instruments which were AASB 17 and AASB 9 have replaced AASB 1038 *Life Insurance Contracts* and AASB 139 *Financial Instruments: Recognition and Measurement*, respectively.

AASB 17 establishes principles for the recognition, measurement, presentation and disclosure

of insurance contracts within the scope of the standard. The objective of AASB 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

Classification of insurance contracts under AASB 1038 has not changed under AASB 17. However, the measurement requirements of AASB 17 differ from those of AASB 1038 with notable changes as follows:

- The liability for remaining coverage, which is akin to the gross insurance policy liabilities under AASB 1038 where an accumulation method had been used. The liability for remaining coverage will now also include the recognition of a loss component (if any).
- The liability for incurred claims, which is akin to the policy claims in the process of settlement under AASB 1038, includes the risk adjustment for non-financial risk and is discounted using a risk free rate and an illiquidity premium.
- Separate contract asset for reinsurance contracts held is accounted for separately from the underlying group of insurance contracts.
- Insurance liabilities are measured on a group basis and presented on a portfolio basis.

There have been substantial changes to presentation and disclosures in the Company's Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position. In the Statement of Financial Position insurance liabilities and reinsurance assets are presented such that portfolios of (re)insurance contracts that are assets and portfolios of (re)insurance contracts that are liabilities are presented separately on a gross basis. For the presentation in the Statement of Profit or Loss and Comprehensive Income, insurance revenue and insurance service expense are presented gross of reinsurance. AASB 17 requires separate presentation of the impact of financial risks and investment income from (re)insurance service result.

The Company has applied the full retrospective approach on the transition to AASB 17. The Company developed appropriate accounting policies along with the design and implementation of required changes to financial reporting and relevant systems.

Under the full retrospective approach, at 1 January 2022 the Company:

- Identified, recognised and measured each group of insurance contracts as if AASB 17 had always been applied,
- Derecognised previously reported balances that would not have existed had AASB 17 always been applied, and
- Recognised any resulting differences in equity.

The Company has applied the transition provisions in AASB 17 and has disclosed the impact of the adoption of AASB 17 on each financial statement line item in the below reconciliation. The effects of adopting AASB 17 on the financial statements as at 1 January 2022 are also shown below.

Notes to the financial statements

For the period ended 31 August 2023

Reconciliation of transition from AASB 1038 to AASB 17 as at 1 January 2022

	$'000
Insurance contract liabilities as previously stated:	
Policy claims in the process of settlement	(1,033)
Gross insurance policy liabilities	(3,171)
Reclass of insurance receivables/ payables	219
Add impact of adopting AASB 17	
Reversal of risk margin and inclusion of a risk adjustment for non-financial risk	(368)
Inclusion of illiquidity premium in discount rates	-
Recognition of a loss component	-
Total	**(4,353)**
Represented by:	
Insurance contract assets as currently presented	-
Insurance contract liabilities as currently presented	(4,353)

	$'000
Reinsurance contract assets as previously stated:	
Reinsurance and other recoveries	152
Gross policy liability ceded under reinsurance	72
Add impact of adopting AASB 17	
Inclusion of a risk adjustment for non-financial risk	58
Inclusion of illiquidity premium in discount rates	-
Recognition of a loss recovery component	-
Adjustment to reflect non-performance of reinsurance held	-
Total	**282**
Represented by:	
Reinsurance contract assets as currently presented	282
Reinsurance contract liabilities as currently presented	-

	$'000
Brought forward equity (under AASB 1038)	**17,930**
Risk adjustment for non-financial risk, net of tax	(310)
Inclusion of illiquidity premium in discount rates	-
Recognition of a loss component and loss recovery component	-
Adjustment to reflect non-performance of reinsurance held	-
Deferred tax	93
Brought forward equity (following adoption of AASB 17)	**17,713**

The Company has continued to use AASB 1038 basis for the preparation of the Company's management accounts and the Insurance regulator, Australian Regulatory Authority (APRA) reporting requirements. APRA's reporting requirements will change to a AASB 17 basis for the November 2023 Quarter onwards. With the change in year end to 31 August 2023, the third quarterly return, nominally the September Quarter, will be two months ended 31 August 2023. Following the change of ownership, the Company's quarters now end at the end of November, February, May and August each year.

For the Company's adoption of AASB 9, the Company has chosen not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. There were no differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 as at 1 January 2023. The Company continues to recognise financial assets and financial liabilities at fair value through profit or loss on initial recognition and for subsequent measurement, the Company will continue to apply the amortised cost approach or the fair value approach.

Under AASB 9, financial asset impairment will be calculated on an expected loss basis. Given all receivables are generally due for settlement within 30 days or less, the Company does not expect any impact on impairment provisions under the new expected credit loss model.

(b) New standards and interpretations not yet adopted

There were no new standards published that are mandatory for 31 August 2023 reporting periods and have not been early adopted by the Company.

1.3 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 the insurance contract liabilities due to the reliance upon actuarial assumptions.

The earnings of premiums under the premium allocation approach

For certain policies, the earnings of premiums under the premium allocation approach is based on the expected pattern of release of risk. The expected pattern is judgemental and requires the Company to estimate a pattern consistent with the services provided.

The unearned premium reserve is amortised using an amortisation scale which approximates the services provided under the contract. In determining the amortisation scale, product features, business profiles and original term of the business and duration outstanding at the end of the reporting period are considered.

The ultimate liability for incurred claims made under insurance contracts

Provision is made at the year-end for the estimated cost of insurance contracts liabilities to the Company.

The Company takes all reasonable steps to ensure that it has appropriate information regarding the insurance contract liabilities. However, given the uncertainty in establishing the insurance

contract liabilities, it is likely that the final outcome will prove to be different from the original liability established.

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:

- 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 determination of an appropriate insurance contracts liabilities and the specific assumptions used are detailed in Section 5.

The methods used by the Appointed Actuary 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 insurance contracts liabilities and the specific assumptions used are detailed in note 4.2.

1.4 Other material accounting policies

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

(a) Foreign currency translation

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

Transactions and balances

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

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

- Assets and liabilities for the foreign operations' financial position presented are translated at the closing rate at the date of that statement of financial position

- Income and expenses for the foreign operations' 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 and accumulated in a separate component of equity.

(b) 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 of St. Andrew's Group.

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.

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 in the current period remains unchanged from those applied in the financial statements for the year ended 31 December 2022.

Notes to the financial statements

For the period ended 31 August 2023

Section 2 – Insurance

Accounting Policy

Level of aggregation

The Company identifies portfolios of insurance contracts. Each portfolio comprises contracts that are subject to similar risks and managed together. The insurance policies issued by the Company may include a combination of general insurance risks (consumer credit risks) and life insurance risks (individual lump sum risks). Insurance contracts are managed by separation into the different risks, distribution channels (credit cards, personal loans and other) and region (Australia and New Zealand). The general insurance risks have been recognised separately in Hallmark General Insurance Company Ltd. Contracts within each portfolio is further disaggregated based on profitability into a maximum of three groups:

- Contracts that are onerous on initial recognition (if any);
- Contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently (if any); and
- Remaining profitable contracts (if any).

Each group of insurance contracts is further divided into annual cohorts to ensure contracts in each cohort are issued no more than one year apart. The resulting groups represent the level at which the recognition and measurement of accounting policies are applied. The groups are established at initial recognition and are not re-assessed subsequently.

The Company applies the above requirement to aggregate reinsurance contracts except for the reference to onerous contracts, which shall be replaced with a reference to contracts on which there is a net gain on initial recognition. One reinsurance portfolio has been recognised, with each group of reinsurance contracts comprising of a single contract.

Contract boundary

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. Cashflows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or has a substantive obligation to provide services. A substantive obligation to provide services ends when:

- The Company has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio; and
- The pricing of the premiums up to the reassessment date does not take into account risks that relate to periods after the reassessment date.

For credit card insurance policies, a one month contract boundary has been applied. Contract boundary for personal loan insurance on the other hand would vary depending on the term of the underlying loan. The contract boundary on term life policies and remaining policies issued by the Company varies from 12 months to greater than one year.

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer. A substantive right to

receive services from the reinsurer ends when the reinsurer has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or has a right to terminate the coverage.

The reinsurance contracts held by the Company covers term life policies. Under the reinsurance contracts, coverage expires if the underlying policies also expires, and therefore the coverage period is implicitly tied to the underlying term life policies issued.

For the Company, this is the period of cover of each (re)insurance contract as there is no difference between the contract boundary and coverage period for the insurance contracts issued and reinsurance contracts held.

Insurance contract liabilities and reinsurance contract assets

Insurance contracts liabilities include liabilities for remaining coverage and liabilities for incurred claims. Reinsurance contract assets include assets for remaining coverage and assets for incurred claims.

Measurement for liability for remaining coverage and assets for remaining coverage

The Company uses the Premium Allocation Approach (PAA) to simplify the measurement of groups of contracts on the following bases:

- Insurance contracts (credit cards) – the coverage period of each contract in the group is one month and therefore automatically eligible;
- Insurance contracts (term life, policies included in 'Other' distribution channel) – the coverage period of each contract in the group is one year or less and therefore automatically eligible; or
- Longer term insurance contracts (personal loans, term life) – the Company performed an assessment and determined the measurement of the liability for remaining coverage to not be materially different from the results of applying the General Measurement Model.

On initial recognition of each group of contracts, the carrying amount of the liability for remaining coverage is measured as the premiums received on initial recognition. Insurance acquisition cash flows are recognised in the liability for remaining coverage when incurred and amortised based on the coverage period of the group of contracts.

Subsequently, the carrying amount of the liability for remaining coverage is increased by any premiums received and decreased by the amount recognised as insurance revenue for services provided. On initial recognition of each group of contracts, the Company expects that the time between providing each part of the services and the related premium due date is no more than a year. Accordingly, the Company has not adjusted the liability for remaining coverage to reflect the time value of money and the effect of financial risk.

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Company recognises a loss in the profit or loss and increases the liability for remaining coverage. At transition, at 31 December 2022 and at 31 August 2023, there were no onerous groups of insurance contracts identified.

The Company applies the same accounting policies to measure a group of reinsurance contracts, adapted where necessary to reflect features that differ from those insurance contracts.

Measurement for liability for incurred claims and asset for incurred claims

The Company recognises the liability for incurred claims of a group of insurance contracts at the amount of the fulfilment cash flows relating to incurred claims. The fulfilment cash flows not discounted as the cash flows are expected to be paid in one year or less from the date the claims are incurred. The measurement of the liability for incurred claims includes a risk adjustment for non-financial risk. This is based on the advice of valuations performed by the Appointed Actuary whose key assumptions are outlined in Section 2.3.

The Company applies the same accounting policies to measure a group of reinsurance contracts.

Insurance revenue

The Company's insurance revenue for each period is the amount of expected premium receipts for providing services in the period. The Company allocates the expected premium receipts to each period on the following basis:

- The passage of time which applies to insurance on personal loans, or
- The expected pattern of release of risk which applies to all other policies.

Insurance service expense

The Company presents in Statement of Profit or Loss and Other Comprehensive Income insurance service expenses arising from a group of insurance contract issued, comprising of:

- Incurred claims and other insurance service expenses,
- Amortisation of insurance acquisition cash flows on a straight-line basis or based on the expected pattern of release of risk over the coverage period ,
- Losses on onerous contracts and reversals of those losses, and

Adjustments to the liability for incurred claims for movements in the undiscounted claims experience.

Net income or expense from reinsurance contracts held

The Company presents separately on the face of the statement of profit or loss and other comprehensive income the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid.

The Company recognises reinsurance revenue as it receives coverage or other services. The reinsurance expense relating to services received for each reporting period represents the total of the change in the remaining coverage component that relates to services for which the Company expects to pay consideration.

(Re)insurance finance income or expense

(Re)insurance finance income or expense comprise changes in the carrying amount of groups of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. The Company presents (re)insurance finance income or expense in the profit or loss, determined by a systematic allocation of the expected total (re)insurance finance income or expense over the duration of the group of contracts. There is no insurance finance or expense recognised as the Company has not applied discounting.

Derecognition and contract modification

The Company derecognises a contract when it is extinguished, i.e. when the specified obligation in the contract expire or are discharged or cancelled. This is usually at the end of the coverage period.

The Company also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, a new contract based on the modified term is recognised. Contract based on the modified terms are accounted for by applying 'Measurement for liability for remaining coverage' as noted above.

2.1 Movement in insurance contract liabilities

31 August 2023

	Liabilities for remaining coverage ('000)		Liabilities for incurred claims ('000)		Total ('000)
	Excluding loss component	**Loss component**	**Estimates of present value of future cashflows**	**Risk Adjustment**	
Opening insurance contract liabilities	(1,325)	-	(928)	(453)	(2,706)
Opening insurance contract assets	-	-	-	-	-
Net opening insurance contract liabilities	**(1,325)**	**-**	**(928)**	**(453)**	**(2,706)**
Changes in the statement of profit or loss and OCI					
Insurance revenue	3,021	-	-	-	3,021
Insurance service expenses	(85)	-	(1,694)	57	(1,722)*
- Incurred claims and other insurance service expenses	-	-	*(2,167)*	*(365)*	*(2,532)*
- Amortisation of insurance acquisition cash flows	*(85)*	-	-	-	*(85)*
- Losses on onerous contracts and reversals of those losses	-	-	-	-	-
- Adjustments to liabilities for incurred claims	-	-	*473*	*422*	*895*
Insurance service result	**2,936**	**-**	**(1,694)**	**57**	**1,299**
Insurance finance expenses	**-**	**-**	**-**	**-**	**-**
Effect of movements in exchange rates	4	-	1	0	5
Total changes in the statement of profit or loss and OCI	**2,940**	**-**	**(1,693)**	**57**	**1,304**
Cash flows					
Premiums received	(2,459)	-	-	-	(2,459)
Claims and other expenses paid	-	-	1,690	-	1,690
Insurance acquisition cash flows	10	-	-	-	10
Total cash flows	**(2,449)**	**-**	**1,690**	**-**	**(759)**
Net closing insurance contract liabilities	**(834)**	**-**	**(931)**	**(396)**	**(2,161)**
Closing insurance contract liabilities	(834)	-	(931)	(396)	(2,161)
Closing insurance contract assets	-	-	-	-	-

*Note: Excludes $903k of insurance service expenses reported on page 11 'Statement of profit and loss and other comprehensive income' which represent movements in assets and liabilities that do not form part of the insurance contract liabilities on the statement of financial position.

31 December 2022 (restated)

	Liabilities for remaining coverage ($'000)		Liabilities for incurred claims ($'000)		Total ($'000)
	Excluding loss component	**Loss component**	**Estimates of present value of future cashflows**	**Risk Adjustment**	
Opening insurance contract liabilities	(2,943)	-	(1,010)	(400)	(4,353)
Opening insurance contract assets	-	-	-	-	-
Net opening insurance contract liabilities	**(2,943)**	**-**	**(1,010)**	**(400)**	**(4,353)**
Changes in the statement of profit or loss and OCI					
Insurance revenue	6,182	-	-	-	6,182
Insurance service expenses	(883)	-	(4,174)	(55)	(5,112)*
- Incurred claims and other insurance service expenses	-	-	*(6,005)*	*(370)*	*(6,375)*
- Amortisation of insurance acquisition cash flows	*(883)*	-	-	-	*(883)*
- Losses on onerous contracts and reversals of those losses	-	-	-	-	-
- Adjustments to liabilities for incurred claims	-	-	*1,831*	*315*	*2,146*
Insurance service result	**5,299**	**-**	**(4,174)**	**(55)**	**1,070**
Insurance finance expenses	-	-	-	-	-
Effect of movements in exchange rates	35	-	4	2	41
Total changes in the statement of profit or loss and OCI	**5,334**	**-**	**(4,170)**	**(53)**	**1,111**
Cash flows					
Premiums received	(4,351)	-	-	-	(4,351)
Claims and other expenses paid	-	-	4,252	-	4,252
Insurance acquisition cash flows	635	-	-	-	635
Total cash flows	**(3,716)**	**-**	**4,252**	**-**	**536**
Net closing insurance contract liabilities	**(1,325)**	**-**	**(928)**	**(453)**	**(2,706)**
Closing insurance contract liabilities	(1,325)	-	(928)	(453)	(2,706)
Closing insurance contract assets	-	-	-	-	-

*Note: Excludes $15k of insurance service expenses reported on page 11 'Statement of profit and loss and other comprehensive income' which represent movements in assets and liabilities that do not form part of the insurance contract liabilities on the statement of financial position.

Notes to the financial statements

For the period ended 31 August 2023

2.2 Movement in reinsurance contract assets

31 August 2023

	Assets for remaining coverage ($'000)		Amounts recoverable on incurred claims ($'000)		Total ($'000)
	Excluding loss-recovery component	Loss-recovery component	Estimates of present value of future cashflows	Risk Adjustment	31 August 2023
Opening reinsurance contract assets	77	-	242	76	395
Opening reinsurance contract liabilities	-	-	-	-	-
Net opening reinsurance contract assets	**77**	**-**	**242**	**76**	**395**
Changes in the statement of profit or loss and OCI					
Allocation of reinsurance premium paid	(121)	-	-	-	(121)
Amounts recoverable from reinsurers for incurred claims	-	-	89	(17)	72
- Amounts recoverable for incurred claims and other insurance service expenses	-	-	*269*	*50*	*319*
- Recoveries and reversal of recoveries of losses on onerous underlying contracts	-	-	-	-	-
- Adjustments to assets for incurred claims	-	-	*(180)*	*(67)*	*(247)*
Net expense from reinsurance contracts	**(121)**	**-**	**89**	**(17)**	**(49)**
Reinsurance finance income or expense	-	-	-	-	-
Effect of movement in exchange rates	-	-	-	-	-
Total changes in the statement of profit or loss and OCI	**(121)**	**-**	**89**	**(17)**	**(49)**
Cash flows					
Reinsurance premium paid	118	-	-	-	118
Reinsurance amounts received	-	-	(263)	-	(263)
Total cash flows	**118**	-	**(263)**	**-**	**(145)**
Net closing reinsurance contract assets	**74**	**-**	**68**	**59**	**201**
Closing reinsurance contract assets	74	-	68	59	201
Closing reinsurance contract liabilities	-	-	-	-	-

Notes to the financial statements

For the period ended 31 August 2023

31 December 2022 (restated)

	Assets for remaining coverage ($'000)		Amounts recoverable on incurred claims ($'000)		Total ($'000)
	Excluding loss-recovery component	Loss-recovery component	Estimates of present value of future cashflows	Risk Adjustment	
Opening reinsurance contract assets	72	-	151	59	282
Opening reinsurance contract liabilities	-	-	-	-	-
Net opening reinsurance contract assets	**72**	**-**	**151**	**59**	**282**
Changes in the statement of profit or loss and OCI					
Allocation of reinsurance premium paid	(262)	-	-	-	(262)
Amounts recoverable from reinsurers for incurred claims	-	-	338	17	355
- Amounts recoverable for incurred claims and other insurance service expenses	-	-	*434*	*76*	*510*
- Recoveries and reversal of recoveries of losses on onerous underlying contracts	-	-	-	-	-
- Adjustments to assets for incurred claims	-	-	*(96)*	*(59)*	*(155)*
Net expense from reinsurance contracts	**(262)**	**-**	**338**	**17**	**93**
Reinsurance finance expense or income	-	-	-	-	-
Effect of movement in exchange rates	-	-	-	-	-
Total changes in the statement of profit or loss and OCI	**(262)**	**-**	**338**	**17**	**93**
Cash flows					
Reinsurance premium paid	267	**-**	**-**	**-**	267
Reinsurance amounts received	**-**	**-**	(247)	-	(247)
Total cash flows	**267**	-	**(247)**	**-**	**20**
Net closing reinsurance contract assets	**77**	**-**	**242**	**76**	**395**
Closing reinsurance contract assets	**77**	**-**	**242**	**76**	**395**
Closing reinsurance contract liabilities	-	-	-	-	-

2.3 Actuarial assumptions and methods

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

The effective date of the actuarial report on insurance contract liabilities, reinsurance contract assets and capital requirements is 31 August 2023. The actuarial report was prepared by Mr Thomas David Millar, FIAA, FNZSA. The actuarial report indicates that Mr Millar is satisfied as to the accuracy of the data upon which insurance contract liabilities and reinsurance contract assets have been determined.

The amount of insurance contract liabilities and reinsurance contract assets has been determined in accordance with methods and assumptions disclosed in this financial report and the requirements of the relevant accounting standards (which may differ from the requirements of the Life Insurance Act 1995).

Liabilities for insurance contracts and assets for reinsurance contracts held

Liabilities for insurance contracts and assets for reinsurance contracts held have been calculated in accordance with International Financial Reporting Standard (IFRS) 17 issued by the International Accounting Standards Board and in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA under subsection 230A(1) of the Life Insurance Act 1995. The Prudential Standard requires the insurance liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners.

The measurement model used to calculate the liabilities and assets for remaining coverage are as follows:

Product group	**Measurement model**
Lump sum risk	Premium Allocation Approach (2022: Premium Allocation Approach)
Disability and involuntary unemployment income	Premium Allocation Approach (2022: Premium Allocation Approach)

Liabilities for remaining coverage have been calculated as the provision for unearned premium, less a deferred acquisition cost item. The unearned premium is amortised using an amortisation scale which approximates the services provided under the contract. The assumptions are outlined below.

A risk adjustment for non-financial risk has also been determined to reflect the compensation the Company would require for bearing non-financial risk and are allocated to groups of contracts reflecting the risk profiles of the groups. Risk adjustments for non-financial risk reflects the diversification benefits from contracts issued by the Company, in a way that is consistent with the compensation it would require and reflects its degree of risk aversion. The diversification benefit is then allocated to the Company. This is determined using a confidence interval technique. The loss ratios and claims delay assumptions are risk adjusted to reflect an 85% probability of adequacy at an aggregated level.

The Company has not applied discounting to any insurance products issued or reinsurance contracts held as the cash flows are expected to be paid or received in one year or less from the date the claims and recoveries are incurred.

Disclosure of assumptions

Assumptions are required to determine the insurance contract liabilities. Key assumptions are listed below:

(a) Mortality and morbidity

Mortality rates for risk products have been based on experience over recent years. A loss ratio approach (applied to earned premium) was adopted. The loss ratios used have not varied significantly from those used in 2022.

(b) Disability and involuntary unemployment

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

The key actuarial assumptions for the determination of the liabilities for incurred claims are claim termination rate, average claim size (Disability = NZ$2,526, Unemployment = NZ$1,555 for accident year 2023) and a claims handling expense rate of 11.31% of the projected gross claim payments (based on expense investigation). Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

(c) Future expenses

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the 2024 year.

c) Voluntary discontinuance

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

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

	Assumption	Australia	New Zealand
2023	Consumer credit insurances	35%	27%
	Regular premium Term Life	18%	n/a
2022	Consumer credit insurances	35%	28%
	Regular premium Term Life	16%	n/a

d) Capital requirements

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

Impact of Changes in Assumptions

The liabilities and assets for remaining coverage have been calculated using the Premium Allocation Approach. Under this method, changes in assumptions do not have any impact on the liabilities and assets for remaining coverage, unless a group of contracts becomes onerous. As at 31 August 2023, there are no onerous groups of contracts.

Any changes to the mortality or morbidity assumptions would impact the liabilities and assets for incurred claims.

Sensitivity Analysis

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

As the Premium Allocation Approach is used to determine the liabilities and assets for remaining coverage for insurance contracts and reinsurance contracts held respectively, changes in the assumptions around these key variables do not have any impact on the liabilities and assets for remaining coverage or retained profits at the current balance date, unless a group of contracts becomes onerous. An alternate approach to demonstrating the sensitivity to changes in variables is to consider the impact on profit and equity at the current balance date if the experience over the current financial period varied under certain scenarios. The table below considers a number of changes in variables, and shows the impact on the profit and equity if that change had been experienced during the financial reporting period.

31 August 2023 ($'000)	**Change in variables**	**Impact on profit or loss ($'000)**		**Impact on equity ($'000)**	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(52)	(48)	(52)	(48)
	Improving by 5%	52	48	52	48
Lapse rates	Worsening by 5%	1	1	1	1
	Improving by 5%	(1)	(1)	(1)	(1)
Expenses	Worsening by 5%	(68)	(68)	(68)	(68)
	Improving by 5%	68	68	68	68

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

Any changes to the mortality and morbidity assumptions would impact the liabilities and assets for incurred claims and retained profits. Based on the current claims reserve amounts as at 31 August 2023, a worsening in the mortality and morbidity assumptions of 5% would increase the net profit impact presented above by around 50% (i.e. $48k up to $70k).

Notes to the financial statements

For the period ended 31 August 2023

Section 3 Income tax expense and deferred tax

Accounting Policy

Taxation

Income tax

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

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to settle the liability simultaneously.

Current and deferred tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Tax consolidation legislation

The Company exited the Latitude Financial Services Ltd (LFS) tax consolidated group on 31 May 2023 and became a member of the St Andrew's Australia Services Pty Ltd (SAAS) tax consolidated group on 1 June 2023, with SAAS remaining the head entity in the tax consolidated group.

The Company recognises the current tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences applicable to the transactions undertaken by it, as if it had continued to be a separate taxpayer, reasonably adjusted for certain intragroup transactions.

Any current tax liabilities or assets and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax consolidated group and are recognised as amounts payable to/receivable from other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by SAAS as an equity contribution, or distribution from the subsidiary.

Nature of tax funding and tax sharing arrangements
The Company has entered into a tax sharing agreement and tax funding agreement with the head entity of the SAAS income tax consolidated group.

The tax funding agreement requires wholly-owned subsidiaries to make contributions to (from) the head entity equal to the current tax liability (asset) arising from external transactions. The contributions are payable (receivable) as per the tax funding agreement and reflect the timing of the head entity's obligation to make payments for income tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities at call.

The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

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

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

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

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

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

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

circumstance.

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

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

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

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

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.

(a) Income tax expense

	1 January to 31 August 2023 $'000	Restated 1 January to 31 December 2022 $'000
Current tax on profits for the period	313	514
Deferred tax income	(74)	(48)
Under provision in prior period	-	-
Income tax expense	239	466

Notes to the financial statements

For the period ended 31 August 2023

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

	1 January to 31 August 2023 $'000	Restated 1 January to 31 December 2022 $'000
Profit from continuing operations before income tax expense	920	1,600
Tax at the Australian tax rate of 30% (2022: 30%)	276	480
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Effect of differences in tax rates in foreign jurisdictions	(5)	(14)
Adjustment of prior period	(32)	-
Income tax expense	239	466

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

	1 January to 31 August 2023 $'000	Restated 1 January to Restate31 December 2022 $'000
Deferred income	-	(44)
Provision and other liabilities	(75)	10
	(75)	(34)

(d) Deferred tax assets and liabilities

	31 August 2023 $'000	Restated 31 December 2022 $'000
Deferred tax assets		
Others	125	113
	125	**113**
Deferred tax liabilities		
Deferred expenses & prepayments	17	32
	17	**32**
Net deferred tax assets/ (liabilities)	108	81
Amounts expected to be settled within 12 months	108	69
Amounts expected to be settled after more than 12 months	-	12
	108	**81**

Notes to the financial statements

For the period ended 31 August 2023

Section 4 – Non Life Insurance

4.1 – Non Life Insurance

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.

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.
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.

Other receivables

Other receivables are recognised as the amounts receivable as these amounts are generally due for settlement within 30 days and less, where applicable, any expected credit loss. 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.

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 9 *Financial Instruments* (31 December 2022: AASB 139 *Financial Instruments: Recognition and Measurement).* Financial assets designated at fair value through profit or loss and are initially recognised at fair value, excluding transaction costs, which are expensed in the profit or loss in the period in which they arise. Financial assets are subsequently measured at fair value at each reporting date with realised and unrealised gains and losses arising from changes in the fair value recognised in the profit or loss in the period in which they arise.

Impairment of assets

The carrying amount of the 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.

Notes to the financial statements

For the period ended 31 August 2023

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.

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.

(a) Cash and cash equivalents

	31 August 2023 $'000	31 December 2022 $'000
Current assets		
Cash and cash equivalents	18,176	6,023
Short term deposits	-	24,548
Total cash and cash equivalents	18,176	30,571

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

	1 January to 31 August 2023 $,000	Restated 1 January to 31 December 2022 $'000
Net profit after income tax	681	1,134
Adjustments		
Effect of foreign exchange on cash and cash equivalents	63	94
Change in operating assets and liabilities:		
(Increase)/decrease in current tax asset	(23)	66
Increase in deferred tax asset	(12)	(5)
Increase in other receivables	(177)	(151)
Decrease/(increase) in reinsurance contract assets	194	(113)
Decrease/(increase) in other payables	481	(209)
Decrease in insurance contract liabilities	(545)	(1,647)
Decrease in deferred tax liability	(15)	(46)
(Decrease)/increase in current tax liability	(49)	49
Increase/(decrease) in foreign currency translation reserve	7	(48)
Net cash used in operating activities	605	(876)

Notes to the financial statements

For the period ended 31 August 2023

(c) Investments

	31 August 2023 $'000	31 December 2022 $'000
Term deposits	-	-
Debt securities	1,080	645
Total Investments	1,080	645
Current	-	-
Non-current	1,080	645
Total Investments	1,080	645

The investments are measured at fair value through profit and loss (2022: fair value through profit and loss). The debt securities are classified as level 2 in the fair value hierarchy (2022: level 2).

(d) Investment income

	1 January to 31 August 2023 $'000	1 December to 31 December 2022 $'000
Interest income	634	452
Total investment income	**634**	**452**

(e) Other receivables

	31 August 2023 $'000	Restated 31 December 2022 $'000
Current assets		
Other receivables	401	443
Other receivables - Latitude	387	-
Investment income accrued and other receivables	5	173
Total trade and other receivables	793	616

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

(f) Other payables

	31 August 2023 $'000	Restated 31 December 2022 $'000
Current liabilities		
Other payables	264	28
Accrued expenses	357	211
Payables to Latitude	343	243
Total trade and other liabilities	964	483

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

These balances include amounts payable to related parties (note 7.3(c)).

(g) Tier 2 Eligible Subordinated Notes

	31 August 2023			31 December 2022		
	Current	**Non-current**	**Total**	Current	Non-current	Total
	($'000)	**($'000)**	**($'000)**	($'000)	($'000)	($'000)
Tier 2 eligible subordinated notes	**-**	**5,000**	**5,000**	-	-	-

The Company issued an APRA Tier 2 eligible subordinated notes for $5,000,000 on 26 June 2023. Should APRA determine that without conversion into ordinary shares the Company would be non-viable, the notes are convertible into ordinary shares, or repayable on 26 June 2033. Should conversion occur, the conversion rate is for each note held will be calculated based on the Net Assets per ordinary share (discounted by 2.5%) before the time of conversion subject to a maximum cap.

The Tier 2 eligible subordinated notes are presented in the statement of financial position as follows:

	31 August 2023	31 December 2022
	$'000	$'000
Face value of notes issued	5,000	-
Other equity securities - value of embedded conversion derivative*	-	-
	5,000	**-**
Interest expense**	61	-
Interest paid	(61)	-
Total borrowings	**5,000**	**-**

* The value of this embedded derivative as well as the discount to spot on conversion is considered immaterial (i.e. close to, if not, nil and until such time that fair value is considered more than immaterial this will not be recognised on the statement of financial position).

** Interest expense is calculated by applying the effective interest rate of 3 month BBSW plus 2.75% to the liability component.

The initial fair value of the liability portion of the bond was determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the bonds.

Notes to the financial statements

For the period ended 31 August 2023

Section 5 Risk Management

5.1 Financial risk management

Identification, measurement and management of risk is a priority for the Company. The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, credit risk, market risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk. The Company's objectives and policies in respect of managing these risks are set out below.

5.2 Risk management objectives and policies for risk mitigation

The Company's objective is to manage these risks in line with the Company's risk management framework which is approved by the Board. Various policies, procedures and limits are put in place to monitor, control and mitigate the risks faced by the Company depending on the nature of the risk. The Company's exposure to risks and management of risk is monitored by the Risk and Compliance department, which provides regular reports to the Executive Management Committee, Board Risk Committee and Board.

5.3 Credit risk

Credit risk is the potential for loss arising from failure of a debtor or other counterparty to meet contractual obligations. The Company's credit risk exposures arise from investments and arrangements with third party suppliers.

Investments are managed in line with a board approved investment policy and may include a broad range of instruments. Instruments are classified under the following categories:

- Cash and term deposits
- Credit investments
- Other investments

The minimum credit rating for Cash and term deposit counterparties that the Company will have exposure to is set out below (defined as High to Lower Medium):

- Standard & Poor's BBB-
- Fitch BBB-
- Moody's Baa3

Management of Credit Investments and Other Investments will be undertaken by the appointment of an Investment Management specialist with specific expertise and capabilities across those investment categories.

A Board appointed Credit and Investment Committee comprising all members of the Board except any member of the Board who is acting in the capacity of Investment Manager. Credit Investments and Other Investments are only to be made with the approval of the Asset, Liability and Investment Committee and an assessment of the investment's credit risk will be provided in the Investment Manager's paper to the Committee.

	Carrying value in the

Balance at 31 August 2023	Rated High to Lower Medium $'000	Unrated $'000	statement of financial position $'000
Cash and cash equivalents	18,176	-	18,176
Other receivables	-	793	793
Reinsurance contract assets	201	-	201
Investments – debt securities	-	1,080	1,080
Total financial assets	**18,377**	**1,873**	**20,250**

Balance at 31 August 2022 (restated)	Rated High to Lower Medium $'000	Unrated $'000	Carrying value in the statement of financial position $'000
Cash and cash equivalents	30,571	-	30,571
Other receivables	-	616	616
Reinsurance contract assets	395		395
Investments – debt securities	645	-	645
Total financial assets	**31,611**	**616**	**32,227**

Ongoing management of credit risk for other external arrangements is conducted through the Board and management monitoring key activities such as: cash flows and quality of earnings, profitability, quality of management and other financial strength indicators of counterparties as appropriate.

5.4 Market risk

Market risk is the risk that movements in interest rates, or foreign exchange rates, will affect the Company's profits. The only significant market risk the Company is exposed to with respect to financial assets is interest rate risk.

(i) Interest rate risk

Interest rate risk arises from changes in the shape and direction of interest rates (yield curve risk) as well as mismatches in the re-pricing term of assets and liabilities.

(ii) Management of interest rate risk

Due to the short term nature of fixed rate assets the Company is exposed to minimal interest rate risk.

(iii) Sensitivity

Profit or loss is sensitive to higher/lower interest income from term deposits, corporate bonds and loans and advances as a result of changes in interest rates.

	Impact on post-tax profit	
	1 January to 31 August 2023	1 January to 31 December 2022
	$'000	$'000
Interest rates – increase by 25 basis points (2022 – 25 bps)	**48**	79
Interest rates – decrease by 25 basis points (2022 – 25 bps)	**(48)**	(79)

** Interest rate has been applied on all interest bearing securities as at the end of the reporting period.*

Interest rate exposures

The tables below summarise the repricing profiles of the Company's financial assets and financial liabilities. The abbreviation NIB in the table below stands for "non-interest bearing".

As at 31 August 2023	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	NIB items	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	18,176	-	-	-	-	-	18,176
Other receivables	793	-	-	-	-	-	793
Investments – debt securities	-	-	-	1,080	-	-	1,080
Reinsurance contract assets	-	-	-	-	-	201	201
Total financial assets	**18,969**	**-**	**-**	**1,080**	**-**	**201**	**20,250**
Other payables	-	-	-	-	-	(964)	(964)
Insurance Contract Liabilities	-	-	-	-	-	(2,161)	(2,161)
Tier 2 Eligible Subordinated Notes	-	-	-	-	(5,000)	-	(5,000)
Total financial liabilities	**-**	**-**	**-**	**-**	**(5,000)**	**(3,125)**	**(8,125)**
Total financial assets and liabilities	**18,969**	**-**	**-**	**1,080**	**(5,000)**	**(2,924)**	**12,125**

(vi) Interest rate exposures (continued)

As at 31 December 2022 (Restated)	up to 1 month $'000	1 to 3 months $'000	3 months to 1 year $'000	1 to 5 years $'000	More than 5 years $'000	NIB items $'000	Total $'000
Cash and cash equivalents	30,571	-	-	-	-	-	30,571
Investments – debt securities	-	-	-	645	-	-	645
Other receivables	-	-	-	-	-	616	616
Reinsurance contract asset	-	-	-	-	-	395	395
Total financial assets	**30,571**	**-**	**-**	**645**	**-**	**1,011**	**32,227**
Other payables	-	-	-	-	-	(483)	(483)
Insurance contract liabilities	-	-	-	-	-	(2,706)	(2,706)
Tier 2 Eligible Subordinated Notes	-	-	-	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**(3,189)**	**(3,189)**
Total financial assets and liabilities	**30,571**	**-**	**-**	**645**	**-**	**(2,178)**	**29,038**

5.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its debt obligations, or other cash outflows, as they fall due because of a shortage of liquid assets or access to adequate funding on acceptable terms.

(i) Management of liquidity

The Company's management of liquidity is designed to ensure it has sufficient funds to meet its obligations as they fall due and is conducted in compliance with the approved investment policy. There are two aspects to this risk. First, the Company must ensure it has sufficient funds to meet requirements arising from its normal trading activities. Second, the Company must be able to cope with unforeseen outflows.

Within this context the liquidity targets of shareholder capital is that at least 20% of the investment portfolio is held as cash and term deposits with a maturity date of less than 12 months and targets for cash and term deposits with a maturity date within 2 months exist in order to replenish cash balances during operational cash outflow periods.

(ii) Non-interest bearing items

Receivables and payables in note 4.2(e) and 4.2(f) are expected to be settled within 3 months.

(a) Strategy for managing insurance risk

(i) Portfolio of risks

The Company issued involuntary unemployment cover within consumer credit insurance and as a rider to life insurance products. Insurance risks arising from the issuance of these policies are managed through pricing and product design, underwriting procedures, claims procedures and reinsurance arrangements. Each of these aspects is managed in accordance with a distinct policy approved by the Board or a delegated Committee. The Company is currently closed to new business hence the 'pricing and product design, underwriting procedures' are currently not active.

(ii) Pricing and product design

Pricing and material product design decisions are made by the Executive Management Committee, following advice from the Chief Actuary and other senior members of staff. Product development policies are maintained as part of the risk management framework which outline the roles and responsibilities of relevant parties, ensuring adequate oversight over this element of insurance risk management. The majority of direct insurance contracts written are entered into a standard form basis. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

(iii) Reinsurance

All insurance treaties are examined by the Appointed Actuary to assess their impact on the Company's exposure to risk and to ensure the achievement of the optimal choice of type of reinsurance and retention levels.

(iv) Underwriting procedures

Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Company's Underwriting Policy. Such procedures include limits to delegated authorities and signing powers.

(v) Claims management

Strict claims management procedures and policies ensure timely and correct payment of claims in accordance with policy conditions.

(b) Concentration of insurance risk

Insurance risks associated with human life events.

The Company's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into three classes of business across the whole of Australia and New Zealand. Specific processes for monitoring identified key concentrations include monitoring sales by product type, cover type and corporate partner type.

5.6 Foreign exchange risk

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

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

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

The Company has a New Zealand branch whose assets and liabilities are denominated in New Zealand dollars. On translation of the New Zealand branch into the reporting currency (Australian dollars) of the Company, exchange rate variations on 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:

	31 August 2023 $'000	Restated 31 December 2022 $'000 NZD
Total assets denominated in New Zealand dollars:	2,042	8,932
Total liabilities denominated in New Zealand dollars:	863	1,199

	1 January to 31 August 2023 $'000	1 January to 31 December 2022 $'000 AUD
Strengthening of the AUD against the NZD will (decrease) equity by:	(109)	(723)
Strengthening of the AUD against the NZD will (decrease) profit by:	(26)	(52)

A 10% weakening in the value of the AUD against the NZD at the balance date would have had the equal but opposite effect to the amounts shown above.

The following exchange rate applied during the period:

	Average rate		Reporting date rate	
	1 January to 31 August 2023	1 January to 31 December 2022	31 August 2023	31 December 2022
NZD1 = AUD	0.926	0.932	0.925	0.932

Notes to the financial statements

For the period ended 31 August 2023

Section 6 - 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.

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.

6.1 Capital management

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

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

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

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

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

For detailed information on the Company's capital position and the capital requirements of APRA, refer to note 6.2.

(a) Contributed equity

(i) Share capital

	31 August 2023 Shares	31 December 2022 Shares	31 August 2023 $'000	31 December 2022 $'000
Ordinary shares - fully paid	251	251	500	500
	251	251	500	500

(ii) Ordinary shares

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

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

(iii) Parent and ultimate controlling parties

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

The Company's ultimate parent entity is St Andrew's Australia Services Pty Ltd.

(b) Dividends

	1 January to 31 August 2023 $'000	1 January to 31 December 2022 $'000
Dividends paid to Company's shareholder pre-sale	12,490	2,600
Dividends paid to Company's shareholder	5,000	-
	17,490	2,600

(c) Reserves

	31 August 2023 $'000	31 December 2022 $'000
Tax consolidation reserve		
At 1 January	8,698	8,698
Tax consolidation reserve movement	(8,698)	-
At 31 August	-	8,698
Foreign currency translation reserve		
At 1 January	1,026	1,074
Currency translation differences arising during the period	(7)	(48)
At 31 August	1,019	1,026
Total reserves	1,019	9,723

Tax consolidation reserve

The tax consolidation reserve records the impact of the funding arrangement adopted under the tax consolidation regime of the Company's previous parent entity, Latitude Insurance Holdings Pty Ltd (now Hallmark Insurance Holdings Pty Ltd). Any difference between the current tax liability and the amount paid by a member of the tax group, under the tax funding agreement, was recognised as an equity contribution in the tax consolidation reserve or as a distribution within equity. The amount was transferred to retained earnings by the previous parent entity prior to the sale to St Andrew's.

Foreign currency translation

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

6.2 Capital adequacy

The Company is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. These are currently calculated under an AASB 1038 basis as APRA does not require the Company to apply AASB 1038 for regulatory purposes until the November 2023 quarter. Life and General Insurers are required to follow the Australian Prudential Regulation Authority's (APRA) Life and General Insurance Capital Standards (LAGIC).

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

The excess of the Company's capital base over the PCA as at 31 August 2023 was $7.5 million (2022: $19.5 million).

The available assets of each statutory fund have also exceeded the Prudential Capital Requirement at all times during the period ended 31 August 2023 and 31 December 2022.

In addition to the regulatory capital requirements, the Company maintains a target surplus providing an additional capital buffer against adverse events. These capital disclosures reflect the new 'Liability Adjustments' on the IFRS 17 basis calculated in line with APRA's prudential standards which came into effect on 1 July 2023.

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For the period ended 31 August 2023

31 August 2023	Statutory Fund 1 $'000	Statutory Fund 2 $'000	Shareholder Fund $'000	Total $'000
(a) Capital base	15,195	1,199	1,118	17,512
(b) Prescribed capital amount	1,057	273	2	10,000
Capital in excess of prescribed capital amount = (a) - (b)	**14,138**	**926**	**1,116**	**7,512**
Capital adequacy multiple = (a)/(b)	**14.37**	**4.39**	**559**	**1.75**
Capital Base:				
Net assets	10,055	1,083	1,118	**12,257**
Less: Difference between Adjusted Policy Liabilities and Policy Liabilities	182	116	-	**298**
Less: Elimination of any excess DTAs over DTLs	(42)	-	-	**(42)**
Plus: Tier 2 Capital	5,000	-	-	**5,000**
Equals: Capital base	**15,195**	**1,199**	**1,118**	**17,512**
Prescribed capital amount:				
Insurance risk charge	598	168	-	**766**
Asset risk charge	142	6	2	**150**
Asset concentration risk charge	-	-	-	**-**
Operational risk charge	104	29	-	**133**
Aggregation benefit	(98)	(4)	-	**(103)**
Combined stress scenario adjustment	311	74	1	**386**
Adjustment to meet $10 million PCA minimum	-	-	-	**8,668**
Prescribed capital amount	**1,057**	**273**	**3**	**10,000**

Notes to the financial statements

For the period ended 31 August 2023

31 December 2022	Statutory Fund 1 $'000	Statutory Fund 2 $'000	Shareholder Fund $'000	Total $'000
(a) Capital base	7,882	7,374	14,213	**29,469**
(b) Prescribed capital amount	4,952	74	73	**10,000**
Capital in excess of prescribed capital amount = (a) - (b)	**2,930**	**7,300**	**14,140**	**19,469**
Capital adequacy multiple = (a)/(b)	**1.59**	**99.90**	**194.78**	**2.95**
Capital Base:				
Net assets	7,870	7,225	14,213	**29,308**
Less: Difference between adjusted policy liabilities and policy liabilities	12	149	-	**161**
Equals: Capital base	**7,882**	**7,374**	**14,213**	**29,469**
Prescribed capital amount:				
Insurance risk charge	3,340	16	-	**3,356**
Asset risk charge	75	31	51	**157**
Operational risk charge	117	33	-	**150**
Aggregation benefit	(59)	(8)	-	**(67)**
Combined stress scenario adjustment	1,479	2	22	**1,503**
Adjustment to meet $10 million PCA minimum	-	-	-	**4,902**
Prescribed capital amount	**4,952**	**74**	**73**	**10,000**

Notes to the financial statements

For the period ended 31 August 2023

Section 7 - Other Disclosures

7.1 Commitments and contingencies

No commitments, contingent assets or contingent liabilities existed as at 31 August 2023 (2022: nil).

7.2 Events occurring after the reporting date

Since the end of the financial year, a capital reduction in the amount of $293,000 was made by way of a distribution of retained earnings to Hallmark Insurance Holdings Pty Ltd.

This capital reduction was made to in accordance with the approval provided by APRA to reduce the capital base to the approved capital coverage specified in the Share Sale Agreement based on the draft Completion Statement provided by the seller, Latitude Personal Finance Pty Ltd, in August 2023. The Completion Statement remains in draft as under the Share Sale Agreement the buyer and seller have yet to finalise all matters.

No matter or circumstance has arisen since 31 August 2023 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.

7.3 Related party transactions

(a) Key management personnel disclosures

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Company. The change in the composition of the KMP followed the change in ownership of the Company on 31 May 2023. The following persons were key management personnel of the Company at any time during the reporting period.

(i) Directors

Jennifer Anne Boddington (resigned 31 May 2023)
Shaun Patrick Feely (resigned 31 May 2023)
Christopher Paul Knoblanche (resigned 31 May 2023)
Alison Ledger (resigned 31 May 2023)
Paul Varro (resigned 31 May 2023)
Jeffrey Phillip Dowling (appointed 31 May 2023)
David Stephen Willis (appointed 31 May 2023)
Matthew James Way (appointed 31 May 2023)
Matthew Lancaster (appointed 31 May 2023)
Allan Griffiths (appointed 31 May 2023)

(ii) Other executives

Michelle Hay (resigned effective 28 February 2023)
Nick Lethbridge
Roger Miles (commenced 19 September 2022)
James Murphy (resigned effective 1 May 2023)
Anna Chung (resigned 5 October 2022)

Key management personnel compensation

The change in the composition of the KMP followed the change in ownership of the Company with the compensation including payments made by related parties of the Company in Latitude Group up until 31 May 2023. From the change in ownership of the Company, from 1 June 2023, compensation includes payments made by related parties of the Company from the St Andrew's Group. Nick Lethbridge and Roger Miles are the only KMP across the reporting period.

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

	1 January to 31 August 2023 $	1 January to 31 December 2022 $
Short-term employee benefits*	1,625,080	2,188,859
Long-term benefits	38,260	91,187
Post-employment benefits	107,077	147,222
Termination benefits	367,298	-
Share based payments	711,061	350,959
	2,848,776	2,778,227

* There were no termination benefits paid in 2022

Compensation paid above includes share based awards that were granted to participants during their time in a KMP role while the Company was part of the Latitude Group during the period as follows:

	1 January to 31 August 2023 $	1 January to 31 December 2022 $
At 1 January	3,507,895	3,159,604
Granted	190,000	348,291
at the end of the period (for 2023, until 31 May 2023)	3,697,895	3,507,895

As at the change of ownership of the Company, 31 May 2023, KMP had outstanding balances payable totalling $1,308 (2022: $1,859) in respect of lending products with related parties. The total available credit facility during the period was $38,000 (2022: $26,000) and the maximum drawn amount during the period was $8,137 (2022: $11,024). Interest charged on these products issued to KMP was at normal consumer rates and under normal terms and conditions.

(b) Transactions with related parties

The change in the composition of related parties followed the change in ownership of the Company on 31 May 2023. Up until 31 May 2023, the Latitude Group are related parties. From 1 June 2023, the St Andrew's Group are related parties. The following transactions occurred with related parties:

Notes to the financial statements

For the period ended 31 August 2023

	1 January to 31 August 2023 $	1 January to 31 December 2022 $
Management fees paid to/(received from):		
Latitude Financial Services Australia Holdings Pty Ltd	314,400	1,221,600
Hallmark General Insurance Company Ltd	705,861	888,799
Cross charges paid to:		
Latitude Financial Services Australia Holdings Pty Ltd	(530,807)	(520,276)
Commission paid to/(received from):		
Latitude Personal Finance Pty Ltd	-	(20,857)
Latitude Finance Australia	14,411	238,395
Latitude Financial Services Ltd - NZ	-	85,154
RMBS Investments paid:		
Latitude Personal Finance Pty Ltd	-	651,199
Dividend paid:		
Latitude Insurance Holdings Pty Ltd	12,490,000	-
Hallmark Insurance Holdings Pty Ltd	5,000,000	

(c) Outstanding balances with related parties

	31 August 2023 $	31 December 2022 $
Receivables/(payables) outstanding at the end of the period:		
Latitude Financial Services Australia Holdings Pty Ltd*	-	(50,878)
Latitude Finance Australia*	-	159,773
Hallmark General Insurance Company Ltd*	(285,356)	(150,115)
Latitude Personal Finance Pty Ltd*	-	(14,648)
Latitude Financial Services Ltd*	-	38,300
Latitude Insurance Holding Pty Ltd	(61,279)	-
St. Andrew's Services Australia Pty Ltd	-	-

*Not a related party at 31 August 2023

Tier 2 Notes liability to parent entity

Hallmark Insurance Holdings Ltd	(5,000,000)

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.

7.4 Remuneration of auditor

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

(a) Remuneration to KPMG

	1 January to 31 August 2023 $'000	1 January to 31 December 2022 $'000
Audit services		
Audit of financial statements	70	85
Assurance services		
APRA Return Audit	34	20
AFSL Audit	4	5
Other services	-	25
Total remuneration for Audit and Regulatory assurance services	**108**	**135**

Audit fees in 2023 are to be paid by St Andrew's Australia Services Pty Ltd and in 2022 were paid by Latitude Financial Services Australia Holdings Pty Ltd and were not expenses of the Company.

Notes to the financial statements

For the period ended 31 August 2023

Section 8 Disaggregated information on life insurance business by fund

(b) Disaggregated information on life insurance business by funds

	Non-investment linked Statutory Fund 1 $'000	Non-investment linked Statutory Fund 2 $'000	Non-investment linked Total $'000	Shareholder Fund $'000	Total $'000
31 August 2023					
Financial assets	17,425	1,708	**19,133**	1,064	**20,196**
Reinsurance contract assets	201	-	**201**	-	**201**
Insurance contract liabilities	(1,586)	(575)	**(2,161)**	-	**(2,161)**
Other liabilities	(748)	(207)	**(955)**	(9)	**(964)**
Tier 2 Eligible Subordinated Notes	(5,000)	-	**(5,000)**	-	**(5,000)**
Retained earnings	(9,954)	21,409	**11,455**	(718)	**10,737**
Insurance revenue	(2,163)	(858)	**(3,021)**	-	**(3,021)**
Investment revenue	(228)	(139)	**(366)**	(207)	**(573)**
Insurance service expense	1,335	435	**1,770**	-	**1,770**
Operating profit before tax	(401)	(312)	**(713)**	(207)	**(920)**
Operating profit after tax	(312)	(231)	**(543)**	(145)	**(688)**
Restated 31 December 2022					
Financial assets	9,574	8,093	**17,667**	14,278	**31,945**
Reinsurance contract assets	395	-	**395**	-	**395**
Insurance contract liabilities	(1,761)	(945)	**(2,706)**	-	**(2,706)**
Other liabilities	(273)	(205)	**(477)**	(7)	**(483)**
Retained earnings	958	31,503	**32,461**	(13,614)	**18,847**
Insurance revenue	(4,634)	(1,548)	**(6,182)**	-	**(6,182)**
Investment revenue	(118)	(161)	**(279)**	(173)	**(452)**
Insurance service expense	4,052	967	**5,019**	-	**5,019**
Operating profit before tax	(699)	(728)	**(1,427)**	(173)	**(1,600)**
Operating profit after tax	(490)	(475)	**(965)**	(121)	**(1,086)**

Notes to the financial statements

For the period ended 31 August 2023

(b) Statement of sources of operating profit

	1 January to 31 August 2023 $'000	Restated 1 January to 31 December 2022 $'000
The shareholder's operating profit after income tax of the statutory funds is represented by:		
Investment earnings on shareholders' retained earnings and capital	**276**	171
Emergence of shareholders' planned profits	**38**	1,126
Experience profit/(loss)	**229**	(332)
Operating profit after tax (statutory funds) *	**543**	**965**