



Authority to be a non-operating holding company of a general insurer

Insurance Act 1973

I, Wayne Byres, a delegate of APRA, GRANT Suncorp Group Limited ACN 145 290 124 (the *Authorised Level 3 NOHC*) an authorisation (a *NOHC authorisation*) under subsection 18(3) of the *Insurance Act 1973* (the Act). The authority takes effect today.

Under subsection 19(1) of the Act, I IMPOSE the conditions specified in the attached Schedule on the authorisation. The conditions shall take effect from the day on which Suncorp-Metway Limited ACN 010 831 722 becomes a subsidiary (within the meaning of section 46 of the *Corporations Act 2001*) of the Authorised Level 3 NOHC.

Dated: 30 November 2010

[Signed]

Wayne Byres
Executive General Manager
Diversified Institutions Division

Interpretation

In this Notice

APRA means the Australian Prudential Regulation Authority.

NOHC is short for non-operating holding company and has the meaning given in subsection 3(1) of the *Insurance Act 1973*.

Schedule - conditions imposed on the NOHC authorisation

Interpretation

In these conditions:

Act means the *Insurance Act 1973*;

ADI means Suncorp-Metway Limited ACN 010 831 722;

ADI Group means the group of companies in the Suncorp Group at Level 2 (as defined in APS 110) of which the ADI is the parent company;

ADI Group capital requirement means the Level 2 capital requirement in respect of the ADI Group calculated in accordance with the method set out in APS 110;

ADI NOHC means SBGH Limited ACN 145 980 838, the immediate subsidiary of the Authorised Level 3 NOHC which is the immediate non-operating holding company of the ADI;

AIFRS means the accounting standards made by the Australian Accounting Standards Board on 15 July 2004 (and subsequent revisions) and known as the Australian equivalents to International Financial Reporting Standards;

Allowable Tier 2 capital means:

- (a) for the ADI at Level 1 or ADI Group at Level 2, the difference between the minimum capital it is required to hold under paragraph 14 of APS 110 (after taking account of any adjustments made under paragraph 15 of APS 110) and its Required Tier 1 capital; and
- (b) for any APRA-regulated entities in the GI Group at Level 1 or Level 2, 30% of the entity's Minimum Capital Requirement as calculated in accordance with GPS 110 or GPS 111;

APS (followed by a number) identifies a specific Prudential Standard under the *Banking Act 1959*, and a reference to a particular Prudential Standard includes a reference to a Prudential Standard that replaces it;

Associate has the same meaning as **Associated entities** under the *Corporations Act 2001*;

Authorised Level 3 NOHC means Suncorp Group Limited ACN 145 290 124;

Board means board of directors;

Deductions mean the sum of:

- (a) all deductions from Tier 1 capital in the ADI Group as required in APS 111; and
- (b) all deductions from Tier 1 capital in the GI Group as required in GPS 111;

Eligible capital means the sum of:

- (a) Eligible share capital;
- (b) Reserves;
- (c) Retained earnings;
- (d) Eligible non-innovative Residual Tier 1 capital; and
- (e) Eligible innovative Tier 1 capital;

less Deductions;

Eligible innovative Tier 1 capital means the sum of:

- (a) innovative Tier 1 capital in the Authorised Level 3 NOHC that meets the definition of Innovative Tier 1 capital in GPS 111;
- (b) innovative Tier 1 capital in the ADI Group level that meets the definition of Innovative Tier 1 capital in APS 111; and
- (c) innovative Tier 1 capital in the GI Group level that meets the definition of Innovative Tier 1 capital in GPS 111;

Eligible non-innovative Residual Tier 1 capital means the sum of:

- (a) non-innovative Residual Tier 1 capital in the Authorised Level 3 NOHC that meets the definition of Non-innovative Residual Tier 1 capital in GPS 111;
- (b) non-innovative Residual Tier 1 capital in the ADI Group level that meets the definition of Non-innovative Residual Tier 1 capital in APS 111; and
- (c) non-innovative Residual Tier 1 capital in the GI Group level that meets the definition of Non-innovative Residual Tier 1 capital in GPS 111;

Eligible share capital means the sum of:

- (a) share capital in the Authorised Level 3 NOHC that meets the definition of Fundamental Tier 1 capital in GPS 111;

- (b) share capital at the ADI Group level that meets the definition of Fundamental Tier 1 capital in APS 111;
- (c) share capital at the GI Group level that meets the definition of Fundamental Tier 1 capital in GPS 111;
- (d) the following amounts shown in LI reporting form 110.0 for each LI statutory fund,
 - i. life insurance net assets; and
 - ii. surplus or deficit (if any) of Net Policy Liability relative to Net Minimum Termination Value (MTV);
- (e) the amount of shareholders fund net assets as reported under Reporting Standard LRS 300.0 Statement of Financial Position for each LI shareholders fund; and
- (f) paid-up capital issued by entities in the LI Group or Other Level 3 Group to parties external to the Suncorp Group that is recognised as share capital applying ordinary Australian accounting standards, conventions and practices;

Fundamental Tier 1 capital has the meaning in APS 111 for the ADI Group and GPS 111 for the GI Group;

Innovative Tier 1 capital has the meaning in APS 111 for the ADI Group and GPS111 for the GI Group;

GI Group means the group of companies in the Suncorp Group at Level 2 (as defined in GPS 001) of which the GI NOHC is the parent entity;

GI Group capital requirement means the Level 2 capital requirement in respect of the GI Group calculated under GPS 111;

GI NOHC means Suncorp Insurance Holdings Limited ACN 123 023 334, an authorised NOHC under the Act and the parent entity of the GI Group (as defined in GPS 001);

GPS (followed by a number) identifies a specific Prudential Standard determined under the Act, and a reference to a particular Prudential Standard includes a reference to a Prudential Standard that replaces it;

ICAAP means the document titled “Internal Capital Adequacy Assessment Process” in relation to the Level 3 Group given by the Authorised Level 3 NOHC to APRA on 21 October 2010 and, where the document is revised, any changes to that document approved by the Board of the Authorised Level 3 NOHC and agreed to in writing by APRA;

Level 3 Group means the group of companies comprising the Authorised Level 3 NOHC and each of its subsidiaries;

Level 3 Required Capital has the meaning specified in condition 1;

LI Group means the group of companies in the Suncorp Group comprising the LI NOHC and its subsidiaries;

LI Group capital requirement means the sum of the following amounts:

- (a) amounts shown in LI reporting form 110.0 in respect of each life company statutory fund comprising, capital adequacy reserve, including investment linked margin, less eligible amount of subordinated debt;
- (b) the amount of the prudential capital requirement as defined in the LI reporting form 120.0 in respect of the shareholders fund for each life company;
- (c) the greatest of the following amounts in respect of each RSE licensee or any other entity engaged in funds management and funds administration activities:
 - i. 0.25 per cent of funds under management and funds under administration on account balances not invested in life insurance policies or bank deposits of a related party or not invested with another fund manager in the Level 3 Group; or
 - ii. any regulatory capital requirement of the entity; or
 - iii. the target capital requirement in respect of the entity set in the ICAAP (any diversification benefit included in the calculation is to be removed);
- (d) the greatest of the following amounts in respect of any other entity in the LI Group:
 - i. any regulatory capital or equivalent requirement of the entity; or
 - ii. the target capital requirement of the entity as set in the ICAAP (any diversification benefit included in the calculation are to be removed);

LI NOHC means Suncorp Life Holdings Limited ACN 064 490 795, the immediate subsidiary of the Authorised Level 3 NOHC which is the non-operating holding company of the LI Group comprising life companies, RSE licensees, and companies engaged in funds management and ancillary business;

Net Tier 2 capital means total Tier 2 capital net of all specified deductions and amortisation calculated in accordance with APS 111 or GPS 111;

NOHC means non-operating holding company;

Other Level 3 Group means the Authorised Level 3 NOHC and all other companies in the Suncorp Group other than companies in the ADI Group, the GI Group and the LI Group;

Other Level 3 Group capital requirement means the target capital requirement for the entities in the Other Level 3 Group as defined in the ICAAP agreed with APRA from time to time (any diversification benefit included in the calculation is to be removed);

Prudential Standard means a prudential standard determined under the *Insurance Act 1973*, the *Banking Act 1959* or the *Life Insurance Act 1995*;

Related Party has the same meaning as **Related bodies corporate** under the *Corporations Act 2001*;

Required Tier 1 capital means for the ADI at Level 1 or ADI Group at Level 2, the amount in Tier 1 capital it is required to hold as Tier 1 capital under APS 110 after taking account of:

- (a) any increase in the ADI or ADI Group's prudential capital ratio notified under paragraph 15 of APS 110; and
- (b) any adjustment to holdings of Tier 1 capital required under paragraph 16 of APS 110;

Reserves mean the sum of:

- (a) reserves in the Authorised Level 3 NOHC that qualify as Fundamental Tier 1 capital under GPS 111;
- (b) reserves in the ADI Group that qualify as Fundamental Tier 1 capital under APS 111;
- (c) reserves in the GI Group that qualify as Fundamental Tier 1 capital under GPS 111; and
- (d) the following reserves in the Other Level 3 Group other than the Authorised Level 3 NOHC:
 - i. share based payment reserves, to the extent that they qualify as Fundamental Tier 1 capital under GPS 111; and
 - ii. foreign currency translation reserves at face value and recognised in accordance with AIFRS, unless otherwise agreed by APRA in writing;

Residual Tier 1 capital has the meaning in APS 111 or GPS 111 for the ADI Group and GI Group respectively;

Retained earnings means the sum of:

- (a) retained earnings in the Authorised Level 3 NOHC that qualifies as Fundamental Tier 1 capital under GPS 111;
- (b) retained earnings in the ADI Group that qualifies as Fundamental Tier 1 capital under APS 111;

- (c) retained earnings in the GI Group that qualifies as Fundamental Tier 1 capital under GPS 111; and
- (d) retained earnings in the Other Level 3 Group other than the Authorised Level 3 NOHC that qualifies as Fundamental Tier 1 capital under GPS 111;

Service company means a subsidiary of the Authorised Level 3 NOHC which predominantly provides services to the Suncorp Group, such as (without limitation) risk management, financial operations, human resources or information technology;

Suncorp Group restructure means the restructure under which the ADI becomes a subsidiary of the ADI NOHC and the parent company of ADI NOHC becomes the Authorised Level 3 NOHC and the subsequent internal transfer of subsidiaries to form a GI Group and a LI Group under the Authorised Level 3 NOHC;

Suncorp Group means the group of companies comprising the Authorised Level 3 NOHC and each company of which the Authorised Level 3 NOHC is the parent company;

Tier 1 capital has the meaning in APS 111 or GPS 111.

Conditions

Conditions relating to Capital

1. The Authorised Level 3 NOHC must ensure that Level 3 Group Eligible capital held by the Suncorp Group at all times equals or exceeds the Level 3 Required Capital. For this purpose, **Level 3 Required Capital** is equal to the sum of the dollar value of:
 - (a) the Required Tier 1 capital for the ADI Group; and
 - (b) 70% of the Minimum Capital Requirement for the GI Group as calculated in accordance with GPS 111; and
 - (c) 100% of the LI Group capital requirement; and
 - (d) 100% of the Other Level 3 Group capital requirement.
2. In calculating Level 3 Required Capital:
 - (a) where a securitisation special purpose vehicle (SPV) is not considered to be cleanly sold from a Level 3 Group perspective, the assets of the SPV should be included in the required capital calculation of the entity it consolidates into. Capital required to be held elsewhere in the Suncorp Group in respect of transactions and exposures to the SPV can in that case be eliminated. An SPV is considered to be cleanly sold from a Level 3

Group perspective if the criteria in Attachment B of APS 120 are met from the perspective of the Level 3 Group; and

- (b) transactions between entities within the Level 3 Group, against which capital is required to be held under the current Level 1 or Level 2 frameworks, should be eliminated from the calculation of the Level 3 Required Capital.
3. In calculating Level 3 Group Eligible capital:
- (a) where a member of the Suncorp Group issues capital directly to external parties and that capital meets the entity's stand-alone capital requirement, this may be counted towards satisfaction of the Level 3 Required Capital, provided the requirements in these conditions relating to the quality of capital are met;
 - (b) the capital impact of transactions internal to the Suncorp Group will be eliminated;
 - (c) goodwill and intangible assets not already deducted at ADI Group, GI Group or LI Group level may not be counted towards satisfaction of Level 3 Required Capital and so must be deducted from Level 3 Group Eligible capital;
 - (d) to the extent that any benefits under a life insurance policy are contractually linked to the performance of the assets held, and these assets include goodwill and/or intangible assets, these amounts should be excluded from the goodwill and intangible assets referred to in (c). The amount of goodwill and/or intangible assets for which an inadmissible asset reserve is held should also be excluded from (c);
 - (e) any capital of a member of the group that is supported by off-balance sheet transactions including, but not limited to, guarantees provided between entities in the Level 3 Group may not be counted towards satisfaction of Level 3 Required Capital and so must be deducted from Level 3 Group Eligible capital;
 - (f) expected dividend payments and tax expenses of the Authorised Level 3 NOHC may not be counted towards satisfaction of Level 3 Required Capital and so must be deducted from Level 3 Group Eligible capital;
 - (g) any capital generated through structures or methods that, in APRA's view, artificially inflates Level 3 Group Eligible capital will be disallowed from being counted towards satisfaction of Level 3 Required Capital;
 - (h) where an APRA-regulated entity chooses to meet its capital requirements at Level 1 or Level 2 with a higher proportion of Tier 1 capital than the required minimum (i.e. the Net Tier 2 capital of the APRA-regulated entity is lower than its Allowable Tier 2 capital), an amount equal to the difference between the APRA-regulated entity's Allowable Tier 2 capital

and Net Tier 2 capital must be deducted from the Level 3 Group Eligible capital; and

- (i) where, in APRA's view, the quality of any capital has been artificially upgraded or improved through structures and methods, such structures and methods will be disregarded in calculating the Level 3 Group Eligible capital.
4. The Authorised Level 3 NOHC must put in place a rigorous process to measure Level 3 Required Capital and Level 3 Group Eligible capital held by the Suncorp Group at all times. Regular reports of these matters must be given to the Board of the Authorised Level 3 NOHC to enable Board oversight of compliance against condition 1. At the same time, the Board must implement plans and strategies to ensure continuing compliance with condition 1 and to review these on a regular basis. This process must include, at a minimum, clear definition of materiality and trigger events for Board approvals or other interventions. The process must be set out in the ICAAP and include timeframes for responding to material events.

Condition relating to Quality of Capital

5. The Authorised Level 3 NOHC must ensure that the Suncorp Group's:
- (a) Level 3 Group Eligible share capital, retained earnings and reserves as a percentage of the Level 3 Group Eligible capital is not less than the required minimum percentage of Fundamental Tier 1 capital to net Tier 1 capital as prescribed in GPS 111;
 - (b) Level 3 Group Eligible non-innovative Residual Tier 1 capital and Eligible innovative Tier 1 capital as a percentage of the Level 3 Group Eligible capital is not more than the maximum percentage of Residual Tier 1 capital to net Tier 1 capital as prescribed in GPS 111. Any excess amount is not counted as Level 3 Group Eligible capital; and
 - (c) Level 3 Group Eligible innovative Tier 1 capital as a percentage of the Level 3 Group Eligible capital is not more than the maximum percentage of Innovative Tier 1 capital to net Tier 1 capital as prescribed in GPS 111. Any excess amount is not counted as Level 3 Group Eligible capital.

Condition relating to Reductions in Capital

6. The Authorised Level 3 NOHC is required to comply with paragraphs 42-45 of GPS 111 as if it were a parent entity of a Level 2 insurance group.

Note 1: Once APRA develops an industry-wide prudential policy on eligible capital for unregulated entities in a non-operating holding company structure and this comes into force, APRA will consider any transitional arrangements that may be necessary. However, APRA does not propose to grandfather the interim arrangements set out in the above conditions.

Note 2: The Level 3 capital framework outlined in conditions 1 to 6 is an interim arrangement pending the development and implementation by APRA of industry-wide Non-Operating Holding Company Prudential Standards. At the inception of such Prudential Standards, APRA may impose transitional capital arrangements. APRA does not propose that the interim arrangements set out in these conditions be grandfathered

Conditions relating to Prudential Standards

7. The Authorised Level 3 NOHC must comply with GPS 311 in relation to Audit requirements (including those governing the appointment of an auditor, reporting, special purpose reviews, non routine reporting, meetings and limited assurance review reports of the Appointed Auditor) as if it were a parent entity of the GI Level 2 Group;
8. The Authorised Level 3 NOHC must ensure that group-wide policies are developed and implemented which are consistent with the requirements of the following prudential standards:
 - (a) Risk Management GPS 221 or equivalent ADI and LI standards;
 - (b) Outsourcing GPS 231 or equivalent ADI or LI standards; and
 - (c) Business Continuity GPS 222 and GGN 221.1 or equivalent ADI or LI standards.
9. The Authorised Level 3 NOHC must develop and implement a group-wide:
 - (a) strategy on liquidity management consistent with the principles of APS 210 Liquidity; and
 - (b) policy on the management of intra-group transactions and exposures (ITE).

Note 3: The Level 3 Prudential Standards outlined in conditions 7 to 9 is an interim arrangement pending the development and implementation by APRA of industry-wide Non-Operating Holding Company Prudential Standards. At the inception of such Prudential Standards, APRA may impose transitional arrangements. APRA does not propose that the interim arrangements set out in these conditions be grandfathered.

Conditions relating to Authorised Level 3 NOHC Activities

10. The Authorised Level 3 NOHC activities are limited to
 - (a) providing executive leadership across the Suncorp Group;
 - (b) holding investments in subsidiaries;
 - (c) holding properties used by Suncorp Group companies;
 - (d) raising funds to invest in or provide support to subsidiaries;

- (e) investing funds (all capital held within the Authorised Level 3 NOHC other than investment in subsidiaries) on behalf of the Suncorp Group;
- (f) conducting financial activities limited to activities on its own account;
- (g) undertaking a “corporate centre” role for the Suncorp Group, including group financial control, risk management, reinsurance management, information technology, human resources, financial reporting and other group services such as company secretarial services. These roles may also be performed by Service companies maintained for that purpose.

11. The Authorised Level 3 NOHC is not permitted to

- (a) trade in financial instruments (other than for hedging purposes for itself and the consolidated Suncorp Group, and managing its costs of capital and funding);
- (b) provide material guarantees of the obligations of Suncorp Group entities without APRA’s approval in writing; or
- (c) utilise its investment in subsidiaries as security without APRA’s approval in writing.

12. In respect of subsidiaries or associates of the Authorised Level 3 NOHC:

- (a) shares held in any Australian or overseas banking subsidiary or associate that may be established or acquired by the Suncorp Group, to the extent of the holdings, must be owned, directly or indirectly, by the ADI NOHC unless otherwise approved by APRA in writing.
- (b) shares held in any Australian or overseas insurance or reinsurance subsidiary or associate that may be established or acquired by the Suncorp Group, to the extent of the holdings, must be owned, directly or indirectly, by the GI NOHC unless otherwise approved by APRA in writing.
- (c) shares held in any Australian or overseas life insurance subsidiary or associate (including superannuation, RSE licensees, funds management, custodial and investment services business) that may be established or acquired by the Suncorp Group other than shares held by statutory funds or funds management operations, to the extent of the holdings, must be owned, directly or indirectly, by the LI NOHC unless otherwise approved by APRA in writing.

Condition relating to ADI NOHC Activities

13. The Authorised Level 3 NOHC must cause the activities of the ADI NOHC to be:

- (a) limited to holding equity or capital investments in subsidiaries; and
- (b) funded by equity or capital investments issued from the Authorised Level 3 NOHC of at least the equivalent quality.

Conditions relating to certain intra-group activities

- 14. The Suncorp Group other than the ADI Group must not provide more than 20% of the ADI Group's total funding.
- 15. The Authorised Level 3 NOHC must ensure that where capital or funds are transferred within the Suncorp Group the original nature and quality of the capital or funds are maintained.

Condition relating to LI NOHC Activities

- 16. The Authorised Level 3 NOHC must cause the activities of the LI NOHC to be
 - (a) limited to holding equity or capital investments in subsidiaries; and
 - (b) funded by equity or capital investments issued from the Authorised Level 3 NOHC of at least the equivalent quality.

Conditions relating to Reporting

- 17. The Authorised Level 3 NOHC must report to APRA on a quarterly basis, in a form acceptable to APRA, on:
 - (a) the Level 3 Required Capital and Level 3 Group Eligible capital;
 - (b) the liquidity position of the Suncorp Group;
 - (c) intra-group exposures between the Authorised Level 3 NOHC and other Suncorp Group members;
 - (d) intra-group support arrangements including, but not limited to, specific guarantees of the obligations of an entity in the Suncorp Group;
 - (e) the Level 3 Group's large exposures to entities outside the Suncorp Group;
 - (f) the balance sheet of the Authorised Level 3 NOHC and of the consolidated Suncorp Group;
 - (g) the off-balance sheet exposures of the Authorised Level 3 NOHC and Other Level 3 Group; and

- (h) the profit and loss of the Authorised Level 3 NOHC and of the consolidated Suncorp Group.

Each report must be provided within 20 business days of the end of the quarter to which it relates, or within such further time as APRA may approve in writing.

18. The CEO of the Authorised Level 3 NOHC must provide APRA with an attestation no later than 3 months after the end of each financial year of the Authorised Level 3 NOHC that the requirements of these conditions in relation to the amount and quality of capital have been complied with at all times during the financial year to which the attestation relates. At the same time, the Authorised Level 3 NOHC's appointed auditor must provide APRA with a report as to:

- (a) whether the capital methodology as specified in the ICAAP has been applied at all times; and

- (b) the reliability of the quarterly reporting,

to the standard required by GPS 311.